

The Government's long-term aspiration is to reduce the persistent economic disparities between UK regions. The Government believes that the best way to overcome regional disparities in productivity and employment rates is to provide each nation and region the freedom, flexibility and funding to exploit indigenous sources of growth. The principles underlying the Government's approach to regional economic policy were set out in the Devolving Decision Making Review. To enhance the capacity of the regional institutional framework to deliver improved economic outcomes, the 2004 Spending Review:

- maintains funding for Regional Development Agencies (RDAs) in real terms and devolves new responsibilities to the RDAs from departments with a transfer of around £200 million a year from 2005-06. These transfers will increase the size of the Single Pot by 10 per cent from 2005-06 compared to 2004-05;
- announces devolution to the RDAs of responsibility for delivery of Business Link services; and
- announces new responsibilities for the RDAs in managing research and development grants, promoting enterprise in disadvantaged areas, delivering on rural priorities and encouraging collaborative research between business and universities.

In Scotland, Wales and Northern Ireland, responsibility for economic development and public services is, to a large extent, devolved. The 2004 Spending Review provides a major boost to public services and economic development in Scotland, Wales and Northern Ireland. Resources for public services and economic development in 2007-08 compared to 2004-05 will be:

- £4.2 billion higher in Scotland;
- £2.5 billion higher in Wales, including increased resources for Wales' European Structural Funds programme; and
- £1.2 billion higher in Northern Ireland.

Decisions on the use of this provision will be made by the Scotland, Wales and Northern Ireland administrations. The extra money will allow the Devolved Administrations to improve public services and economic development and determine their own particular public spending outcomes in line with the needs and priorities of the people of Scotland, Wales and Northern Ireland.

INCREASING REGIONAL FLEXIBILITY AND RESPONSIBILITY

23.1 The Government believes that the development of efficient and accountable sub-national institutions with real freedoms and flexibilities is essential to improving the economic performance of the UK economy as a whole and reducing regional disparities. Chapter 4 sets out the steps the Government is taking to promote balanced growth across the UK. This chapter details the spending settlement for the Regional Development Agencies (RDAs) to enable them to deliver sustained economic growth across the English regions; and the spending settlements for the Devolved Administrations to enable them to deliver improved public services and economic development in Scotland, Wales and Northern Ireland.

REGIONS

Regional Development Agencies

23.2 The Government views the RDAs as the key strategic drivers of economic development and regeneration in the regions. RDA resources and responsibilities have been increased significantly since they were established in 1999 to build their capacity to deliver their Regional Economic Strategies. The Government set out the next steps for enhancing the role of the RDAs in *Devolving Decision Making: 2*, published alongside Budget 2004. In line with the principles established in the Devolving Decision Making Review, the 2004 Spending Review further increases the RDAs' funding, devolves to them additional resources and responsibilities, increases their flexibilities and strengthens their performance management arrangements.

23.3 **The Spending Review maintains funding for the RDAs' Single Pot in real terms and devolves new responsibilities to the RDAs from departments with a consequent transfer of around £200 million a year from 2005-06.** These transfers will increase the size of the Single Pot by 10 per cent from 2005-06 compared to 2004-05. Together with the reduction in existing Single Regeneration Budget (SRB) commitments over the Spending Review period, this implies an increase in uncommitted resources available in the Single Pot of £817 million by 2007-08 compared to 2004-2005. The Single Pot, introduced in 2002, allows the RDAs significant flexibility in managing their own resources to meet their regions' priorities. It will deliver total resources of £2.3 billion in 2007-08.

23.4 These increases in resources will enable the RDAs to take on new responsibilities, which the RDAs will be tasked to deliver against. Building on the principles set out in the Devolving Decision Making Review, the 2004 Spending Review:

- **devolves responsibility to the RDAs for the delivery of Business Link services from April 2005.** The RDAs will collectively work together with the Small Business Service (SBS) to ensure that there is a mutually consistent framework for the application of Business Link branding across regional services and the national website, with very light central brand management;
- **devolves new responsibilities for the delivery of research and development (R&D) grants and for parts of the successor to the Phoenix Fund, which focuses on enterprise in disadvantaged areas,** to enable an integrated approach to business support at the regional level;
- as part of the Government's response to the *Lambert Review*,¹ **enhances the role of the RDAs in supporting business-university collaboration.** The Government will task the RDAs to help a broader spectrum of businesses develop productive links with the university base in each region, including through support for business-focused research;
- as part of the Modernising Rural Development Programme, **devolves additional resources to the RDAs to meet rural socio-economic objectives,** which were previously the responsibility of the Countryside Agency. This is in response to recommendations in the *Haskins Review*.² Rural priorities will be incorporated in the new RDA 'tasking framework'; and

¹ *Review of Business-University Collaboration: Final Report*, Richard Lambert, 2003.

