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## Introduction

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1.1 The Chancellor of the Exchequer asked Christopher Allsopp to undertake a wide-ranging review of the informational and statistical requirements for monetary and wider economic policymaking, announced in an HM Treasury press notice on 27 February 2003.<sup>1</sup>

1.2 The terms of reference for the Review are:

*to advise on changes in the statistics and information necessary if the UK were to join the European single currency;*

*to deliver an assessment to the Chancellor, the Governor of the Bank of England and the National Statistician, with a first report by the 2003 Pre-Budget Report on the following:*

- *the regional information and statistical framework needed to support the Government's key objective of promoting economic growth in all regions and reducing the persistent gap in growth rates between the regions; and*
- *whether the changing economic structure of the UK is being properly reflected in the nature, frequency and timeliness of official economic statistics.*

1.3 This is the First Report of the Review, addressed to the Chancellor of the Exchequer, the Governor of the Bank of England and the National Statistician. It focuses mainly on the first bullet: what information is needed to support regional economic policy. This reflects the growing importance of the regional economic policy agenda, together with the sheer number of stakeholders and range of interests in economic policy for and in the regions. In some areas the way ahead seems quite clear and we can make firm recommendations; in others our views are more tentative and we would welcome reactions from interested parties. Some of the issues we deal with are quite technical, so some of our recommendations are also technical. The glossary of statistical terms explains many of the concepts that we discuss.

1.4 In this Report we also offer some initial thoughts on how well official economic statistics reflect the changing structure of the economy. But these are based on much less detailed investigation of the issues than our views on the needs for regional data, and consequently are more consultative in nature. We will return to these issues in more depth in our Final Report.

1.5 It has been impossible to consider the needs of the nine English regions without also looking at those of the three devolved administrations, Scotland, Wales and Northern Ireland. There are important differences in the degree of devolution and, largely as a consequence, also in the extent and sophistication of the information desired by the relevant executive bodies. However, our recommendations are based on a premise that as far as possible all twelve regions and countries should be treated equally in terms of data provision. In the interests of readability, we generally use the term 'regional' to include both the devolved administrations and the English regions.

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<sup>1</sup> *The full text of the Treasury Press Notice can be found on the HM Treasury web-site at: [www.hm-treasury.gov.uk/newsroom\\_and\\_speeches/press/2003/press\\_29\\_03.cfm](http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2003/press_29_03.cfm).*

1.6 Chapter 2 sets out the broad approach we have taken, and explains the distinction we make between macro- and micro-regional data. The evolution of regional institutions and the demands for regional information are discussed in Chapters 3 and 4. The following four chapters include the bulk of our recommendations on how to improve the provision of regional data: Chapters 5 and 6 consider estimation and development of Regional and National Accounts; Chapters 7 and 8 discuss other macro-regional data and micro-regional data. Our initial views on how well statistics reflect the changing economic structure are set out in Chapter 9. Chapters 10 and 11 discuss our recommendations for the statistical infrastructure, including the important issue of making better use of administrative data, and for business compliance costs.

1.7 Some of our recommendations specifically ask for comment. But we would welcome views on any of the issues raised in this First Report, or indeed on issues that we have not tackled. Arrangements for consultation and next steps are set out in Chapter 12.

1.8 The Review Team has been helped by a large number of people and organisations. We would like to thank all of those who spared time to talk to us or to send in written contributions. Our three sponsoring bodies – the Office for National Statistics, HM Treasury and the Bank of England – have provided a wealth of information without which our Report would be very much poorer. Annex A3 lists the people and organisations that we have met and those that have given us submissions.<sup>2</sup>

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<sup>2</sup> *Submissions to the Review are published on HM Treasury's internet site at [www.hm-treasury.gov.uk/allsoff](http://www.hm-treasury.gov.uk/allsoff).*

# 2

## Overall approach

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2.1 There is always a desire for more and better quality data. Our remit is to look at statistical requirements *for economic policy making*. We interpret this as requiring us to ask the question why particular types of statistical information are needed and for what policy purpose. This is essential in helping to narrow down the large and often vocal demands for more and better information of all kinds.<sup>1</sup> Information may be needed, for instance because it helps an institution monitor performance against its objectives; because it corresponds to particular policy levers; or because it helps to improve our understanding of how a national or regional economy works.

2.2 Our procedure is to review demands for statistical information and to evaluate these against the current supply. Recommendations may follow from identified gaps and deficiencies. There is, of course, an implicit cost-benefit framework behind our analysis: the provision of statistical information is costly, not just in terms of financial and resource costs but in terms of compliance costs as well. We ask whether the potential pay-off in terms of better economic policy justifies the cost. Mostly, the principle can only be informally applied, as a *framework* for thinking about the issues and posing some of the relevant questions. In line with our remit, one of the key questions is whether the statistical information is needed and ‘fit for purpose’ in terms of the economic policies being pursued.

2.3 This Review puts aside, however, wider restraints on the financing of the statistical services. It is for others to consider whether more or less resources should be applied to statistical provision as a whole. It is important that improved provision in one area should not be to the detriment of another. But it is beyond our remit (and certainly beyond our capacity for this First Report) to consider the nature and extent of the trade-offs involved, including those between investing in different areas of statistics, or to comment on how they should be resolved.

### REGIONAL STATISTICS: CONTEXT

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2.4 It would be no exaggeration to say that the first impression of the Review Team was of a near infinite demand for regional data of all kinds, from a very large number of different organisations with a legitimate interest in the regional dimension of economic policy. These demands contrast sharply with the limited existing provision of data, much of which is, in any case, of poor quality and which, moreover, has been seriously out-of-date in important cases.

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<sup>1</sup> *The remit does not rule out, for example, social statistics, many of which are relevant to economic policy at national or regional level. But it does mean that some social statistics are clearly not our concern here – examples might include statistics on political or religious affiliation. We stress that this in no way means that such statistics should not be provided, simply that whatever case is to be made for them is not based on their relevance for economic policy.*

2.5 Without going into detail, the following stylised aspects of the picture may give a flavour of the situation we encountered:

- revised estimates of regional Gross Value Added<sup>2</sup> (GVA) for 1999 were released in November 2002 and then withdrawn the following month, when publication of provisional estimates for 2000 and 2001 was postponed. These estimates were not published until August 2003. Until then, the latest available data were the unrevised figures for 1999;
- much statistical information is available within regions and devolved administrations, but not all on a standardised or comparable basis. Mounting demands for small-area or sub-regional data require different geographies, reflecting different policy needs, but with few mechanisms in place for reconciling these demands;
- many different organisations and institutions are involved in regional development and have a legitimate interest in statistical provision. These include central and local government, Regional Development Agencies (RDAs), Regional Chambers and Observatories, and Government Offices for the Regions. The English regions and the devolved administrations are at different stages of ‘devolution’, while further devolution may occur in some of the English regions; and
- there is a large number of different targets for outputs and inputs now in place. One of the commonest reasons put to us for requiring particular regional data was the existence of a target for the variable in question.

**Macro- and micro-regional data** 2.6 One factor contributing to the sense of confusion is that the term ‘regional’ is applied to all sorts of data with a geographical dimension. We have found it helpful (indeed, essential) to make a distinction between macro-regional data and what we call micro-regional data. The former refers to ‘large’ geographical areas or regions – most obviously to the three countries (Scotland, Wales and Northern Ireland) and the nine English regions (the Government Office Regions). Micro-regional data refers both to relatively small-area or sub-regional geographical classifications (e.g. data referring to electoral wards or post-code areas) and to the kind of microeconomic information that is relevant in formulating economic policy within larger-scale regions.

**What is a region?** 2.7 The distinction cannot always be maintained, however, since the definition of regions, their boundaries and their size involves an essential degree of arbitrariness. There is now a standard classification of regions and sub-regions, the so-called NUTS<sup>3</sup> classification, which has the property that smaller regions are ‘nested’ within larger regions.<sup>4</sup> The nine Government Office Regions and the three countries together constitute the UK’s NUTS 1 classification. For statistical purposes, it is extremely important that wherever possible standard definitions are used and that they do not change over time. In practice, not all regional classifications conform to NUTS – notable areas where different classifications are used include the police and the health authorities. And smaller-scale geographies (such as electoral wards) are unfortunately not very stable through time.<sup>5</sup>

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<sup>2</sup> *Gross Value Added is the statistical term used to describe Gross Domestic Product at basic prices (ie excluding taxes and subsidies on products), see Box 5.2.*

<sup>3</sup> *Nomenclature of Units for Territorial Statistics classification, see Annex A1.*

<sup>4</sup> *Thus the Government Office Regions are NUTS 1. Each NUTS 1 region contains a whole number of NUTS 2 regions and so on down.*

<sup>5</sup> *The ONS’ proposals for more stable geographic building blocks for small areas are discussed in Chapter 8.*

2.8 With the distinction between macro-regional and micro-regional data in mind, it is clear that data demands in the two categories are very different.

**Sub-regional and micro information** 2.9 The demand for micro-regional information is large and disparate. This is not, in fact, surprising. A wide range of national economic policies have important impacts on ‘regions’ as well as requiring local information. Each policy may, ideally, require different information relating to different geographical areas. Add to this the fact that different policies may be administered by (or devolved to) institutions operating at different regional levels – national, regional, county, district, health authority, police authority, school, or what have you – and the complexity is not surprising. Moreover, much policy operates via, or is assessed and monitored against, ‘targets’, a process which needs data referring to the appropriate geographic domain of responsibility.

**Macro-regional information** 2.10 At the macro-regional level, the issues are different. In the first place, our consultations suggested a surprising degree, not of diversity, but of broad consensus about the kinds of data required. Central to this is the demand for good and reasonably timely information on regional GVA – an area where there has been serious deficiency of supply in the recent past. An important argument is that accurate GVA figures are a basic requirement for benchmarking the regional economy and for comparative purposes. The demand is not just for current price information but for real, i.e. constant price, regional GVA as well – figures that currently do not exist.<sup>6</sup> The computation of real GVA (and of regional real growth rates) involves the issue of ‘deflation’, which is not straightforward at the regional level (see Chapter 5). Beyond this, demands centre on other important National Accounting aggregates, such as regional consumption and investment expenditure; regional population, employment and unemployment; regional disposable incomes, and so on. There is also an explicit but separate demand for data on regional price levels (see Chapter 4).

2.11 What needs to be explained is why there should be an increasing demand for statistics relating to these relatively large-scale regions.

2.12 In summary, there is un-met demand for macro-regional information. In part, this reflects recent difficulties in producing Regional Accounts. But it also reflects a substantially increased demand for a wider set of macro-regional indicators, including real GVA and real regional growth rates. For micro-level data, there is mismatch and disparate demand and supply, adding up to an incoherent picture at the national level.

## REGIONAL INFORMATION AND ECONOMIC POLICY

2.13 This Review is specifically concerned with information for economic policy. This means that we have had to ask what kinds of economic policy developments and ideas lie behind the new and increased demands for statistical information. In turn, this has meant consulting widely and looking closely at the institutions involved (Chapter 3) and their policy agendas (Chapter 4). What is needed is an economic framework that explains why there is an increased demand for, and interest in, macro-regional data and, beyond that, a framework that helps to make sense of the many and varied demands for micro-regional data.

<sup>6</sup> *A reduction in the persistent divergence in regional per capita growth rates is an explicit objective of the Public Service Agreement (PSA) target for the regions jointly set in Spending Review 2002 by HM Treasury, the Department of Trade and Industry and the Office of the Deputy Prime Minister.*

2.14 We suggest two organising principles, both of which arise from what might be called the ‘devolution agenda’. The first and most important of these is the notion of ‘*devolution with constrained discretion*’.<sup>7</sup> This framework applies most nearly to developments in the English regions. With some modification, it can also be applied to demands for economic statistics within the devolved administrations as well.

2.15 The second is a political economy notion of ‘*regional fairness*’. Devolution of aspects of economic policy also involves the devolution of service provision and budgetary resources. The question of how resources are allocated between regions and territories tends to increase in importance with the degree of devolution.

2.16 Both of these aspects of the devolution process can explain an increased demand for macro-regional data combined with the large variety of demands for micro-regional data. As an organising framework, we are most interested in the notion of ‘constrained discretion’. Distributional aspects of devolution are less central, but cannot be ignored.

### Devolution with constrained discretion

2.17 The idea of ‘*devolution with constrained discretion*’ serves to put a particular slant or focus onto our inquiry into the provision of regional statistics for economic policy. The notion involves the devolution of the responsibility for the implementation of economic policy to an *institution*, which nevertheless operates within a clear framework of longer-term responsibilities and objectives (which constrain its discretion). The institution may be held to account partly in terms of how it meets the higher-level objectives and, via accountability and transparency, in terms of the discretionary processes by which it seeks to meet those objectives.

