

As part of the Government's commitment to promote prosperity in every region, the 2002 Spending Review:

- promotes growth in all regions, through improving the key drivers of productivity at the regional level, reinforced by an enhanced Public Service Agreement (PSA) floor target for regional economic performance;
- strengthens regional institutions and devolves power to the regions and local communities, including increasing resources and responsibilities for the Regional Development Agencies (RDAs); and
- promotes a fair allocation of public spending to encourage fairness across the regions.

This chapter also sets out how the Spending Review meets the priorities identified by regional institutions for promoting prosperity in their regions.

## PROMOTING GROWTH IN EVERY REGION

**23.1** The Government set out its aim to promote prosperity in all countries and regions of the UK in *Productivity in the UK: 3 – the Regional Dimension*, published alongside the Pre-Budget Report 2001. It explained the Government's agenda for achieving this aim, by tackling the market failures that act as barriers to growth – particularly those around the Government's five key drivers of productivity: skills, investment, innovation, enterprise and competition.

**23.2** This chapter explains how the Spending Review has reinforced the Government's ambition to achieve this aim and explains how the regional dimension has been accounted for more widely in the Review.

**23.3** The Spending Review builds on the foundations already put in place to tackle barriers to growth, including:

- promoting economic development in all regions, by strengthening of the Regional Development Agencies, including increasing expenditure by 4.5 per cent a year in real terms over the three years to 2005-06 and the piloting of greater RDA involvement in skills and business support;
- rewarding improved performance by local planning authorities, through a new 3-year incentive grant. This underlines the Government's commitment to fundamental planning reform, set out in the recent Green Paper *Delivering a Fundamental Change*, which included proposals to strengthen strategic regional planning;
- creating regional housing markets that are more responsive to changing demand by establishing strong regional housing bodies that will better integrate decisions on housing with those on economic development, planning and transport;
- increasing innovation with an average real terms increase of 10 per cent in the Department for Trade and Industry's Science Budget;

- fostering enterprise in deprived communities by extending the Phoenix Fund beyond its current end date of March 2004 with £50 million over 2004-05 and 2005-06 and up to £60 million by 2005-06 to promote enterprise in schools, in response to the Davies review; and
- boosting connections across the regions through the Government's Ten-Year Plan for Transport. The Spending Review confirms this commitment to transport by exceeding the Ten-Year Plan profile for the Review period, with spending rising by over 12 per cent a year on average above inflation, and continuing the delivery reforms to create a more integrated system of transport planning and implementation with a strengthened regional dimension.

**23.4** Box 23.1 sets out how the regional dimension to policy has been incorporated into Public Service Agreements, and in particular into an updated target on improving the economic performance of all regions.

#### **Box 23.1: The regions and Public Service Agreements (PSAs)**

The Government's commitment to ensuring all regions share in the UK's economic prosperity is set out in a joint PSA target between the Office of the Deputy Prime Minister (ODPM), the Department of Trade and Industry (DTI) and, for the first time, HM Treasury: *make sustainable improvements 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.*

This target is one of a set of enhanced PSA floor targets announced in the Spending Review, full details of which are set out in Chapter 4. These targets are at the heart of the Government's agenda for fairness in all parts of the country.

In addition to this, a number of other relevant PSAs will have a regional dimension, to help ensure that all regions share in Spending Review aims to improve public service delivery. This regional dimension is explicit in the ODPM housing target: *achieve a more sustainable balance between housing availability and the demand for housing in all English regions while protecting valuable countryside around our towns, cities and in the greenbelt and the sustainability of existing towns and cities.*

In other cases it is implicit, and will be reflected where appropriate in the target's delivery plan and measuring arrangements. For example, promoting economic performance and prosperity in rural areas (DEFRA), improving adult skills (DfES), encouraging tourism (DCMS), improving innovation (DTI) or tackling health inequalities (DH).

