

# Budget 2008

REGIONAL PRESS NOTICE

12 March 2008

## **Budget 2008 IN THE NORTH EAST**

The Government's economic objective is to build a strong economy and a fair society, where there is opportunity and security for all.

The long-term decisions the Government has taken – independence for the Bank of England, new fiscal rules and a reduction in debt – have created a strong platform of economic stability. With low and stable inflation, interest rates set by the Monetary Policy Committee to meet the Government's symmetric inflation target, and fiscal policy supporting monetary policy over the cycle, the economy has grown continuously for 62 consecutive quarters.

The world economy is now facing a more challenging environment than was apparent at the time of the 2007 Pre-Budget Report, with continued disruption in global financial markets. While the UK and other economies have benefited significantly from globalisation, recent events have shown how interconnected capital markets mean shocks in one region can easily be transmitted elsewhere.

This Budget sets out the action the Government is taking to support the economy in the short term, to ensure the resilience of the past decade continues, combined with action to make further progress against its long-term goals of:

- maintaining macroeconomic stability, ensuring the fiscal rules are met and that inflation remains low;
- sustainable growth and prosperity, through reforms that promote enterprise and business growth, simplify the tax system, enhance flexibility and promote science, innovation and skills;
- ensuring fairness and opportunity for all, tackling child and pensioner poverty, providing opportunity for all children and young people, delivering security for all in retirement, and ensuring a modern and fair tax system where everyone pays their fair share of tax;
- creating stronger communities and effective public services, and improving long-term housing supply and affordability; and



- ensuring an environmentally sustainable world, with action to address the global challenge of climate change.

## **NORTH EAST**

This press notice sets out measures of particular relevance to the North East and the Government's regional policy agenda. The Budget takes steps to stimulate growth in the North East, strengthen regional institutions and increase regional input into national policy.

One North East, along with the other Regional Development Agencies (RDAs), was asked to provide advice to contribute to the development of Budget. At the time of the 2007 Pre-Budget Report, Government wrote to the RDAs, inviting their input to Budget 2008 in a number of areas:

- responding more effectively to business priorities;
- effective delegation of funding to sub-regions and localities;
- simplifying and increasing the flexibility of skills provision;
- responding to the long-term challenges of globalisation; and
- ensuring that all the English regions benefit from the Olympics 2012 legacy.

These questions were intended to gather RDA expertise in these areas, and draw in feedback from regional and local networks with a view to finding innovative and targeted policy solutions to these key challenges. This advice, and a response from Government, is annexed below.

Announcements of particular interest to businesses and individuals in the North East include:

### **Access to finance**

Budget 2008 introduces a package of measures to support small businesses access the finance and resources they need to start up and grow, responding to business needs in the short term:

- A temporary increase of 20% in the amount of finance available through the Small Firms Loan Guarantee scheme, and relaxation of the restrictions on firm age to allow access to the scheme for a wider range of small firms;
- The Government will work with the banks to explore mechanisms to ensure small firms are able to access the most appropriate forms of finance, including mezzanine products. It will also provide additional Enterprise Capital Funds of £30 million to support this type of provision;
- A new capital fund primarily focused on businesses run by women;



- an increase in the Enterprise Investment Scheme's investor limit from £400,000 to £500,000 in any one tax year (subject to EU State Aid approval), and a consultation on how best to simplify operation of the scheme; and
- an increase in the value of share options an individual can hold under the Enterprise Management Incentive scheme from £100,000 to £120,000.

**Enterprise Education:** Building on existing provision, a strategy is set out for developing seamless enterprise education, from primary schools to higher education, underpinned by £210 million announced at the 2007 Comprehensive Spending Review. This will include:

- establishment of a National Enterprise Academy to equip 16-19 year olds with enterprise skills;
- creation of University Enterprise Networks to further develop relevant skills during higher education; and
- **funding intended for Enterprise Education will benefit around 209 secondary schools in the North East.**

#### **Enterprise Strategy:**

Building on the announcements above, the Enterprise Strategy, published today, sets out how Government will further encourage business start up and growth. Focused on small and medium sized businesses, the strategy sets out a new framework for Government action, structured around the enablers of Enterprise - Culture, Knowledge and Skills, Access to Finance, Regulatory Framework, and Business Innovation.

#### **Tax simplification:**

The Government today announces the next stage in its rolling programme of tax simplification to further enhance UK productivity and competitiveness. Following discussions with business and tax professionals, the Government today announces the initial outcomes on the three tax simplification reviews launched at the 2007 Pre-Budget Report. Building on the significant reforms to the business tax system announced in Budget 2007, due to take effect from April 2008, and responding to representations from business, the Budget further simplifies Corporation Tax. The Government also announces over 20 further tax simplification measures, which will help sectors across the UK economy, including further modernising the tax system for financial services and the charitable sector.

