



**Government Response to  
ODPM Select Committee Report  
on Reducing Regional Disparities  
In Prosperity**



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Presented to Parliament by the  
Deputy Prime Minister and First Secretary of State  
By Command of Her Majesty  
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# GOVERNMENT RESPONSE TO ODPM SELECT COMMITTEE REPORT ON REDUCING REGIONAL DISPARITIES IN PROSPERITY

## **Introduction**

This is the Government response to the Select Committee's report on Reducing Regional Disparities in Prosperity. Overall, the Government welcomes the report. It makes a number of important points which the Government is already attempting to address and others which will need to be considered within the context of the work being undertaken to deliver the regional economic performance Public Service Agreement (PSA) target mentioned below.

The Government's economic policies already provide a solid basis for the development of the regions: interest and inflation rates are now lower and more stable than in any other period for a generation; there are now more people in work than ever before; and unemployment is at its lowest for a generation. However, the Government recognises that there is more to do, and has a work programme in place to deliver our regional economic performance Public Service Agreement (PSA) target over the medium to longer term. There have been persistent discrepancies in regional economic performance over the last 50 years. Action to address this will necessarily take time to show conclusive results. The Government welcomes the Committee's support for this target.

The Government's response to the Select Committee's conclusions and recommendations are set out in detail below.

## Differences within and between regions

**1. Both inter and intra regional differences need to be addressed but they are different problems and require different solutions (Paragraph 14).**

The Government is aware that differences exist within as well as between regions. This is reflected in existing programmes and policies. For example, proposals for delivering the ODPM's PSA to achieve a better balance between housing availability and the demand for housing in all English regions are largely focused at tackling the issue at a regional level. However, this is balanced by the programmes being run by the Neighbourhood Renewal Unit which are targeted at the neighbourhood level. The Government's approach to policy making recognises the need to ensure that policies are tailored to suit specific local needs and that they involve all stakeholders.

## The Public Service Agreement target

**2. We welcome the introduction of the new Public Service Agreement target. (Paragraph 16).**

We welcome the Committee's support for this target and recognise the importance of raising the economic performance of the under-performing regions.

**3. The target has two distinct elements, growing all regions and reducing gaps between them. This is not inherently contradictory but makes the target extremely challenging (Paragraph 18).**

The Government recognises that this is a challenging target. As the November 2001 paper *Productivity in the UK: 3 – The Regional Dimension*, made clear, the differences in economic performance between the regions can be accounted for by the difference in levels of employment and in the five drivers of productivity: skills; innovation; investment; competition; and enterprise. The persistence of regional differentials suggests serious market failures affecting these drivers in the English regions. The Government believes that successfully tackling these market failures, can both reduce the gap in growth rates between the regions and improve the economic performance of the UK as a whole. Raising the trend rate of growth by just 0.5 per cent for the worst performing regions would increase GDP in ten years by over £15 billion.

**4. Witnesses have consistently described the target as 'challenging' and 'ambitious' – Government-speak for very difficult. In order to stand even an outside chance of achieving the target by 2012, the Government will need to allocate significant resources to it and make difficult decisions about priorities in the next couple of years. (Paragraph 19).**

There have been persistent discrepancies between regions for over 50 years, and so tackling this problem will, indeed, be extremely challenging. The priority is to establish what policies will be most effective at boosting regional competitiveness and making the regions attractive places to live, work and invest. After that decisions can be taken about any resource implications.

**5. Gross Value Added per head is not an adequate indicator for this Public Service Agreement target. We recommend that regional prosperity should instead be measured by a basket of indicators. This would explicitly take account of the range of factors that determine regional prosperity, using different indicators for each – productivity,**

disposable income, employment and unemployment. Quality of life should also be taken into account. The Secretary of State for Trade and Industry's proposal of a balanced scorecard approach should be taken forward. Using a basket of indicators, each derived from a different source, also reduces the risk of relying on a single source of poor quality data. We recommend that ODPM, DTI and the Treasury consider the regional performance indicators to measure quality of life set out in *Regional Quality of Life Counts* as a potential basis for improving the measurement of performance against this target. (Paragraph 36).

GVA is an internationally accepted method of measuring economic output. It encapsulates a very diverse range of outputs including the activity of employees and the self-employed, and the profits of companies, in addition to the activity of central and local government and households. Due to the time lag in obtaining GVA data, a basket of more timely supporting indicators, namely business surveys, employment statistics, unemployment rates, earnings growth and VAT registrations (plus any other relevant indicators which become available at the regional level) will be used to provide interim assessments of performance at six-monthly intervals.

The Government has a range of PSA targets which aim to improve the quality of life for people in England. For example ODPM's target to bring all social housing into decent condition by 2010; Defra's target to promote sustainable management and prudent use of natural resources domestically and internationally; and the Home Office target to reduce crime and the fear of crime, tackle youth crime and violent, sexual and drug-related crime, anti-social behaviour and disorder, increasing safety in the home and public spaces. These will have their own monitoring arrangements.

## The quality of the data

**6. Delays in producing the regional GVA per capita figures mean that decisions concerning regional policy are being made on the basis of what is known to be out of date information. A time lag of 12 months is barely acceptable for data used to ensure performance against Public Service Agreement targets. Delays of three years are unacceptable (Paragraph 40).**

The Office of National Statistics (ONS) recognises the long-standing problems it has had in publishing Regional GVA statistics and recognises that such delays are not acceptable to users. Following a review initiated by the National Statistician in January 2003, quality assurance procedures have been redesigned throughout the process. ONS published revised estimates of GVA for 1989 to 1999 on 14 August and new GVA estimates for 2000 and 2001 on 20 August.

Publication of Regional Accounts data is linked to the production of the National Accounts annual Blue Book dataset. Owing to the introduction of a major methodological change, the publication of the 2003 edition of the Blue Book will be in October, somewhat later than usual. ONS will therefore publish Regional Accounts data for 2002 in March 2004.

**7. We are concerned by the lack of regional GDP deflators. Without them the regional GVA per head figures are, in the Minister's words, 'rough and ready.' This is not an appropriate standard for core performance indicators against Public Service Agreement targets. (Paragraph 42).**

The Technical Note setting out the details of how this target would be measured, said that "Further analysis will be undertaken to see if robust, cost effective, estimates of real GVA

can be produced.” Since then, the Government has announced plans (in the Chancellor of the Exchequer’s Statement on UK Membership of the Single Currency and in his Budget Statement) to publish data on regional prices and inflation.

At present, regional GVA statistics use the current price measures produced by ONS, adjusted by a re-weighted price deflator that reflects the industry mix of each region. This is the best practical solution given currently available price surveys. However, ONS is looking at international practice in both methodology and statistical sources used.

The Government expect regional constant price estimates to be an important part of the review of the statistical requirements for monetary and wider economic policy making that is being led by Christopher Allsopp. This review will report to the Chancellor of the Exchequer, the National Statistician and the Governor of the Bank of England, with an interim report due for delivery by November 2003.

