

PSA Delivery Agreement 7:

Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions

October 2007

© Crown copyright 2007

Published with the permission of HM Treasury on behalf of the Controller of Her Majesty's Stationery Office.

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be sent to:

HMSO
Licensing Division
St Clements House
2-16 Colegate
Norwich
NR3 1BQ

Fax: 01603 723000

E-mail: hmsolicensing@cabinet-office.x.gsi.gov.uk

HM Treasury contacts

This document can be found on the Treasury website at:

hm-treasury.gov.uk

For general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

Printed by The Stationery Office 10/07 380470

Printed on at least 75% recycled paper.

When you have finished with it please recycle it again.

PU363

CONTENTS

		Page
Chapter 1	Vision	3
Chapter 2	Measurement	5
Chapter 3	Delivery strategy	7
Annex A	Measurement annex	17

VISION

1.1 The Government's central economic objective is to raise the rate of sustainable growth¹ and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all. Unfulfilled economic potential must be released to increase the long-term growth rate of the UK. The Government's vision is that every region in England should perform to its full potential and become more competitive in an increasingly global economy. The Government works in partnership with the devolved administrations to promote growth in Scotland, Wales and Northern Ireland.

1.2 The Government's vision for employment, skills, enterprise and innovation, where the evidence of persistent regional gaps is clearest, is to achieve the greatest improvements in the regions that are currently underperforming. More specifically the Government's vision includes:

- increased employment in all regions, with more economically inactive people helped and encouraged to find sustained employment;
- demonstrable improvements in productivity in all regions, and narrowing the gap in productivity between the regions;
- a skills supply more responsive to employers and a greater understanding of the value of skills among business, leading to more business investment;
- a world-class knowledge base in all regions, with good quality business-knowledge links, resulting in innovative, globally competitive businesses;
- more businesses starting, which are able to succeed and grow in all regions;
- more attractive places to live and work in all regions; and
- addressing the challenges and opportunities of climate change, ensuring regional economies successfully adjust to a low carbon, low waste economy.

1.3 The Government's approach to achieving this vision involves:

- maintaining macroeconomic stability to help businesses and individuals plan for the future;
- implementing microeconomic reforms to tackle market failures in the underlying drivers of growth – skills, investment, enterprise, competition, innovation and employment; and
- devolving decision making to the regional and local levels to ensure that policy design and delivery is responsive to the particular opportunities and challenges of each area.

¹ 'Sustainable growth' here and throughout refers to economic growth that can be sustained and is within environmental limits, but also enhances the environment and social welfare, and avoids greater extremes in future economic cycles.

1.4 Success will require those departments relevant to regional economic performance to work in close partnership with each other and with regional and local partners. This Delivery Agreement sets out what central government departments will do to deliver this PSA from 2008-09 to 2010-11. The crucial contributions of regional and local partners are set out in Regional Economic Strategies, Regional Spatial Strategies (and in future the single regional strategy, as announced in the *Review of Sub-national Economic Development and Regeneration*)² and local Sustainable Community Strategies.

² *Review of sub-national economic development and regeneration*, HM Treasury (HMT), July 2007.

2.1 To monitor the Government's progress in delivering this PSA, a set of four indicators will be adopted that together provide a coherent, more nuanced picture of regional economic performance. This basket of indicators is as follows:

Indicator 1: Regional Gross Value Added (GVA) per head growth rates

- Regional GVA per head growth rates remain the best available overall measure of economic growth in each region. By 2012 GVA per head trend growth rates should improve in every region, while narrowing the gap in trend growth rates between those regions with above average GVA per head and those below average. As an interim milestone the Government will report progress in 2010 once GVA data is available for the period 2002-08.

Indicator 2: Regional Gross Domestic Product (GDP) per head levels indexed to the EU15 average

- Globalisation has resulted in increased economic interdependence between countries. The indicator on regional GDP indexed to the EU15 average monitors regional economic performance in this international context, with a rise indicating relative improvement in economic performance compared to the UK's European competitors.