#### **Science and Innovation:**

The Science and Innovation White Paper will be published on 13 March and will outline significant progress in implementing the Sainsbury Review's recommendations. The White Paper will also set out DIUS' forward strategy



for promoting innovation. The Budget today outlines key commitments including: proposals on how to ensure Government procurement promotes innovation; the development of an independent innovation index to measure innovation throughout the economy; the piloting of a Further Education Specialisation and Innovation Fund; and a doubling of the number of Knowledge Transfer Partnerships supported by the Technology Strategy Board. The Budget also announces that the Government will invest £10 million over five years in "Project Enthuse" to support the professional development of science teachers in all secondary schools, working in partnership with business and the Wellcome Trust. **One NorthEast, together with the other Regional Development Agencies, has committed up to £180 million from the RDA network over the three years starting in 2008, subject to appropriate projects being identified that benefit the regions.**

### **Further progress towards implementing the Leitch Review and improving workforce skills**

Through Skills Accounts the Government will ensure that every adult can access investment in their skills. To expand this investment, Budget 2008 announces £60m of additional funding for adult skills, focused on Level 3, which will support increased opportunity and progression. This will provide new opportunities for people to realise their talents, offer adults a second chance to retrain and will be used to test new ways of delivering training. It will also enable leading employers to take on more adult apprentices. **These measures will potentially benefit up to 482,000 adults with low qualifications in the North East.**

### **Child Poverty:**

The Government is firmly committed to tackling child poverty and since 1997 has made considerable progress against its objectives. The Budget sets out the next steps, including measures to make significant further progress towards the target of halving child poverty by 2010, which are expected to lift up to 250,000 children out of poverty. The Budget announces:

- an increase in the first child rate of Child Benefit to £20 a week from April 2009, reinforcing the Government's commitment to Child Benefit as the foundation of financial support for all families. **This will benefit will benefit around 310,000 families in the North East;**
- an increase in the child element of the Child Tax Credit by £50 a year above indexation from April 2009 to further help low to middle income families, **benefiting 175,000 families who claim this benefit in the North East;**
- Child Benefit will be disregarded in calculating income for Housing and Council Tax Benefit from October 2009, improving work incentives for many of the lowest paid families and boosting their incomes. A working family with one child on the lowest incomes will gain up to £17 a week from this change.



**Support for pensioners:**

Building on the Government's substantial commitment to help pensioners, Budget 2008 announces an additional one-off payment of £100 to households with someone aged 80 or over and £50 to households with someone aged 60 or over, to be paid alongside the Winter Fuel Payment in 2008-09. **This will benefit around 400,000 households in the North East**

**Incapacity Benefit Reform:**

From late 2008, an integrated and simplified Employment and Support Allowance (ESA) will replace the current system of incapacity benefits for new claimants and will have a clearer balance of rights and responsibilities. The introduction of ESA will be accompanied by a new Work Capability Assessment (WCA), which will apply to new claimants from October 2008. To ensure that the increased focus on a person's capability to work has an impact for current as well as future claimants, the Budget announces that all existing incapacity benefits claimants will be required to take the Work Capability Assessment from April 2010. **This will replace the existing system for 162,050 incapacity benefits claimants in the North East.**

**A national roll out of the Saving Gateway from 2010:**

Following the success of pilots in promoting saving and financial inclusion, the Saving Gateway will be introduced nationally, with the first accounts available to savers in 2010. The Saving Gateway is a cash saving scheme for those on lower incomes. Individuals in receipt of the following benefits and tax credits will be entitled to open an account in the national scheme: Working Tax Credits; Child Tax Credits paid at the maximum rate; Income Support; Jobseeker's Allowance; Incapacity Benefit; Employment and Support Allowance and Severe Disablement Allowance. **Approximately 430,000 individuals in the North East would be eligible for the scheme.**

**Bringing forward schools' target:**

Budget 2008 announces that the Department for Children, Schools and Families (DCSF) will take forward a £200 million package over the next three years, to raise the level of support and challenge for low-attaining schools, bringing forward by a year to 2011 the Government's ambition that there should be no schools with fewer than 30 per cent of pupils attaining 5 A\* to C at GCSE, including English and Maths. By 2011, the Government will expect all schools to have achieved this benchmark or to be subject to formal intervention. **This should benefit 36 low-attaining schools in the North East. The package will provide additional support on top of previous Government commitments, including the 10 academies projected to be opened in the North East by 2011.**



### **Promoting giving through Gift Aid:**

Budget 2008 announces a comprehensive package of measures in response to the Gift Aid consultation, including major reform to the auditing process; a programme for bringing additional smaller charities into Gift Aid; redesign of guidance; and the launch of targeted marketing tools. This Budget also announces that although the basic rate of tax will be 20%, Gift Aid will be paid at a transitional rate of 22% from 2008-09 to 2010-11; providing charities with additional Gift Aid worth around £300 million over three years.