2.18 It is clear that aspects of current policy fit quite closely into this framework. In particular, the approach we have in mind is exemplified by the Public Service Agreement (PSA) target to reduce the persistent gap in growth rates.<sup>8</sup> One way of interpreting the target is that part of the responsibility for increasing national growth and productivity performance is delegated to the RDAs, which are expected to take account of local conditions (see discussion in Chapter 3). More generally, the setting of objectives and targets has become an integral part of the process of allocating public spending between government departments. We have adopted the framework of ‘constrained discretion’ because we believe it helps to make sense of the plethora of competing demands for regionally-classified data that have been put to us.

2.19 The framework provides an immediate explanation of *why* macro-regional data is required. Macro-regional information is needed corresponding to the domain of the devolved policy institution, in this case the region. That domain acts as a natural dividing line or pivot in looking at the different demands for data. More generally the framework of ‘constrained discretion’ also sets up requirements for different kinds of information provision, supporting the different parts of the system: ‘high level’ information for setting objectives and targets; micro-regional information to help the RDAs set policy; and the detail required to ensure accountability and transparency.

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<sup>7</sup> *The intellectual origins of the concept arise in another area of economic policy – the delegation of the operation of monetary policy to independent central banks operating with constrained discretion. See, for instance, Bernanke & Mishkin (1997), King (1997), Balls (2001) and Balls & O'Donnell (2001). In the UK, the most familiar institutional example of such a system is the operation of the Monetary Policy Committee (MPC). But the situation in the regions is more complex, with a greater and more diverse range of policy objectives, targets and instruments. For further discussion see Balls (2002).*

<sup>8</sup> *The target also includes increasing the sustainable growth rate in all regions.*

**Macro-regional data** 2.20 Thus, as far as the macro-regional information is concerned, the framework already provides two different perspectives on the demand for macro-regional data: those setting the general economic objectives of the institution (including setting targets against which performance can be monitored); and the devolved institution itself, which is bound to be interested in overall performance and which requires macro-regional data in formulating policy in its area of constrained discretion. Statistical provision needs to respond to both sets of demands. As noted, there appears to be a reasonable degree of consensus about the kinds of data required to underpin these policy needs.

**Micro-regional data** 2.21 The framework suggests a very different focus in looking at the demands for micro-regional data. A purist view of the process would see the devolved institution as responsible for the identification of its own data needs. In principle, if constrained discretion means what it appears to mean, it is hard to generalise about the details of the micro data required, which, in particular, are likely to depend on local conditions. In practice, however, there is a certain amount of common ground, including a number of lower-level targets applied to or adopted by the RDAs. And some micro-regional data may help our understanding of how regional economic subsystems work. Our recommendations about micro-regional data in this First Report reflect these difficulties.

2.22 We stress, however, that the use we make of the framework in this Review is general rather than specific. Effectively, rather than basing our analysis on any particular policy agenda, we ask the wider and longer-term questions about what kind of statistical system would be required to underpin the more general process of *economic policy* devolution involving constrained discretion.<sup>9</sup> The different kinds of recommendations relating to macro-regional data and micro-regional data reflect this general approach.

### Regional fairness and income distribution

2.23 We have suggested that an alternative interpretation of the rising importance of macro-regional data on the one hand and increasing demands for micro-regional data on the other, relates to political economy concerns over the distribution of income and wealth between large regions.

2.24 National or supra-national policy may include concern with regional convergence – which looks like a concern with the regional dimension of distribution and welfare, although it equally reflects concerns with economic efficiency. Policies of promoting regional equality are clearly much in evidence: an interesting example is provided by the Structural and Cohesion Funds, dispensed within the EU, which are allocated on the basis of income inequality.<sup>10</sup> We are conscious of the political power of notions of regional equity or fairness; it is necessary, however, to be careful about how equity arguments are applied in the regional context.

2.25 The difficulty is to provide an underpinning to the idea that geographical location is relevant to *national* concerns over income distribution and the alleviation of poverty. For example, why should national policy be concerned with poor East Midlanders rather than poor people in general, some of whom live in the East Midlands? (Of course, it is perfectly reasonable for an institution with devolved powers to have distributional objectives *within* its domain.) Policies to reduce poverty and social exclusion are national policies and the objective is to alleviate poverty and reduce social exclusion *wherever it may be found*. It would be odd for the relevant budget to be distributed according to some idea of geographical or regional fairness as opposed to being directed to those in greatest need.

<sup>9</sup> We emphasise that we are concerned with the devolution of economic policy, not political devolution. Naturally, in practice, the two often go together.

<sup>10</sup> However, the Structural and Cohesion Funds are possibly best seen as part of a political settlement to help ensure 'buy-in' by poorer or disadvantaged areas to the institutions of the EU.

2.26 The point is perhaps even more obvious when it comes to the tax and benefit system as a whole. To the extent that it is progressive, it has an effect of improving income distribution. It is undoubtedly true that some regions or sub-regions will pay more in tax and receive less in benefits; and that others will be net gainers. This, however, reflects national policy priorities and the characteristics of people in those regions, rather than any specific objective concerned with relative levels of regional prosperity or welfare.

2.27 Within the UK, notions of ‘fairness’ and ‘equality of access or opportunity’ are clearly important. For some economic and social concerns, it is the ‘rights discourse’ that is most salient. Thus, most would sign up to the aspiration of equality under the law and the right to universal suffrage. Similarly, for important socially-provided goods – we have in mind, for example, access to health care when needed and to education of an acceptable standard – notions of a fair or equal distribution are more relevant than general notions of the equality (or inequality) of income and wealth. Characterising the appropriate or acceptable level of the provision of such ‘basic’ or ‘opportunity’ or ‘access’ goods is, of course, far from easy.

2.28 The reason for singling out such a category of publicly-provided services is that the notion of ‘fairness’ or ‘equality of access’ extends naturally to the regional dimension. In access to health care, for example, there is a clear objective that access should not depend on a ‘post-code lottery’. The idea that educational opportunity should not depend on regional location is, likewise, a powerful political aspiration. In these cases, small-scale sub-regional data of a standardised and comparable kind is required to allow an assessment of how far such objectives are being met.<sup>11</sup> Regional macro-data, for example at NUTS 1 level, would have relatively little policy relevance here. In these examples, expenditures are allocated on the basis of the rights and needs of individuals.

### Devolved budgets and formula funding

2.29 The picture becomes more complicated, however, when the funding side of these programmes is considered. In England, public expenditures, such as health and education, are administered locally - by primary care trusts and local authorities respectively (see further discussion in Chapters 3 and 4). Financial resources are provided centrally from the relevant spending departments, via devolved budgets, which are determined by (often complex) funding formulae. Ideally the system is still ‘needs based’, with funds directed towards supplying the services to which individuals, within the local area, need access. In principle, the services are still directed towards individuals, not localities.

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<sup>11</sup> *This prime source of this sort of data should, however, be the administrative records of the relevant public services themselves.*

2.30 However, the administrative system affects the provision of statistical information in several ways:

- the departmental and local systems are an important source of administrative data, which can be used for other purposes as well;
- the need to determine funding formulae and, hence, the size of budgets, sets up important demands for data pertaining to the localities or regions in which the expenditures take place. It is clearly important that allocations are based on objective information relating to local needs and the costs of meeting them;<sup>12</sup>
- the delegation or devolution of the delivery of services requires a monitoring system, which, ideally, requires information on outputs or outcomes, as well as information on inputs. Local PSA targets (see Chapter 4) are for the most part concerned with outcomes. In some areas of public expenditure, measures of output or outcome are hard to construct;<sup>13</sup> and
- recent policy documents and statements have put increased emphasis on local flexibility and discretion,<sup>14</sup> which is likely to increase the demands for sub-regional and local area information.

**Competition for funding** 2.31 In the UK, the vast majority of revenues are raised centrally, which means that the devolution of some of the spending aspects of economic policy to institutions in the regions and sub-regions also necessarily involves the devolution of budgetary resources.<sup>15</sup> The question of how these budgetary resources are to be distributed between regions is likely to become increasingly important.

2.32 The geographical nature of political representation in the UK means that regional and local interests are bound to feed into the allocation of funds and resources under various departmental budgets. In political economy terms, the notion of large-area regional or geographical ‘fairness’ is one input among many in the political, economic and bureaucratic decision processes involved. The notion of a ‘fair’ distribution between relatively large areas could, however, be contentious. For example, should allocation proceed on the basis of population, on the basis of GDP, or, as has been suggested, on the basis of inverse GDP or some other measure of regional disadvantage?

2.33 Clearly we rely on political and bureaucratic processes to solve such complicated distributional questions.<sup>16</sup> Although the notion of regional fairness is politically important, other criteria are important as well, such as economic efficiency, especially when the concern is with the location of industry and the trade-offs are all too apparent.<sup>17</sup>

<sup>12</sup> *Much funding is on a capitation basis. Recent concern over the Census data pertaining to some local areas is an illustration of the increasing importance of accurate and agreed local-area data. Local-area costs, reflected in the Area Cost Adjustments (see Box 4.2), are extremely important in determining budgets (they are one of the most important reasons for variations in per capita public spending between local authorities (McLean and McMillan (2003)) and require local information on wage levels, business rates and other factors.*

<sup>13</sup> *We have been made aware of concerns that, especially where outputs are hard to measure, poorly-specified targets may distort incentives rather than improve outcomes.*

<sup>14</sup> *See HM Treasury (2003e) and Balls (2002).*

<sup>15</sup> *There are some economic policies where delegation or devolution does not involve the devolution of control over spending – most notably, monetary policy. Some aspects of devolved regional policy are also not primarily about spending, such as the co-ordination role of the RDAs, see Chapter 3.*

<sup>16</sup> *In Canada, with its federal structure, an extremely important driver for the provision of data classified by province is the need to determine and agree the formula underlying inter-regional transfers.*

<sup>17</sup> *Previous episodes of regional policy in the 1950s and 1960s often relied on locational permits – which all too frequently led to inefficiency and the eventual closure of plants. Selective assistance grants have also been criticised for leading to inefficient location decisions.*

**2.34** As far as the provision of regionally-classified data is concerned, notions of regional fairness and redistribution are clearly important in generating demands for statistical information in two broad areas. First, the demands naturally focus on information relating to the spending of public sector bodies.<sup>18</sup> Second, the demands relate to regional information deemed relevant to the debate over the fairness or otherwise of regional spending patterns, including measures of relative regional prosperity and income, as well as more micro data such as information relating to areas of high unemployment or local deprivation. It is quite possible that demands for high quality regional data on public spending and on the incidence of taxation will increase as the political debate over regional performance and prosperity develops.

### IMPLICATIONS FOR STATISTICS

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**2.35** The process of devolving economic policy has set up new demands for statistics relating to the regions and countries of the UK. It is the domain of the devolved policymaking institutions that accounts for the demand for what we have called macro-regional statistics. In practice, this means a particular demand for data relating to the NUTS 1 classification: the nine Government Office Regions together with Scotland, Wales and Northern Ireland.<sup>19</sup> Though the extent of devolution differs, the framework outlined above suggests that, as far as statistical provision is concerned, all regions and countries can and should be treated, in a broadly similar way.

**2.36** The demands for macro-regional statistics and the demands for micro-regional data can usefully be looked from different viewpoints, corresponding to the different aspects of devolved policymaking with constrained discretion. One of our recommendations is that there should be an Office for National Statistics (ONS) or Government Statistical Service (GSS) presence in the English regions to complement that already present in the devolved administrations (see Chapter 10). This can be seen as a response to both aspects of the devolved policy making process. It would help with the integration of the Regional Accounts process into the National Accounts process. It is also a response to the need for micro-regional information to be improved and made more widely available on a standardised basis.

**2.37** The main justification for the NUTS 1 classification is administrative and political rather than 'statistical'. The twelve regions and countries are not all 'natural regions' – though some are more natural than others. The boundaries, as well as those of sub-regions, have not been designed with economic statistics in mind. This does not mean that the classification is not useful statistically. It is useful because it is there. We have noted that it is important that classifications should be standardised and stable over time. An important reason for our recommendation that Regional Accounts should be integrated into the National Accounting process is that much information, statistical and qualitative, exists at regional level (which is unlikely to be available to the centre). There is a general principle that using more information is better than using less. Our view that such integration should be based on NUTS 1 regions is based on pragmatism, not science.

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<sup>18</sup> Box 5.5 discusses this in more detail, including the question of whether expenditure is 'for' or 'in' a region.

<sup>19</sup> The same argument suggests a demand for data at NUTS 2 or NUTS 3 (roughly larger counties) for economic policies devolved to that level. The focus on NUTS 1 reflects current policy agendas and likely future trends (see Chapter 4). Needless to say, the focus of policy could change.

