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CLES Bulletin No. 34
Economic Development Policy in the
Devolved Territories and English Regions
since 1997

CLES BULLETIN





Introduction

One of the key Labour Party manifesto commitments for the 1997 general election was their vision for a degree of decentralisation of responsibility away from Whitehall to enable a greater regional focus to the way in which the United Kingdom was governed. The Government not only saw regional government as key to increasing the identification local people had with their neighbourhoods, towns and regions and as a way to improve local democracy, but also saw regional government as key to increasing inward investment and economic development.

The United Kingdom has long had an understanding of economic inequality between the regions. Whilst London and the South East has long been the focus of and increasing levels of enterprise, productivity and employment, other regions of the country such as the North East and Wales have remained static. The Government sought not only to reduce these inequalities and the traditional North/South divide but also to hand a degree of responsibility for certain policies such as economic development and transport to devolved territories and regional bodies. This Bulletin identifies:

- The centralised nature of the United Kingdom when compared to European counterparts;
- What has happened with regard to institutional change in devolved territories and the regions of England since 1997;
- How economic development policies vary between the regions and devolved territories;
- A conclusion and series of future challenges for regional government in the United Kingdom.

The Centralised Nature of the United Kingdom and Regional Government across Europe

The United Kingdom is often considered to be one of the most centralised of all the developed nations. Certainly, when compared to other developed nations in Europe such as France, Italy and Spain, the United Kingdom has been slow to develop effective regional government bodies, that take a degree of responsibility away from the centre. In the market driven years of the 1980s, regional government and decentralised responsibility was

certainly not part of the Government's agenda, despite clear examples from other European Nations of the working of regional government and the successes that certain regions of Europe have had in reducing social and economic inequalities as well as increasing inward investment and economic development. For example, in Italy, which has some of the greatest regional inequalities in Europe, regional government was implemented in the 1970s in an attempt to address this issue. Whilst variable, there have been successes, for example in the Emilia Romagna region, where new networks of firms have worked with the devolved government to create a new economy for the region. Firms not only work together within towns in the region but across towns, with products developed in different stages for example in Pescara and Parma. In comparison to the relative wealth of the industrial and economically restructured North, the South historically has been poor with low aggregate farming the key employer. Regional Government in Italy has attempted to reduce the inequalities that exist economically between areas such as the Emilia Romagna in the North and the Mezzogiorno in the South.

Whereas, the focus for Italy's regional government was addressing regional inequalities by devolving functions and services related to agriculture and health to the regions, France which introduced regional government in 1982, the focus of the devolved functions was very much on increasing the economy, competition, productivity and employment of the regions. Therefore devolved functions included economic development, the universities and culture.

1997 saw the return to power of the Labour Party in the United Kingdom and a change in the recognition of and the importance of regional government. New Labour were committed to reducing the regional inequalities that existed across the country and had existed for many years, hence regional power was deemed key to dealing with these regional inequalities. The concern with regional inequalities stemmed largely on the commitment to close the difference in productivity levels between the UK and key economic competitors such as USA, France and Germany. The Government also saw regional government as key



to promoting economic development and enterprise in areas other than London and the Southeast. By setting up for example Regional Development Agencies, central Government saw these bodies as key to promoting economic development and inward investment across the regions and attempting to match new economic development with relevant regional skills and employment needs. This focus on economic development was deemed key not only in reducing regional and local inequalities, but also in improving national economic performance. The Government also saw the advent of regional government as key to improving relations and integration with the rest of Europe. As many other European Nations already had regional governance models in place, the Labour Government saw regional government in the United Kingdom as key to integration with the rest of Europe and integral when looking to receive European Union funding for the regions.

Types of Regional Government Arrangements in the United Kingdom since 1997

The devolution arrangement in the United Kingdom is often described as asymmetrical¹ in that there are fundamental differences between the arrangements in each country as well as between London and the other eight English regions:

1. Scotland – A Scottish Parliament was a key aspect of the 1997 manifesto, with a referendum taking place in September of that year, in which 60.4% of the electorate supported such a set up. This result was seen as a key date in the Government's plans for a more decentralised state. Tony Blair stated that 'well done this is a good day for Scotland, and a good day for Britain and the United Kingdom.....the era of big centralised government is over.' As a result of the implementation of the Scottish Parliament, several primary and secondary legislation areas were devolved to Scotland, while others remain reserved. (Devolved areas are listed in the footnote)².