Indicator 3: Regional productivity as measured by GVA per hour worked indices

Indicator 4: Regional employment rates

- For any economy, the amount produced (output) is determined by the number of people producing it (the labour force) and the amount on average each of these people produces (their productivity). By including indicators on regional productivity and regional employment rates the Government will break down economic output in each region, as measured by GVA, into its two constituent parts. By monitoring changes in these indicators it will be possible to provide a better understanding of what is driving economic growth across the regions. Skills are of increasing importance in driving productivity.¹ For this reason, the Department of Innovation, Universities and Skills (DIUS) will also monitor skills performance at a regional level² to give a clear indication of the future economic potential of each region.

2.2 To provide supporting contextual evidence the Government will continue to monitor data on a range of supporting indicators.³ In reviewing these indicators, the Government will consider including a measure on median regional earnings for different occupational groups. This information would enable government to take account of the sectoral composition of each region's economy in analysing performance against the PSA indicators.

¹ *Prosperity for all in the global economy – world class skills, Final Report, Leitch Review of Skills*, DIUS, December 2006.

² Through PSA 2.

³ Available at www.berr.gov.uk.

3

DELIVERY STRATEGY

3.1 The Government's delivery priorities for achieving this PSA are set out in the delivery strategy below, which is divided into four sections:

- enabling effective sub-national delivery of improved regional economic performance;
- the specific contributions of central government departments to enable improved regional economic performance;
- ensuring that central government is responsive to regional and local strategies and policy advice; and
- consultation and accountability for delivery.

3.2 Ultimately, success in this PSA will be determined by the dynamism of the private sector. However, research shows that the framework for supporting growth – national, regional and local – is also significant. It determines the economic policies, the public services, the skills base and the infrastructure that allows each region, city or locality to maximise its unique potential and make the most of its own particular assets. Each region is different, so there is no one-size-fits-all solution. The approach aims to ensure that the Government's policies nationally, regionally and locally are aligned to maximise the potential for sustainable economic growth within environmental limits.

ENABLING EFFECTIVE SUB-NATIONAL DELIVERY OF IMPROVED REGIONAL ECONOMIC PERFORMANCE

Sub-National Review

3.3 The *Review of Sub-National economic development and Regeneration* (SNR) set out the Government's proposals to enable regions and localities to respond more effectively to economic change and fulfil their economic potential. The full implementation of these proposals over the CSR07 period underpins the PSA delivery strategy. Reforms are focussed in four key areas:

- empowering all Local Authorities (LAs) to promote economic development and neighbourhood renewal, with greater flexibility, stronger partnership working and cooperation from other agencies, and better incentives for achieving economic growth and for ensuring disadvantaged areas benefit from and contribute to economic development;
- a differential approach that supports LAs in all areas to work together more effectively where they so wish, for example through pooling resources, responsibilities and targets at the sub-regional level, and supporting the development of robust decision making at this level;
- streamlining the regional tier outside London, based on more effective and accountable RDAs that would be responsible, working closely with LAs, for preparing a single strategy for the region. RDAs will provide support LAs and sub-regions in delivery of sustainable economic development, with stronger performance management; and

- sharpening focus for central government departments through clearer objectives and responsibilities to provide more effective support and better co-ordination for economic development and neighbourhood renewal at all spatial levels.

Local government

3.4 Economic growth will increasingly depend on enterprise and innovation and the attractiveness of places to highly mobile, skilled workers able to succeed in a global economy, and to high value-added business investment. This means that LAs will in future play an increasingly central role in facilitating economic development and in ensuring that the most deprived communities share in growth opportunities. In recognition of this, the Government will give better incentives, stronger powers and greater flexibilities to LAs to promote economic development, combined with improved support from the centre and regional tier.