2.38 There is, potentially, a demand for a wide range of macro-regional statistics. Why should relatively large regions make do with less comprehensive data provision than small nation states? Our recommendations in Chapters 6 and 7 implicitly rely on the cost-benefit principle to put limits on the ‘reasonable’ provision of macro-regional statistics. For example, we do not recommend the development of a full set of expenditure accounts, since inter-regional trade data do not exist in accessible form, and it would be very expensive to provide them. On the side of the benefits for economic policy, the lack of devolved policy instruments puts limits on the kinds of data required. Thus, the English regions, and even the devolved administrations, have little role in stabilisation policy since they do not control the relevant policy instruments (such as interest rates). This limits their need for high frequency statistics. (There may still be a demand, e.g. from firms in the area, for conjunctural information – much of which is in fact supplied by the private sector.) This is an important reason why we do not recommend the provision of quarterly regional GVA data (though we do not rule it out).

2.39 The framework suggests that the requirements for what we have called micro-regional data arise in a different way and need to be looked at differently. Our recommendations reflect this (see Chapter 8). Many kinds of data exist and some of the main concerns relate to quality, comparability and dissemination mechanisms. There are also demands for greater access to administrative datasets (see chapter 10) – including the IDBR – as well as for improvements to the regional coverage of major surveys. As noted, we see a role for ONS or GSS regional representation in improving statistical methodologies, consistency, comparability, dissemination and access. There is a general need to develop a framework of responsibilities for the production of regional datasets – which requires coordination amongst regional institutions as well as an on-going dialogue between those institutions and the ONS.

2.40 In line with our remit, this Review concentrates on the provision of statistics for *economic* policy. A complicating factor is that the distributional aspects of the demand for regional information are also rising in importance. The demands can be seen as reinforcing. An important caveat is that, if regional allocations of funds were to come to be based on indicators such as regional GVA, the demand for accuracy and comparability would greatly increase.



# 3

## Regional institutions

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3.1 Chapter 2 explained that we have examined what kinds of economic policy developments are leading to new and increased demands for statistical information. In doing this we have considered the policy agendas that involve regional issues and the institutions involved in their delivery. This chapter describes those institutions and the extent of their ‘constrained discretion’ and, in its concluding section, draws out the implications for data provision.

### Devolution with constrained discretion

3.2 The move to devolve power and responsibilities to the countries and regions of the UK seems to be maintaining its momentum. This is occurring in different ways: through the prospect of devolved assemblies in the North West, North East and Yorkshire and the Humber regions of England,<sup>1</sup> and through the delegation of responsibility for meeting central government targets to the Regional Development Agencies (RDAs).

3.3 The extent of devolution differs between the countries and regions of the UK at present. Scotland, Wales and Northern Ireland have elected assemblies with devolved responsibility to set objectives for their countries, while the English regions tend to have delegated responsibility to meet objectives and targets agreed with or set by central government.

3.4 The overarching approach appears to be medium to long-term responsibilities and objectives set by the centre, within which responsibility for the implementation of policy is devolved or delegated to regional institutions (which varies depending on the extent and nature of the devolution in any region).<sup>2</sup> The motivation for the *devolution of economic policy*, is set out in a number of HM Treasury documents on regional policy and productivity:<sup>3</sup> “the new regional approach rests on two principles:

- first, it aims to strengthen the long-term building blocks of growth, innovation, skills and the development of enterprise by exploiting the indigenous strengths in each region and city; and
- second, it is bottom-up not top-down, with national government enabling powerful regional and local initiatives to work by providing the necessary flexibility and resources.”<sup>4</sup>

3.5 All of these have implications for the demands for data at a regional and sub-regional level. Not surprisingly, the different types of devolution and delegation set up different kinds of demands for information and the provision of statistics. Data demands may increase as policy objectives diverge between regions. However, there is likely to remain a significant core of data required by all regions.

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<sup>1</sup> *The Deputy Prime Minister announced on 16 June 2003 that he was asking the Boundary Committee to carry out local government reviews of the North East, the North West and the Yorkshire and the Humber regions, a necessary precursor to holding referendums on the establishment of elected regional assemblies.*

<sup>2</sup> *Where responsibilities are devolved to the devolved administrations, responsibility for setting objectives rests with them rather than with the UK Parliament. The discretion available to the devolved administrations is not constrained except by their overall block budget.*

<sup>3</sup> *We have focused on the economic issues and recognise there are wider constitutional arguments for devolution.*

<sup>4</sup> *HM Treasury and Office of the Deputy Prime Minister (2003).*

3.6 As a result, we have treated regions and countries equally, not differentiating between the data requirements of the devolved administrations and the institutions responsible for delegated policy in the English regions. A further reason for treating regions similarly is that every country and region of the UK wants to be able to assess its own performance against the performance of others. On the other hand, it has been suggested to us that for some regions, the most appropriate comparator may be similarly-endowed regions in the EU or possibly competitor regions beyond. Whatever the comparator, this argues for a standard set of data to assess comparative macroeconomic performance.

3.7 We do not address the question of the optimal geographical areas to which policy should be devolved. Rather, we take the devolution to the NUTS 1 regions as a given, to the extent that these boundaries will continue as the significant administrative boundaries for government policy and devolution.

### CENTRAL GOVERNMENT

3.8 In the framework of devolution with constrained discretion discussed above, central government sets the framework of longer-term responsibilities and objectives. In those policy areas that have been devolved or delegated, responsibility for achieving these objectives rests with the relevant regional institutions. The Government's regional policy and the two principles behind the Government's regional approach fit into this framework quite well.<sup>5</sup>

**Regional PSA target** 3.9 The most obvious example where these principles have been applied is the Government's objective to improve the economic performance of all regions, as set out in the joint HM Treasury, Department for Trade and Industry (DTI) and Office of the Deputy Prime Minister (ODPM) regional Public Service Agreement (PSA) target.<sup>6</sup> This target was set in the 2002 Spending Review and is to:

“Make sustainable improvement in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006.”<sup>7</sup>

3.10 This target replaces one set in the 2000 Spending Review, shared by the then Department for Environment, Transport and the Regions (DETR) and the DTI:

“Improve the economic performance of all regions, measured by the trend in growth of each region's GDP.”<sup>8</sup>

3.11 The aim of the 2002 PSA target is to improve the economic performance of every country and region of the UK “firstly for reasons of *equity*”<sup>9</sup> and also to improve *efficiency*. The Government has argued that the efficiency and economic potential of the UK economy as a whole would be increased by improving the performance of those regions with low productivity: “If all lagging UK countries and regions improved their productivity performance to at least that of the current average then the average person in the UK would be around £1,000 a year better off.”<sup>10</sup>

<sup>5</sup> *The Government's regional agenda “to maximise the potential of all localities – towns, cities and rural areas” was set out for the current Parliament in HM Treasury (2001).*

<sup>6</sup> *The PSA target applies to the English regions only and not to the devolved administrations because economic development is at least partly devolved. The devolved administrations have set themselves broadly similar targets.*

<sup>7</sup> *HM Treasury (2002b).*

<sup>8</sup> *HM Treasury (2000b).*

<sup>9</sup> *HM Treasury and Department for Trade and Industry (2001), page v.*

<sup>10</sup> *HM Treasury and Department for Trade and Industry (2001).*

**Other PSA targets** 3.12 The Government consultation document, *A modern regional policy for the United Kingdom*, describes a number of other PSA targets that have either an explicit or implicit regional dimension:<sup>11</sup>

- the Office of the Deputy Prime Minister’s target to achieve a better balance between housing availability and the demand for housing in all English regions;
- the Department for Environment, Food and Rural Affairs’ (DEFRA) target to reduce the gap in productivity between the least well-performing quartile of rural areas and the English median by 2006;
- the Department for Education and Skills’ (DfES) target to improve adult skills;
- the Department for Culture, Media and Sports’ (DCMS) target to improve the productivity of the tourism, creative and leisure industries;
- the Department of Health’s (DoH) target to reduce inequalities in health outcomes by 2010;
- the Department for Work and Pensions’ (DWP) target for increasing the employment rates of disadvantaged areas;<sup>12</sup> and
- the Department of Trade and Industry’s target to improve innovation.

3.13 These targets illustrate that there is a potentially large and growing need for regional data. They also demonstrate the cross-cutting nature of much of the demand. In several cases the underlying policy is a national one (created to help people irrespective of where they live or work) that impacts on the regions. Data are required to identify where those that require help are, so that the appropriate policy response can be activated and resources provided. In many of these cases, data are required to inform the scale of the resource requirements at the regional, or often, sub-regional level.

3.14 We have not assessed the data requirements of these targets in the same depth as the data requirements for the joint HM Treasury, DTI and ODPM regional PSA target. Rather, the issues raised are examined in Chapter 4 under the broad policy agendas. However, as explained in Chapter 2, we are focussing on economic data and, therefore, do not consider in detail the data requirements of, for example, the DoH’s PSA target.

## THE BANK OF ENGLAND

3.15 A classic example of ‘national’ policy objectives and policy levers for which regional data and information are required is monetary policy. The Monetary Policy Committee of the Bank of England has a national objective and, effectively, a single, national instrument – the short-term interest rate. Even in this case, however, the Bank is charged under the Bank of England Act 1998 with taking proper account of regional and sectoral information. There is a clear case for regional (and sectoral) information if it serves to give a better picture of the national economy and to contribute to the ongoing process of understanding and modelling the way in which it functions. The information flow into the policy process is not only statistical but also includes more qualitative information from the Bank’s regional Agents.<sup>13</sup>

<sup>11</sup> *HM Treasury, Department for Trade and Industry and Office of the Deputy Prime Minister (2003).*

<sup>12</sup> *The ODPM Select Committee criticised the DWP for not thinking that its floor target had a regional dimension; and reported that the DoH does not view its targets as being regionally focused.*

<sup>13</sup> *The Bank’s regional Agencies are also important in disseminating information in the regions about the monetary policy process – which relates to the requirement for policy to be accountable and transparent. The work of the Agencies is described in Eckersley and Webber (2003).*

## REGIONAL DEVELOPMENT AGENCIES

3.16 The Regional Development Agencies (RDAs)<sup>14</sup> were established for eight English regions on 1 April 1999 to promote economic development and regeneration in the English regions.<sup>15</sup> They are accountable to the Secretary of State for the DTI.<sup>16</sup> The London Development Agency (LDA) came into being on 3 July 2000; its functions are the same as for the other RDAs and its funding is received from central government, but it is accountable to the Mayor of London instead of Government Ministers. The London Assembly also has a formal scrutiny role. Outside London, the Regional Chambers/Assemblies (see below) are being encouraged to take on this role.

### Box 3.1: Regional Economic Strategy (RES)

Each RES sets out the RDA's strategic vision for the next ten years. The fundamental purpose of the RES is to set out an approach to improve economic performance, enhance competitiveness and address market failures in the region. It is required to cover regional economic issues, including business competitiveness, increasing productivity, the underlying problems of unemployment, skills shortages, inequalities, social exclusion and physical decay. Each RDA is required to demonstrate how their RES develops links between these areas, identify priorities for action and ascertain which regional institutions will be responsible for delivering particular elements of the strategy. The Government's guidance to the RDAs for setting their RES says "The strategy will need to focus primarily on those areas that justify action at the regional level."<sup>1</sup>

RDAs presented their strategies to the Government in October 1999 (the LDA presented its strategy in July 2001). Copies can be obtained from the RDAs' websites. RDAs are obliged to review their strategies in full every three years.

<sup>1</sup> The Government's guidance to the RDAs is produced on the DTI website at [www.dti.gov.uk/rda/info/res.htm](http://www.dti.gov.uk/rda/info/res.htm).

### Box 3.2: Framework for Regional Skills and Employment Action (FRESA)

Recognizing the need to integrate and rationalise the various regional strategies and plans for employment and skills, the DWP, DTI and DfES asked the RDAs to take the lead in producing Frameworks for Regional Employment and Skills Action, to address the skills and employment needs of employers and individuals in their region. The first framework for each region was completed by October 2002.<sup>1</sup> They aim to provide a single plan on what needs to be done in a region to maintain and promote a healthy labour market, based on detailed analysis of the regional labour market, bringing together at the regional level the responsibilities of the DWP, DTI and DfES. Issues covered in the FRESAs include response to redundancies, attracting investment and engaging employers and individuals. The issues identified are set in the context of the overall development of the region, reflected in the RES, and identify relationships between skills, employment, productivity and competitiveness. In some regions they also identify links with other issues including housing, transport and rural issues.

<sup>1</sup> A review of the FRESAs by Schofield Associates (2003) makes a number of recommendations on how they could be improved.

<sup>14</sup> The RDAs are non-departmental public bodies which means they have a role in the process of national government, but are not a government department or part of one.

<sup>15</sup> The White Paper, Building Partnerships for Prosperity – sustainable growth, competitiveness and employment in the English Regions (1997) set out the Government's proposals for the RDAs.

<sup>16</sup> The DTI ensures that the RDAs comply with the requirements of legislation, propriety and regard to public expenditure.

3.17 The RDAs have been given the key task of driving forward the new regional economic policy agenda in the English regions. They have five statutory purposes:

- to further economic development and regeneration;
- to promote business efficiency, investment and competitiveness;
- to promote employment;
- to enhance development and application of skill relevant to employment; and
- to contribute to sustainable development.