## Census 2001

**8. There is an urgent need to improve the alignment between different sources of population data. We recommend that in the small number of authorities where there remains a problem between the Council and ONS about the size of the population, following the 2001 Census, a data matching exercise should be undertaken by an independent third party. This should be completed in time to feed in to next year’s Local Government Finance settlement and ONS should be bound by the result. (Paragraph 44).**

ONS are currently carrying out matching exercises to compare Census results with administrative datasets in Westminster and Manchester. These are key research projects which will inform future developments. ONS aim to publish a first report of the preliminary results of these exercises in late 2003. ONS are also concluding other studies to increase the understanding of the gap between the final 2001 census based population estimates, and the earlier estimates based on the census of 1991. If the evidence suggests that significant inaccuracies have occurred in the 2001 Census, this would contribute to the ONS reassessment of the population estimates that have already been published.

One key finding from the quality assurance studies carried out to validate the 2001 population census was the great variability in the association between administrative counts and census estimates at local authority level. The experiences of the past two years led to the conclusion that the design of statistical sources (including the 2001 census), has placed insufficient emphasis on enabling differences between sources to be understood.

The National Statistician’s report on demographic statistics (*A demographic statistics service for the 21st century*) announced a series of measures to improve the quality, timeliness and relevance of population statistics to meet the needs of local, regional and national users.

**9. It is astonishing that the Office of National Statistics does not know how many Census forms were delivered and it was naïve not to have subjected the system to thorough testing. Data on the number of follow-up visits by enumerators should also be centrally held. (Paragraph 45).**

The criticism is accepted, although the committee is asked to note that the context of census operations changed materially during the form collection process itself.

Research into the future of the Census is underway, considering the modifications that could be made to a traditional census and taking account of the experiences of the 2001 Census and the potential of new technologies. It is expected that in 2011, all field staff will have web-based tracking systems that will enable central oversight of performance in each area in real time. Such a system would give immediate access to support that in 2001 would generally have taken at least several days to identify.

**10. The ONS assumes that people know that the Census is based on usual residency rather than where they were on the night. This ignores years of custom and practice and unrealistically supposes that everyone reads their Census form in great detail before completing it. Specific attention needs to be drawn to this issue when the next Census is promoted. (Paragraph 46).**

It was after considerable consultation that “usual residence” was chosen as the population base. This was assessed as being the population base that users required (consistent and comparable with the mid year estimates that use the same base). This decision was endorsed by the Census Advisory & Working Group, which included representatives from central and local Government, the NHS, business, and academics. The Census questions were subjected to thorough testing in 1997, and the process provided sufficient evidence that households did not misunderstand the revised definition. ONS made no assumptions about what prior knowledge people would have of the Census and provided clear completion instructions on the Census form.

Since the decision was made in 1997, there has been a considerable expansion in the range of official uses of population estimates. There has also been a rapid rise in the contribution of migration to population growth and mobility in the United Kingdom. As a result, there is a growing awareness that the most relevant population base for some population comparisons is not the usually resident population. In retrospect, ONS has concluded that the decision to limit the 2001 Census to the “usually resident” population should have been more strongly challenged. The census population base will be evaluated again for 2011, taking into account the broader considerations discussed in the review *A demographic statistics service for the 21st century* published in July by ONS.

**11. If inaccuracies are shown to have occurred in the 2001 Census, ODPM should revisit the Local Government Finance Settlement for 2003-04 so that no council loses out as a result of a badly run Census. (Paragraph 48).**

Work is continuing within ONS, considering all the evidence surrounding the 2001 Census results, to gain a better understanding of differences between the Census and the mid-year population estimates. If there is evidence that significant inaccuracies have occurred in the 2001 Census, this will feed into the calculation of future population estimates. This research involves several separate studies, including address-matching studies in Westminster and Manchester, a review of migration statistics and comparisons with national and local administrative data sources.

If, after considering all the evidence, ONS do revise the 2001 mid year population estimates based on 2001 Census data, ODPM will consider amending the 2003-04 local government finance settlement to reflect this.

**12. Clear and accurate information is essential for democratic decisions. Rebuilding confidence in the Office for National Statistics will be a long, slow process. Clear leadership and drive is now needed at the top of the ONS to restore confidence in it. (Paragraph 49).**

ONS recognises the importance of strong leadership and drive. Len Cook has recently been re-appointed as National Statistician by the Chancellor of the Exchequer for a further three years. The Government appreciates that trust and confidence in the work of the ONS is essential to the integrity of National Statistics and to this end, the ONS has produced and operates by the National Statistics Code of Practice. This lays down strict guidelines to ensure the independence of the statistics ONS produces.

### ***Creating the fundamentals for growth in the less prosperous regions***

**13. Although this is a long term target (the Government aims to reduce the gap in growth rates between 2003 and 2012), actions are needed in the short to medium term to put in place the foundations for economic growth in the less prosperous regions (Paragraph 51).**

The new framework for macroeconomic policy established by the Government has provided an essential basis for the development of a regional policy framework. The high volatility of output in the UK over the previous 30 years has led to under-investment throughout the UK economy, and compounded regional inequalities. The Government's macroeconomic policy has resulted in interest and inflation rates that are lower and more stable than in any other period for a generation: interest rates have fallen from 6.25% in May 1997 to 3.5% in 2003 – the lowest since 1955.

In addition, all regions have benefited from the Government's programme of microeconomic reforms to raise employment and productivity. These include:

- the New Deal (which has reduced youth and long-term youth unemployment by three quarters);
- the Enterprise Act 2002;
- R&D tax credits for Small and Medium Size Enterprises (SMEs) in 2000 and extended to all companies in 2002, providing around £500m per year support for business R&D;
- reduced corporation tax rates;
- major reforms to capital gains tax;
- 2,000 Enterprise Areas in the most deprived areas of the UK, to help businesses start-up, develop and grow;
- increased investment to raise standards in primary and secondary schools;
- ambitious new policies and targets to improve adult skills.

In July new guidance for transport scheme promoters on how the regional economic impact of transport schemes should be considered was published by the Department for Transport, in co-operation with the Office of the Deputy Prime Minister, Her Majesty's Treasury and the Department for Trade and Industry. This guidance provides a method for measuring the wider economic impact of transport schemes in regeneration areas.

There have been persistent discrepancies between regional growth levels over the last 50 years. Action to address these will necessarily take time to show conclusive results.

Therefore in relation to this new PSA specifically, the Government's objective is to develop policy within the timescale for the 2004 spending review that identifies key drivers of regional economic growth and changes to/enhancements of policy that are required to deliver this PSA in the longer term. Earlier changes to policies that could strengthen delivery of this target are also being sought.

**14. The Government has refused to constrain the growth of the south east. Given the Government's stance, the only way in which the gap between regions can be reduced is to make conditions in the less prosperous regions more conducive to business growth – what the IPPR described as increasing the 'pull factor.' (Paragraph 53).**

The Government wants all regions to fulfil their potential. Constraining growth in the South East may simply see investment transferring abroad or not happening at all. Improving the 'pull factor' of the less prosperous regions, building on their indigenous strengths and making them more attractive places to live, work and invest, will be a fundamental part of the work undertaken to deliver this PSA.

**15. Sustainability needs to be at the heart of, not an afterthought to, regional policy.(Paragraph 55).**

The PSA target is to make sustainable improvements in the economic performance of all English regions. The Government's regional economic policy is focused on addressing market and co-ordination failures that impact upon the six key drivers of growth – employment, skills, innovation, investment, competition and enterprise. Such market failures are likely to be greatest in the weakest regions. The emphasis is also on local innovation and investment and building indigenous strength, with freedom and flexibility for local people to make decisions based on local needs.