Local Authority performance framework

3.5 To reinforce LAs' roles in economic development the new LA performance framework will be directly linked to the national PSA set. The indicator set for local areas will include a clear focus on economic development, with outcome indicators on:

- employment and worklessness;
- education and skills for up to 19 year olds and working age population, including science;
- investment in housing and infrastructure, particularly transport;
- enterprise; and
- creating an attractive local environment for business and citizens.

Sub-Regions

Maximising collective impacts

3.6 Sub-regions are often the spatial area around which economic markets and growth are concentrated, particularly in city-regions. This requires LAs to work together to maximise collective impacts. To enable LAs to work together more effectively at the sub-regional level, the Government will issue guidance on Multi-Area Agreements (MAAs) by the end of 2007, and will work with selected sub-regions and cities to have the first MAAs signed by June 2008.

3.7 Subject to the development of transparent and accountable governance arrangements at the sub-regional level, the Government will also work with interested sub-regions to explore the potential for allowing groups of LAs to establish statutory sub-regional authorities, which enable pooling of responsibilities on a permanent basis for economic development areas beyond transport.

Regions

Single regional strategy

3.8 The regional level has a key role to play in realising economies of scale and scope, prioritising investment between places, providing capacity support, joining-up between local areas and ensuring all areas are linked into opportunities for growth. The Government will bring forward proposals to give each RDA the executive responsibility for developing a single regional strategy for its region, working closely with LAs and other partners. LAs in the regions will be responsible for agreeing the regional strategy with the RDAs. The regional strategy will ultimately be agreed and signed off by both the

Secretary of State for CLG and the Secretary of State for Business, Enterprise and Regulatory Reform (BERR). The Government is committed to consulting further by the end of 2007 on how to implement these reforms.

3.9 The Government will also support better alignment of strategies and funding at the regional level, including by carrying out a second expanded Regional Funding Allocations exercise in the CSR07 period. This will cover a wider range of funding relevant to economic growth.

3.10 The RDAs will have specific responsibility for overseeing, in an increasingly more strategic way, the delivery of the economic development elements of the regional strategy through a programme based approach to the management of the RDA single programme budget. This will require the RDAs to be clear about the overall strategy but then to give far greater autonomy to LAs and sub-regions in the allocation of spending.

Simplified sponsorship framework

3.11 The Government will significantly reform and simplify the RDAs' sponsorship framework in order to support the devolving decision-making agenda, drive further improvements in strategic and analytical capacity, clarify further the focus of the RDAs, and provide incentives for each RDA to improve continually its impact and performance. The new sponsorship framework will be maintained through an improved interface between BERR and the RDAs, with greater clarity on the role and responsibilities of the sponsor department. The RDAs will be subject to a significantly simplified outcomes framework, which will be defined by a single overarching objective focused on regional economic performance.

3.12 To drive further improvements in RDA capacity and impact, the sponsorship framework will also involve a comprehensive, systematic and sustained evaluation of the added economic value of RDA programmes, delivered through a robust Impact Evaluation Framework. The Government will commission an independent, professional and non-bureaucratic assessment of each RDA, which builds on the 2006-07 Independent Performance Assessments, but enables greater differentiation in assessment of RDA performance and value for money.

3.13 The Government will improve clarity over roles and responsibilities within regions on business support, skills and inward investment.

Pan-Regional

Northern Way

3.14 The Northern Way is an innovative voluntary partnership between the three northern RDAs. It has a twenty year vision to bridge the North's £30 billion output gap with the England average. If it succeeds it will materially contribute to the achievement of this PSA. Transport, innovation and private sector engagement have been identified as the priority areas where the Northern Way can have the greatest impact on reaching the overarching goal. For example, as a result of work by the Northern Way Transport Compact, DfT is now considering robust evidence of realistic short, medium and long-term transport priorities with potentially significant productivity gains for the North.