² *Rural delivery review: A report on the delivery of government policies in rural England*, Christopher Haskins, 2003.

- announces that the **resources UK Trade and Investment (UKTI) contributes to the RDAs' Single Pot for inward investment will be increased** in the 2004 Spending Review period. In addition, **the RDA Chief Executive and UKTI will jointly sign-off plans for locally delivered trade development services** to ensure close integration with Regional Economic Strategies.

23.5 The Northern Way Growth Strategy (details in Chapter 4) made a number of proposals to Government for devolving decision-making in the 2004 Spending Review. On adult skills, this involves strengthening the role of Regional Development Agencies (RDAs) in developing joint plans for adult skills budgets with the Regional Directors of the Learning and Skills Council (LSC) through the Regional Skills Partnerships, in accordance with the statement of principles for future working between RDAs and the LSC drawn up in discussion between the DfES, DTI, RDAs and LSC. The Government agrees that there needs to be a much closer link between the LSC and the RDAs. It will support any region that develops their own mutually acceptable arrangements, in line with the concordat principles, to enable the supply of skills, training and workforce development for adults to be better matched to the needs of the region within the framework of national targets and priorities set for the LSC and RDAs. **The Government will consider favourably proposals for further integration of planning and funding of adult skills and workforce development at the regional level including, in those regions where the RDA and LSC desire it, a "dual key" approach to the management of adult skills budgets operated by the RDA Chief Executive and the Regional LSC Director.**

23.6 Also, building on current plans to support business innovation through links to the research base, the three Northern RDAs will aim to enhance those plans in response to Lambert to over £100 million by 2010, strengthening university-business collaboration and technology transfer across the North. To complement this and the growing engagement of all RDAs in this area of economic development, the Government will work with RDAs in the development of the new Higher Education Innovation Fund metrics, to ensure that proper account is taken of measures underpinning Regional Economic Strategies and the RDAs 'tasking framework'. It is important that universities and the RDAs work in partnership to deliver this agenda.

23.7 It is increasingly clear that regional choices on transport, housing, planning and economic development cannot be taken in isolation. **The Government is examining new ways to integrate RDAs' Regional Economic Strategies with regional transport and spatial development strategies, within a framework of indicative long term funding guidelines for each region.** The Government will also consider whether devolution on transport could be accelerated in regions which vote for Elected Regional Assemblies. It will consult on these proposals later in the year with a view to publishing indicative regional budgets alongside Budget 2005.

23.8 The RDAs' budgeting flexibility will also be increased by the decision to bring the Department for Culture, Media and Sport's contribution into the Single Pot and by the wind-down of funding commitments that the RDAs' inherited before the introduction of the Single Pot in 2002. Single Regeneration Budget commitments will end by 2007-08, significantly increasing the RDAs' flexibility to manage their own resources. To minimise the impact of the SRB wind-down on the voluntary and community sector (VCS), the RDAs will continue to work closely with the VCS in a number of areas throughout the 2004 Spending Review period, including by developing regional Compacts with the VCS in each region.

23.9 These increases in responsibilities need to be balanced by appropriate accountabilities and incentives. With the greater flexibility and role of RDAs announced in the 2004 Spending Review it is important that there is clarity about their performance, incentives for their improvement and a minimal level of bureaucracy in performance monitoring. With

the possible advent of Elected Regional Assemblies it is also important to have a consistent framework across the nine English regions. Reflecting the increasing strategic policy responsibilities being devolved to the regions, the RDAs are also being asked to build further their policy-making capacities, applying best practice in evidence gathering, economic analysis and regional policy-making.

23.10 To increase the focus on strategic outcomes, **the Government is introducing a new strategic ‘tasking framework’ for the RDAs**, which will ensure that stretching targets are aligned to the priorities identified in the Regional Economic Strategies as well as the most relevant Public Service Agreement targets. This will set all of the outcomes and deliverables for the RDAs that are agreed with departments. To improve performance management, this Spending Review announces that the **Government and the RDAs will work together to agree a new RDA performance monitoring framework by April 2005** that is more transparent and efficient, less bureaucratic and places greater reliance on internal and independent audit. The work should carefully consider the potential for introducing a system of comprehensive performance assessments managed by an independent and professional body, drawing from the lessons of the assessment of the London Development Agency by the Audit Commission.