Sustainable development is an important part of regional policy and will be part of the approach to achieving the core responsibilities of elected regional assemblies where and when they are established.

**16. Disappointingly, the Government could not provide a regional breakdown of expenditure on programmes targeted at regions. (Paragraph 57).**

The policies mentioned in *A Modern Regional Policy for the United Kingdom* are not a definitive or comprehensive list of policies that support regional economic development. As the Government said (ODPM, RRD07 (c)), detailed regional breakdowns of public expenditure are not currently available for 2002-03. Regional analysis of the England Rural Development Programme (ERDP)<sup>1</sup> will be available in 2005 when a new programme management system, currently under development, is planned to be introduced.

The budgets listed are managed or otherwise influenced on behalf of Government by the Government Offices for the Regions (except ERDP and RSA), together with other Government programmes which total about £7 billion.

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<sup>1</sup>Land-based schemes (agri-environment, forestry, etc) are administered on a national basis.

## Annual Budgets for policies which support regional development

	NE	NW	YH	EM	WM	E	SW	SE	L	England
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
RDA Single Pot allocations (2002-03)	207.86	289.93	267.27	105.92	215.81	90.90	105.69	120.48	305.17	1709.03
Neighbourhood Renewal Fund (2001-04)	119.16	243.423	136.413	58.509	121.464	7.866	18.27	10.26	184.59	899.955
New Deal for Communities (2000-01 to 2010-11) <sup>3</sup>	21.47	32.79	20.89	14.66	31.95	8.40	9.87	9.59	52.52	202.14
Regional Selective Assistance (2001-02) <sup>2</sup>	16.54	16.09	8.27	5.30	12.89	2.88	5.45	7.56	3.96	78.94
Structural Funds (average over 2000-06)	94.06	233.32	182.48	60.23	120.13	41.13	93.78	36.03	82.33	943.49

As part of the next spending review, Treasury will be asking Departments to produce a regional breakdown of their spending plans. The work by Professor McLean (see recommendation 21) provides a thorough analysis of methodologies for producing regional breakdowns of outturn expenditure information. The lessons of that work can be used to inform the way that Departments produce regional analysis of their spending plans.

### **17. Regional programmes alone will not be sufficient to reduce the gaps between regions. (Paragraph 58).**

The Government is looking at a whole range of policies at all levels – local, regional and national – to help deliver the regional economic performance PSA. In general, successful solutions to regional problems need to be rooted in the regions themselves. The government is therefore moving towards a new regional development strategy based on increasing flexibility through increasing devolution and decentralisation to:

- empower local people and institutions to determine and address their own priorities;
- tailor delivery and implementation of national policies to local circumstances;
- within a framework of clear accountability.

However, it is well recognised that local and, especially, national policies will affect regional development. The new framework for macroeconomic policy established by the Government has provided an essential basis for the regional development. In addition, the Government acknowledges that Whitehall-wide policies addressing issues such as employment, skills, innovation, transport and enterprise will have important regional impacts that will need to be recognised in the context of this PSA.

### ***Regional policy-making across Government***

**18. The actions of a wide range of Government departments will affect the chances of the target being met. Tackling regional disparities should be a responsibility across Government departments, not simply those departments with traditional responsibilities for the economy and regional policies – “mainstreaming” regional policy. (Paragraph 59).**

<sup>2</sup>The figures for regional selective assistance are based on offers accepted. The whole of this budget is not divided into regional allocations. Only the part provided direct to RDAs through the single pot is allocated in this way.

<sup>3</sup>The figures for New Deal for Communities are for the 10 year lifetime of the programme and total £2.02 billion over the ten years.

HMT, ODPM and DTI are working closely with officials across Whitehall and the Regions (including Government Offices, the existing regional chambers,/regional assemblies and RDAs) to evaluate existing policies and programmes and identify the key policy levers to deliver the regional economic performance PSA. The Treasury has already committed that the outcome of the Whitehall-wide Spending Review will have a strong regional focus.

### ***Spending Reviews***

**19. We welcome the Government’s commitment to introduce a regional dimension to the Spending Review. Like much of the Government’s ‘regional policy,’ this has got as far as acknowledging the existence of regions and contains proposals for the benefits of all regions. It needs now to go beyond this and consider how the effects of policies will vary across regions and whether different measures are appropriate in different regions. (Paragraph 64).**

Last year’s Spending Review and this year’s Budget both demonstrated a strengthening of the regional dimension to policy making, with greater involvement of regional bodies and better communication of what decisions mean for the regions.

Subsequent to the Spending Review, the Treasury committed to a Service Delivery Agreement to give “a regional focus to the outcome of future Budget and Spending Review processes, using information on regional impacts of departmental activities, and on the most effective measures, including the scope for further devolution and decentralisation for addressing regional disparities.” Measures to build a stronger regional dimension into the next Spending Review will therefore be developed.

**20. To reduce differences, emphasis must be given to the less prosperous regions. Treating unequal regions equally is not a recipe for reducing disparities. (Paragraph 66).**

The Government’s approach is focused on enabling every region to perform to its economic potential. Regional policy is based on increasing flexibility through increasing devolution and decentralisation to enable decisions to be based on local needs, as well as recognising the differential impacts of national and local policies on regions. It is important to acknowledge the diversity of regional and sub-regional circumstances. One size does not fit all and the Government is not going to try to make it do so.

**21. Interestingly, the Department for Work and Pensions didn’t think that its floor target had a regional dimension, although the Secretary of State for Trade and Industry said that it did. Similarly, the Department of Health does not view its targets as being regionally focused and the regional dimension to its operations is being reduced. This is disappointing as it works against any ‘mainstreaming’ of regional policy. (Paragraph 67).**

The Government believes that a misconception underlies the first comment. The active labour market policies of the Department for Work and Pensions are focused on areas and groups that face the worst labour market disadvantages – as reflected in their PSA targets for employment rates. The department’s spatially based target is focused at local authority

level (namely to increase the employment rate in the 30 worst local authority areas in the UK) rather than regional level, because low employment rates are in general concentrated in quite small areas. Of course, if employment rates increase in those local areas that are currently disadvantaged then this will increase the employment rate at the regional and indeed national level. The evidence from the department was pointing out that the target was focused on deprived localities rather than at a regional level. A regional target would not be well focused – for example it would be possible to increase employment rates at regional level without tackling pockets of deprivation.

With regard to the regional focus of the Department of Health's targets, inequalities in health are the result of different and complex causes. They need diverse, rather than identical, solutions which can only come from giving communities and front-line staff the power to redesign, refocus and reprioritise programmes to tackle local need. This is why the Government's programme for tackling health inequalities, *Tackling Health Inequalities: A Programme for Action* published in July 2003, sets out a three-year plan aimed at bringing together key players at the local level through the advent of local strategic partnerships.

However, the importance of the regional role in tackling health inequalities is also highlighted. Between the national and local levels sit three regional organisations: the Government Offices, the regional chambers and the RDAs. The Government Office and regional chambers will have specific roles to play in leading joint action in the regions to support local implementation, working with Regional Directors of Public Health. The work of the RDAs is also relevant in addressing the underlying determinants of health inequalities.