SPECIFIC CONTRIBUTIONS OF CENTRAL GOVERNMENT DEPARTMENTS TO ENABLE IMPROVED REGIONAL ECONOMIC PERFORMANCE

3.15 Each department will contribute in the following ways.

HM Treasury

3.16 HM Treasury is responsible for ensuring continued macro-economic stability and rising national trend growth. HM Treasury is also responsible for maintaining the public expenditure framework, which enables the delivery of world-class public services through sustained investment matched by far-reaching reform. It will continue to provide opportunities for regional and local input into relevant national policy design.

Department for Business, Enterprise and Regulatory Reform (BERR)

3.17 BERR encourages and supports companies developing innovative and resource efficient new products that compete on world markets. BERR is developing easy to access business support that is targeted, efficient and fit for purpose, supporting the Government's commitment to reduce the number of business support schemes from 3,000 to 100 by 2010.

3.18 More specifically BERR will:

- ensure that their review of government enterprise policy considers regional enterprise disparities as a factor in formulating future policy. This is important because there are significant disparities in levels of enterprise between regions, and there can be considerable benefits from enterprise creation;
- build a strategic partnership with RDAs to develop the Business Link brand in its implementation across delivery channels in the context of the wider Business Support Simplification Programme (BSSP) and Transformational Government Programme (TGP);
- provide closer co-ordination of national and regional debt and equity finance interventions to avoid market distortion;
- ensure commissioned enterprise surveys have sufficiently large regional sub-samples to provide robust and meaningful results to inform RDA decision making;¹
- ensure that the joint-funded spatial economic research centre, as an early project, examines regional and sub-regional enterprise disparities in more detail;
- tackle information failures to raise employer demand for level 3+ skills² in the poorer performing regions by publishing a document, suitable for business, pulling together the evidence to enable business to understand better the benefits of investing in higher-level skills;

¹ This includes the Annual Small Business Survey and the Household Survey of Entrepreneurship to report in summer 2008.

² A-levels and above.

- work with the RDAs and the CBI to promote its key messages. This is important because skill levels are a key driver of productivity and a determinant of industry location. There is evidence to suggest that investment in skills can lead to increased demand for those skills; and
- commission, with the Northern Way, an OECD Review of the northern regions³ innovation system which will provide context for the work with the northern universities, other centres of research excellence and the Northern Way, as they develop proposals for strengthening key departments or research groups to drive up excellence and develop the innovation landscape for industry. DIUS will also contribute to this work.

Communities and Local Government (CLG)

3.19 CLG is devolving decision making through implementation, jointly with BERR, of the *Review of Sub-National Economic Development and Regeneration* and the *Strong and Prosperous Communities: Local Government White Paper*;⁴ improving the speed, responsiveness and efficiency of land use planning; and taking forward Kate Barker's⁵ and Rod Eddington's⁶ proposals for reform of major infrastructure planning. This will facilitate investment to ensure that towns, cities and rural areas are economically vibrant and inclusive; provide efficiently functioning housing markets with a better balance between supply and demand; drive delivery of the Thames Gateway programme; and improve the job prospects and educational achievements of those in the most disadvantaged areas. The department will develop a framework for regeneration, providing a clearer link between neighbourhood renewal and wider regeneration and economic interventions.

3.20 CLG, with DfT and BERR, will ensure that the criteria for national policy statements on major infrastructure, and the development of a Planning Policy Statement (PPS) on economic development, take account of this PSA. This is important because there is potential for significant economic growth as a result of locating major infrastructure in the regions. As well as the direct impact of construction and employment, indirect benefits include the growth of supporting industries and wider benefits within the region of improvements in connectivity.

Department for Work and Pensions (DWP)

3.21 DWP is working to increase employment in poorer performing regions towards the national average in line with its national aspiration of an 80 per cent employment rate. This includes increasing employment rates of disadvantaged groups, reducing those on Incapacity Benefit in poorer performing regions towards the national average. DWP will, working with DIUS and with the devolved administrations in taking forward the Leitch agenda and helping more benefit claimants into sustained employment by setting up a UK Commission for Employment and Skills.

³ CLG, October 2006.