3.18 Each RDA has developed an economic strategy for the next ten years for its region, setting out its vision for local economic development (see Box 3.1). However, the RDAs are not the main delivery agents of these strategies. They achieve the economic strategy by coordinating between different public and private institutions involved in regional economic development, including local authorities, local Learning and Skills Councils (LSCs), the Small Business Service (SBS) and others. They can also provide funding towards regional regeneration activities in conjunction with other regional partners.

3.19 All agencies have a Chief Executive and a governing Board, but they do not share a common structure and staffing numbers differ. The shape of each RDA has evolved to reflect the needs of the regional agenda. Their budgets also differ in amount. RDAs each receive a budget from central government. The 'Single Pot' arrangement brings together separate funding streams from five government departments<sup>17</sup> into a single budget distributed to the RDAs. With effect from 2002-03, the RDAs have had significant flexibility to spend the resources allocated to them in the way they consider will be most effective in delivering their targets.

3.20 Total RDA resources in 2002-03 were £1.6 billion, increasing to £2 billion by 2005-06. These resources are allocated to individual RDAs using a complex formula containing nine domains (the funding formula is discussed in Chapter 4). The resulting distribution of funding for 2003-04 is shown in Table 3.1.

Table 3.1 Allocation of RDA 'Single Pot' to individual RDAs, 2003-04

	£ million	per cent of total	Mid-year Population 2002 (million)	£ per head
North East	227	12.7	2.5	90
North West	331	18.5	6.8	49
Yorkshire and the Humber	247	13.8	5.0	50
East Midlands	122	6.8	4.2	29
West Midlands	223	12.5	5.3	42
East of England	87	4.9	5.4	16
South East	114	6.3	8.0	14
South West	106	5.9	5.0	21
London	334	18.6	7.4	45
<b>England total</b>	<b>1,792</b>	<b>100</b>	<b>49.6</b>	<b>36</b>

Source: DTI and ONS

<sup>17</sup> Department of Trade and Industry, Office of the Deputy Prime Minister, British Trade International, Department for Environment, Food and Rural Affairs and Department for Education and Skills.

3.21 The RDAs' funding is tied to a framework of targets at three levels:<sup>18</sup>

- Tier 1 represents the RDAs' statutory purposes (outlined above);
- Tier 2 regional outcome targets are to be delivered by a range of regional partners and programmes, although RDAs are accountable for their delivery. There are national targets for GVA per head, regeneration, urban and rural renaissance, housing, employment, skills, productivity, enterprise, investment and innovation. Individual RDAs are able to add their own additional targets if they wish, while the Mayor of London can supplement the LDA's targets; and
- Tier 3 milestones are associated more directly with RDA activities, and aim to capture the RDA's contribution to Tier 2 regional outcomes. There are five core milestones: employment opportunities, brownfield land reclamation, creation of learning opportunities, creation/attraction of new businesses and investment benefiting deprived areas. Each RDA is also expected to add supplementary milestones.

RDA performance against the Tier 2 and Tier 3 targets is monitored by the Government Offices.

3.22 This is not complete devolution of the ability to set independent policy objectives, but a delegation of responsibility for meeting the national policy objective in the area for which the RDAs have been given some responsibility. Therefore, the RDAs require data to monitor progress against targets and objectives and to inform the processes by which they determine their policy action. Much of the latter data requirement comes under our micro-regional classification, discussed in Chapter 8. At the same time, the RDAs need macro-regional data to assess their performance against their high level objectives, for which they are accountable to central government, and to understand their economic environment.

### Regional Observatories

3.23 Regional Observatories (ROs) have been established in the English regions by partnerships involving RDAs, Government Offices, Regional Chambers, and other bodies.<sup>19</sup> The first was established in 1999. Their main role is to provide intelligence to the RDA and others by coordinating data and information and providing data analysis, including forecasting and research related to regional policy, as well as working to widen access to information. While the ROs undertake a lot of this work themselves, they also work to varying degrees with relevant bodies on issues of common interest within a region. Hence, the ROs are a prime point for coordinating and improving the availability of data and information in the English regions and are well placed to link with our proposal for an ONS or Government Statistical Service (GSS) regional presence (see Chapter 10).

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<sup>18</sup> The detailed targets are available on the DTI's website at [www.dti.gov.uk/rdalinfo/target.htm](http://www.dti.gov.uk/rdalinfo/target.htm).

<sup>19</sup> The organisation, scale and financing of the Regional Observatories is different in each region. The Observatories are also at varying stages of development, with some more advanced than others. Information on them can be obtained from [www.regionalobservatories.org.uk](http://www.regionalobservatories.org.uk).

3.24 The Association of Regional Observatories (ARO) was set up in 2001 by the ROs with the aim of promoting the provision and use of the best data and intelligence for the English regions. The ARO also seeks to ensure that government considers regional needs when gathering data and commissioning research. The main functions of the ARO are:

- jointly to promote and encourage access to the work of the ROs;
- to encourage joint working of ROs where this will produce added value or lead to savings; and
- to identify and promote good practice in the provision of regional data and intelligence.

## GOVERNMENT OFFICES FOR THE REGIONS

3.25 Government Offices (GOs) were created in 1994 by the merger of the regional offices of the then Departments of Environment, Trade and Industry, Transport and Employment. There is a GO for each of the nine English regions, headed by a Regional Director who is accountable to the relevant Secretaries of State for the programmes carried out by the GO. GOs directly manage some spending programmes on behalf of departments, influencing or administering around £7 billion of government investment expenditure in the regions. On average, around 300 staff work in each of the nine GOs.

3.26 GOs bring together the regional activities and interests of different government departments within a single organisation. They now provide the regional service for ten different departments: the Cabinet Office (CO), DCMS, DEFRA, DfES, DoH, Home Office (HO), OPDM, Department for Transport (DfT), DTI and DWP.

3.27 GOs are responsible for implementing and delivering government policy at a regional level, administering resources provided by departments, giving feedback on the effectiveness of policies and initiatives and providing a regional input into policy formulation. In 2000 a Regional Co-ordination Unit was established within ODPM as the corporate centre of the GOs and to represent them in Whitehall. The GOs' responsibility of being the eyes and ears of government departments in the regions includes reporting on the performance of the RDAs to Parliament through Ministers.

## REGIONAL CHAMBERS

3.28 Regional Chambers (which have all adopted the title 'Assembly') have been established in each of the eight English regions outside London. Their constitutions vary from region to region, but all are voluntary, multi-party bodies.<sup>20</sup> Each Chamber has been formally recognised by the Government as being representative of the interests of the region in relation to the work of the region's RDA.

<sup>20</sup> Representation presently comprises 70 per cent local authority members and 30 per cent drawn from other sectors, including higher and further education, the Confederation of British Industry, the Trades Union Congress, chambers of commerce, the small business sector, parish and town councils, the National Health Service, voluntary organisations, Learning and Skills Councils, regional cultural consortia, rural and environmental groups and other regional stakeholders.

**3.29** The Chambers' initial focus was primarily on the RDAs' regional economic strategies, as the Regional Development Agencies Act 1998 directs the RDAs to consult the Chambers. They have also sought to build up effective working relationships with GOs and other regional interests and stakeholders. The Chambers have been actively involved in the production of regional sustainable development frameworks, taking the lead role in some regions. The Regional Assemblies (Preparations) Act 2003 gave Chambers the responsibility to act as the regional planning bodies for the new system of regional spatial strategies, which includes both regional transport and regional waste strategies. The Act also included provision to enable the direct funding of Chambers by central government for their role as regional planning bodies.

**3.30** On 9 March 2001, the Chancellor of the Exchequer and the Deputy Prime Minister announced plans for a new fund of £15 million for the Chambers, available over three years to help them enhance their scrutiny of the RDAs, thereby strengthening regional accountability. The fund may also be used to develop the Chambers' work with other regional partners, including the GOs.

### DEVOLVED ADMINISTRATIONS AND ASSEMBLIES

**3.31** Since 1999, Scotland, Wales and Northern Ireland have had substantial devolved powers, enabling democratically-elected and accountable representatives to make decisions that reflect the priorities of the people they serve. The extent of the devolved powers vary between the three countries, but all have significant powers in the areas of regional policy and economic development. Devolved responsibility for statistics is discussed in Box 3.3. To the extent that the Government's strategy for regional economic development (including microeconomic reforms to tackle market failures) is in areas of policy that have been devolved, it may not apply in Scotland, Wales or Northern Ireland. This implies possible differing demands for data and information in each country.

**3.32** Devolution, coupled with the block grant arrangements, means that Scotland, Wales and Northern Ireland have freedom over their policy design and associated allocation of resources. Funding comes through the Barnett formula (see Chapter 4), but the three devolved administrations are then free to allocate resources in accordance with their own priorities – identifiable expenditure on services in 2001-02 (latest available year) is shown in Table 3.2.

**Table 3.2: Total expenditure on services in Scotland, Wales and Northern Ireland, 2001-02**

	Total £ billion	£ per head
Scotland	31.6	6,246
Wales	17.1	5,882
Northern Ireland	11.2	6,626

*Note: This covers devolved and reserved spending, but not non-identifiable spending, such as defence, which benefits all parts of the UK equally.*

*Source: HM Treasury (2003c).*

### Box 3.3 Devolution of responsibility for statistics

*National Statistics* are a designated set of official statistics produced by the ONS, other UK government departments and by the devolved administrations. They are produced in accordance with the arrangements set out in the *Framework for National Statistics*<sup>1</sup> and they meet the professional standards and principles set out in the *National Statistics Code of Practice*.<sup>2</sup> Responsibility for the professional quality of *National Statistics* rests with the National Statistician.

The devolved administrations have agreed that work on *National Statistics* within their administrations will be done within the context of the *Memorandum of Understanding* and the associated *Concordat on Statistics*<sup>3</sup> between the UK Government and the devolved administrations.<sup>4</sup>

The *Concordat on Statistics* provides a framework of co-operation between the UK Government and devolved administrations on all matters in relation to statistics. It recognises that each has a contribution to make to the provision of statistical advice and information in relation to both devolved and reserved matters, and to the production of coherent statistics about the UK, while recognising that the priorities and objectives of the administrations may not always be identical. In particular, it specifies the basis on which the four administrations should consult with each other, exchange information and work together in relation to statistics.

The *Concordat* covers:

- any government activity involving the use of information for statistical purposes, including information obtained from administrative, statistical or other sources, and where two or more of the administrations have a direct interest as information providers or users. This includes, but is not restricted to, work carried out by the GSS; and
- activity associated with ensuring the maintenance of consistently high professional standards across the administrations in the provision and use of statistical information.

In general, the devolved administrations produce those statistics which are relevant to their business needs but are not provided by the ONS (for example, the Scottish Executive's education statistics). In many cases these tend to relate to areas of devolved responsibility, but in some cases the devolved administrations may produce statistics which are of wider interest and in policy areas for which responsibility has not been devolved (for example, Scottish Executive estimates of quarterly GDP for Scotland).

<sup>1</sup> Office for National Statistics (2000a).

<sup>2</sup> Office for National Statistics (2002a).

<sup>3</sup> Office of the Deputy Prime Minister (2001).

<sup>4</sup> Details of the responsibilities for *National Statistics* within the devolved administrations are set out in chapters 5 to 7 of *Framework for National Statistics*. The original *Concordat on Statistics* was written pre-*National Statistics* and is in the process of being re-drafted by ONS and the devolved administrations to reflect the new *National Statistics* arrangements. It is available at [www.statistics.gov.uk/about\\_us/downloads/concordat\\_on\\_statistics.pdf](http://www.statistics.gov.uk/about_us/downloads/concordat_on_statistics.pdf).

- Scotland 3.33** The Scottish Parliament and Scottish Executive have responsibility for many aspects of domestic, economic and social policy, while the UK Parliament retains control of foreign affairs, defence and national security, macro-economic and fiscal matters, employment and social security. The *Framework for Economic Development in Scotland* set out the Scottish Executive's economic development aim "to raise the quality of life for all Scottish people by increasing opportunities for all".<sup>21</sup> It identified four outcomes central to this aim: securing economic growth through increasing international competitiveness, regional development, social integration, and sustainability. The Scottish Parliament is funded by a block grant from the UK Government but has the power to increase or decrease the basic rate of income tax in Scotland set by the UK Parliament by up to three pence in the pound.
- Wales 3.34** The National Assembly for Wales does not have the power to make primary legislation, but enjoys extensive executive powers and may make secondary legislation. Its responsibilities are not as wide as those of the Scottish Parliament – in particular, the UK Government retains responsibility for the police and the legal system. The Welsh Assembly Government's national economic development strategy is set out in *A Winning Wales*, which identifies ten priorities for increasing prosperity in Wales.<sup>22</sup> In addition, the Assembly has a duty to promote sustainable development. The Assembly is funded by a block grant and has no powers of taxation.
- Northern Ireland 3.35** One of the new institutions created following the Belfast Agreement of April 1998 was an Assembly with a broadly similar range of legislative and executive powers to the Scottish Parliament, although the Northern Ireland Office remains responsible for law and order functions.<sup>23</sup> The overall priorities of the Northern Ireland Assembly are: "growing as a community; working for a healthier people; investing in education and skills; securing a competitive economy; and developing relations".<sup>24</sup>
- London 3.36** The 1999 Greater London Authority Act created the Mayor of London and the London Assembly. The Mayor's role is to develop London-wide strategies, in partnership with service providers and other interested parties, for major public services in the capital. The Mayor's responsibilities are wide-ranging and cover the police, transport, fire and emergency planning, regeneration, planning, sustainability and environmental issues, cultural affairs, health concerns, as well as the general promotion of London to the wider world. The Mayor has a range of specific powers and duties, and a general duty to do whatever will promote economic and social development and environmental improvement in London. The London Assembly provides a check and a balance on the Mayor by scrutinising the Mayor's performance and making proposals to the Mayor. It also has powers to amend the Mayor's budget. The Assembly reviews the Mayor's draft strategies, including the RES, and gives its views on them. It is also empowered to investigate issues of London-wide significance and make proposals to appropriate stakeholders.