### **A more secure, fair and environmentally sustainable world**

Tackling climate change is the most serious and pressing global environmental challenge the world faces. Budget 2008 sets out new policies to reduce emissions across all major sectors of the economy and ensure the UK continues to lead the climate change agenda internationally. The Government is also acting to protect the UK's natural environment. Budget 2008 announces:

- preparation work for the introduction of five-year carbon budgets, and that the first of these carbon budgets will be set alongside the Budget 2009
- reform of car Vehicle Excise Duty rates and bandings, introducing new bands from 2009 to reward drivers of the cleanest cars, and higher first year rates in 2010-11 to influence purchasing choices. As a result of these changes the majority of drivers will be better or no worse off;
- the planned fuel duty increase of 2 pence per litre in April 2008 will be delayed until 1 October 2008. Main road fuel duty rates will rise by 1.84 pence per litre on 1 April 2009, and will increase by 0.5 pence per litre above inflation on 1 April 2010;
- auctioning 100 per cent of allowances for large electricity producers in Phase III of the EU Emissions Trading Scheme;
- funding for the Green Homes Service to advise consumers on how to reduce carbon emissions, waste and water consumption;
- strengthening the environmental incentives for taxation of business cars, along with simplifying measures;
- incentivising only the most sustainable biofuels, by shifting support away from the duty differential to the Renewable Transport Fuel Obligation in future years;
- the new per plane duty to replace air passenger duty on 1 November 2009 will increase by 10 percent in the second full year of operation;
- an ambition for all new non-domestic buildings to be zero carbon from 2019 and for all new public sector buildings to be zero carbon from 2018 , with consultation on the timeline and its feasibility;



- an ambition for all new non-domestic buildings to be zero carbon from 2019 with consultation on the timeline and its feasibility and new public sector buildings from 2018;
- extending the Stamp Duty Land Tax exemption from zero carbon homes to new flats, retrospectively from 1 October 2007;
- that to eliminate single-use carrier bags, the Government will legislate and impose a charge if retailers do not take voluntary action; and
- increasing the aggregates levy from 1 April 2009 to maintain its environmental impact.



## Annex: Government response to RDA input to Budget 2008

### Question 1: Business Engagement

**The Government asked: *how can the Regional Development Agencies (RDAs) and other key public sector agencies build their intelligence of business priorities and respond more effectively to these?***

There are a number of areas where RDAs acknowledge they could work smarter to both build intelligence and respond more effectively to information received, but feel that they will require assistance from Government to maximise their impact. These fall into three distinct areas: coordination of public sector business engagement; developing better feedback mechanisms; and better integrating business data and intelligence at all levels. Actions requested of Government are:

- **Formally recognising the role of RDAs as the lead public sector agencies within the regions on business engagement.** A key barrier to working with business and co-ordinating intelligence remains the level of fragmentation across the public sector. Government Offices, Assemblies, Local Authorities and a multitude of other partners perceive a distinct role on intelligence gathering and policy development towards business. Though there is a strong rationale for a multi-level engagement with business and this activity is useful, the lack of a clear lead with business itself within the regions leads to confusion and duplication. Government could assist in this process by giving RDAs a mandate to formally lead on business engagement within the regions. This would not preclude other partners from engagement, but would simply recognise that the first point of engagement should usually be with the RDA. It would also emphasise the need for other partners to involve the RDA in business related activity.
- **The development of a formal national engagement plan with the five big business representative organisations.** This would outline how engagement occurs at the national and regional level, including Departments, RDAs and other partners. A memorandum of roles and responsibilities would serve to increase the understanding and relationship between the main business organisations, departments and RDAs. RDAs could also benefit from being able to maximise the use of other existing networks at the national level.

**The Government responds: the RDAs play a critical role in helping the Government to engage with business in the regions, and work closely with the Department for Business, Enterprise and Regulatory Reform (BERR), as their sponsor department, to do so. We would encourage them to continue to develop this. The inherent nature of business engagement, from the broad spectrum of business needs to the agents providing support, will not always provide perfect intelligence. Place-based organisations such as RDAs are important in addressing this.**

- **A clear process of feedback on intelligence received and reported to Government** – One of the biggest barriers facing the RDAs is that it



remains unclear at times how Government is responding to the advice we and other partners submit. With the exception of this input and the response in the Budget itself, there remain few occasions when a clear submission and feedback process is in place for business intelligence received. This in turn leads to a perception that the RDAs and their partner organisations are unable to deliver their strategic lead role and that direct engagement with Government is the only option, leading to fragmentation of engagement. In the recent Business Support Simplification Programme process, for instance, the lack of a clear response to why individual schemes are to be ruled out makes it appear that the business community is being ignored, when in reality there may be a well reasoned rationale for such moves.