¹ Leake, M., Sear, C. and Gay, O. (2003) *An Introduction to Devolution in the United Kingdom*. London: House of Commons Library

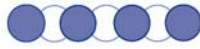
² health; education and training; local government; social work; housing; planning; tourism, economic

2. Wales – The devolution settlement in Wales varies markedly than that of Scotland in terms of its powers and priorities, but also in terms of its organisation and the support of the Welsh people at its implementation stage. The National Assembly for Wales is a single corporate body, including both the 'parliamentary' and 'executive' functions with one legal entity. The Welsh referendum on devolution took place one week after the Scottish Referendum, with 50.3% of the electorate in favour of a Welsh Assembly. The areas in which the National Assembly for Wales is responsible for are highlighted in the footnote³.
3. Northern Ireland – The creation of a Northern Ireland Assembly and Northern Ireland Executive was a key feature of the 1998 Good Friday Agreement. The formation of such a devolved body received greater support than in both Scotland and Wales, with 71% of the electorate in favour. The Northern Ireland Assembly has been however fraught with problems as a result of the fragile peace process, with several suspensions of the Assembly. Several areas have been highlighted that could be transferred to the devolved assembly when not suspended as it is currently. (highlighted in the footnote)⁴
4. England – Whereas Scotland, Wales and Northern Ireland have taken full advantage of

development and financial assistance to industry; some aspects of transport, including the Scottish road network, bus policy and ports and harbours; law and home affairs, including most aspects of criminal and civil law, the prosecution system and the courts; the police and fire services; the environment; natural and built heritage; agriculture forestry and fishing; sport and the arts; statistics, public registers and records.

³ Agriculture and fisheries; culture; economic development; education and training; environment; health; highways; housing; industry; local government; social services; sport; tourism; town and country planning; transport; water; the Welsh language

⁴ finance and personnel; health, social services and public safety; education; agriculture and rural development; enterprise, trade and investment; environment; culture, arts and leisure; learning and development; regional development; social development.



the Government's commitment to devolution through the setting up of Assemblies and Parliaments, it has been argued that perhaps the English regions are the hole in the devolution settlement. A key concern that has been highlighted in the 2004 referendum for an elected regional assembly in the North East is whether the English really care about devolution and regional government. Despite these concerns a number of regional bodies have been set up in the English regions aimed at both driving economic development and ensuring that a central government voice is communicated across all the regions. Central government departments and reserved policies are represented in nine Government Offices for the Regions, which were set up by the Conservative Government in the mid 1990s.

Regional Development Agencies were launched in eight regions in 1999 and in London in 2000 with a key remit to drive regional economic development and reduce the imbalances that exist within and between the regions of England. In 2002 the Government sought to through its Regional White Paper⁵ to implement a manifesto promise from 1997 that where there was demonstrable regional support for Regional Assemblies that a referendum would take place. It was believed that the North East would be one of these regions, however the electorate voted 'No' to the proposed arrangements, meaning that the vast majority of governmental control for the English Regions remained in Whitehall. Each of the regions does however have a non elected Regional Assembly, which is a partnership of local authorities, business organisations, public sector agencies, education and training bodies, trade unions and the voluntary and community sector that works to promote the economic, environmental and social well being of their specific region, as well as scrutinising the performance of Regional Development Agencies. In recent weeks the North West

Regional Assembly, for example, has agreed a radical restructure in order to create an organisation more fit to meet the challenges faced by the region and allow for more accountable and streamlined decision-making. The regional government situation in England as a result of the array of varying bodies is often described as messy institutional governance.

5. London – The region of London is an oddity in the context of efforts at devolution in the other regions of England and the other territories. The Greater London Authority (GLA) was set up in the Capital in 2000 but contained far less power than the devolved administrations in Scotland or Wales. Certainly there was no other similar body in the other English regions. The GLA consists of the elected Mayor and a supporting cabinet. The GLA⁶ have five main responsibilities, namely, transport; police; economic development; strategic planning and the fire brigade. The decentralised system in London allows for certain policies to be attributed to the Mayor and his Assembly, whilst also maintaining that central government retains the majority of decision making for the capital.