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<sup>21</sup> *Scottish Executive (2000)*.

<sup>22</sup> *Welsh Assembly Government (2002)*.

<sup>23</sup> *The Secretary of State for Northern Ireland suspended the Northern Ireland Assembly on 14 October 2002 and Northern Ireland has been returned to direct rule. During suspension the Northern Ireland Executive reported to Northern Ireland Office Ministers. An election for a new Assembly was held on 26 November 2003.*

<sup>24</sup> *HM Treasury, Department of Trade and Industry and Office of the Deputy Prime Minister (2003)*.

**Proposals for English Regional Assemblies** 3.37 The Government has proposed that elected assemblies be established in those English regions that vote in a referendum to have one.<sup>25</sup> The aims of having elected regional assemblies are to decentralise power from central government, increase democratic representation and regional accountability, provide the regions with more freedom and flexibility to meet their own priorities within a national framework, improve service delivery through better coordinated government at regional level and provide a clearer decision-making framework.

3.38 The elected assemblies would be responsible for producing clear strategies for their region, ensuring that relevant stakeholders are engaged in developing and delivering these strategies, with their objectives set out in a small number of high-level targets agreed with central government. The majority of their functions will be devolved from central government bodies, particularly those already operating at the regional level. To avoid introducing additional bureaucracy, a wholly unitary local government structure for the region would be created if an elected assembly were established. Assemblies would be given powers and funding to address regional priorities including economic development, regeneration, planning, housing and transport.

**Implications for data provision** 3.39 Where the freedom to set policy objectives is devolved to regional administrations with local accountability, sub-national data are required to inform such policy setting. This generates a legitimate demand for annual regional baseline macroeconomic data (for example GDP, labour market, productivity, price and inflation data) because of the devolved responsibility for growth, although the rationale for high-frequency macroeconomic data (such as quarterly data) is less clear. Regional institutions also require microeconomic data to inform their own structural, longer-term policy setting.

## LOCAL AUTHORITIES, LOCAL GOVERNMENT

3.40 There are just under 500 Local Authorities<sup>26</sup> (LAs) in England and Wales. Together they are responsible for around £65 billion of public expenditure annually and provide a range of services to their local communities from schools to social services and environmental issues. They also have a role in delivering more than 40 of the Government's PSA targets, either as the lead frontline agency or as a principal partner of other agencies. Devolving decision making from the centre to regional and local levels is a key part of the Government's approach to improving service delivery and making services more responsive to consumer demands and better tailored to local circumstances.<sup>27</sup>

3.41 To encourage more authorities to play effective roles in economic development as part of their strategy for improving 'well-being',<sup>28</sup> the Government has provided a framework:

- giving local authorities greater freedoms and flexibilities to allow them to create innovative approaches that tailor policies and programmes to their own local needs, while also recognising that with increased freedom comes greater accountability; and
- providing mechanisms that further encourage a partnership approach to economic development.

<sup>25</sup> Cabinet Office and Department for Transport, *Local Government and the Regions*, (2002). *The Boundary Committee is carrying out local government reviews of the North East, North West and Yorkshire and The Humber, a necessary precursor to holding referendums on the establishment of elected regional assemblies.*

<sup>26</sup> Including county councils, metropolitan district councils, English unitary authorities, London authorities, shire district councils and Welsh unitary authorities.

<sup>27</sup> *The Government's approach is set out in HM Treasury (2003d).*

<sup>28</sup> *The Local Government Act 2000 gave local authorities a sweeping new power for "the promotion or improvement of the economic well-being of their area".*

3.42 The Government has also allowed LAs greater discretion and flexibility to focus on local priorities, within agreed constraints or objectives. The 2000 Spending Review launched local Public Service Agreements (LPSAs) that allow the 150 top-tier LAs to negotiate a suite of 12 targets with central government. But every local PSA is different. Each council commits to achieving 'stretched' performance that reflects a balance of central government PSAs and local priorities. This has encouraged a focus on employment and economic development in many localities.

3.43 Local PSA targets are focused on outcomes, leaving how they are achieved as a matter for the LA. Central government may, however, agree to provide specified freedoms and flexibilities in order to facilitate delivery. A reward grant is payable for achieving targets along with funds to kick-start the process.

3.44 The first round of local PSAs was piloted from April 2001 and is more than halfway through roll-out to all the unitary authorities and county councils. In the 2002 Spending Review the Government announced a second round of local PSAs. Central government is now working with LAs and the Local Government Association (LGA) to develop the second round to achieve further improvements in local service delivery and also to negotiate further freedoms that will help LAs to meet their objectives.<sup>29</sup>

### OTHER REGIONAL BODIES

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#### Local Learning and Skills Councils

3.45 The Learning and Skills Council (LSC) was launched in April 2001 as a national organisation to plan and fund all post-16 education other than the university sector. The LSC took over the roles of the former Training and Enterprise Councils and the Further Education Funding Council. Its mission is to raise participation and attainment through high-quality education and training and it is responsible for managing planning and funding of Further Education colleges; school sixth forms; work-based training for young people; workforce development; adult and community learning; information, advice and guidance for adults; and education business links.

3.46 The LSC has a budget of £8 billion in 2003-04 and operates through 47 local offices. It works alongside the Employment Service, the Small Business Service, Connexions, the National Training Organisations, further education and sixth form colleges, and representatives of community groups, to implement strategies that meet the Government's aims set out in the *Learning to Succeed* White Paper.<sup>30</sup>

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<sup>29</sup> *HM Treasury and Office of the Deputy Prime Minister (2003) sets out the additional freedoms on offer to LAs.*

<sup>30</sup> *Department for Education and Employment (1999).*

3.47 The 2002 Spending Review asked four RDAs,<sup>31</sup> with local LSCs, to develop approaches to joint working regionally, in particular to test ways of pooling their budgets for adult learning and skills activities. 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. The ‘21st Century Skills Strategy’ White Paper built on this work and announced the formation of regional skills partnerships to integrate the work of the RDAs, the Skills for Business Network, the Small Business Service, the local LSCs, and Jobcentre Plus.<sup>32</sup> The aim is to strengthen the connection between the skills needed to raise productivity by region and by sector, and the allocation of funds to training providers.

### Local Strategic Partnerships

3.48 Local Strategic Partnerships (LSPs) are central to the delivery of the Neighbourhood Renewal Agenda (see Chapter 4). They are non-statutory bodies, which aim to bring together at a local level a range of parties from public sector agencies, local government, the voluntary and community sectors, businesses and local residents. These local partners, working through an LSP, will be expected to take many of the major decisions about priorities and funding for their local area with the aim of improving services and narrowing the gap between the 88 most deprived LA areas and the rest.<sup>33</sup> LSPs are seen as key to improving social cohesion, the relationship between different communities in an area and their relationship with statutory authorities.

## PRIVATE SECTOR USERS

3.49 Various private sector organisations also have an interest in, and demand for, regional data and information. For many it is for their own business purposes – this demand is likely to be similar to that of RDAs. However, a number of organisations produce economic forecasts and analysis or policy advice that is used (or bought) by regional and local institutions, as well as by central government, thereby contributing indirectly to the overall demand for regional data for regional economic policy making. It does not seem unreasonable to conclude that if the regional and local institutions could not buy such expertise they would probably need to produce the information and analysis themselves.

3.50 Private sector organisations producing sub-national economic forecasts require good quality, timely data to provide the services demanded by the regional institutions, such as the RDAs. Similarly, organisations such as the Trade Union Congress (TUC) and Confederation of British Industry (CBI) require data to inform their engagement with central government departments on a range of policy agendas, some of which have a clear regional angle. Therefore, in examining the regional data issues discussed in Chapters 5 to 8, we have also taken account of the various views expressed by the private sector organisations with whom we have met.

<sup>31</sup> *North West Development Agency, One North East, the East of England Development Agency and the South East England Development Agency.*

<sup>32</sup> *Department for Education and Skills (2003).*

<sup>33</sup> *Further information relating to LSPs can be obtained from Department of the Environment, Transport and the Regions (2001).*

### CONCLUSION

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**3.51** This chapter has looked at the different institutions with an interest in regional economies. Devolution of some aspects of economic policy has played a large role in shaping the institutional arrangements, which are already complex. Moreover, the extent to which the different institutions have responsibility for and the flexibility to set their own priorities varies. The result is a range of institutions with a variety of demands for data and information at a regional and sub-regional level. In many cases the data are required to inform the institutions of the economic environment in which they operate as well as their performance against their various objectives and targets. For most issues the demand for data and information is likely to be similar between the countries and regions. However, to the extent that they can set their own priorities and objectives, and implement the different regional economic policy agendas, the data demands will vary between them. Those demands are discussed in Chapter 4.

# 4

## Demand for regional data and information – the regional agenda

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4.1 This chapter examines the policy agendas that lie behind the demand for regional data. Our fundamental question has been why should it be helpful to classify statistical information by geography? We have taken a medium to long-term view based on the broad direction of policy, the framework set out in Chapter 2 and the institutions described in Chapter 3. Our aim here is not to identify gaps in the current provision of data but to look beyond to the demand for regional data in the medium term.

### Identifying the policy agendas

4.2 We have consulted widely and examined the policy agendas that involve regional issues, meeting with a large number of government departments, regional bodies and others with an interest in regional data provision.<sup>1</sup> We concluded that to understand the demand for regional data we needed to look at the different policy agendas, together with their associated objectives and policy levers. An objective is insufficient in itself to justify a demand for regional data if nothing can be done to influence it.

4.3 We have identified a number of regional policy agendas. There is much overlap between their data requirements, but they do have different areas of emphasis. Between them they add up to a large and growing demand for regional information. Beyond the broad devolution agenda, discussed in Chapter 3, we have identified a further three key agendas, which are important in their own right, but which are also affected by the devolution of aspects of economic policy to varying degrees:

- productivity;
- flexibility; and
- welfare and re-distribution.

4.4 Within these are a number of specific areas which need to be examined in more detail, although they do not appear to be distinct agendas to those listed above:

- regional price indices and pay;
- public services;
- sustainability; and
- data requirements for the EU.

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<sup>1</sup> Annex A3 lists the organisations and individuals that we met. All submissions to the Review are available on the HM Treasury website at [www.hm-treasury.gov.uk/allsoff](http://www.hm-treasury.gov.uk/allsoff).

## THE PRODUCTIVITY AGENDA

**Productivity target** 4.5 The Government aims to improve the productivity performance of the UK by providing “the best environment for all participants in the economy to maximise their productive potential and not to interfere directly in the way businesses are run.”<sup>2</sup> It has a specific target to “demonstrate progress by 2006 on the Government’s long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the US, France and Germany”.<sup>3</sup>

4.6 Productivity refers to how well an economy uses its available resources by relating the quantity of inputs to outputs. There are several measures of this relationship, each with different characteristics. Labour productivity shows the output produced per unit of labour input – the most common measures are output per worker and output per hour worked.<sup>4</sup> Both of these are denominated by only one factor of production, namely labour. Capital is also an important input and some other measures of productivity take this into account.<sup>5</sup> Whichever measure of productivity is used, good quality data on output are required. Box 4.1 discusses the importance of Gross Value Added (GVA).

### Box 4.1: Gross Value Added (GVA) – the key measure

Regional GVA is one of the key indicators of regional macroeconomic performance.<sup>1</sup> While it is not perfect, GVA (or GDP) is the standard measure of aggregate economic activity, and the basis for international comparisons. It is required to estimate performance against the Government’s regional PSA target, the RDA’s performance against one of their Tier 2 targets and for understanding regional economic development more generally. Our recommendations for improving regional GVA estimates are set out in Chapter 6.