- **A better co-ordinated and joined-up approach to gathering and using business intelligence at the national and regional levels.** There needs to be a more joined-up, formal and co-ordinated approach to the collection and use of business intelligence, overseen at the national level by BERR, to reduce consultation fatigue and improve knowledge sharing. Building on the Regional Observatories model to strengthen the integration of data and intelligence will be paramount to the achievement of this, both at a regional and national level. The BSSP, as well as increased access to national data sources such as the ABI and IDBR to fill the gap in the evidence base, could also be used to drive through a more cohesive approach. Access to these key sources of intelligence is currently hindered by antiquated legislation, which denies Agencies access despite their now designing and delivering their core concerns.
- **Rolling out of business surveys at the national level and improving existing national data collection methods.** There are several examples of best practice in regional data collection, such as the London Annual Business Survey and the South East Insights Programme. Rolling out existing programmes to the regions and developing the National Business Survey further with an increased sample and focus on policy issues would allow effective use of intelligence. A national SME research portal could be one output of this type of expanded activity. The work of the National Investor Development Forum could be further enhanced by highlighting best practice at the national level.

**The Government responds: the Government recognises the importance of business intelligence in developing and tailoring policy, and welcomes opportunities – such as this – to benefit from it. We would encourage RDAs to work closely with BERR, as their sponsor department, to develop more effective ways to utilise and respond to business intelligence; particularly where there are technical or coordination issues to resolve.**

## Question 2a: the Review of sub-national economic development and regeneration (SNR) and Delegation of funds

**The Government asked: *how can the RDAs work with other regional and local partners to manage risks and achieve this new approach to sub-national delivery?***

Government has a critical part to play in enabling the SNR to deliver real value for the regions. The RDAs would suggest that a number of actions are essential:

- **Ensuring the maintenance of the RDAs' business-led boards as an outcome of SNR.** Announcement of the outcomes of the SNR was welcomed by the RDA network last year, opening up the potential for the RDAs and their regional and local partners to tailor interventions more effectively to the needs of the regional economy. However, it is critical that post-SNR governance requirements do not undermine the fundamental principle that RDAs are business led, maintaining the SNR's focus upon economic improvement. This will help to allow RDAs to continue to make difficult decisions and keep a business-focused agenda. The CBI, as part of the consultation for this input, felt that further (rather than less) private sector membership of RDA boards would be beneficial.
- **Ensuring the new economic development duty to be implemented with Local Authorities promotes the primacy of the Regional Economic Strategies (for the transition phase)/Integrated Regional Strategy (IRS) and the need for integration of intelligence.** As part of the SNR, Government made a commitment to introduce a statutory duty on economic development to Local Authorities. As with the need to clarify who in the public sector leads with business, it is also critical that intelligence and policy are co-ordinated as part of this new duty, with the IRS being the appropriate lead document. This would ensure that the RDAs, in their respective duty to produce the IRS, can avoid the kind of discontinuities in approach and evidence which have affected the recent Regional Spatial Strategy process.
- **The single strategy is a vital tool to underpin the step change that Government is seeking,** and delegation without this stronger strategic framework will lead to fragmentation and a reduction in impact. A single strategy should not simply be the sum of local strategies. The RDAs have developed sets of principles to underpin both the Single Strategy and Delegation and Government should ensure that SNR is implemented in line with these.
- **Government should continue to recognise the importance of flexibility and ensure that the SNR process accommodate differences between regions.** It is essential that Government avoids a 'one size fits all' approach to the SNR. Different economic circumstances clearly require different policy responses within regions. Equally, no two regions have identical regional, sub-regional and local governance structures. There are also considerable variations in capacity to handle delegation.



Provision must be made to accommodate these differences in the new arrangements both in the form they take and potentially in the timescales for adopting them.

- **Ensure the road map for implementing the SNR is clearly and effectively communicated.** The Government should work with the RDAs and other partners to ensure that there is clarity about the detail of the SNR implementation, roles and responsibilities for it, and timescales. Central Government itself needs to speak with one voice to partners. This needs to be communicated in a way that will secure and retain the commitment of public and private sector partners.
- **Ensure the business focus and ‘strategic lead role’ of the RDAs through the implementation of the SNR.** It is vital that both our lead role with business and the emphasis on the RDAs as strategic lead is maintained and clearly communicated. On one hand, there is a clear need for the regions to retain a voice of business to ensure activity is as business-focused as practicable; one of the fundamental aims of the SNR. This needs to be through continued membership of RDA boards, but also needs building into wider governance structures. This needs to be complemented with a strong message from Government that the SNR envisaged an economic focus for the regions, led by the RDAs. Though we understand the need to work closely with partners to reach this position, recent announcements and discussions have raised a concern that this position is being re-evaluated. We would welcome a firm statement from Government that this is the case. We would ask Government to consider these issues in the guidance it is currently preparing on the IRS/SNR and support the work of the RDAs through reiterating this key outcome of the SNR process.