## **DEVOLVING RESPONSIBILITY IN EVERY REGION**

**23.5** The different priorities in each region for promoting prosperity show that a strong national response is necessary, but that that response must be flexible. Therefore, the Government is strengthening regional institutions and devolving power to the regions through:

- supporting in the Spending Review – demonstrated through an ODPM target – the introduction of elected regional assemblies in regions where there is demand for them, as set out in *Your Region, Your Choice: Revitalising the English Regions* (published in May 2002);
- further strengthening the role and funding of the RDAs; and
- strengthening institutions and funding at the local level, as explained in Chapter 1.

**Better regional co-ordination and delivery** **23.6** The Government, as part of its effort to improve the delivery of public services, is also committed to improving the coordination of policy at the regional level. This is reinforced by a new PSA target for the Office of the Deputy Prime Minister: *promote better policy integration nationally, regionally and locally; in particular to work with departments to help them meet their PSA floor targets for neighbourhood renewal and social inclusion.*

**23.7** To this end, there will be substantive progress in the rationalisation of regeneration initiatives. This should result in the merging of such initiatives to produce a smaller set of clearly defined funding streams that facilitate sensible joint working at a local and regional level and do not impose unnecessary burdens on the delivery of services.

**Regional Development Agencies** **23.8** The Government views the RDAs as being the key strategic drivers of economic development and regeneration in the regions, as set out in Chapter 3. It has put in place a framework based on stretching targets and strengthened flexibility to enable them to meet this challenge. These targets cover sustainable economic performance, regeneration, urban and rural development, physical development, employment, skills, productivity, enterprise, investment and innovation.

**23.9** **The Spending Review provides an increase of £375 million to the RDA's Single Pot by 2005-06, compared to 2002-03.** Together with the reduction in the Single Regeneration Budget (SRB) commitments over the Spending Review period, which release an additional £535 million by 2005-06, this implies an increase in the uncommitted resources available in the Single Pot – the effective Single Pot – of £910 million by 2005-06 compared to 2002-03. The Single Pot will be £2 billion in 2005-06.

**23.10** The settlement also:

- rebalances the RDAs' funding, with a switch of £200 million per year of existing funding levels from capital to resource, to help ensure the RDAs have the right mix of funding for their evolving role;
- gives the RDAs an initial £2 million per year from the Department for Culture, Media and Sport (DCMS) and tasks the RDAs with a greater role in regional tourism promotion, in preparation for DCMS' discussions on the future shape of government support for domestic tourism; and
- gives the RDAs an additional £2 million per year from 2004-05 through DTI to commission multi-modal transport studies via the Regional Planning Bodies, to ensure that transport links within and between regions support increased productivity.

**23.11** The RDAs will also be invited to participate in the reforms being made to the institutional framework on housing and planning, on which further detailed announcements will be made in due course.

**23.12** In addition to the measures above affecting all RDAs, as greater RDA involvement is to be piloted in one or two regions in the key areas of adult skills and services to small businesses.

**Box 23.2: Increasing employment opportunity in every region**

At the heart of the Government's strategy for increasing employment is making work pay, and as part of this the Working Families' Tax Credit (WFTC) and Disabled Person's Tax Credit were introduced in October 1999. In Budget 2002, the Government announced from April 2003 it will be introducing two new tax credits: the Working Tax Credit and Child Tax Credit.

The WFTC was worth a total of nearly £5.5 billion in 2001-02, with the greatest help offered to low and middle income families, which therefore tends to offer greatest help to the traditionally the most deprived regions. The provisional estimated WFTC breakdown by region for 2001-02 is set out in the table below.