The key data need for assessing performance against the regional PSA target is GVA per head.<sup>2</sup> Over and above concerns about data quality (discussed in Chapter 5) the use of GVA *per head* does add an additional element of complexity, and some uncertainty as to whether the focus is on relative productivity or prosperity. It seems relatively clear to us that these two should require different indicators:<sup>3</sup>

- productivity should be measured relative to labour input, which could be in terms of workers or hours worked, so that it is not affected by the number of non-working residents - Chart 4.1 shows the relative productivity performance of the UK’s countries and regions; and
- prosperity should be measured relative to numbers of residents, and preferably looking at household disposable income or some other proxy for the sustainable level of consumption.

<sup>2</sup> HM Treasury (2000).

<sup>3</sup> HM Treasury (2002b). This target is shared by HM Treasury and the Department of Trade and Industry.

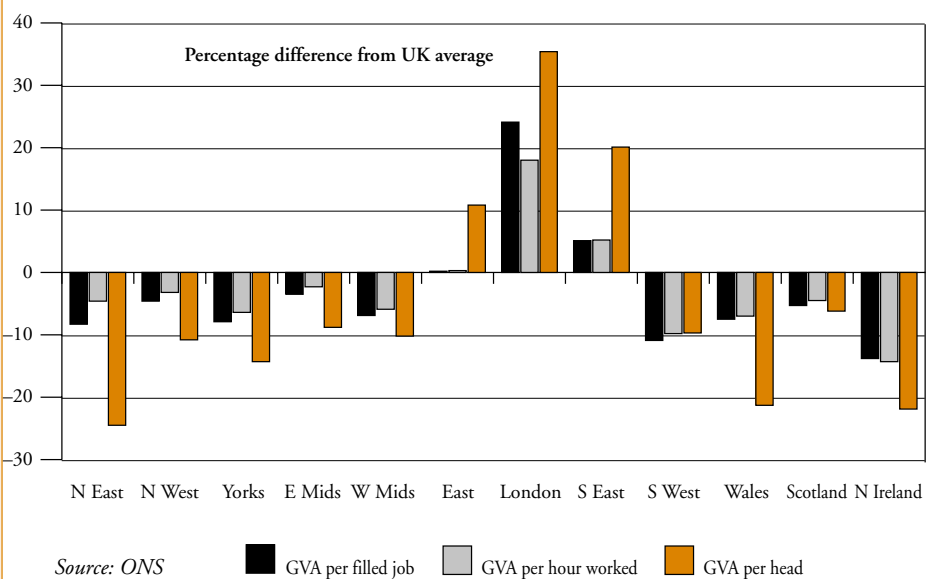
<sup>4</sup> The two measures of labour productivity are used to assess performance against the productivity PSA target. The exact data and measures used are set out in the technical note on the target, HM Treasury (2002e).

<sup>5</sup> In particular, total factor productivity (TFP) attempts to measure output per unit of inputs, where the inputs are labour and capital. TFP is derived as a residual after accounting for the contribution of labour and capital and so contains all influences that cannot be explained; and it requires good quality measures of the capital stock.

**Box 4.1: Gross Value Added (GVA) – the key measure (continued)**

While there is an obvious need for annual baseline data, it is less clear what rationale there is for the demand we have heard for quarterly estimates. Neither the RDAs nor the devolved administrations have particular policy levers or objectives that require such high-frequency data, although we recognise that there is a political demand for quarterly regional GVA data from the devolved administrations.<sup>4</sup> We believe the priority should be to improve the annual measure.<sup>5</sup> Where devolved administrations or regions wish to produce or commission their own estimates of quarterly regional GVA, these should be benchmarked onto the annual estimates produced by the ONS.

Many stakeholders have expressed a desire for more timely annual estimates than the current timetable, which leads to publication around 18 months after the end of the year.<sup>6</sup> We think this is a reasonable demand, and Chapter 6 discusses our initial views of how it might be met.

**Chart 4.1: Relative GVA measures, 2001 (current prices)**

<sup>1</sup> Regional GVA estimates were highlighted as a key priority in many of the submissions to the Review, including those from the Scottish Executive, Northern Ireland DETI, LDA, GLA and ARO, available at [www.hm-treasury.gov.uk/allstopp](http://www.hm-treasury.gov.uk/allstopp).

<sup>2</sup> HM Treasury (2002e) explains precisely how it is intended to measure performance against the target, including the years for judging whether trend growth has increased.

<sup>3</sup> The ONS expressed a very similar view to the ODPM Select Committee's Inquiry into Reducing Regional Disparities, see House of Commons, (2003b), page 15.

<sup>4</sup> The Scottish Executive, in their submission to the Review, argued that "a devolved Parliament/Administration must be able to demonstrate that it understands the economy of the country/area for which it is responsible...".

<sup>5</sup> The point is well made by the Northern Ireland Executive: "until Northern Ireland achieves robust annual measures of Regional GVA, there is little point in developing whole economy quarterly estimates of change".

<sup>6</sup> For instance, GLA Economics specifically asked for annual regional GDP data to be produced "within six months of the end of the year to which they pertain." All submissions are available at [www.hm-treasury.gov.uk/allstopp](http://www.hm-treasury.gov.uk/allstopp).

**The Government's productivity strategy** 4.7 The Government's strategy to raise the UK's productivity performance has two parts: a stable macroeconomic environment and microeconomic reforms aiming to provide effective capital, labour and product markets and competition. But markets are subject to imperfections or failures, which can occur at the national, regional or local level. The Government's strategy focuses on five priority areas, where market failures may be important (referred to as the five drivers of productivity growth):

- investment;
- skills and human capital;
- innovation;
- competition; and
- enterprise.

**The 'five drivers'** 4.8 The Government's focus on the 'five drivers' of productivity is reflected in its data requirements. A short set of indicators for the 'five drivers' is being developed, initially at the national level, but it could also look at what is available at a regional level. A recent DTI paper announced a forthcoming consultation on reforming the existing productivity and competitiveness indicators, which are currently produced at the national level.<sup>6</sup> It is expected to include indicators that might allow a clearer and more consistent assessment of productivity performance and progress against the five drivers "to help to identify the key gaps that Government policy should seek to address".<sup>7</sup> The consultation document would be a good opportunity to consult also on indicators at a regional level.

**An emphasis on market failure** 4.9 The data and information required to implement this approach at a regional level concern the nature and incidence of different market failures, to identify areas where further policy intervention may be needed. Much of this information is likely to be qualitative and probably best detected by those working in the relevant localities. It also suggests that the detailed data requirements of regions may differ, as market failures in each region may differ. A relevant question is what geography is relevant for the identification of market failures and hence data needs. However, while different regions may have different data needs, for some key indicators the Government will want data for all regions to assess performance against long-term objectives, and for comparison between regions.

**Public sector productivity** 4.10 The Government's productivity agenda also includes action to raise the productivity of public services.<sup>8</sup> This has its own data needs, particularly as it is difficult to measure accurately the output of the government sector (discussed further in Chapters 5, 6 and 9). Indeed for many years, data for government consumption were based on an implicit assumption of no change in public sector productivity. There are also regional aspects to reforming the public services, including the Government's declared desire for regional price data to inform pay negotiations (see below) and the Lyons Review to examine the case for moving public servants from London and the South East to other regions.<sup>9</sup>

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<sup>6</sup> *Department of Trade and Industry (2003a)*.

<sup>7</sup> *Ibid.*

<sup>8</sup> *HM Treasury (2003d) sets out the Government's framework for improving public sector productivity, based on "a focus on outcomes, constrained discretion for local service providers, and improved governance of public services"*.

<sup>9</sup> *The terms of reference of the Lyons Review are available at [http://www.hm-treasury.gov.uk/consultations\\_and\\_legislation/lyons\\_index.cfm](http://www.hm-treasury.gov.uk/consultations_and_legislation/lyons_index.cfm).*

## THE FLEXIBILITY AGENDA

4.11 Flexibility can help countries or regions adjust to shocks.<sup>10</sup> It is regularly discussed in the context of the ability of an economy to be able to adjust within the European Monetary Union with the loss of an independent monetary policy tool. Similarly, it can help the regions and countries of the UK, which do not have their own macroeconomic policy levers. There are two types of flexibility or adjustment: the flexibility of markets (product, capital and labour) and the flexibility of the policy-making mechanism. This section examines both types. It also asks whether the policy agenda can be sensibly divided between the countries and regions of the UK.

**Market flexibility** 4.12 Well-functioning markets help economies adjust to shocks. In a perfectly flexible economy, prices and then quantities would respond quickly to any shock and in such a way as to ensure full resource utilisation. For the labour market, for example, this would imply that following any change in the economic environment, real wages would adjust and the labour force would be redeployed to the most efficient use, with unemployment remaining at its structural level. However, in practice, markets do not operate so swiftly and there are costs and impediments associated with such adjustments.

4.13 It is not obvious in which circumstances a *regional* response would be better than a sectoral one. This would require markets to be segmented, or products differentiated, by region. Where there is a local market failure preventing a market from clearing, there is a case for regional information. But such market failures, or externalities, are not easily measured. Nor is there any reason to presume they would naturally fit with the standard regional geographies.

4.14 The flexibility of the UK labour market was the subject of one of the supporting studies<sup>11</sup> produced to inform the 2003 assessment of the five economic tests for UK membership of the single currency. The study identified the characteristics of flexible labour markets in terms of the ability of employment and wage systems to respond quickly to shocks and imbalances between supply and demand. This implies a demand for labour market and wage data at various regional and local levels. As discussed in Chapter 7, existing regional labour market data are generally in better shape (with the exception of vacancy data) than most other regional economic data.

4.15 An important aspect of labour market flexibility is the efficient matching of workers and jobs at a regional and sub-regional level, including labour movements between regions. But inter-regional migration data are particularly poor in the UK (discussed further in Chapter 7) and there is a clear case for better quality data. However, the data requirements go wider: to understand the frictions and market failures that may reduce the effectiveness of labour mobility as a regional adjustment mechanism. Similarly, understanding what motivates the location decisions of firms would inform policy. And regional wage rigidities may reduce the incentives for firms to invest or relocate.<sup>12</sup>

**Flexible decision-making** 4.16 However, flexibility goes beyond the ability of markets to adjust and includes the ability of the decision-making processes to operate flexibly across a wide range of Government programmes to ensure that solutions can be developed that reflect each region's needs. This of course presupposes that the relevant institutions have sufficient policy levers at a regional level to be able to respond to shocks with a regionally differentiated approach.

<sup>10</sup> *The Chancellor defined flexibility as “adjusting to shocks without putting at risk high and stable levels of growth and employment”, in a speech to the Centre for European Reform, HM Treasury (2003f).*

<sup>11</sup> *HM Treasury (2003b).*

<sup>12</sup> *The importance of labour mobility for regional convergence, possible barriers to mobility and factors influencing the location decisions of firms are discussed in HM Treasury and Department of Trade and Industry (2001).*

4.17 In Scotland, Wales and Northern Ireland the devolved administrations can, to varying degrees, switch funding between programmes. In the English regions the flexibility to adjust public spending is limited largely to the RDAs' 'Single Pot',<sup>13</sup> which represents a small proportion of total public spending in the regions. And the fiscal automatic stabilisers will affect public spending in a region. Further flexibility may come from the Government's intention to introduce more regional variation and flexibility in the setting of public sector pay (discussed below).

**Data needs from the flexibility agenda** 4.18 Where regions do differ, or where shocks are asymmetric (occurring not in all regions or across all regions but with different magnitudes in different regions), regional and local data are needed to help understand the nature of the shock, its effect on the local economy and to inform a local policy response. Information is therefore needed for regions susceptible to shocks and on the state of their markets – for example, the labour market data discussed above. The process of adjustment will depend on the type of shock affecting the regional economy, with some channels more important for shocks that impact on specific sectors in the economy and others more important when adjustment is required in particular regions.

4.19 Understanding the transmission mechanism of shocks, or the underlying causes of differences in regional adjustment, implies a demand for other related, and possibly quite detailed or qualitative data. For example, information on why people move between locations and reasons for immobility may be important for tackling unemployment and barriers to labour market adjustment. Other factors that might be important include skills, childcare and benefit regimes.<sup>14</sup> This takes the potential demand for data into a range of other areas such as job information, housing, transport and relocation incentives.<sup>15</sup>

4.20 Such wider qualitative information is not within the scope of our First Report. It is highly likely that much of the data at a local level are already available and our recommendations on micro-regional data (see Chapter 8) may help. The needs for labour market data are rather clearer than those for product and capital markets. We would welcome comments on these issues.

**The link between the productivity and flexibility agendas** 4.21 The countries and regions of the UK face a tension between the productivity and flexibility agendas. If there were full flexibility, wages and employment levels would be allowed to fall (or indeed rise) in response to a shock, to help the regional economy adjust. But falling wages and rising unemployment are politically and socially unpalatable. The preferred response to an adverse shock is to increase productivity. Hence the political emphasis on raising productivity in the countries and regions of the UK. However, if the regional approach to raising productivity growth proves insufficient in response to an adverse shock, the Government's policy approach suggests that regions would need to be willing to accept other mechanisms, including lower wages and labour mobility. Yet, the data requirements of the two agendas are similar. Beyond the particular drivers, both agendas require local, most likely qualitative, information on market failures, shocks and impediments to market adjustment in order to direct government intervention.