Economic Development Policy in a Devolved Scotland

Despite there being numerous similarities in economic development policy across the United Kingdom, Scotland has been perceived, long before devolved administrations as a forerunner in innovative economic development policies. Scotland has been rewarded in this innovative approach through increases in GDP and GVA per capita since the 1970s, and this now stands just below the national average.

At the present time responsibility for economic development and post-16 education and training in a devolved Scotland lie within the Scottish Executive's Department of Enterprise, Transport

⁵ DTLR (2002) *Your Region, Your Choice, Revitalising the English Regions*. London: DTLR
www.regions.odpm.gov.uk/governance/whitepaper/index.htm

⁶ Travers, T. (2002) Decentralisation London-style: The GLA and London Governance. *Regional Studies*, 36 (7): 779-788



and Lifelong Learning. Comparative to other regions of the United Kingdom this is a broad range of power and provides the opportunity for policy integration and joined-up government. The Department operates through two key institutions which pre-date devolution and attempt to address the varying economic development needs of different areas of the country. The first institution is Scottish Enterprise, which prior to devolution had established itself as an effective institution through which a range of economic development policies that would eventually find themselves onto the English agenda were developed. For example Cluster Policy was identified in Scotland as a way of linking firms. In the 1990s, Scotland also promoted the importance of entrepreneurship to economic development, whereas in the rest of the United Kingdom the onus was often on directing support towards existing firms rather than recognising the economic impact new firms could have. The second institution of the Department of Enterprise, Transport and Lifelong Learning is Highlands and Islands Enterprise, which focuses on economic development in the more remote areas of the country.

To some extent, economic development policy in a devolved Scotland has remained relatively unchanged with a focus remaining on the importance of production, and especially new types of production, in the devolved territory. Scotland continues to recognise the importance of enterprise to the economy and one new initiative post devolution, the 'fresh talent' initiative aims to attract both newcomers to Scotland from abroad and retain overseas students in Scotland after they have graduated. The core onus of this initiative is to create a more entrepreneurial and innovative culture, thus increasing economic development and both GVA and GDP per capita.

Economic Development Policy in a Devolved Wales

Whereas the economic development policies of Scotland both pre and post devolution focused very much on productivity, Wales highlighted a very different issue namely employment and reducing incapacity as core to its economic development

strategy, 'A Winning Wales'⁷. Wales lags significantly behind Scotland and many of the other regions of England when it comes to GDP and GVA per head, with GDP per head particularly low at 79.0% of the UK average in 2004. The focus on reducing unemployment and the number of Incapacity Benefit claimants is core to Wales' economic development strategy. However, this is particularly complicated post devolution as a result of the most important policy instruments such as JobCentre Plus remaining reserved matters. However Wales has identified a number of local initiatives that are expected to meet a target of raising Welsh GDP per head to 90 per cent of the UK average by 2012.

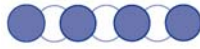
Wales also varies from Scotland and the rest of the United Kingdom in terms of its separate divisions for Economic Development and for Education and Lifelong Learning. Whilst Wales' core focus is on employment, increasing productivity is also an important part of economic development policy in the devolved territory. The Welsh Assembly Government has also looked forward by implementing a plethora of initiatives such as Cluster Policy, Science Parks and the Knowledge Economy.⁸

Economic Development Policy in a Devolved Northern Ireland

Owing to significant political pressures, economic development policy in Northern Ireland is far less advanced than in either Scotland or Wales. Two Departments have been allocated to lead responsibility in the field of economic development, namely the Department for Enterprise, Trade and Investment (DETI) and the Department for Education and Learning (DEL). Also two institutional organisations have been set up. The first one is a new economic development agency – Invest Northern Ireland – which was created in 2002 merging three former economic development agencies. Therefore core economic development

⁷ Welsh Assembly Government (2002) *A Winning Wales* <http://www.wales.gov.uk/themes/budgetandstrategic/content/neds/awinningwales-0302-e.pdf>

⁸ Source of information on Wales and Scotland: Adams, J. and Robinson, P. (2005) *Regional Economic Policies in a Devolved United Kingdom*. Newcastle: Ippr North



policy changes in Northern Ireland can be summed up as largely being institutional with reform of structures rather than the development of specific new initiatives.

- Skills and Employment;
- Regeneration;
- Infrastructure;
- Quality of life.