## **The total allocation of Government funding to the regions**

**22. The Government should publish Professor McLean's study on the flow of public expenditure to the regions by the end of July 2003. (Paragraph 69).**

The study was published on 5 September.

**23. Increased public funding to the less prosperous regions is a necessary condition to improve their prosperity. The allocation of public funding to the nations and regions of the UK does not reflect 21st century patterns of need across the country. We recommend that the Government reviews the total allocation of funding to all parts of the UK, including the Barnett formula, as part of the post-devolution constitutional settlement. (Paragraph 75).**

The Government does not accept the proposition that increased public funding to the less prosperous regions is a necessary condition to improve their prosperity. The Government believes that it is more important to concentrate on the achievement of improved outcomes in the less prosperous regions, which result from a number of factors, not just funding. As the poorest regions already receive higher levels of funding per head than the UK average, the priority is to establish what policies will be most effective at boosting regional competitiveness and making the regions attractive places to live, work and invest. After that decisions can be taken about any resource implications.

There is no single mechanism for allocating public spending at regional level within England. The identifiable level of public spending in each region is a reflection of a large number of allocation mechanisms across a number of Departments. There is a substantial variation in need within regions, as well as between regions, and many spending allocation mechanisms are sub-regional.

The funding principles for the devolved administrations, including the Barnett formula, were set out in the Statement of Funding Policy published by the Treasury in July 2002. The Government has no plans to review the Barnett formula.

## Research and development

**24. If public sector investment in research and development in the UK as a whole is low, then the North East's share is pitiful and the North West, Yorkshire and Humberside and the East Midlands do not do much better. (Paragraph 79).**

The Government has taken substantial steps to promote research and development across the UK, investing in the best research wherever it can be found. The 2002 Spending Review announced the largest sustained increase in the Science Budget for more than a decade – total science spending by 2005-6 will be £1.25 billion higher than in 2002-3. There is excellent research in every region. Following the 2001 Research Assessment Exercise (RAE), the biggest percentage growth in funding was actually in the North East and South West where institutions like Durham, Newcastle, Bristol and Exeter have done particularly well.

To further develop their regional strategies and strengths the RDAs are engaging in partnerships with Higher Education Institutions (HEIs) to strengthen research in their regions and to ensure that it is exploited for the benefit of business, the HEIs themselves and the region and economy as a whole. The RDAs are also being engaged more closely in the distribution of the Higher Education Innovation Fund (HEIF) to ensure that it is properly focused on regional development priorities.

**25. Professor Michael Porter argues that increases in public sector R&D are needed to improve the economic performance of the UK. The same argument applies at the regional level. The location of public sector R&D investment is outside of the control of the departments that share the PSA target. All Government departments should therefore be required to consider regional impacts before making new R&D investment decisions and to publish regional impact assessments. (Paragraph 82).**

In contracting for research departments must use the most appropriate and best quality expertise available. Within that constraint it is reasonable for departments to consider regional impacts – among other factors – before making research investment decisions. We would encourage them to do so. However, given the wide range of factors that departments must consider in reaching investment decisions, we do not believe that the publication of impact assessments limited to regional effect is appropriate.

**26. The proportion of investment in research and development by universities which can be allocated using regional economic development criteria should be increased. HEFCE should use such funds to prioritise the development of research capacity in regions which are currently at a disadvantage in terms of higher education R&D spend. (Paragraph 83).**

HEFCE's research funding formula is designed to selectively reward excellence in order to maximise the quality and impact of the research funded from the resources available. This means that the funding going to the different regions reflects the amount of excellent research being conducted by the universities in those regions. At present twenty-five HEIs account for over 75% of allocations. At least one of those twenty-five HEIs can be found in every region. There is no explicit regional element in the formula and if one were to be considered, it would be necessary to examine the impact on the UK's ability to compete at world level.

HEFCE have issued a consultation document setting out their proposals for handling the allocation of research funding from 2004 until the next Research Assessment Exercise (RAE) in 2007. This will also address collaboration between HEIs, including the possibilities for further regionally based projects such as joint graduate research schools using the additional money that is available in the Strategic Development Fund, and inviting suggestions on what more could be done through the RAE.

**27. We welcome the Government's announcement of reviews of the links between universities, industry and the RDAs and look forward to practical measures being implemented as a result, targeted at the less prosperous regions. (Paragraph 85).**

The Lambert Review has been asked to consider a range of issues around university business collaboration. They published a *Summary of Consultation responses and Emerging Issues* paper on 14 July 2003. In it they identified several issues relating to the regional agenda and the potential for RDAs to promote business-university collaboration. The Lambert Review will be considering these issues further and making recommendations in its final report in October.

## **Culture and Sport**

**28. Cultural and sporting projects can make a huge difference to a region's image, confidence and economy. Those making decisions about the location of major projects should take full account of the consequences of their decision on the target to reduce regional disparities and publish their assessment. As the Commonwealth Games in Manchester showed, decisions to locate the national football stadium and other icon projects in London represent a wasted opportunity to develop the less prosperous regions. (Paragraph 90).**

The Government agrees with the Committee's view that cultural and sporting projects can make a huge difference and notes the number of National Lottery funded projects to which the Committee refers which have transformed both local communities and regional image, confidence and economy. The Government has asked Lottery distributors to use Lottery funding to encourage regeneration where possible. Although there is nothing in legislation to compel distributors to take geographical (or any other) factors into account when distributing Lottery funding, revised Policy Directions issued to Lottery distributors in 1998 require them to take into account the scope for reducing economic and social deprivation and ensuring that all parts of England have access to funding.

Decisions on which Lottery applications to support are taken by the Lottery distributors independently, without Government intervention. Applications are considered on their merits and decisions taken against a number of criteria set by those bodies. Location is clearly one factor, but others include the likely long-term success and sustainability of a project.

By March 2003, there had been 38 individual Lottery grants to projects across the UK with a total project cost (counting funding both from the Lottery and from other sources) of £40 million or more. In these cases, the Lottery grants ranged in size from £8.7 million (lowest) to £628 million. 29 of these projects, with Lottery grants totalling £1,025 million, were based outside London. The Lottery grant to the 9 projects in London totalled about £985 million, but £628 million of this was the Millennium Commission grant to the Dome. Examples of flagship projects outside London included:

<u>Project</u>	<u>Distributing body</u>	<u>Lottery grant (£ millions)</u>	<u>Total cost of project (£ millions)</u>
The Eden Project	Millennium Commission	43.2	86.4
The Millennium Stadium, Cardiff	Millennium Commission	46	142
The Lowry Centre, Salford	Millennium Commission, Heritage Lottery Fund and Arts Council of England	62.2	127.1
Millennium Point (group of linked capital projects with technology and education theme Birmingham)	Millennium Commission	50	112
Eastlands Sport City, Manchester (incorporating Commonwealth Games stadium)	Sport England	92	104.2

## Defence

**29. The treatment of defence expenditure as ‘non-identifiable’ when regional expenditure is mapped, fails to recognise the significant effects that it has on economies of towns where defence bases and equipment production are located. As an example, the Ministry of Defence procurement function was located in Bristol in preference to the West Midlands. (Paragraph 92).**

All parts of the UK benefit from the national security that the Ministry of Defence provides, and the figures on identifiable public spending by region published in Public Expenditure Statistical Analyses attempt to measure the benefit that a region derives from the provision of public services and transfers to that region, not where those public services are procured or where public sector employment is located. For that purpose different data is needed, which the Treasury is not currently collecting. The research undertaken by Nuffield has raised a number of issues which the Government intends to consider fully.