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<sup>13</sup> Government funding is allocated to the RDAs on the basis that they achieve an agreed list of targets, such as job creation. Funding comes from a number of departments, but the RDAs are able to determine the allocation of their funds, subject to achieving the set targets.

<sup>14</sup> Discussed in Donovan et al (2002).

<sup>15</sup> See, for instance, Gregg et al (2001).

## WELFARE AND RE-DISTRIBUTION

4.22 An important question is whether all regions should receive a ‘fair’ allocation of spending or should the spending programmes be determined by where they would most efficiently be used? If the latter, then it is theoretically possible that some regions may receive no share of a programme spend. But what is meant by ‘fairness’ or ‘equity’? The Government aims to achieve its equity objectives through the tax and benefit system as well as spending on health, education and so on rather than through income transfers or the redistribution of resources. Its focus on improving the economic performance of every country and region of the UK is also “firstly for reasons of *equity*”.<sup>16</sup> This would suggest that macro-regional indicators of ‘welfare’ (see Chapter 2) are not central to the policy.

**Territorial justice** 4.23 However, others argue that geography is very important for the re-distribution of resources. In a report for the Institute for Public Policy Research,<sup>17</sup> John Adams and Peter Robinson argue that “territorial justice is an integral part of delivering social and economic justice for individuals”. This manifests as “the need for full employment in all UK regions”, but they argue that the Government’s supply-side agenda to help people back to work may be insufficient: “in a lagging region such supply-side measures may not be fully effective in the absence of demand-side measures”. Therefore, “the best course of action for decision-makers to solve regional economic disparities is to create new jobs in lagging regions”. In other words, they argue that the Government needs to look beyond the supply-side productivity agenda to boost spending in lagging regions.

4.24 We have examined the welfare/re-distribution agenda and find it helpful to consider the data requirements by considering it in three distinct, but related, parts:

- the first relates to help given to individuals through the benefit and tax-credit systems. This is an automatic process of re-distribution run centrally, with an emphasis on the efficient delivery of programmes to individuals;
- the second relates to expenditure on public services like health, education or employment programmes, for example, that are run by central government. These are motivated by a different kind of ‘equity’ objective, concerned with fairness and equality of access, as discussed in Chapter 2; and
- the third relates to the distribution of the remaining spending between the devolved administrations and English regions. As explained in Chapter 2, this potentially involves political bargaining and political economy notions of ‘regional fairness’.

**Automatic redistribution** 4.25 The data requirements of the first aspect of the welfare agenda are well known, requiring a large element of self-selection and data provision by individuals to the relevant authorities. We do not consider aggregations, to NUTS 1 say, of small-area micro-regional data of this nature to be of much use in themselves for this aspect of policy, although we accept that regions may want to compare the aggregate numbers of people on benefits with other regions. The rest of this section discusses the second and third parts in more detail.

<sup>16</sup> *HM Treasury and Department of Trade and Industry, (2001), page v.*

<sup>17</sup> *Adams and Robinson (2002).*

**Resources allocated centrally** 4.26 The type of programmes under the second part are set nationally but administered at a local level. The macro-regional (NUTS 1) dimension is not really relevant to the policy. Resources are allocated according to need, not geography, and people are helped irrespective of where they live. The consequent geographical distribution of resources therefore depends on the geographical distribution of the need for those services. Many policy initiatives, such as the social exclusion agenda, can be classified this way as national, rather than regional, policies.

4.27 Many of the data to support these programmes already exist and are collected and used by the relevant central government departments in their policy interventions. The small-area data provided in Neighbourhood Statistics are already quite comprehensive and capable of being developed further (see Chapter 8).

**Allocating resources by region** 4.28 The third part, the distribution of other spending, is perhaps most interesting with regard to the demands it places on regional data and information. The data demands for the allocation of resources to regional and local institutions are potentially quite large, because of the influence of the political bargaining process<sup>18</sup> as well as different notions of regional fairness. The data demands include macro-regional data (GDP, unemployment and so on) as well as micro-regional data, such as indicators of deprivation. The Structural Funds are a good example of spending which is allocated on the basis of macro-regional data.<sup>19</sup>

4.29 When comparing the allocation of resources to regions, it is important to look behind the headline figures to distinguish between those resources that are allocated automatically or by the central government, and those allocated to regional institutions. Simply looking at the total of public spending in each region can be misleading. It would be more informative to examine the flow of spending by Government department or spending programme. The data issues around public spending, including the formulae for allocating spending to the RDAs and the devolved administrations, are discussed below.

### REGIONAL PRICE INDICES AND PAY

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4.30 Plans for regional price indices were first mentioned by the Chancellor of the Exchequer in his 2003 Budget speech.<sup>20</sup> He said: “with this national framework for fairness set in place, I can tell the House the British economy is better placed to recognise local and regional conditions in pay, such as the extra costs for retention and recruitment that arise in London and the South East especially for the low paid:

- so in future we plan regional price indexes showing differences in regional inflation rates; and
- remits for pay review bodies and for public sector workers, including the civil service, will include a stronger local and regional dimension”.

4.31 The Chancellor reiterated this need when he said, in his statement of 9 June 2003 on UK membership of the Single Currency, that:

“In the future we plan to publish data on regional prices and inflation; remits for pay review bodies and for the public sector including the civil service will, within their nationally defined frameworks, include a stronger local and regional dimension.”

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<sup>18</sup> *The Parliamentary debate on the ODPM Select Committee Report on “Regional Disparities”, House of Commons (2003c) (Column 137WH, 16 October 2003), is a good example of how MPs apply different notions of fairness when debating the allocation of resources to regions.*

<sup>19</sup> *However, while the eligibility criteria, GDP per head, is arguably a welfare criteria, the allocated resources are not used for income redistribution.*

<sup>20</sup> *See [www.hm-treasury.gov.uk/budget/bud\\_bud03\\_speech.cfm](http://www.hm-treasury.gov.uk/budget/bud_bud03_speech.cfm).*

- Price levels** 4.32 The Chancellor's statements follow a cross-cutting review in the 2002 Spending Review, which looked at ways to expand recruitment and retention in the public sector.<sup>21</sup> It concluded that there is a case for increasing local pay flexibility. The policy purpose for having regional price indices is clear: to inform the Pay Review Bodies' and other public sector pay deliberations. It also bears on the need for flexible real wages regionally, discussed above. But questions remain about the exact choice of price measure: the choice is between a Purchasing Power Parity (PPP) measure based on a national basket and national weights or a regional basket, which reflects regional differences in expenditure patterns – a cost of living index. Our proposals on estimating regional price levels are set out in Chapter 7. However, as the Royal Statistical Society notes in its submission to the Review,<sup>22</sup> it is important to identify the intended uses for such indices when deciding exactly which price measure to estimate.
- London weighting** 4.33 The use of information on relative costs of living between areas is one of several approaches to the determination of 'appropriate' pay relativities between areas. There is of course a wide demand for such estimates, particularly in discussions of the appropriate level of the 'London weighting'. A recent study by NERA, Blanchflower *et al* (2002), produces estimates, not on the basis of cost of living differences, but on the basis of relative private sector pay. It argues that "it is crucial to use private sector relativities in public sector funding decisions since those relativities reflect the benefits and costs of a given location." A report prepared for the London Assembly adopts a similar methodology arguing that "London Weighting in the public sector should be set by comparison with the London Premium in the private sector" (London Assembly, 2002). Obviously, the different approaches require different kinds of data to underpin them. A major advantage in using wage data for such comparisons is that detailed data from the LFS and the NES are available at sub-regional level. They also reflect wider information on differences between regions, not just the cost of living.
- Adjusting local authority funding** 4.34 In determining funding for local authorities adjustments have to be made to allow for local variations in the costs of providing services. These area cost adjustments (ACAs), which are dominated by differences in wage costs between areas, are described in Box 4.2. Differences in ACAs between local authorities are one of the most important reasons for variations in per capita public spending between areas.<sup>23</sup> Regional and local differences in pay and in prices are relevant not just to public sector pay relativities but more widely to the Government's 'flexibility agenda' described above. Understanding regional adjustment processes is becoming more and more essential and detailed questions about the regional and local allocation of public sector funds are bound to arise. Hence, the demands for data, both on prices and on pay, seem likely to increase if the devolution of economic policy to regions and localities continues.

<sup>21</sup> *HM Treasury (2002c)*.

<sup>22</sup> See [www.hm-treasury.gov.uk/allsopp](http://www.hm-treasury.gov.uk/allsopp).

<sup>23</sup> Discussed in *McLean and McMillan (2003)*.

**Price levels versus growth rates** 4.35 A final consideration is whether data on regional price levels would be sufficient in themselves, or whether regional inflation rates (growth rates of prices) would also be required. Price *levels* would be sufficient if the intended use were to generate differences in, say, regional levels of real wages, benefits or pension payments. On the other hand, if the required use were simply to uprate existing levels of payments, a regional measure of price *inflation* would be needed (although price levels data would be required initially to set the appropriate regional differentiation in payments). While regional price levels do differ, it is not clear to us the extent to which regional inflation rates differ, if at all. Nor have we been able to identify any significant demand for measures of regional inflation.

### Box 4.2: Area cost adjustment

The costs to local authorities (LAs) of providing comparable services differ between areas, partly because of their differing characteristics (such as numbers of school children, or lengths of road) and partly because of differences in the costs of inputs that LAs need to buy. The area cost adjustment (ACA) is intended to allow for the latter differences<sup>1</sup>. The ACA reflects two kinds of difference between areas in costs: differences in labour costs; and differences in business rates paid on local authority premises

The Labour Cost Adjustment (LCA) is essentially based on the differences in market wage costs between areas. The adjustment is applied to the proportion of the expenditure on each block of services that relates to staff. Differences in labour costs account for the great majority of the ACA. Data on wage rates are taken from the New Earnings Survey (NES).

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<sup>1</sup> *Office of the Deputy Prime Minister (2002).*

**Deflators** 4.36 One demand is clear, however. Deflators are needed to estimate volume measures of GVA (formerly constant price GVA), as required for the joint HM Treasury, DTI, ODPM regional PSA target. Our proposals for deflating regional GVA are discussed in Chapter 6.

## PUBLIC SERVICES

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**Measuring public services provision** 4.37 The Government's public service reform agenda includes the devolution of responsibility to regional and local levels where this would be more effective.<sup>24</sup> The 'Single Pot' provision to the RDAs is part of the response to this, while local authorities have been given greater freedom and flexibility in return for the delivery of high quality services. For a number of policy initiatives, funding is being paid direct to the local providers, such as schools, Primary Health Care Trusts and police Basic Command Units.

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<sup>24</sup> *The 2002 Spending Review said "effective public service delivery requires the devolution of power to service providers to encourage flexibility and creativity, particularly in meeting consumer demands and responding to local service circumstances", see HM Treasury (2002a).*

4.38 This agenda implies a wide-ranging demand for data on the provision of public services, some at a regional and some at a local level. But measuring public services is difficult (see Chapter 9), and a distinction between outputs and outcomes adds to the degree of complication.<sup>25</sup> What relevant data are collected are generally held by the government department with the relevant policy responsibility, rather than by the ONS. For example, the DfES has information on the provision of public spending to schools and on the outcomes, for example, in terms of test results. Moreover, regions' data requirements may differ depending on their own public service priorities. Chapter 8 sets out our proposal for a framework for micro-regional data which could incorporate such datasets.