⁴ *Strong and Prosperous Communities: Local Government White Paper*, CLG, October 2006.

⁵ *Barker Review of Land Use Planning: Final Report Recommendations*, HMT, December 2006.

⁶ *The Eddington Transport Study: The case for action Sir Rod Eddington's advice to Government*, Sir Rod Eddington, HMT, December 2006.

Department for Innovation, Universities and Skills (DIUS)

Leitch ambitions **3.22** DIUS is taking action on Leitch ambitions, as set out in the Leitch Implementation Plan,⁷ aimed at setting stretching long-term targets for skills at all levels for 2020. The approach includes the establishment of a UK Commission for Employment and Skills (as above), closer working between the new Learning and Skills Council's regional councils and RDAs, and closer working between DIUS and DWP in helping more unemployed people into sustainable employment.

3.23 In addition, DIUS will work with the northern regions to raise the level of innovation in industry throughout the North. Evidence in the *Lambert Review*⁸ suggests that high-technology clusters form around institutions with acknowledged international expertise in basic research. In particular:

- DIUS will work with the Northern Way to develop and deliver innovation priorities for industry with a focus on knowledge transfer and exploitation, connecting to the global landscape;
- DIUS will facilitate a partnership between the Technology Strategy Board (TSB), the Northern RDAs and their Science and Industry Councils and Science Cities to strengthen investment in science and technology;
- DIUS will support work to develop synergies between the Northern universities and other centres of research excellence to drive up excellence and build a world-class knowledge cluster (for example as indicated by position in established league tables and as a proportion of top rated departments in RAE (Research Assessment Exercise); and
- DIUS will advise the Northern universities about existing benchmarks and help them draw on experience of research pooling in Scotland.

3.24 DIUS will also track progress of skills levels in every region as part of reporting progress on the skills indicators.⁹

Department for Transport (DfT)

3.25 DfT is working to deliver reliable and efficient transport networks that support economic growth and improved productivity, particularly in those places that are important for the UK's economic success: congested and growing city catchments, key inter-urban corridors and key international gateways. This will include monitoring indicators in the ten largest urban areas to minimise the impact of increased travel demand on journey times on main roads into town centres.

Department for the Environment, Food and Rural Affairs (Defra)

3.26 Defra is taking action to tackle climate change and secure a healthy natural environment, by improving the productivity of specific sectors (such as farming), and helping business to boost competitiveness through improved resource efficiency. Defra

⁷ *World Class Skills: Implementing the Leitch Review of Skills in England*, DIUS, July 2007.

⁸ *Lambert Review of Business-University Collaboration: Final Report*, HMT, December 2003.

⁹ See PSA 2.

contributes to economic performance of rural areas, for example by working to improve the rural environment, enhancing the attractiveness of regions as places to live and work. Defra has overall responsibility for the UK's progress towards its CO2 emission reduction targets.

3.27 In addition, Defra will enable regions to maximise the business opportunities of climate change, and provide the right framework to support more sustainable and resource efficient consumption and production. Evidence supports the view that stimulating resource efficiency in business is highly cost-effective and contributes to economic growth by driving up productivity, particularly through competitiveness and innovation. Defra will regionalise the drive to a low carbon, low waste economy through collaboration with RDAs, and in conjunction with BERR where appropriate, by:

- further developing the size and shape of future national environmental business support, and exploring with the RDAs the scope for them having a stronger leadership role in overseeing its delivery;
- working with the RDAs to embed business resource efficiency, including action on climate change adaptation and mitigation into Regional Economic Strategies (RES);
- working with the RDAs to identify regional productivity, innovation and growth opportunities across all sectors, and particularly those with a strong regional presence in relation to business resource efficiency, low carbon technologies, and environmental technologies;
- working with each region to explore and value its own natural advantages, including market opportunities for regional environmental goods and services, developing regional supply chains and demonstration projects for roll-out to other regions, and maximising economic benefits from conserved areas of special environmental interest; and
- further developing regional data and analysis in tandem with this delivery priority.