## Transport

**30. The current criteria used for transport-decision making are weighted towards reducing congestion. Given the limited resources available, this means that resources are being spent on dealing with the consequences of success and are not available to put in place the fundamentals for economic growth in the less prosperous regions. (Paragraph 96).**

**31. We recommend that the UK Government should adopt the approach used by the German Federal Government where a proportion of the transport budget is allocated on regional development grounds, rather than by the usual criteria (Paragraph 97).**

The Government takes into account a wide range of factors in reaching decisions on transport investment. Decisions on the allocation of transport resources necessarily reflect the Government's key transport priorities set out in the Ten Year Plan for Transport – to improve public transport, tackle road congestion, reduce road casualties and reduce the impact of transport on the environment. They also reflect transport's contribution to other Government priorities, including economic growth.

The process for making transport decisions – the New Approach to Transport Appraisal – is designed to ensure that economic and regeneration benefits are taken into account alongside other criteria such as safety, environmental impact, accessibility and integration. This ensures full consideration is given to addressing regional economic growth in taking decisions on transport issues, and the economic benefits to regions of major transport schemes has been one of the key factors when making decisions to invest in particular schemes.

**32. Government investment decisions including transport, culture and sport, defence and research and development are made without consideration of their consequences on regional economies. As a result decisions have been made which have inadvertently had adverse consequences for the less prosperous regions. Significant public expenditure decisions by all Government departments should include a formal regional impact assessment and decision-makers should be obliged to consider whether or not investment will contribute to reductions in regional disparities. (Paragraph 98).**

As indicated in the response to recommendation 4, the Treasury has made it clear that particular importance will be attached to the regional dimension of policies and programmes in the next spending review.

In preparation for the 2003 Budget 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. This process will be repeated for SR2004.

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.

## **Flexibility**

**33. The RDA's Single Pot represents a very small proportion of Government expenditure in the regions. Genuine flexibility across a significant range of policies and programmes is needed in the less prosperous regions. (Paragraph 100).**

The Government's regional policy is based on increasing flexibility through increasing devolution and decentralisation to enable local people and institutions to determine and address their own priorities and to tailor delivery and implementation of national policies to local circumstances. This is within a framework of clear accountability.

## **Maximising local benefits from public investment**

**34. We welcome the Government's commitment to review the number of civil servants based in London. This will however only contribute to a reduction in the gap between regions if they move to the least prosperous parts of the country. The Government may find it very hard to persuade relatively low paid public sector workers to move out of London if it abolishes national pay scales at the same time. (Paragraph 103).**

As the Committee has noted, part of the remit of the Independent Review of Public Sector Relocation (“the Lyons Review”) is to consider the relocation of civil service and other public sector workers in the light of the need to improve the regional balance of economic activity. The Committee suggests that the review will only contribute to the reduction in the gap between regions if they move to the least prosperous parts of the country. The economic impact of relocation on specific regions is not easy to quantify, and the Relocation Team has commissioned consultants to consider this. The choice of location is for Departments, depending on their business needs, and individual business cases, but the Review Team will be looking for evidence of benefits to regions or specific locations when assessing the proposals Departments make. As many of the country’s severely deprived areas (i.e. in receipt of Neighbourhood Renewal Funding) are urban conurbations where there is already a significant government presence, it is not anticipated that this will represent a particular difficulty.

The Committee also suggests that regional pay policies may make it more difficult to persuade post-holders to move. Pay arrangements will however be only one part of relocation packages which will be for discussion once this review has concluded.

**35. Where money is allocated to the regions to reduce regional disparities, it is very important that it is spent and kept within those regions to maximise multiplier effects. (Paragraph 105).**

The key driver of sustainable regional economic performance is productivity and employment, rather than simply the amount of Government funding in the region. The Government’s policies are focused on providing the right framework to allow locally led policies that tackle market failures, and encourage skills, innovation, investment and competitiveness. It is for the public sector bodies concerned to ensure that spending and public sector procurement achieves value for money, within the framework of EU requirements.

## **Tackling unemployment**

**36. The Treasury’s ‘supply-side’ approach to reducing unemployment through programmes like the New Deal fails to recognise the different conditions across the country. In some places deprived communities are located very close to job opportunities. In other parts of the country, those opportunities simply do not exist and a supply-side only approach is simply not adequate. (Paragraph 111).**

The Government notes that in most localities in the country there is a good supply of vacancies within a reasonable travelling distance of where people live. Jobcentre Plus, in co-ordination with a wide range of other local delivery partners, focuses on helping the unemployed and economically inactive to compete effectively for those vacancies, through a wide range of measures (helping with jobsearch, tackling local transport problems, arranging childcare, helping with interview costs, targeted training, etc.). The Government does not believe that there is a shortage of demand for labour in particular regions, although there are a few particular communities where this is an issue. The Regional Development Agencies, working with a range of partners at regional and local authority level, work to address such shortages.

## **Skills**

**37. We welcome the Government’s new emphasis on encouraging employers to employ skilled workers as well as increasing the supply of skills. (Paragraph 112).**

The Government welcomes the Committee’s support for this initiative.

## **Building on regional strengths**

**38. Trade and industry policies have insufficient capacity to respond to differences between regions. Central Government needs to increase the spatial dimension to industrial policy, recognising that some policies will not be appropriate in some regions. (Paragraph 124).**

The DTI's policies are aimed at encouraging productivity and growth, through the drivers of productivity – investment, innovation, skills, enterprise and competition. All of these drivers are important in every region. However, the Government accepts that policies which are normally viewed as national, rather than regional, can nevertheless have different impacts in different parts of the country and therefore seeks, where practicable, to design these policies so that they achieve the maximum effect in different regional circumstances.

Further development of this approach forms a vital part of the delivery plan for the regional economic performance PSA, and will be recognised in the DTI Strategy, to be launched shortly. However, in some cases, such an approach is neither practicable nor appropriate. It is therefore important to be clear about the aims of policies, their potential impact and the advantages and disadvantages of taking a different approach in different regions when putting policies in place and administering them.

**39. Regional administration of national policies is not the same as regionally responsive economic strategies. (Paragraph 126).**

The Government agrees. This is why the RDAs were established, given the responsibility for establishing regional economic strategies, and allocated a single pot of finance which can be deployed in the context of these strategies, rather than simply instructed to deliver existing departmental schemes and programmes. The RDAs also have an increasing influence on activities that they do not fund directly themselves, for example through the development of closer links between the RDAs and the Business Links and Learning and Skills Councils (LSCs); the lead the RDAs have taken in developing regional frameworks for employment and skills; and in the work of the regional science councils. As part of work on the PSA, the Government will be considering the scope for extending this approach, and the next Spending Review will look at the scope for further devolution and decentralisation.