Elected Regional Assemblies **23.11** In those regions that want them, elected assemblies will play a key role in making regional governance more effective and more accountable to regional electorates. The Government believes that greater accountability will itself lead to a more effective decision making process. The Government is committed to introducing Elected Regional Assemblies in regions where people vote for them in a referendum. Following an extensive consultation, the Government announced last year that the level of interest was high in the North East, the North West and Yorkshire and the Humber. Referendums are expected to be held in these regions on 4 November 2004. If these regions choose to adopt elected assemblies, the RDAs will become directly accountable to them. Regional assemblies will also have responsibilities in areas such as economic development, planning, housing, transport, culture, public health, rural policy, environment, skills, sustainable development, fire and rescue and crime reduction. The Government is committed to meeting the costs of setting up Elected Regional Assemblies, in those regions that want them, as and when they are established.

Government Offices **23.12** Government Offices (GOs) represent the Government in the regions. They administer or influence funding streams on behalf of 10 departments. If elected regional assemblies are established, the role of GOs will need to adapt to the changing environment. In any event, as the principles of the Devolving Decision Making Review are taken forward, GOs will need to respond to the changing demands of departments.

EFFICIENCY AND EFFECTIVENESS

23.13 The RDAs have agreed to deliver 2.5 per cent efficiencies per year in the Spending Review period, at least half of which will be cash releasing back into the Single Pot. The Department of Trade and Industry, as the sponsor department, will work with the RDAs to identify further efficiencies where possible. The RDAs will be expected to identify efficiencies in delivering on the additional responsibilities that have been devolved to them.

23.14 The GOs’ administration budget will be reduced from the nominal 2005-06 level by 2.5 per cent a year in cash terms over the Spending Review, in line with the Budget 2004 commitment to reduce administration costs. Departments which are cutting administration budgets by more than this will cascade those savings to the GOs. Managing this real terms reduction will require GOs to become more efficient in their operations and departments to consider the most efficient means of delivering their programmes.

SPENDING PLANS

23.15 The new spending plans for the RDAs' Single Pot are set out in Table 23.1; they provide an increase of £450 million in 2007-08, compared to 2004-05. Table 23.2 sets out the additions to the 'effective' Single Pot, over a baseline of around £1.5 billion in 2004-05, implied by the reduction in Single Regeneration Budget commitments over the Spending Review period coupled with increases set out in Table 23.1.

Table 23.1: Regional Development Agencies

	£ million			
	2004-05	2005-06	2006-07	2007-08
<i>Of which:</i>				
Department of Trade and Industry	234	463	476	483
Office of the Deputy Prime Minister	1,511	1,568	1,633	1,676
Department for Environment, Food and Rural Affairs	46	72	73	74
Department for Education and Skills	42	43	44	45
UK Trade International ¹	13	13	13	13
Department for Culture, Media and Sport	2	6	6	6
Total	1,847	2,163	2,244	2,297

Note: Figures may not sum due to roundings.

¹It is expected that UKTI's contribution to the Single Pot will increase by 2007-08.

Table 23.2: Increase in RDAs' 'effective' Single Pot

	£ million		
	2005-06	2006-07	2007-08
Increase in RDAs Single Pot compared to 2004-05	316	397	450
Reduction in SRB commitments compared to 2004-05	50	226	367
Increase in 'effective' RDAs Single Pot compared to 2004-05	366	623	817

Note: SRB commitment figures are based on provisional ODPM estimates at the time of the 2004 Spending Review. This gives a baseline for the 'effective' single pot of around £1,480 million in 2004-05.

DEVOLVED ADMINISTRATIONS

Devolved funding arrangements

23.16 The Government works in partnership with the Devolved Administrations to improve economic growth and public service delivery across all the countries and regions of the UK. The Devolved Administrations will publish their spending plans, targets and policies in the autumn. Devolution to Scotland, Wales and Northern Ireland is leading to new policies and innovations in public service delivery and economic development. During suspension of devolution in Northern Ireland, Northern Ireland departments report to the Northern Ireland Secretary of State.