**Table: Working Families' Tax Credit by country and region**

|                          | £ million | £ per person |                  | £ million    | £ per person |
|--------------------------|-----------|--------------|------------------|--------------|--------------|
|                          | 2001-02   |              |                  | 2001-02      |              |
| North East               | 310       | 120          | London           | 420          | 57           |
| North West               | 800       | 116          | South East       | 500          | 62           |
| Yorkshire and the Humber | 610       | 121          | South West       | 440          | 88           |
| East Midlands            | 430       | 102          | Scotland         | 500          | 98           |
| West Midlands            | 560       | 105          | Wales            | 320          | 109          |
| East                     | 370       | 68           | Northern Ireland | 200          | 118          |
|                          |           |              | <b>Total UK</b>  | <b>5,460</b> | <b>91</b>    |

**PROMOTING A FAIRER ALLOCATION OF PUBLIC SPENDING**

**23.13** There is no single mechanism for allocating public spending at regional level. Rather the identifiable level of public spending in each region is a reflection of a large number of allocation mechanisms, each tailored to the circumstances of the particular spending programme. In many cases the allocation is not to the region as such but is to, for example, local authorities or individual claimants or projects in each region.

**23.14** Achieving greater regional fairness is not therefore a matter of reforming any single allocation mechanism. However, the Government is aiming to improve the allocation of public spending to key public services, for example:

- consulting on options on a fairer, simpler, more intelligible and more stable system of distributing grant to local authorities in England. The new system selected following the consultation will replace the Standard Spending Assessment in 2003-04. This Spending Review provides for average increases in general grant of 3.9 per cent a year in real terms;
- introducing a new formula for allocating resources to Primary Care Trusts (PCTs) will be announced in Autumn 2002 – by 2004 they will control 75 per cent of the health service budget, following the largest ever sustained investment in the NHS announced in Budget 2002. Reducing health inequalities will be a key criterion for allocating NHS resources under the new formula;
- reviewing the police allocation formula to tackle crime across England and Wales in a fair and effective way;

- establishing strong regional housing bodies, bringing together existing funding streams into a single non-ringfenced budget, so as to enable housing investment and planning decisions to be better integrated with transport and economic development. This process will need to be supported by a more strategic approach to the regional distribution of funding, including a review of the funding formulae and systems;
- consulting widely, in particular with employers, the Government will undertake a fundamental review of the funding for adult learning, to look better incentives, and how to encourage institutions to be more responsive to employer needs. The review will also consider how current funding arrangements could be reformed to enable RDAs to play a full and effective role in developing and implementing regional skills strategies. The review will be completed in time for any new arrangements to be introduced from April 2004; and
- making the distribution of lottery funding fairer through a £150 million targeted Lottery initiative, Fair Share, to target deprived parts of the country, and areas that have received less than their fair share of Lottery proceeds.

**23.15** The Government will announce the results of these reviews in due course. Box 23.3 sets out how the Neighbourhood Renewal Fund is currently aiming to ensure fairness in outcomes across the regions.

## MEETING REGIONAL PRIORITIES

**23.16** The Pre-Budget Report stated that the Government would introduce a regional dimension to its consideration of priorities in the Spending Review. In doing this, for the first time, the Government invited the regional institutions (the RDAs and Government Offices) to set out their view of the key priorities to promote prosperity in their regions. Departments were then required to take these documents into account when preparing their own priorities.

**23.17** The regional institutions submitted their priorities in the form of Regional Priority Documents in January 2002. This section sets out how the Government is meeting the most frequently identified priorities.

**23.18** While this illustrates how some of the key priorities for each region are being met, the Government is, of course, determined to ensure that the full range of high quality public services is delivered to everybody, regardless of the region in which they live.

**Skills and education** **23.19** Enhancing education and skills attainment was identified as a priority by almost every region. As set out in Chapter 6, to realise such an improvement, the Spending Review will add over £12.8 billion to spending on education and skills in England between 2002–03 and 2005–06.