Economic Development Policy in the English Regions

The nine Regional Development Agencies, which were introduced in England in 1999, were given five statutory purposes:

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

For example the Northwest Regional Development Agency (NWDA), has been involved in a number of projects to promote economic development in the North West at the regional, local and neighbourhood levels. The core policies for the North West Region with regard to economic development are set out in the Regional Economic Strategy (RES), which is currently under consultation until 1st September 2005.⁹ The RES is based upon building on the growing reputation of the Northwest as a place to invest in terms of production, employment and enterprise. Historically the Northwest has under performed economically, however in recent years (2000-2003) the region has been growing quicker economically as a region than England as a whole. For example there has been a 5% growth in the number of new firms compared to 3% in England. However GVA in the Northwest is still 12% lower than in England as a whole. As a result of these findings there are 5 core areas within the RES, which economic development policy for the Northwest is based around, namely:

- Business;

Conclusions and Future Challenges

Eight years on from the advent of regional and devolved government in the United Kingdom, there remain sharp inequalities between the most and least prosperous regions of the United Kingdom. Economic growth continues to be centred around London and the Southeast with Northern towns and cities starting to increase their productivity, employment and output. Figure 1 highlights the imbalanced nature of regional prosperity in the United Kingdom from the most recent figures.

While devolved government has been implemented and championed in Scotland, Wales and Northern Ireland and to some extent in the development of the GLA in London, the remaining eight regions of England remain to have any sort of regionally elected presence. The ‘No’ vote in the Northeast Referendum would seem to put pay for the time being to directly elected regional assemblies in the other eight regions of England.

Figure 1¹⁰

	Productivity (GVA per hour worked 2003)	Employment (seasonally adjusted as a percentage of all people of working age 2003)	Output (GVA per head 2003, residence based)
Wales	91.9	97.9	79.0
Northern Ireland	84.3	93.3	81.2
Scotland	98.1	99.9	96.4
England	101.1	100.4	102.2
North East	95.1	91.3	79.7
Yorkshire and Humber	93.7	99.2	89.0
North West	94.4	98.1	89.8
East Midlands	96.9	101.9	90.8

⁹ Available at http://nwda-cms.amaze.co.uk/DocumentUploads/RES_draft.pdf

¹⁰ Source of figures: www.statistics.gov.uk/pdfdir/prod0305.pdf



West Midlands	94.6	99.1	91.0
South West	95.4	105.2	94.1
East	97.1	105.1	109.2
South East	106.5	106.2	115.2
London	115.4	94.1	131.3
UK	100	100	100

While economic development initiatives are being delivered effectively by Regional Development Agencies across England and by departments of the devolved territories there remains a lack of joined up working between regions. However, the importance of Regional Development Agencies to Government policies for economic development continue to grow with the increasing levels of responsibility that is being attributed to them. For example, in the 2004 Spending Review, RDA budgets were increased by 24%. Therefore, one of the key future challenges of regional government and especially the Regional Development Agencies is how they will work together in the delivery of for example the Northern Way¹¹. The Northern Way Strategy was introduced by the three Northern RDAs in 2004 to attempt to address barriers to growth that affect communities across the North. The Northern Way aims to lift the productivity of the three Northern regions and bring the jobs, investment and quality housing which can create sustainable communities.

In recent years the onus on regional government as the core drivers of economic growth have been supplemented by an emphasis on sub-regions, city-regions and cross regional based economic development initiatives such as the Northern Way. Also the Government in recent years have placed an increasing emphasis on Local Government being drivers of devolved powers. The advent of Local Area Agreements have handed local authorities greater flexibility in the delivery of services and the meeting of outcomes. The Government remains committed to devolving powers, however this may be in new geographical scales rather than the traditional focus on the nine English regions.

For further information on this topic please contact:

Matthew Jackson
Policy Researcher
Centre for Local Economic Strategies (CLES)
Express Networks, 1 George Leigh Street,
Manchester, M4 5DL,
Tel 0161 236 7036,
Fax 0161 236 1891
Email matthewjackson@cles.org.uk or
info@cles.org.uk
Web: www.cles.org.uk

¹¹ Northern Way is available at:
http://www.odpm.gov.uk/stellent/groups/odpm_communities/documents/page/odpm_comm_027362-02.hcsp#P49_8729