23.17 UK funding for the Devolved Administrations' budgets has been determined in the 2004 Spending Review alongside those for departments of the UK Government and in accordance with the established devolution funding arrangements. The Devolved Administrations have freedom to make their own spending decisions, within the overall totals, on functions under their control in response to local priorities. In general, the changes to Devolved Administrations' budgets have been linked to changes in spending plans of UK Government departments by the Barnett formula. This formula gives Scotland, Wales and

Northern Ireland a population-based share of planned changes in comparable spending in UK departments, as set out in the Statement of Funding Policy published by HM Treasury. The increases announced in the Spending Review include the allocations already announced by the Government in the 2004 Budget in relation to health and education spending.

Public service delivery 23.18 The increases confirm the extra allocation of £106 million announced in the last Spending Review for 2005-06, and include extra allocations of £128 million and £147 million in 2006-07 and 2007-08 to Wales to ensure funding of the European share of its Objective 1 needs, with resources for match funding provided from within the total spending settlement. The Government is also making available an extra allocation of £59 million and £30 million in 2006-07 and 2007-08 for Northern Ireland's European Union funded PEACE programme as well as confirming the extra allocation of £80 million in 2005-06 announced in the 2002 Spending Review. In May 2002 the Government announced new borrowing powers for Northern Ireland departments and the establishment of a new strategic investment body. Funding will continue to be made available in the Spending Review period. **A major programme of reform to modernise water, rating and public administration will be introduced in Northern Ireland.**

23.19 Performance in public service delivery and economic development varies across the regions and countries of the UK, as demonstrated in the Office of National Statistics' annual Regional Trends³, although in many areas of public service delivery and the economy performance is improving across all countries and regions. Examples of excellence can be found in all parts of the UK. For example, comparing the four countries, hospital waiting lists are shortest in England; the number of pupils gaining 5 or more grade A* to C GCSEs or Scottish equivalent is highest in Scotland; the unemployment rate in the first quarter of 2004 was lowest in Wales; and Northern Ireland has had the largest percentage increase in its housing stock. The Government will continue to work with the Devolved Administrations and regions to promote the benefits of devolution in policy innovation, devolving decision making and improved delivery; to exchange best practice; and to reduce disparities in public service delivery and economic productivity.

EFFICIENCY AND EFFECTIVENESS

23.20 Efficiency gains of at least 2.5 per cent a year will be delivered in Northern Ireland, with administration costs rolled forward flat in nominal terms from 2005-06 in similar fashion to Government departments. These gains will be recycled into improved front line delivery in Northern Ireland and will be set out in their spending plans. The Scottish Executive and Welsh Assembly Government have announced that they are engaged in spending review efficiency and evaluation exercises as ambitious as those in England, including rationalising back office and related areas. These announcements, combined with the 2.5 per cent a year efficiency target agreed for English local government, will allow for a reduction of a further 20,000 civil service posts in addition to the 84,000 within UK departments and their sponsored bodies.

SPENDING PLANS

23.21 Table 23.3 shows each Devolved Administration's Departmental Expenditure Limit (DEL). The split between capital and resource budgets is indicative and reflects the consequential of the application of the Barnett formula to planned changes in UK departments' spending. The provision for the Scotland and Wales Offices within the Department for Constitutional Affairs in 2006-07 and 2007-08 will be the same as in 2005-06.

³ *Regional Trends*, Office of National Statistics, 2004

Table 23.3: Devolved Administrations

	£ million			
	2004-05	2005-06	2006-07	2007-08
Scotland				
Resource Budget	19,676	21,198	22,535	23,700
Capital Budget	1,893	1,783	1,980	2,172
Total Departmental Expenditure Limit	21,338	22,757	24,202	25,549
Wales				
Resource Budget	10,275	11,044	11,927	12,625
Capital Budget	918	998	1,083	1,195
Total Departmental Expenditure Limit	10,985	11,826	12,753	13,557
Northern Ireland				
Resource Budget	6,699	7,077	7,554	7,862
Capital Budget	373	412	476	534
Total Departmental Expenditure Limit	7,004	7,420	7,913	8,296

Note: The Wales and Northern Ireland baselines shown above for 2004-05 and 2005-06 exclude the above Barnett formula additions of £106 million a year for Objective 1 in Wales and £62 and £80 million for the PEACE programmes in Northern Ireland. These figures are however in spending plans for these years.