#### Measuring public spending in the regions

4.39 There is an increasing demand for information on the impact of government spending in the different regions. At the moment, this is most often manifested in a demand for information on total public expenditure in a region. Chart 4.2 shows public spending per head against GVA per head for the regions and countries of the UK. But to understand fully the impact of public spending in a region, we believe it is more helpful to know about the different types of spending taking place – for instance, education or social security benefits, and within categories whether it is current or capital. In principle, regional public spending is an important policy lever available to regional institutions. But much of the spending undertaken in regions is for specific programmes, allocated to local levels, such as health and education authorities. The amount of discretionary spending which can be influenced by specific regional bodies is relatively small.<sup>26</sup>

#### Allocating public spending

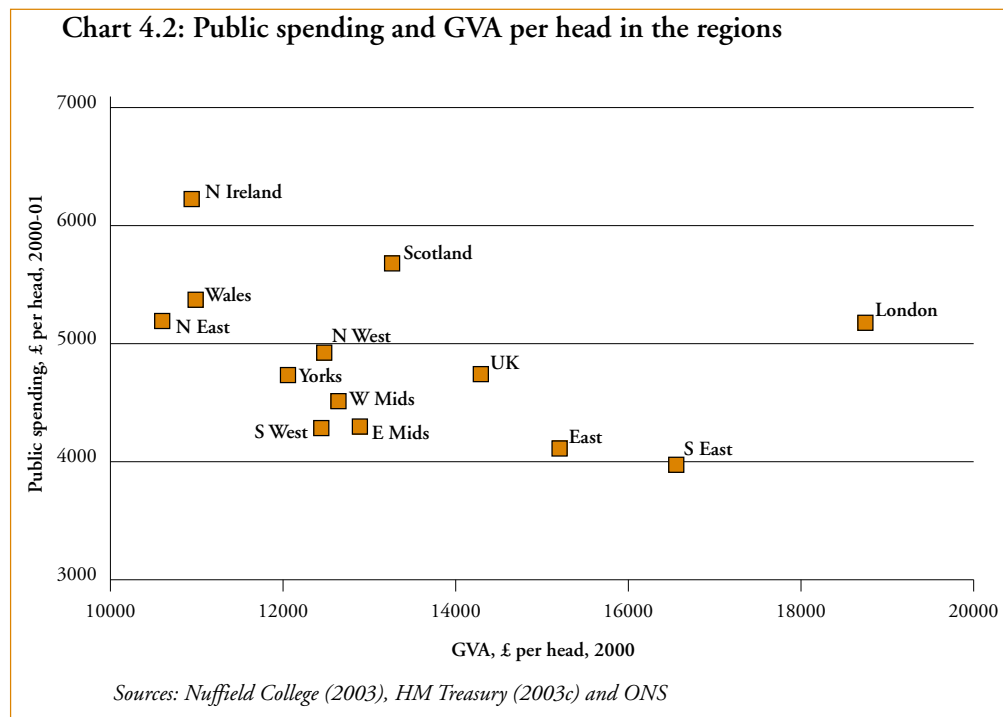
4.40 Some of the interest in the distribution of regional expenditure between the countries and regions of the UK is motivated by notions of regional 'fairness', as discussed in Chapter 2. However, when analysing public expenditure between regions it is important to distinguish between how much money is spent 'in' a region, as opposed to 'for' a region. These concepts can offer a very different perspective on the amount of public money spent in a particular area. Chapters 5 and 6 describe in more detail how regional government spending is measured and give our recommendations. They also draw on a recent study by Professor Iain McLean<sup>27</sup> of the Treasury's estimates of public spending in the regions (see Box 5.5), highlighting especially the need for better quality data and the importance of the 'for' versus the 'in' distinction.

4.41 There is also a need for data to determine the regional allocation of some elements of public spending (the welfare aspects are discussed above). We can identify the data requirements of a number of key mechanisms for allocating public spending to the countries and regions: the Barnett formula (see Box 4.3); and the allocation of funds (the 'Single Pot') to the different RDAs. The allocation of EU funds (the Structural and Cohesion Funds) are discussed in a later section. We have not investigated the mechanisms and formulae used by Government departments to allocate resources and spending in general.

<sup>25</sup> *Outputs are the goods and services produced such as operations performed. Outcomes are the impacts on, or consequences for, the community of the activities of government, such as improving the health of the population. More detail and definitions are available in "Choosing the Right FABRIC", available at [www.hm-treasury.gov.uk/fabric](http://www.hm-treasury.gov.uk/fabric).*

<sup>26</sup> *The ODPM Select Committee reported that the Government identified a number of programmes which are either "set with a significant degree of regional discretion over its use" or "specifically targeted at deprived communities within regions". The programmes identified were funding for the RDAs, the New Deal for Communities, the National Strategy for Neighbourhood Renewal, the England Rural Development programme, Regional Selective Assistance, the Government Offices for the Regions and the EU Structural Funds. The Committee's Report says "Disappointingly, the Government could not provide a regional breakdown of expenditure on programmes targeted at regions", House of Commons (2003b), paragraph 57.*

<sup>27</sup> *Nuffield College (2003).*



4.42 The RDAs receive a budget from central government: total RDA funding in 2002–03 was £1.6 billion, increasing to £2 billion by 2005–06. This money is allocated to individual RDAs using a complex formula containing nine domains:

- a flat rate for RDA administrative overheads;
- population in a region;
- GDP per head;
- research and development expenditure per head;
- the population of Rural Priority Areas;
- the number of people living in deprived wards;
- the unemployment rate;
- the amount of derelict land and pre-used land with planning permission; and
- the skills of people of working age.

4.43 The allocation of resources to the RDAs requires data on each of these domains. For some, the data are required at the NUTS 1 level, for others, such as the number of people living in deprived wards, they are required at a much lower level of geography.

**Box 4.3: The Barnett formula**

The Barnett formula determines changes to expenditure within the assigned budgets of the devolved administrations; it does not determine the total allocation for each devolved administration. Under the formula, the Scottish and Northern Ireland Executives and Welsh Assembly receive a population-based proportion of *changes* in planned spending on comparable government services in England, England and Wales or Great Britain as appropriate.<sup>1</sup>

There are three factors in determining changes to each devolved administration's spending allocation in a Spending Review:

- the quantity of the change in planned spending in UK Government departments;
- the extent to which the relevant UK departmental programme is comparable with the services carried out by each devolved administration; and
- each country's population share.

Using these three factors, the net change to the spending allocations for each devolved administration is determined as follows:

*change to the UK Government department's programme x comparability percentage x appropriate population proportion*

This calculation is made for each departmental programme in its Departmental Expenditure Limits (DEL). The sum of these represents the aggregate net change to the assigned budget element of the DELs for each of the devolved administrations. It is for each administration to allocate spending within those budgets according to their own priorities.

The population proportions used reflect the latest available mid-year estimates published by the ONS.

Comparability is the extent to which services delivered by UK Government departments correspond to services within the budgets of the devolved administrations. For each departmental spending programme, a comparability percentage is calculated by examining the component (sub-programme) within that programme, weighted by its spending in the base year (the year immediately preceding the first year covered by a Spending Review) to give an overall level of comparability.<sup>2</sup>

<sup>1</sup> The Barnett formula is explained in *HM Treasury (2002d)*.

<sup>2</sup> The comparable sub-programmes used for the 2002 Spending Review are listed in Annex C of *HM Treasury (2002d)*.

### SUSTAINABILITY

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4.44 A criticism levelled at the use of GVA per head as a measure of economic performance of a region is that it is a relatively narrow measure and does not address the social and cultural aspects of society. Some would therefore argue that regional disparities should be judged, not in terms of economic growth but in terms of quality of life.<sup>28</sup>

#### Quality of life indicators

4.45 In December 1999 the UK Government published in *Quality of life counts*<sup>29</sup> a core set of 147 indicators of sustainable development used to monitor national progress. These indicators underpin the Government's sustainable development strategy<sup>30</sup> and are intended to raise public awareness and focus public attention on what sustainable development means, and to give a broad overview of whether the Government is achieving a better quality of life for everyone. The indicators cover the three pillars of sustainable development, namely social progress, economic growth and environmental protection. These include health, jobs, crime, air quality, traffic, housing, educational achievement, waste and economic prosperity.

4.46 The Government publishes regular information on performance against the indicators for the UK and for the nine English regions. The latest *Regional quality of life counts* was published in June 2003.<sup>31</sup> The National Assembly for Wales and the Scottish Executive publish their own sets of sustainable development indicators. This information is also of interest to the RDAs, in seeking to meet their statutory duty to contribute to the achievement of sustainable development in the UK. Regions are free to choose indicators that seem most appropriate to them, in the light of their own circumstances and priorities.

4.47 The data requirements for the economic indicators are much the same as the other agendas discussed in this chapter but environmental and some social indicators are largely beyond the scope of the Review. Moreover, there does not appear to be a demand for data that is not currently being met at the micro-area level, or that will not be met with the development of the statistical infrastructure behind the Neighbourhood Statistics Service. This would appear to be a good way in which to integrate these sustainability indicators into the wider framework for micro-regional data, as set out in Chapter 8.

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<sup>28</sup> *The case for using quality of life indicators is made in A new regional policy for the United Kingdom, Adams and Robinson, (2002).*

<sup>29</sup> *Department of the Environment, Transport and the Regions (1999b).*

<sup>30</sup> *Department of the Environment, Transport and the Regions (1999a).*

<sup>31</sup> Available at <http://www.sustainable-development.gov.uk/indicators/regional/2002/index.htm>.

## Neighbourhood renewal

4.48 The Government's strategy for neighbourhood renewal is set out in *A new commitment to neighbourhood renewal: national strategy action plan*.<sup>32</sup> The Action Plan outlines how the Social Exclusion Unit was charged with developing a long-term comprehensive approach to neighbourhood renewal, to tackle unacceptably bad conditions in poor neighbourhoods. This work produced agreement on two long-term goals:

- in the poorest neighbourhoods, to have common goals of lower worklessness and crime, and better health, skills, housing and physical environment; and
- to narrow the gap on these measures between the most deprived neighbourhoods and the rest of the country.

4.49 A key part of the Government's policy of neighbourhood renewal has been to develop statistics at the ward level to help various partners pinpoint problems and target solutions more effectively, including monitoring performance against the different commitments (of which there are 105).<sup>33</sup> The ONS has developed the Neighbourhood Statistics Service in response to this demand.<sup>34</sup> The framework of this service is a good vehicle for developing and disseminating the data available at local level. Chapter 8 discusses how this could be taken forward and sets out our recommendations.

## Rural Issues

4.50 In recent years, rural policy has tended to shift towards diversifying the rural economy, rather than simply supporting agriculture. The new agenda, as set out in the Rural White Paper,<sup>35</sup> is concerned with looking at the specific characteristics of rural areas and resolving the economic and social concerns in them. From our discussion with DEFRA and others, and the submission we received from the Countryside Agency,<sup>36</sup> it is clear that the main demand is for "accurate and up-to-date data on rural areas within regional and local data sets to allow specific rural issues to be addressed and appropriate policies formulated". DEFRA has a PSA target to:

reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006, and improve the accessibility of services for rural people.<sup>37</sup>

<sup>32</sup> *Cabinet Office (2001)*. See also *Cabinet Office (1998)* and *Cabinet Office (2000)*.

<sup>33</sup> *The recommendations for developing the required information and data are set out in National Strategy for Neighbourhood Renewal (2000)*.

<sup>34</sup> *The Neighbourhood Statistics service is available on the ONS website [www.statistics.gov.uk](http://www.statistics.gov.uk)*.

<sup>35</sup> *Ministry of Agriculture, Fisheries and Food (2000)*.

<sup>36</sup> *Available on the internet at [www.hm-treasury.gov.uk/allsofp](http://www.hm-treasury.gov.uk/allsofp)*.

<sup>37</sup> *See HM Treasury (2002b)*.

4.51 The data requirements for DEFRA's PSA target, and the range of other data outlined to us by DEFRA and the Countryside Agency, are similar to the demands put to us in our discussions with other stakeholders, although the range of data required is for a different geography. We believe the data requirements could be satisfied by the development of the Neighbourhood Statistics framework (see Chapter 8). However, an important first step is to develop an agreed definition of what constitutes a 'rural' area.<sup>38</sup> The Countryside Agency says in its submission to the Review that it, along with the ODPM, DEFRA, the ONS and the National Assembly for Wales, is developing a new rural-urban definition to replace the conflicting definitions currently used.<sup>39</sup>

### DATA REQUIREMENTS FOR THE EU

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4.52 Structural Funds are allocated by the EU on the basis of an equity criterion, namely GDP per head, to NUTS 2 regions.<sup>40</sup> The UK's interest is in ensuring good quality data for GDP per head for each of the UK's NUTS 2 regions to determine whether they qualify for funding. The eligibility criterion for Structural Funds is an equity measure, although the Structural Funds money is not used for income redistribution, but rather for supply-side improvement in line with the EU's objectives and the Government's wider productivity agenda.

### CONCLUSION

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4.53 This chapter has examined the data requirements of the various economic policy agendas that could be said to be within the Government's regional economic policy agenda. The agendas are diverse and cover a large range of policy issues. Moreover, as explained in Chapter 3, there are a large number of institutions involved in their delivery, each with a different demand for data relevant to their involvement in delivering the policy agenda. At a macro-regional level, the demands of the different policy agendas overlap. However, for the micro-regional level, the different agendas demand some very policy-specific data. In some cases the data are produced by the government department responsible for the agenda, such as data on education collected by DfES. But in others, there remains an outstanding demand for data, such as regional data on some of the productivity drivers. Our proposals for developing a framework for micro-regional data in response to these demands are discussed in Chapter 8.

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<sup>38</sup> Note B of Table 14.1 of Ministry of Agriculture, Fisheries and Food (2000) recommended that a definition of rural should be agreed.

<sup>39</sup> The rural White Paper Implementation Plan (as of 31 August 2003) reports that a further review of the definition, led by the Countryside Agency, will report by Autumn 2003. See [www.defra.gov.uk/rural/pdfs/ruralwp/august2003/14.pdf](http://www.defra.gov.uk/rural/pdfs/ruralwp/august2003/14.pdf).

<sup>40</sup> Details on the Structural Funds, including their eligibility criteria, can be found at [www.dti.gov.uk/europe/structural.html](http://www.dti.gov.uk/europe/structural.html).