



HM TREASURY

Department for
Transport



BIS | Department for Business
Innovation & Skills

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Dear Councillor Henry and Ms Fay

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.

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



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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 North East advice sets a clear vision for the region, consistent with the region's Regional Spatial Strategy (RSS) and Regional Economic Strategy (RES) and the Government's current priorities and Public Service Agreements (PSA). Whilst the advice is clearly evidence-based and contains good analysis of regional performance, improving the link between the evidence base and the proposals in the advice and being clearer on prioritisation would allow a fuller assessment of Value for Money (VFM). This would also support the development of the new Regional Strategy (RS).

Prioritisation

The advice demonstrates that regional and local partners have made considerable effort to prioritise investments.

We recognise that prioritisation has been made more difficult by the timing of the RFA – with changes in Regional Development Agency (RDA) budgets, the formation of the Homes and Communities Agency (HCA), the economic downturn and local government reorganisation in the



region. As such, we understand the decision at this stage not to consider virement of funding between policies. That said, in the context of the RS, it will be important to ensure that regional partners prioritise interventions and ensure that all funding is pulling in the same direction. Further work will be needed to ensure that future investments are rigorously prioritised – with a solid evidence base to back up choices. For example in the transport section, although priorities have been set, the evidence for how those priorities have been determined could be improved, and this would strengthen the case for investment. Some shortcomings have also become evident in the region's governance arrangements which made it difficult for the region collectively to take effective and timely decisions on priorities. We would encourage regional partners to consider how they could strengthen their governance capacity and process for the period ahead.

We hope that the regional partnership continues to evolve and partners work closely together during implementation of the regional governance changes required by the sub-national review, in particular in development of the new RS.

Evidence base

The advice demonstrates a good general understanding of the evidence base, drawing on evidence that supports the existing RSS and RES, and sub-regional and local input. The advice also reflects the current economic conditions in the region.

However, the link between the evidence and proposals could be clearer. As it stands, the advice does not specify market failures, and therefore it is difficult to make an assessment about the optimal interventions to support economic growth. Further evidence will be needed to support the region's assessment of growth opportunities and challenges, and to make the case for public sector interventions.

Value for money (VFM)

Given the broad nature of the advice, it is difficult to assess the VFM of proposals. It is critical that all public investment demonstrates VFM, and regional partners will need to ensure that in prioritising interventions, proposals deliver returns on investment and maximise the impact on sustainable economic growth outcomes.

Deliverability

It is evident that regional partners worked closely together in developing the advice, and that there is regional support for the priorities and decisions it outlines. As you refine regional priorities, it will be important for regional partners to ensure that priorities are realistic and deliverable. The new RS, in particular, will need to be supported by a clear implementation plan, to ensure objectives and priorities in the strategy are achievable.

Reflect national priorities

Success in delivering PSAs depends upon the regional and local partners. Although the advice is broadly consistent with national priorities, stronger links could be made between individual proposals and PSA delivery.

Economic Development

The advice on economic development recognises the need to improve performance in the areas of enterprise, innovation, skills, infrastructure and employment. The advice sets out measures that respond to the economic downturn, and recognises the distinct economic challenges in the North East. In the context of '*Building Britain's Future: New Industry, New Jobs*', the Government welcomes the focus on innovation connectors. Future investment decisions should draw on

evidence (such as the recent RDA evaluation) to maximise the impact of investment on sustainable economic growth. In particular, 'place' investment will need to focus on medium-to-long term growth and address barriers to growth and business investment.

Housing and Regeneration

The advice provided on housing and regeneration appears broadly in line with national priorities, setting out a clear framework for delivery over the next period. We have particularly noted the region's emphasis on the needs of its 5 Growth Points and priorities emerging from the Tees Valley Multi Area Agreement.

We have also noted the growing pressures identified within housing and regeneration; emphasising the likely difficulties over the next few years in successfully delivering the regional housing target and regeneration projects. Both of these issues reflect wider national challenges and priorities and we would hope to work with the North East as we develop relevant solutions.

To continue to build upon national alignment, we would strongly encourage the region to work closely with the HCA in the forthcoming months. We would also encourage the region to continue to engage with the HCA's Single Conversation and align its joint priorities.

Skills

There is little reference to the national priority given to intermediate skills as the focus of the advice is largely on higher level skills. While improving skills at all levels is a national priority, increasing employer investment at the higher levels, where private returns are greatest, will be particularly important. In developing the RS we would encourage the region to work closely with Learning and Skills Council Skills Funding Agency, Higher Education Funding Council for England, One North East and other partners to establish how best to support the higher skills agenda while continuing to deliver against the intermediate level indicators in the skills PSA target. BIS officials have been discussing many of these issues with the Multi Area Agreement partnerships in the region and will continue to do so to explore how national and regional priorities can best be met from public and private resources.

Transport

We welcome the positive approach the region has taken, following its submission, to ensure that its proposed programme is affordable within the July 2008 funding profiles. Having said that, in future we would like to see the region take a more strategic approach to transport, including through the work on 'Delivering a Sustainable Transport System' (DaSTS) process. This will be essential to make the necessary prioritisation in relation to the five transport goals. A more detailed response to the transport advice will be provided separately by the Department for Transport.

Alignment

The North East focussed upon specific sub-regional challenges in its advice. We welcome this strong attempt to align activity within specific areas and would encourage the region to continue to work together in this way. The Government will use the development of the RS as a key opportunity to explore and identify opportunities for better alignment and integration of funding streams.

Response to the requests for flexibilities from Government

The region's advice included a number of asks of Government across economic development, skills, housing and regeneration and transport. In terms of transport, the response to the regional asks is covered in the aforementioned transport letter.



HCA regional flexibility

The HCA will be expected, through the Single Conversation, to ensure co-ordination between its delivery and regional priorities. The HCA will work closely with regional partners to ensure this alignment

Skills

There are a number of asks of Government in relation to flexibility of skills funding in the advice, but little detail of the impact these might have on the skills PSA target and the limited skills budgets that are already under pressure. The Government is unable to comply with these requests, but would encourage regional partners to work closely together to ensure that skills spending in the region is closely aligned to the regional priorities and as integrated as possible.

Summary of the regional response and next steps

The Government has been encouraged by the strength of the regional partnership working in the North East, particularly in developing the RFA. Although the formal RFA process has now ended, the Government sees the advice as part of a continuing conversation with regions. The Government will look to continue this conversation through a number of mechanisms, including the RDA Corporate Plan refresh, the HCA single conversation, the DaSTS process and the development of the RS.

A copy of the letter has been sent to your Regional Minister, Nick Brown MP.

Yours sincerely



Ian Pearson



Andrew Adonis



Kevin Brennan



Rosie Winterton