**40. National policies to support investment in innovation are not, therefore, reducing regional disparities, as they are available in all regions. We recommend that the Government review the extent to which measures such as research and development tax credits and regional venture capital funds should be applied differentially regions because of the uneven geography of existing R&D activity. (Paragraph 128).**

The Government does not consider that R&D tax credits are an appropriate mechanism for reducing regional disparities in innovation. Although the tax credits provide an important incentive for firms to invest more in R&D, there are a range of other factors which govern the location of new R&D activity, including the availability of skilled workers, , proximity to sources of funding, ideas, and professional services. Without these factors being in place, differential R&D tax credit rates would be unlikely to have any material effect. In addition, the Government would have to consider the risk that such a system would either be open to abuse, or require burdensome and bureaucratic monitoring to prevent abuse.

Government has already incorporated regional differences into the design of Regional Venture Capital Funds. The size of each fund reflects the size of the differing target markets in each region in relation to the number of investors and the likely volume of suitable investment opportunities. Fund Managers selected were required to demonstrate sound knowledge of the strengths of their relevant regional economy and related business support networks. In addition, being generalist funds, Fund Managers are free to invest in SMEs, located in their region, with the potential for significant growth, across most sectors; and at any stage of their business development. A number of these factors will vary from region to region, but Fund Managers are incentivised, through performance related profit share, to play to the strengths of their particular region.

**41. ‘Bread and butter’ business development activity targeted at improving processes within individual firms is not sexy but it is extremely important in achieving the PSA target on regional economic growth. (Paragraph 129).**

The government agrees that the ‘bread and butter’ business development activity is a core part of the Business Link offer.

Work is also underway to build the capability for SME growth and actively addressing the need to promote innovation and transfer knowledge. Whilst much of this is built around the new DTI suite of products, for which demand has often been highest in existing prosperous regions (e.g. ex Smart scheme), there are initiatives which should make a difference in regions. They include RDA-led innovation schemes and support for Regional Economic Spending initiatives such as the Science and Industry Councils in the North West and North East. The Government strategy for small business *Small Business and Government – the Way Forward* published by the Small Business Service on behalf of the Government in December 2002, specifically mentions the importance of ‘management adoption of best practice across different business functions’. This forms a key part of the “building the capacity for small business growth” strategic theme. This priority is being taken forward as a core part of the delivery plan of the network of Business Link Operators in England working closely with the RDAs and as part of the business.gov web site.

The DTI review has identified ‘innovation’ as a key driver in improving productivity performance. Products that help small firms develop innovative products and processes are a key element of the Business support strategy. These products include a grant for research and development, a grant to assess an innovative idea and knowledge transfer partnerships.

## **Agencies**

**42. For too long there has been a need to streamline the bewildering array of business support schemes which are confusing to small firms in particular. We need not a one stop shop for business support but a first stop shop which can signpost what is most appropriate for different kinds of businesses, rather than a template, one size fits all solution. (Paragraph 131).**

The Government agrees with this view and are tackling the issue on two fronts:

- (i) Simplifying and reducing the numbers of products/services on offer.

The DTI business support review will greatly reduce the number of business support schemes available. Elements of individual schemes and initiatives that demonstrate a positive impact on productivity are being brigaded together into fewer, bigger, more flexible customer-focused product offers with wider remit. New initiatives must

go through a vetting procedure to ensure that they fit within the new framework for business support and satisfy the Investment Committee. The first products of this review became available in April 2003. Others come on stream in the near future.

(ii) Improving the ease of access to products and services

The Business Link brand, managed by the SBS, is currently being developed into an access brand for business support services across government. The Business Link service will offer customers access to the most appropriate business support solutions, comprising advice, information, funding and skills support whether they are derived from the private, public or voluntary sectors. The service can be accessed in a number of different ways (by internet [www.businesslink.org](http://www.businesslink.org), national telephone number, local face to face access points via Business Link Operators). Business Link will therefore act as a 'gateway' actively diagnosing customer needs and then brokering the customer to the most appropriate solution.

The Spending Review 2002 White Paper indicated that 'SBS and RDAs would pilot and evaluate different RDA-led approaches to achieving improved co-ordination of business support services at the local level and ensuring that local Business Link services promote Regional Economic Strategies'. Three RDAs (North West Development Agency, Advantage West Midlands and East Midlands Development Agency) submitted proposals to bring greater cohesion to business support at the regional and sub-regional level that include taking over management of their Business Link Operators. The North West has also been selected by DfES to run an LSC/RDA pilot looking at joint pooling of resource to improve the adult skills agenda.

Activity in some non-pilot regions has also been strong, for example in the North East, before the pilots were proposed, a major project started to rationalise the confusing profusion of schemes which existed. The basic principle is to broaden out the work of existing Business Link Operators by creating partnerships of other organisations ("Area Brokerage Partnerships"), and use these to create a Business Link-branded access and brokerage network. This will be exactly the kind of "first stop shop" referred to in this recommendation. Solutions will be brokered around the diagnosed needs of the customer. In addition, funding will be corralled into a demand-driven model which will be directed by the customer, rather than funding further initiatives and agencies. This should address some market failure issues, creating a quasi- market which will help to rationalise support structures. The net result should be easier access and more effective use of funding on a demand-driven basis.

The pilots began in April 2003 and will run until March 2005. In the light of the evaluation of these and similar developments in the other English regions, and the results of the SBS drive to improve the delivery of services from Business Link Operators over the next year, the government will consider what further changes in the organisation and management of Business Link Operators might be appropriate.

## Reform of the Structural Funds

**43. We support efforts to improve the benefits that English regions gain from the European Structural Funds programmes. Like the Structural Funds, UK regeneration programmes have a reputation for being cumbersome to administer. Bureaucracy from Brussels should not be replaced by bureaucracy from London. (Paragraph 133).**

One of the Government's key objectives for reform of EU Cohesion policy post-2006, outlined in its consultation document earlier this year, is to arrive at a system of support, which "enables resources to be applied effectively with significantly simpler, better integrated and more flexible implementation arrangements than at present." The Government certainly does not wish to replace bureaucracy from Brussels with bureaucracy from London. Where UK programmes have proved to be excessively burdensome, the Government has sought to address these issues, for example through the recent Area Based Initiatives (ABI) Review.

**44. If the Government's proposals to 're-nationalise' the Structural Funds are introduced, it must ensure that transitional funding to the current Objective One and Two areas is clearly identified as an additional sum, above and beyond transfers to these regions under existing and new UK regional policies. It is vital that the funds are made available to the regions to be spent in accordance with their priorities, be they supply-side or demand-side measures. (Paragraph 134).**

The Government's domestic consultation on its reform proposal for EU Cohesion policy post-2006 closed on 4 July, and received over 290 written submissions. The Government intends to respond in the near future.

**45. We welcome the Government's three pronged approach – looking at reforms to State Aid, the Common Agricultural Policy and the Structural funds together. We remain frustrated by the length of time taken to achieve changes to State Aid. (Paragraph 135).**

The Government continues to work actively to secure reform of the Commission's rules on State Aid and has been successful in influencing the Commission's thinking on its State Aid reform agenda. This is, by its nature, a longer term process. State Aid is one of the few areas where the Commission retains sole competence to make legislation and in which the co-decision does not operate.