All key contributing departments

3.28 DIUS, DWP, BERR, CLG, DfT and Defra will ensure that they and their agencies (Job Centre Plus, Learning & Skills Council, Technology Strategy Board, Highways Agency, Environment Agency, Natural England, the new homes agency) work closely with RDAs and their partners to develop and assist in implementing Regional Economic Strategies (RES) and in future, single regional strategies, while continuing to address their own national targets and priorities. Evidence from the Sub National Review (SNR) and feedback from RDAs suggests lack of alignment and RDA levers to ensure agencies deliver against agreed priorities in the RES is a significant barrier to delivering improved economic growth.

3.29 The SNR recommends that agencies involved in delivering improved economic performance commit to aligning their interventions to support delivery of locally and regionally agreed priorities as set out in the RES. To ensure agencies support regional priorities, these departments will monitor the performance of their agencies alongside the objectives of the RES (and later the single regional strategy) and its implementation plan. Such monitoring will be supported through regular feedback from RDAs.

Office for National Statistics **3.30** The Government has introduced a number of initiatives to improve the evidence base required to make effective regional economic policy. In response to Christopher Allsopp's Review¹⁰ of the regional information and statistical framework needed to support the regional economic performance objective, the Office for National Statistics (ONS) and the RDAs worked in partnership to establish a full regional statistical presence in March 2007. The ONS has also committed to deliver real regional GVA estimates to enable more accurate comparisons of regional growth rates.

Further analysis over the CSR07 period **3.31** In addition, central Government will undertake further work to improve the analysis supporting delivery of this PSA. This will form the basis for future delivery actions. Key priorities for further analysis include:

- **Public sector pay:** how can the Government ensure that public sector pay settlements best support private and public sector productivity in all regions? (HMT);
- **Housing:** does the housing market, in terms of affordability, tenure, type or quality of housing, have an impact upon regional economic growth, employment rates or productivity, and the ability for markets to adjust to reduce disparities? (CLG);
- **Graduates:** are there any barriers or market failures, either on the demand or the supply side, that restrict where graduates locate? (DIUS) In particular, what role does quality of place, including the cultural offer, play in graduate recruitment and retention? (CLG);
- **Transport:** understanding the regional impacts of the Eddington analysis and taking these into account in implementation plans. (DfT); and
- **Trade-offs:** what are the trade-offs between policies to lift growth at different spatial scales – national, regional, city-regional, local and neighbourhood? (CLG, supported by Government Offices); can the risk of increased intra-regional disparities, with particular regard to peripheral rural areas, be minimised? (Defra).

ENSURING THAT CENTRAL GOVERNMENT IS RESPONSIVE TO REGIONAL AND LOCAL STRATEGIES AND POLICY ADVICE

3.32 Coordinated action to tackle market failures in key drivers of growth across government is essential to the delivery of this PSA. Those departments that contribute to the delivery of this PSA will ensure that policy delivery at sub-national levels is aligned across departments, enabling Regional Economic Strategies (RES) (and in future single regional strategies) to have focus and traction. The Government Offices, facilitating central government in the regions, play an important part in this process, consistent with full implementation of the Government Office review. All contributing departments will, where possible, evaluate regional outcomes, and model the potential regional economic growth impacts of their policies.

3.33 To ensure central Government's agencies support regional priorities, lead departments will ensure performance of their agencies is monitored against achieving the objectives set out in the RES - and, following SNR implementation, the single

¹⁰ Review of Statistics for Economic Policymaking: Final report, HMT, March 2004.

regional strategy - and implementation plan for each region. Such monitoring will be supported through regular feedback from RDAs.

CONSULTATION AND ACCOUNTABILITY FOR DELIVERY

Consultation with regional and local partners

3.34 The Government will continue to provide clear mechanisms to enable regional and local partners to inform central government policy design. Consultation on the delivery strategy for this PSA has been extensive with the aim of securing maximum buy-in from the delivery chain.