**23.20** The regional dimension to skills is being strengthened, as part of a longer term vision of ensuring the priorities identified in the Regional Economic Strategies and Frameworks for Regional Employment and Skills Action are underpinned with financial resources. **From April 2003, pilots will operate in one or two regions whereby budgets for adult learning are pooled between Local LSCs and RDAs, and coordinated in partnership.**

**Box 23.3: Supporting disadvantaged communities in each region**

A key way the Government aims to tackle social exclusion in all regions is through narrowing the gap between the most deprived neighbourhoods and the rest of the country, underpinned by PSA floor targets which this Spending Review has strengthened, as set out in Chapter 4.

On top of departmental allocations to deliver these targets, the Spending Review has provided for an increase in the Neighbourhood Renewal Fund (NRF) allocations to England’s 88 most deprived local authority areas. These areas and the NRF allocations to them are concentrated in the most deprived regions, for example, with 14 in the North East. The regional breakdown of the NRF and the ten-year New Deal for Communities is set out in the table below.

**Table: Key regeneration spending by region**

|                          | Neighbourhood Renewal Fund |                      |                      | New Deal for Communities |
|--------------------------|----------------------------|----------------------|----------------------|--------------------------|
|                          | £ million                  |                      |                      | £ million                |
|                          | 2003–04                    | 2004–05 <sup>1</sup> | 2005–06 <sup>1</sup> | 1998–99 to 2007–08       |
| North East               | 53.0                       | 59.6                 | 69.5                 | 214.7                    |
| North West               | 108.2                      | 121.7                | 142.0                | 327.9                    |
| Yorkshire and the Humber | 60.6                       | 68.2                 | 79.6                 | 208.9                    |
| East Midlands            | 26.0                       | 29.3                 | 34.1                 | 146.6                    |
| West Midlands            | 54.0                       | 60.7                 | 70.9                 | 317.5                    |
| East                     | 3.3                        | 3.9                  | 4.6                  | 84.0                     |
| London                   | 82.0                       | 92.3                 | 107.7                | 524.9                    |
| South East               | 4.6                        | 5.1                  | 6.0                  | 95.9                     |
| South West               | 8.1                        | 9.1                  | 10.7                 | 98.7                     |
| <b>Total</b>             | <b>400.0</b>               | <b>450.0</b>         | <b>525.0</b>         | <b>2,019.2</b>           |

<sup>1</sup> Figures for 2004-05 and 2005-06 are based on the present formula for allocating NRF and are therefore illustrative. Final allocations are determined in Special Grant Reports laid in Parliament annually.

**Transport 23.21** Improving transport was also identified as a priority by almost every region and the Government is committed to improving the performance of transport networks, which are a key element of regional prosperity, providing access to markets and jobs. Chapter 8 reaffirms the Government’s commitment to provide the resources to deliver the improvements set out in the Ten-Year Plan for Transport, *Transport 2010*, and identifies the reforms necessary to achieve this.

**23.22** Delivering the Ten-Year Plan in all regions will be vital. A number of multi-modal studies are under way as part of the plan, both between regions – for example, between London, the South West and South Wales – and within regions, for example, the West Midlands conurbation. These studies aim to identify integrated solutions, and in doing so consult the public regionally. They will make their recommendations in due course.

**23.23** Every region will also benefit from projects funded by the Strategic Rail Authority’s Rail Performance Fund, which responds to bids from regional organisations in partnership with local train operators. This will deliver improvements such as extra services and refurbished stations. Major rail projects, such as enhancing the East Coast Mainline, are in development, and decisions as to whether to proceed with these will be taken in due course. The Channel

Tunnel Rail Link, already under construction, as well as benefiting all parts of the country through improved connections to Europe, will particularly boost the Thames Gateway economy in the South East.

**Broadband 23.24** In parallel to transport, some regions identified improving broadband communication as a priority in an increasingly knowledge-based economy. The Government has set the goal of having the most extensive and competitive broadband market in the G7 by 2005. As part of this, it has recently launched a regional broadband unit which will combine new teams in the DTI and Office of Government Commerce (OGC), focused on promoting broadband availability and take-up in the regions and supporting public sector broadband procurement.