However, the Government is continuing to take a two-pronged approach to achieving progress on State Aid reform. In addition to work on influencing the thinking of the Commission on wider State Aid policy, the Government is putting in place approved schemes which facilitate the granting of aid in areas where intervention is necessary. Good examples of this are the six approved schemes which have been put in place to underpin regeneration activity (direct development, speculative and non-speculative gap funding, community regeneration, environmental regeneration and remediation of derelict land).

## **The role of the cities**

**46. Although focusing attention solely on the core cities might be the easiest way to increase average GDP per head in a region, we do not think that the core cities should be the only focus of attention for reasons of practicality (i.e. the distance between some of the core cities and the rest of their regions) and community sustainability. That said, it is vital to ensure that within local travel to work areas, economic development plays to strengths. (Paragraph 139).**

The focus of the Government's Urban Policy is on all towns and cities. Towns and cities have an important role to play in contributing towards the economic competitiveness of regions as major centres of economic opportunity and employment activity.

## **The links between regional economic development and neighbourhood renewal**

**47. Job opportunities for the residents of deprived neighbourhoods will not necessarily be located in those areas. New Deal for Communities boundaries do not reflect this and the Government's Enterprise Areas are too tightly drawn and could fail to include the sites with the greatest potential for economic development in the travel to work area for deprived communities. (Paragraph 144).**

The Government fully recognises that most job opportunities will lie outside the immediate neighbourhood. This is why it is so important that those with responsibility for supporting job creation outside New Deal for Communities (NDC) areas work closely with NDC partnerships to ensure that residents have the opportunity to access those jobs. Businesses in deprived areas contribute more than just jobs, they also provide essential services, support markets for other businesses and public sector services and generally increase economic activity in the neighbourhood. The significant growth of companies listed on the Inner City 100 demonstrates the success that businesses in deprived areas can achieve, with local areas benefiting from the job opportunities created. Market failures and other barriers to enterprise mean that there are significantly fewer businesses and business start-ups in the most deprived wards. This is why the Enterprise Areas package is specifically focused on these wards, to encourage investment and stimulate the local economy. RDAs work to ensure that strong links are maintained between this neighbourhood-level focus and wider regional and sub-regional economic development.

**48. Ward boundaries are not designated on the basis of the suitability of areas for regeneration schemes, they do not consider the relative locations of need and opportunity. They are not 'fit for purpose' for the designation of funding. (Paragraph 145).**

Neighbourhood renewal funding is not allocated purely on the basis of wards. The Neighbourhood Renewal Fund is distributed to local authority districts that fall within the 50 most deprived authorities on any of the six district level summaries of the Indices of Deprivation 2000 (ID 2000). It is then up to local discretion to determine how this is spent.

It is, however, recognised that wards vary in size and that they can mask small pockets of need. The possibility of moving from wards, as the base geography of the ID 2000, to a sub ward geography based on an aggregation of Census Output Areas is being investigated to provide geographic units that are more consistent over time and in terms of size, and allow better identification of where small pockets of deprivation exist.

**49. We are concerned that the Government has not yet sufficiently developed the links between its policies on regional economic growth and neighbourhood renewal. (Paragraph 146).**

The Government recognises these concerns. There is the potential for dislocation both between regional and local agendas, and between the local agendas for different locations. This cannot be effectively addressed through a national top-down approach. The key lies in effective working between RDAs and Local Strategic Partnerships. The former's regional (and where appropriate sub-regional) economic strategies should provide the framework within which Local Neighbourhood Renewal Strategies and Community Strategies sit. However, central Government will be looking to strengthen the role of the Government Offices and other institutions in helping to make sure links are made.

## Rural areas

**50. Rural economic development needs to be integrated with the economic development of a region as a whole. The number of agencies involved should be reduced and lead responsibility should be given to the RDA (transferring to elected regional assemblies where they are introduced). (Paragraph 150)**

The government is awaiting the final report of the Rural Delivery Review in the autumn; it would be premature to respond before we have had the opportunity to consider Lord Haskins's specific recommendations.

The Government's economic objectives for rural areas are:

- tackling structural economic weaknesses and the accompanying poor social conditions in the minority of rural areas;
- identifying any economic fragility elsewhere at an early stage and acting to ensure that this does not translate into failure;
- building on the economic success of the majority of rural areas to ensure they contribute fully to national and regional economic objectives.

The White Paper *Your Region, Your Choice* set out elected regional assemblies' responsibilities for rural issues, which will include:

- delivering rural regeneration programmes, through the RDA (which will become a body of the assembly);
- actively engaging with the regional rural affairs forum;
- 'rural proofing' all its activities.

Elected assemblies will be given a range of powers to improve the quality of life for people in their regions, particularly by improving regional economic performance.

**51. We recommend that the DTI's State Aid unit should provide pro-active support to develop a State Aid compliant way to support business access to broadband, which is available to all Objective 2 areas. (Paragraph 152).**

The DTI State Aid branch is already providing help and advice to various levels of government to ensure that their schemes to support broadband are State Aid compliant.

The State Aid Branch will continue to work closely with grant givers so that they can develop solutions which are appropriate to their local situation. As the Committee points out, there is not a perfect match between the UK Assisted Areas and the Structural Fund areas and, as large companies can only benefit from regional aid within the Assisted Areas, some Objective 2 areas do not benefit. However, a recent judgement from the European Court of Justice regarding Services of General Economic Interest (SGEI) may offer a way forward. This judgement exempted funding for public services from the State Aid rules, subject to certain conditions. DTI and grant givers will need to consider the implications of this judgement for individual projects.

## Regional bodies

**52. Devolution does not in and of itself mean a reduction in the gaps between regional economic performance. Unless devolution is accompanied by some reallocation of resources it will not make much difference, though where regional institutions are given powers and are democratically elected they will make better use of the limited resources available to them. (Paragraph 154).**

Policies to improve regional performance are more effectively developed in the regions. The government believes that the best way to address regional disparities, both between regions and within them, is to give the regions the tools to improve their economic performance – and not constrain growth in better performing regions. The proposals set out in the White Paper *Your Region, Your Choice* are part of that process. Regional institutions are being strengthened in all regions, and the Government is providing for those regions that want to go further and establish elected regional assemblies.

Elected assemblies will give regions their own political voice – and powers over key issues like jobs, skills, planning, housing, transport, culture, arts, sports, environment and regeneration. Assemblies' block grant will give them significant spending power; and they will have flexibility to allocate funds to address regional priorities. Assemblies will also have influence in the region through making appointments to public bodies and a consultative role over other funding streams. Elected assemblies will be strategic bodies with far wider influence than figures can suggest. The regional strategies they will develop and implement will set the framework for the region.

**53. Where elected regional assemblies are introduced they should have direct responsibility for at least business development, learning and skills, neighbourhood renewal and transport policies and funding. (Paragraph 158).**

Our proposals for elected regional assemblies seek to strike a balance between issues which are best dealt with at a regional level, and those which are best dealt with at a national or local level. Elected regional assemblies will therefore have direct responsibility for RDAs: the assembly will fund the relevant RDA, make appointments to its Board and approve the regional economic strategy, which the RDA will produce. RDAs will remain business-led and will retain responsibility for day-to-day management issues; central government will retain responsibility for safeguarding national priorities. Elected assemblies will also work with national business support agencies such as the Small Business Service.