3.35 Each region made submissions to government outlining their priorities for the CSR07 period. These have been used in the development of this Delivery Agreement and to inform departments' thinking in the CSR.

3.36 Representatives from each region attended a series of meetings to discuss the themes of employment and skills; innovation; enterprise; transport; housing and planning. These discussions helped to identify the key priorities to be taken forward in this PSA. The meetings gave the regions and government departments an opportunity to discuss ideas for new policies or revisions to current policies to improve regional economic performance. This consultation formed the platform for the drafting of this Delivery Agreement.

3.37 RDAs, Regional Assemblies and Government Offices for the Regions have been closely involved in the development of this Delivery Agreement to ensure that it is focussed on the needs of regions and is deliverable. Comments have also been sought from external commentators, such as academics, on specific issues.

3.38 Consultation has focused on those delivery partners with the greatest responsibility to deliver or influence the wider delivery chain. The consultation methods used were meetings, both group and bi-lateral, as well as virtual drafting groups.

Accountability

3.39 The Secretary of State for BERR is the lead minister for this PSA. The relevant Cabinet Committee/s will drive performance by regularly monitoring progress, holding Departments and programmes to account and resolving inter-departmental disputes where they arise.

3.40 The Senior Responsible Officer within Government for the PSA will be the Director-General for Enterprise and Business Group in BERR who will chair a Senior Official PSA Delivery Board, comprising all lead and supporting departments. The Board will also monitor progress and review delivery regularly and report to the relevant Cabinet Committee/s.

3.41 The governance arrangements are underpinned by the Regional Economic Performance team, based in BERR. The team's responsibilities include: owning this Delivery Agreement and monitoring progress on its implementation; monitoring and facilitating the management of risk; ensuring the governance and accountability arrangements are fit for purpose; identifying new evidence and advising on the implications for the PSA; and engaging with the delivery chain.

A

MEASUREMENT ANNEX

Indicator I	Regional GVA per head trend growth rate
Data provider	ONS.
Data set used	Regional GVA are produced from a variety of data sources.
Baseline	Average per annum growth rate over cycle in GVA per head for each region, adjusted by best available deflators.
Frequency of reporting	Annual.
95 per cent confidence interval at last outturn	Not known, due to variety of sources used.
Data Quality Officer	Regional Economics Group (BERR).
Minimum movement required for performance assessment	+0.1 per cent in average per annum growth rate for baseline period compared to reporting period.

DEFINITION OF KEY TERMS

- *Regional GVA:*
Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom. Regional GVA are produced by allocating the national UK total from the National Accounts Blue Book to the regions using a variety of different data sources.
- *Growth Rate:*
The growth rate measures the year on year change in regional GVA. The aim of the indicator is to make sustainable improvements in the economic performance of all English regions and reduce the persistent gap in growth rates between the regions. Given the dynamic nature of this indicator, it is more appropriate to measure growth rates rather than levels.

Measuring economic performance in all regions

A.1 To make sustainable improvements in the economic performance of all English regions in average trend growth in GVA per head for 2002-12 relative to the baseline period (1990-2002). All regions will have made sustainable improvements if the average trend growth in GVA per head for 2002-12 is higher than that in the baseline period (1990-2002).

A.2 Trend growth will be measured using a similar methodology to that used to estimate national trend GDP growth that is, by calculating average growth rates between points when the national economy can be identified as being 'on trend'. Trend growth rates, and differences in growth rates, will be measured to the nearest 0.1 percent based on unrounded data. For the baseline period, this involves looking at average growth between 1990 and 2002. If the timing of the economic cycle is such that the Government cannot produce an estimate of regional trend growth rates over the period 2002-2012 the Government will explain why.

A.3 In order to provide interim assessments of progress, GVA per head growth rates will be examined each year as new data is released. However, given the potential impact of the economic cycle, the timeliness of regional data and the long-term nature of this target and the policy measures, annual results should be viewed with extreme caution.