**The Government responds: the conclusions of the Review of sub-national economic development and regeneration (SNR) confirm that RDAs will remain business-led organisations, whilst enhancing the strategic role played by RDAs in each region. The Departments of Business, Enterprise and Regulatory Reform (BERR) and Communities and Local Government (CLG) are now leading on implementing conclusions of the SNR.**

**The SNR further concluded that promoting growth requires a suitably flexible and devolved framework so that organisations at each spatial level – national, regional, sub-regional and local – can address the economic challenges posed by globalisation, technological change and other challenges, and respond where appropriate at that spatial level. In this context, key recommendations of the SNR include:**

- i. **an enhanced strategic role for the RDAs, supported by increased freedoms and flexibilities and a simplified sponsorship framework. RDAs will have executive responsibility for developing new integrated regional strategies which will build on the current Regional Economic Strategy and Regional Spatial Strategy in setting out a high level vision reflecting each region's distinctive geography and economy;**



- ii. a strong emphasis on empowering local authorities and their partners to promote growth, for example through consulting on the creation of a focused statutory economic assessment duty, alongside proposals to reform the Local Authority Business Growth Incentives (LABGI) and introduce supplementary business rates; and
- iii. working with interested sub-regions to explore the potential for statutory arrangements for sub-regional collaboration on economic development issues and negotiating and agreeing the first Multi-Area Agreements.

**BERR and CLG will shortly be consulting on implementing the SNR's recommendations. The Government is keen to continue to engage with the RDAs in considering how to take forward the conclusions of the SNR.**

- **It is vital, when discussing delegation, that consideration is fully given to the fact that overall accountability will remain with the RDAs.** Despite new delegation of activity, it needs to be considered that accountability for funding and strategic decisions will remain with the RDAs and their Chief Accounting Officers. In terms of practicalities, it is therefore important that whatever system or level of delegation is decided upon, the accountability and reporting structures are clear and transparent. There remains a significant risk linked to this issue.
- To support this, **Government must deliver legislation that underpins a flexible approach to delegation**, without reducing accountability or adding to the bureaucratic burden. A spectrum of delegation will be required - different solutions will be required for different activities and places. Delegation will be to organisations rather than partnerships, and the overall responsibility for Single Pot investment and outcomes will remain with RDA boards. We are currently engaged in discussions with CLG and BERR to work through the issues on delegation and our investment planning approach. This includes how we work with partners to agree priorities and the best approach to delivery. In some cases it will be most effective and efficient to do this at the sub regional level, in other cases regional delivery will be more appropriate. However, even where the delivery is regional, local partners will still be engaged strategically.
- **Government needs to endorse key principles for delegation**, which are highlighted within the preceding text and have been previously agreed with Government. To achieve flexible approaches which deliver efficient and effective results, the RDAs have suggested a set of national agreed principles for delegation and guidance; these have already been discussed with government. Endorsement of these principles would be extremely beneficial to the SNR process and in clarifying our discussion with partners.

**The Government responds: An effective approach to delegation requires the flexibility to meet the real economic geography of each region,**



whilst ensuring that appropriate accountability and value for money requirements are in place. The Government will be looking at how to take this forward, and will work with the RDAs, Local Authorities and other partners to develop a flexible and effective system that meets these requirements.

- **Alongside the Single Pot, Government should seek to ensure that all economic development related funding, including transport, skills, Home and Communities Agency (HCA) and worklessness related investment, is included in a wider Regional Funding Allocation exercise** and is invested in a way consistent with regional priorities. We look forward to further announcements on what will be included within the next RFA exercise and on the possibility of the results of the RFA taking effect in 2009/10.
- **National Government to better reflect regional priorities, through a substantively expanded Regional Funding Allocations (RFA) process.** It is crucial that national Government departments and agencies have greater regard to regional priorities. The new Integrated Regional Strategies should be not just the framework for regional investment, but also should influence national spending programmes; particularly in critical infrastructure programmes such as transport and housing. A significantly extended Regional Funding Allocation (RFA), building on the success of the 2005/06 exercise and including a much wider range of funding streams, would allow greater alignment of national spending to regional priorities. This should include all skills funding, as well as appropriate HCA funding to maximise its impact.

**The Government responds: the SNR committed the Government to running a second, expanded round of the Regional Funding Allocation exercise, and the SNR consultation paper will set out how the Government will take this forward.**

### **Question 2b: SNR and Skills**

**The Government asked: *how can RDAs work with regional and local partners to ensure the dual objectives of simplification and flexibility can be achieved in an increasingly demand led system?***

RDAs welcome the thrust of the Leitch Review recommendations and the steps that have been already taken by Government to move to a more demand-responsive skills system. The right direction of travel is being followed to develop a genuinely flexible and simplified demand-led system. However, there are a number of opportunities that could be seized and barriers to be overcome, that require action centrally.

- **Further simplify skills support for business.** Business has consistently highlighted that they do not fully understand the way public skills provision is delivered, nor the framework of agencies involved. Recent experience suggests that schemes like brokerage through Business Link have been



welcomed in as much as they simplify the current landscape, and as they better match provision to need. We would therefore suggest the next step, a national approach to skills which attempts to reduce the range of skills products to business and allows a 'no wrong door' approach to business.