On skills, elected assemblies will not be responsible for local Learning Skills Councils (LLSCs) but they will have significant influence to ensure that their policies for skills and employment are delivered, for example by appointing members to each local LSC Board in their region and being consulted on all other appointments and on LLSC plans. LLSCs will have to consult their regional assembly on their plans and have regard to assembly strategies. An elected assembly will therefore take the strategic lead in its region for employment and skills. It will also be consulted on bids for the Higher Education Innovation Fund.

Elected assemblies will have influence on neighbourhood renewal through their responsibilities for land use planning and the regional spatial strategy and their sponsorship of the RDA and policies for economic development and regeneration. Assemblies will also have responsibility for regional housing strategy and resources for improving and developing housing in the region.

On transport, elected assemblies will be responsible for regional planning and for advising central government on allocating funding for local transport. They will be able to make proposals to the Highways Agency and the Strategic Rail Authority for schemes of regional importance, and be consulted by these organisations on proposals which affect their region.

**54. As RDAs increase their focus on implementation, it is vital that they spend resources strategically. This means making difficult decisions about priorities within the region. (Paragraph 161).**

The Government agrees with the Committee's recommendation. Spending resources strategically requires RDAs to make decisions about priorities. The 'single pot' gives the RDAs an opportunity to build on their partnership working relationship with regional stakeholders to make difficult decisions about priorities where this is necessary. The RDAs have a strategic and leadership role within their respective partnerships to show persuasively that decisions which may be unpopular are necessary to achieving the objectives set out in the regional economic strategies.

The RDAs are increasing their focus on the implementation of these strategies. Their respective corporate plans explain how they will strategically allocate their resources to achieve the aims set out in them. The single budgetary framework affords them flexibility to spend their budgets according to regional priorities, focusing on delivering economic development as a means of promoting regional growth and regeneration. (One example of this, in the East Midlands, is that EMDA's corporate plan shows a continuing shift of resources towards activities supporting enterprise, a crucial priority in the regional economic strategy).

**55. Responsibility is being devolved to the regions before power. (Paragraph 164).**

The Government's regional policy recognises the strengths of regional diversity and that decisions made at the regional level can take better account of the unique opportunities and challenges faced by an individual region. The added value of the regional dimension and significantly strengthened the mechanisms for regional governance has been recognised. A range of institutions and approaches has been developed since 1997 to give expression to the regional dimension, in particular:

- creating the RDAs to secure better and more sustainable economic performance for their regions;
- facilitating the establishment of voluntary, multi-party and inclusive regional chambers to contribute to regional economic strategies and scrutinise their delivery;
- strengthening the capacity of the Government Offices for the regions (GOs) to better join up national policy and regional (and local) priorities.

The RDAs were established in 1999. Their role is to take a strategic lead in driving economic performance in the English regions; promote business efficiency, investment and competitiveness; promote employment; enhance the development and application of skills relative to employment in the area; and contribute to sustainable development. RDAs were given powers to carry out this role which are wide-ranging within the context of their purposes. Because they are succeeding in supporting economic development in their regions, since April 2002 they have also been given the flexibility to allocate the extra resources from the 2000 Spending Review to what they have identified as priorities for their regions. In return for this increase in resources the RDAs agreed to deliver challenging targets in areas such as economic development and regeneration.

In the White Paper *Your Region, Your Choice*, the Government set out proposals to strengthen the role of the GOs by delegating more central government responsibility from Whitehall out to the GOs in the regions, and enhanced the role of the regional chambers to include:

- co-ordination and integration of regional strategies;
- a formal role as the regional planning body, funded by central government;
- a new relationship with the Regional Directors of the GOs and senior officers in other government-funded bodies in the region;
- input to the spending review process, through the relevant GO.

There is thus already a considerable amount of work being carried out at regional level and growing capacity in the regions to think strategically about regional issues. But the Government believes that there are limits to this approach: greater devolution of power to a region must ultimately be matched by greater accountability in exercising that power. There is thus a limit to what more power can be exercised at regional level without the establishment of a democratic and accountable directly elected regional assembly, which is why the Government is offering regions that choice.

**56. Even as regions become more powerful, central Government will retain control of issues like infrastructure and needs to share the responsibility for reducing regional disparities – reducing disparities cannot be a matter for the regions alone. (Paragraph 166).**

The Government is looking at a whole range of policies at all levels – local, regional and national – to help deliver the regional economic performance PSA. Furthermore, the new framework for macroeconomic policy, established by this Government, has provided an essential basis for the development of a regional policy framework.

**57. Where elected regional assemblies are introduced, arrangements should be put in place to allow some form of scrutiny of the Government Office by the assembly, as has been the case with Regional Development Agencies, which are scrutinised by unelected regional chambers, whilst retaining accountability to Parliament through DTI Ministers. (Paragraph 170).**

The examples mentioned are not comparable. The Government recognised the regional chambers in order to provide a mechanism within the region for consultation and, in due course, scrutiny of the RDAs which are non-Departmental public bodies. The Government Offices (GOs), by way of contrast, are part of central government and thus accountable to Parliament.

The role of the GOs includes providing a regional perspective to inform the development and evaluation of policy and to help deliver regional and local programmes. They have an in-depth knowledge of their region and use this to carry out the tasks that central Government Departments have delegated to them.

Where elected regional assemblies are introduced, some responsibilities currently carried out by the GOs will be transferred to assemblies. Responsibility for the RDAs will also be transferred to relevant assemblies. Elected regional assemblies will not have a remit to scrutinise GOs, which will continue to be accountable to Ministers. The GO will not have a remit to scrutinise the assembly, which will be accountable to its electorate.

**58. In the same way that mainstream national economic development policies should take regional differences into account, regionally differentiated national planning policies need to be considered. (Paragraph 172).**

As the Government's Planning Green Paper indicated, the Government will review national planning policy to ensure that it concentrates on the important policy issues that need to be resolved at national level and leave to local and regional level those matters that can better be expressed at those levels. Nonetheless, the existing system allows for significant flexibility in policy between regions. Regional Planning Bodies, when drawing up Regional Planning Guidance, may, if they so wish, depart from national policy and make the case for that variation at the Examination in Public. It is then for Ministers to reach a view on the final form policies will take. If a region has a directly elected regional assembly in the future, then it is envisaged that the region would be able to decide this for itself, subject to the Panel endorsing the change made and the scope for intervention by the Secretary of State.

**59. We recommend that regional spatial strategies be given primary status amongst regional strategies. (Paragraph 174).**

The Government agrees with the Committee that regional spatial strategies should provide the long-term spatial planning framework for other regional strategies. In doing so it will be important that regional spatial strategies are better integrated with other regional strategies. The White Paper, *Your Region, Your Choice: Revitalising the English Regions*, drew attention to the role of the regional chambers in facilitating such integration.

The Government does not believe that there should be a hierarchical relationship between the regional spatial strategy and other regional strategies as they each serve different roles and functions. It is, however, essential that those bodies responsible for drawing up regional strategies work together to develop a shared understanding of issues, objectives and opportunities. The revised version of Planning Policy Guidance Note 11 on the preparation of regional spatial strategies will emphasise the need for regional planning bodies to work to ensure that regional spatial strategies and other regional strategies complement and reinforce one another.



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