



HM TREASURY

*Department for*  
**Transport**



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

Paul Carter  
South East of England Leaders' Board  
Members Desk  
Sessions House  
County Hall  
Maidstone  
ME14 1XQ

James Braithwaite CBE  
South East England Development Agency  
Cross Lanes  
Guildford  
GU1 1YA

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Dear Mr Carter and Mr Braithwaite

## 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



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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 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 South East advice is consistent with Regional Economic Strategy (RES) priorities and reflects the South East Development Agency's Corporate Plan, although the Government recognises that this has recently been reviewed by the Agency. These also form part of the evidence base. It is also consistent with the Regional Spatial Strategy and with Developing a Sustainable Transport System (DaSTs), We recognise that the impact of the downturn has put pressure on all stakeholders to meet ambitious growth and housing targets.



## **Prioritisation**

We welcome the prioritisation set out in the advice which reflects those set in the RES and Regional Spatial Strategy (RSS), in particular the prioritisation of transport schemes, where partners have used a wide range of evidence sources and an agreed methodology to decide priorities albeit there is no detail on the analysis behind the proposals. We also appreciate the ‘Diamonds for Investment and Growth’ approach taken by the region and the level of thought that has gone into prioritising these areas. It is also welcome that the region intends to develop its advice as part of its response to DaSTs.

Prioritisation in housing and regeneration and economic development could be further developed. We accept that the lack of prioritisation may reflect to some extent the context in which the advice has been prepared in terms of the impacts of the recession, uncertainties around future budgets and significant changes to regional governance and organisations. In the context of regional strategies it will be important for partners to ensure they maintain their work to refine priorities for individual areas of spending and between policies.

## **Evidence base**

Although the document gives a general statistical overview of the South East, and makes reference to the comprehensive evidence base which underpins the RES and the South East Plan, it is not always clear how the evidence feeds through to particular proposals or to the outcomes that these proposals would have. Some referencing would have helped here - particularly where regional partners want to persuade Departments of the benefits of diverting funds in the short term in order to deliver housing numbers over the longer term, or to secure regional flexibilities. These issues will need to be addressed as the region moves toward preparing for the Regional Strategy (RS). There are also opportunities within DaSTs to strengthen the evidence base.

## **Value for money (VFM)**

Generally VFM is not easy to judge, given the lack of clear linkage between the evidence base and the proposed actions. Further work will be needed and should be taken forward even if the region does not want to consider flexibilities and options for viring in the future.

## **Deliverability**

It is evident that regional partners worked closely together to produce the advice and that there is widespread support for the decisions it outlines. However, although the advice sets out that deliverability will be a key theme with priority for investment being given to those ‘Diamonds’ where the delivery arrangements are more advanced, transport excepted, it is hard to see how timely and effective delivery will be promoted. Even within the transport theme, it will be very important to tighten delivery and to ensure schemes deliver outputs to the time and budget specified. We would encourage the region to make swift progress with regard to its commitment to produce a single delivery plan for the RES and RSS.

We recognise that there are particular question marks about the economic development aspects of the RFA, and that the South East England Development Agency (SEEDA) has been through a substantive exercise of reprioritisation. This will need to be considered alongside the other aspects of the RFA – especially skills to form a more integrated approach toward the RS.



## National priorities

The RFA makes clear that the risks to growth from the recession make it increasingly difficult to achieve national growth targets. However, it is unclear from the advice which priorities are most important for maintaining and driving growth, or to what extent the proposals in the advice will address the gaps in achieving growth targets.

We expect the region to give further consideration to what it can do to help its transition to a low carbon economy. As it stands, the RFA does not make any clear proposals on how it intends to make real headway in carbon reduction. We know from recent discussions that partners intend to revisit the current arrangements for the Integrated Transport Block for local authorities as part of its input to DfT's work on DaSTS.

## Economic Development

The advice on economic development recognises the need to focus investment where it will support international competitiveness and high growth through innovation and productivity. The Government will want to discuss further with the South East how it will support the new approach to supporting business set out in *'Building Britain's Future: New Industry, New Jobs'* and so build on the opportunities presented by new technologies and the need to move to a low carbon economy.

## Housing and Regeneration

We note the region's comments that the timing of the creation of the Homes and Communities Agency (HCA) coincided with the preparation of the RFA and as such this made it more difficult to set out fully developed proposals on housing. We would encourage the region to fully engage with the HCA in its forthcoming single conversation.

While it is recognised that there are significant challenges across all the regions in achieving the Government's ambitions for housing, the wider long term challenge will be to ensure that the housing market can meet demand and fully support future economic development and social ambitions and as such, deliverability will remain an important aspect. The HCA will work closely with partners to ensure this is achieved.

## Transport

In general we welcome the region's proposals and see as a key strength the breadth and robustness of engagement and support behind the proposed transport programme. DfT will be writing separately to respond to the South East's proposed programme of schemes.

## Skills

While the advice explores the potential for achieving closer alignment between skills and other funding streams, it does not get into specifics. The Government would welcome further discussion on the most appropriate spatial level at which influence over the Learning and Skills Council/Skills Funding Agency funding might be delivered.

## Alignment

We encourage the region to build on RFA2 for further joined up funding decisions across the different RFA themes - especially now that the HCA is up and running, and in light of SEEDA's revised prioritisation.



## Response to the requests for flexibilities from Government.

The region's advice included a number of asks of Government and we will work with the region to take forward action on the range of issues identified for further work.

We note the general ask regarding the need for future flexibility in light of the substantive economic changes happening through the recession. It will be important to strike the right balance between flexibility and forward planning, and to agree the most appropriate spatial level at which such flexibility might be delivered with supporting evidence. We would encourage closer working with regional agencies such as the HCA to understand these issues.

In its advice the region asked for support on environmental technology. Additional money has since been announced in the Budget through the Strategic Investment Fund, which has £250m allocated for low carbon technologies. BIS and DECC are currently working with all RDAs on the low carbon component of the SIF.

## Overall Assessment and next steps

Overall we welcome how the region has endeavoured to consider how it will meet its objectives to raise the rate of sustainable economic growth and help deliver relevant national Public Service Agreements and the longer term ambitions. We also recognise the considerable work that SEEDA and Assembly colleagues have led on to produce advice that has the necessary support from regional partners and which will provide a good foundation for further collaborative working and integration.

We appreciate that the scale of growth planned in the region and ensuring the region delivers against its commitments is likely to be an ongoing challenge to meet targets. Looking ahead, as it develops the new RS, it will be important for the region to assess where it wants to achieve outcomes, where the gaps are, how programmes will fill those gaps and what will result from the proposals put forward.

A copy of the letter has been sent to your Regional Minister, Jonathan Shaw MP.

Yours sincerely,




**Ian Pearson**



**Andrew Adonis**



**Kevin Brennan**



**Rosie Winterton**