**The Government responds: the SNR announced the merger of the Train to Gain access channel into Business Link would be complete by April 2009. We agree that there is room for simplification, and the UK Commission for Employment and Skills will make the simplification of the employment and skills system in England one of its top priorities.**

**The Commission will carry out a review and make recommendations by April 2009. The Commission is working with partners including the RDAs, the LSC and Sector Skills Councils. It aims to:**

- i. articulate a simple customer journey that employers can expect as they engage the employment and skills system; and**
  - ii. help national and regional partners better understand and address the long term skills needs of employers in every region and in key sectors.**
- Ensure that skills are central within the next Regional Funding Allocation process.** RDAs welcome the intention on behalf of Government to extend the scope of the RFA process. We believe that there is a strong case for including at least some elements of employability or adult skills provision. If, as the SNR and Leitch have outlined, skills provision is a fundamental driver of regional economic performance, there is a clear case for having such funding included alongside the other drivers of productivity sub-nationally, to maximise impact.

**The Government responds: there was commitment in the SNR to explore the scope to include skills in a second, expanded round of the Regional Funding Allocation exercise. In the light of this process we will review how skills budgets should feature in this process in future.**

- Ensure that Skills Strategies are fully integrated into the new Integrated Regional Strategies.** To ensure that the programmes of work within the single regional strategies can be delivered with real traction, Government departments, Local Authorities and key stakeholders must sign-up to the strategies. Policy and programmes should flow from these agreed strategies, including responsibility for, and appropriateness of, regional PSA targets.

**The Government responds: it was a key conclusion of the SNR to bring together related portfolios of activities, and the LSC has already committed to allowing RDAs to approve their annual plans.**

- The transition to an integrated brokerage service -** RDAs welcome the principle of this change and are working closely with the LSC to ensure its success. It is essential that the scope and scale of the service is agreed by RDAs, DIUS, BERR and the LSC and that appropriate funding and



performance management are applied. Future policy also needs to take account of the Brokerage Service and simplification principles applied to new skills programmes. The management information gained through Brokerage activity should be used to inform the development of the Train to Gain programme – building in flexibility in line with business need and agreed regional priorities.

**The Government responds: there needs to be effective management of the transition to an integrated brokerage service. A clear governance and performance management framework for the brokerage service is essential. It is right that evidence gathered through the brokerage service from employers is used to shape how the service is delivered, as long it is still able to deliver agreed levels of priority outputs.**

- **RDAs need to be a strategic partner in the UK Commission for Employment & Skills (UK CES).** This will enable a business influence over future decisions and early engagement with policy decisions on Sector Skills Councils, the integration of employment and skills agendas (DWP & DIUS) and the reform of qualifications; critical areas in achieving a truly demand-led system. This will enable strategic regional skills bodies to have a conduit into and out of the UK CES.

**The Government responds: the Commission for Employment and Skills is a UK wide body that does not become fully operational until April 2008. Exactly how it will engage with the RDAs has not yet been determined, and this is something for the Commission to take forward as a matter of priority.**

- **To support increased productivity through the delivery of higher level skills in the workforce and ensure Higher Education delivery and funding becomes more demand led;** links need to be made between Further Education and HE, and - by challenging, stimulating and supporting a culture change within HE and associated HEFCE funding - compelling alignment with business demand and regional need. Capital spend from LSC and Higher Education Funding Council for England also needs to be in line with agreed regional strategies and influenced by regional priorities from the strategic regional skills body.

**The Government responds: The Government is committed to a demand-led system of funding training and skills development, and to better integration between HE and FE. The Comprehensive Spending Review announced a series of pilots to encourage universities to engage with employers and deliver more higher-level skills in the workplace. The results of these pilots will inform what further steps the Government should take.**



- **To forge clear links between the skills, STEM & innovation agendas,** building capacity through a skills culture for enterprise and competitiveness; increasing the ability of business leaders to be innovative and enterprising and enabling these agendas to be a driver in the demand for skills.

**The Government responds: the Government will set out the next steps in this agenda in *Enterprise: Unlocking the UK's Talent*, the Government's Enterprise Strategy published today, and *Innovation Nation*, the Government's Science and Innovation White Paper to be published shortly.**

### **Question 3: Responding to the long-term challenge of globalisation**

**The Government asked: *how can RDAs and regional economies best evolve to respond to the long-term challenges and opportunities of globalisation, particularly with regard to the UK's comparative advantage shifting towards high-value, knowledge intensive sectors?***

The RDAs are well on track to deliver strategies which support the evolution of regional economies to meet the long-term challenges and opportunities of globalisation. However all RDAs recognise the importance of national action on delivering macro-economic stability, avoiding protectionism in trade policies, and ensuring further progress in reforming underlying drivers of productivity. Specific proposed national actions are as follows:

- **Continue to support the RDAs in their role assisting regional businesses address climate change as an important element of the globalisation and international competitiveness debate.** The RDAs, in part as a result of previous budget submissions, have a specific responsibility to lead with regional businesses on addressing energy efficiency. The RDAs have also prioritised actions around addressing climate change, promoting the economic benefits of early-adopter status and helping to develop the opportunities within the environmental technologies sector as part of their respective Regional Economic Strategy documents. In addition to Single Pot budget, this is supported by a series of Government incentives and grants and schemes such as Business Resource Efficiency and Waste and other funds. Specifically, the RDAs ask that Government preserve these financial incentives for firms to enhance energy efficiency, consider how pressures on RDA spend prevent replacement of central funding with Single Pot for these initiatives, and how Government can further support the RDAs to promote the environmental technology sector nationally, above and beyond the current provision.