**Enterprise 23.25** Boosting enterprise and enhancing business development was identified as a priority for the traditionally economically weaker regions. Chapter 3 sets out a number of other key measures to promote enterprise, including the extension of the Phoenix Fund with a further £25 million being provided in 2004–05 and 2005–06. In the North East – which identified business development as its top priority – the Phoenix Fund has, for example, already provided funding to Project North East to support social entrepreneurs.

**23.26** The regional dimension to support for small businesses is being strengthened. **The Small Business Service (SBS) and RDAs will pilot and evaluate different RDA-led approaches to improving coordination of business support services locally and will strengthen the relationship between local Business Link services and Regional Economic Strategies (see Chapter 15).** As set out in Chapter 26, the SBS itself will receive £44 million more in 2005–06 than in 2003–04.

**Housing 23.27** Increasing the supply of affordable housing was a particular priority in the Southern regions experiencing high demand, and this is being tackled through reforms to the planning system and additional Government investment in those areas with the greatest pressures. Areas facing problems of low demand and abandonment are being supported by nine Pathfinder projects, backed up by significant new investment over the three years to 2005–06. Four of these nine projects are concentrated in the North West, which identified urban regeneration as a key priority.

**Innovation 23.28** Increasing innovation was identified as priority by most regions. As set out in Chapter 15 the Spending Review provides for the largest sustained growth in spending on science for a decade, with some £1.25 billion additional spending by 2005–06 compared to 2002–03. Part of this increase will create a new enhanced Higher Education Innovation Fund to stimulate the commercialisation of scientific research. The next round of this Fund will include a role for the RDAs in ensuring that universities' proposals for funding are aligned with the needs of business in the region.

**23.29** The Spending Review is also meeting the other priorities identified by regions, for example enabling progress towards achieving a more sustainable rural economy, including measures to support the agricultural sector.

## SPENDING PLANS

**23.30** The new spending plans for the RDAs' Single Pot are set out in Table 23.1; they provide an average increase of 4.5 per cent per year in real terms over the next three years. This is an increase of £375 million in 2005–06, compared to 2002–03. Table 23.2 sets out the increase in the "effective" Single Pot, over a baseline of some £850 million in 2002–03, implied by the reduction in SRB decommitments over the Spending Review period coupled with the increases set out in Table 23.1

**Table 23.1: Regional Development Agencies (RDAs)**

|  | £ million    |              |              |              |
|--|--------------|--------------|--------------|--------------|
|  | 2002–03      | 2003–04      | 2004–05      | 2005–06      |
| <i>Of which:</i>                                   |              |              |              |              |
| Office of the Deputy Prime Minister                | 1,369        | 1,522        | 1,552        | 1,609        |
| Department of Trade and Industry <sup>2</sup>      | 172          | 191          | 236          | 296          |
| Department for Education and Skills                | 42           | 42           | 42           | 42           |
| Department for Environment, Food and Rural Affairs | 42           | 41           | 46           | 51           |
| Department for Culture, Media and Sport            | 0            | 2            | 2            | 2            |
| <b>Total</b>                                       | <b>1,625</b> | <b>1,798</b> | <b>1,878</b> | <b>2,000</b> |

Note: DTI figures include British Trade International and funding for Regional Selective Assistance.

**Table 23.2: Increase in RDAs ‘effective’ Single Pot**

|   | £ million |         |         |
|---|-----------|---------|---------|
|   | 2003–04   | 2004–05 | 2005–06 |
| Increase in RDAs Single Pot compared to 2002-03             | 173       | 253     | 375     |
| Reduction in SRB commitment compared to 2002-03             | 214       | 414     | 535     |
| Increase in “effective” RDAs Single Pot compared to 2002-03 | 387       | 667     | 910     |

Note: SRB commitment figures are based on provisional ODPM estimates. This gives a baseline for the “effective” RDA single pot of £850 million in 2002-03.