Measuring the reduction of the gap in the growth rates between regions

A.4 And to reduce the persistent gap in the growth rates between the Greater South East and North, Midlands and West. The gap in growth rates between the best and worst performing regions will be reduced if the average GVA per head growth rate between the best (East, London and South East) and worst (North East, North West, Yorkshire and the Humber, East Midlands, West Midlands, South West) performing regions is reduced by 2012, compared to the baseline (1990-2002).

A.5 These growth rates are deflated, to account for increasing prices, using the national GDP deflator. This approach does not account for regional inflation differentials, so the Government welcomes the work in hand at ONS to produce a time series of real GVA on a production basis for each region by December 2009. Once GVA data at constant prices are available, the Government will seek the advice of the ONS on the best way to assess performance against the indicator. The Government will explain which measure is adopted and why.

Indicator 2	Regional GDP per head levels indexed to the EU-15 average
Data provider	ONS/Eurostat.
Data set used	ONS produces UK regional GDP from a variety of data sources. Eurostat produces an EU-15 average based on submissions from each national statistics agency.
Baseline	GDP per head for each regions indexed to the EU 15 average in 2002, measured in Purchasing Power Parities (PPPs).
Frequency of reporting	Annual.
95 per cent confidence interval at last outturn	Not known, due to variety of sources used.
Data Quality Officer	Regional Economics Group (BERR).
Minimum movement required for performance assessment	+0.1 per cent in the index for outturn years, compared with the baseline year. BERR will monitor output gaps between the UK and EU 15 to allow significant differences in cycles to be highlighted.

DEFINITION OF KEY TERMS

- Regional GDP:*
Gross Domestic Product (GDP) measures the market value of the final goods and services produced in an economy. Regional GDP is produced by allocating the national UK total from the National Accounts Blue Book to the regions using a variety of different data sources.
- EU-15 average:*
The EU-15 average refers to the average level of Gross Domestic Product across the member states of the EU-15. Eurostat collects this data annually, and Purchasing Power Parity rates (PPPs) can be used to make the comparison across currency borders. It is worth noting that this approach does not take account of regional price differentials within currency borders.

Indicator 3	Regional employment rate of working age people
Data provider	ONS.
Data set used	Annual Population Survey.
Baseline	Average employment rate for each region in 1992 ¹ -02 inclusive.
Frequency of reporting	Annual.
95 per cent confidence interval at last outturn	0.5-0.8 per cent (2006 data).
Data Quality Officer	Regional Economics Group (BERR).
Minimum movement required for performance assessment	Movement greater than the average confidence interval, for the average employment rate in the reporting period.

DEFINITIONS OF KEY TERMS

- Regional Employment Rate:**
 Regional employment rates are published by ONS as part of their Annual Population Survey. This survey takes a sample of households and this measure estimates the percentage of people of working age population within that region who are in employment.

¹ The earliest available data on a consistent basis.

Indicator 4	Regional GVA per hour worked indices
Data provider	ONS.
Data set used	These indices are produced using a variety of sources including those used to produce regional GVA data and the Annual Survey of Hours and Earnings to establish the hours worked.
Baseline	Average per annum growth rate between 1996-02 in GVA per hour worked for each region adjusted by the most appropriate available deflators.
Frequency of reporting	Annual.
95 per cent confidence interval at last outturn	Not known, due to variety of sources used.
Data Quality Officer	Regional Economics Group (BERR).
Minimum movement required for performance assessment	+0.1 per cent in average per annum growth rate for the reporting period compared with the baseline period.

DEFINITIONS OF KEY TERMS

- Regional GVA:*
Gross Value Added (GVA) measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom. Regional GVA are produced by allocating the national UK total from the National Accounts Blue Book to the regions using a variety of different data sources.
- Per hour worked:*
Dividing the regional GVA by hours worked will measure the labour productivity within the region, i.e. the average amount of output produced by an hour worked by a person within that region.