**The Government responds: RDA engagement is welcome in this important area. The Government will continue to support businesses to improve their resource efficiency and reduce their reliance on landfill. Defra will continue to fund resource efficiency activities in line with its Departmental objectives and value for money criteria.**



The Government is continuing to provide resources and incentives to businesses to support greater energy efficiency including: an additional £12 million for the Carbon Trust's successful SME loans programme from the domestic Environmental Transformation Fund, and the introduction of the Carbon Reduction Commitment from 2010. This is a cap-and-trade system designed to incentivise energy efficiency in large commercial and public sector organisations.

The SNR announced that merger of the Train to Gain access channel into Business Link would be complete by April 2009. Building on this, Budget 2008 announces the merger into Business Link, with the associated resources, of all information, diagnosis and brokerage services associated with: all RDA support by March 2009; UKTI support by June 2009; Protecting the Natural Environment support by April 2010; and Resource Efficiency support by June 2009.

- **Seriously consider the potential for regions to alternatively fund transport infrastructure schemes outside of London, with transport efficiency a key differentiator in international competitiveness.** The RDAs ask Government to consider the potential for alternative funding of public transport investment outside of London. As London has demonstrated, it is possible to work with the private sector to deliver high quality provision. However, this may require flexibility on the part of the Treasury to enable regions to utilise innovative funding methods. With the SNR providing the opportunity to significantly bolster transport governance arrangements, we would ask Government to consider new ways of working with the regions to fund projects. Specific schemes which have potential, and are being explored by the regions, include the possibility for Regional Infrastructure Funds (utilising an element of any future Community infrastructure Fund regionally), Private Sector Sponsorship (effectively individual companies sponsoring local transport infrastructure) and cross-Multi-Area-Agreement projects (with LAs and partners amalgamating local and regional borrowing powers to fund transport infrastructure over and above existing flexibilities).

**The Government responds: the Government is happy to consider proposals from the RDAs for innovative methods of funding transport infrastructure. The Treasury would scrutinise any such proposal to ensure it is affordable, consistent with the public finance framework, and represents value for money. Significant flexibilities already exist for local and regional bodies. The first Regional Infrastructure Fund (in the South West) is expected to be operational from 2008/09.**

- **Ensuring appropriate technical, language and communication skills for competitiveness.** The UK has relatively poor levels of skills, particularly in respect of STEM subjects, languages and communication skills which are key to the long-term competitive success of UK businesses. There is a need to address skills in these areas. As part of a more general initiative, the RDAs would like some flexibility to influence Level 3 and Level 4 STEM provision in each region.



**The Government responds: STEM skills are key drivers of the economy. The Sainsbury Review, published at Pre-Budget Report 2007, set out further actions the Government will take to boost the supply and application of such skills. Within a demand led system it should be employers and individuals that drive the take-up of such skills rather than micro-planning of provision.**

- **Ensure a sufficiently broad view of market failure.** The RDAs submit that there are good market failure arguments for investments that support the growth of high value, knowledge intensive activities. It is important Government takes a sufficiently broad view of market failure, and does not constrain RDA action to support diversification and long-term competitiveness by an overly narrow focus on addressing economic weakness.

**The Government responds: it is important that economic interventions address real market failures. We would encourage the RDAs to discuss any specific areas of concern with BERR as their sponsor department.**

- **Continue to support pan-regional initiatives with the potential to have a tangible international impact.** Initiatives like the Northern Way have demonstrated the potential of pan-regional activity. We would ask Government to continue to support and build upon such proposals where they are adding value. In the South-East, for instance, the RDAs are considering the potential for working more collectively on issues like innovation, through mechanisms like amalgamating the work of the Technology Strategy Boards.

**The Government responds: pan-regional initiatives such as the Northern Way have significant potential to add value under the right circumstances; in recognition of this, the Comprehensive Spending Review enabled the three Northern RDAs to provide £45 million of funding to the Northern Way. The Government welcomes the work the RDAs are undertaking in this area, such as the recently announced Northern Way Private Investment Commission, and encourages the RDAs to engage with us as their thinking on future approaches develops.**

The RDAs would also like to suggest the following national actions, which pick up themes set out in response to the 2006 and 2007 Budgets:

- **Increased regional influence over international trade and investment functions.** Responding to globalisation requires more coordination between the activities of UKTI and regional economic development activities. The RDAs ask Government to support further integration of the work of UKTI and that of the RDAs and Business Link, in line with the ideals of BSSP.

**The Government responds: following the SNR, UK Trade & Investment (UKTI) has considered with the RDAs how the organisations' activities at home and abroad can be better aligned. Going forward, UKTI and the RDAs will work together to better coordinate their overseas**



representation for attracting inward investment and UKTI's trade development strategies with wider business support, and get better value from existing resources. The Government will keep the implementation of the new arrangements closely under review to ensure they deliver effective alignment of regional and national resources and best value for money.

As part of the Business Support Simplification Programme, Budget 2008 announces that all information, diagnosis and brokerage services associated with UKTI support, along with the associated resources, will merge into Business Link from June 2009.

- **Ensure regional Science and Industry Councils (SICs) are formally engaged in the governance of the Technology Strategy Board (TSB).** The RDAs welcome the introduction of the TSB as a key body charged with taking a lead role in co-ordinating innovation support activities across the economy. There is a need to ensure that the Board reflects the challenges and opportunities represented by globalisation, in the national context and in each region. Government should continue to support work to ensure the involvement of regional SICs in the governance of the TSB.
- **Re-focus innovation policy towards knowledge transfer, wider innovation and adoption.** Innovation policy at the national level has traditionally been too narrowly focused on R&D intensive sectors. RDAs welcome the recommendations of the Sainsbury Review. There has been too much focus at national level on technology push and not enough on market pull. There is a need to refocus public support for innovation on ensuring more collaboration between the research base and business, and on supporting innovation and adoption in the wider economy.

**The Government responds:** the Government is committed to implementing the findings of the Sainsbury Review, which recommended that RDAs and SICs should work collaboratively with the TSB to develop joint programmes. *Innovation Nation*, the Government's Innovation White Paper, will build on the Sainsbury Review to develop a broader analysis of innovation policy.

#### **Question 4: Supporting the legacy of the London 2012 Olympic Games and Paralympic Games**

**The Government asked:** *how can RDAs work with their local and regional partners to best ensure that all English regions benefit from the London 2012 Olympics legacy?*

RDAs recognise the importance of the London 2012 Games to the UK and above all the need for a well organised and delivered Games to reflect well on the UK and to make the visitor experience world class. RDAs have already produced individual regional plans looking at how the nine English regions can best take advantage of the opportunities arising from the London 2012 Games. They also see, however, that there remain additional significant legacy opportunities across the UK, and RDAs are working to ensure that



these are maximised collectively. The following national actions would support RDAs' efforts to develop these opportunities:

- **Ensure a nationally co-ordinated approach to marketing and tourism.** There needs to be a concerted marketing effort linked to the London 2012 Games, to enhance the profile and image of a range of destinations across the UK to support inward investment, increased visitor numbers and resident inflows in the long-run. There needs to be co-ordination between the national and regional level to maximise fully the opportunity presented by the London 2012 Games to promote a range of locations across the UK. There is an opportunity to use the London 2012 Games as a catalyst to work with the tourism industry to improve quality and accessibility, sustainability and customer service.

**The Government responds: *Winning: A tourism strategy for 2012 and beyond*, published by DCMS in September 2007, sets out a strategy that will help maximise the potential benefits offered to UK tourism by the London 2012 Olympic Games and Paralympic Games and leave a significant legacy beyond that.**

**DCMS is working with VisitBritain (the national tourism marketing body), the RDAs and other partners in the public and private sectors to ensure that tourism marketing of the London 2012 Games is carried out in a co-ordinated fashion that benefits the whole of the UK.**

- **Robust economic impact research.** There needs to be further robust and strongly evidence-based research to better understand the scale of economic impacts of major events like the London 2012 Games, and in particular the scale of potential benefits to locations peripheral to the main host city. To date, a number of studies have been undertaken, but each has been considered flawed. A comprehensive and final study, clarifying the benefits, would now be strategically valuable in outlining the opportunities to business and maximising any Olympic legacy.

**The Government responds: previous economic impact studies have not been able to capture the wide range of economic impacts arising from the London 2012 Games.**

**The Government is publishing a Legacy Action Plan that highlights the programmes that are being developed to deliver the economic benefits of the London 2012 Games, in areas such as business, jobs, skills and tourism. An evaluation framework is being developed that will enable us to measure the economic impact of these programmes.**

- **Continued promotion of procurement systems.** Government needs to continue to promote the use of systems (Electronic Brokerage Service and CompeteFor) to ensure SMEs across the UK access Olympic related contracting opportunities.

**The Government responds: the London 2012 Business Network will open up supply chains like no other Games before, and is critical to engaging businesses in London 2012 procurement. CompeteFor is a**



key component of the Business Network, allowing businesses, particularly SMEs, up and down the country, to access 2012 related business opportunities. This brokerage system is supported by a comprehensive programme of information and events run by London 2012 – which include events in every nation and region. Throughout this process businesses are signposted to the business support that is available, such as that provided by Business Link, to ensure they are fit to supply not just London 2012, but the wider £150 billion annual public procurement spend.

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## **NOTES FOR EDITORS**

Further details of 2008 Budget Report announcements can be found on the HM Treasury website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

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