



Centre for Local
Economic Strategies

bulletin

Review of sub-national economic development and regeneration: the BIG ISSUES

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Introduction

After several weeks of anticipation, proposed release dates and speculation as to its contents, the Review of Sub-National Economic Development and Regeneration¹ (the Review) was published on 17th July 2007. For CLES, the document is a more than useful addition to the continued policy debate around devolution of power to regional and local bodies and decision makers. We see the review as portraying primarily four key policy messages:

- Firstly, it recognises the value local authorities and their partners can make to economic development, regeneration and neighbourhood renewal and responds by proposing new measures, flexibilities and powers to enable this value to be met.
- Secondly, it formalises the value of sub-regional collaboration and working as a model of developing the economic potential of local areas and also their neighbouring authorities.
- Thirdly, it promotes the further development of regional governance arrangements particularly at the strategic level. It also places greater emphasis on cooperation between Regional Development Agencies and local authorities not only in the development of regional strategy and the delivery of economic development related projects, but also in accountability terms.
- Fourthly, it recognises the need for a stronger interface between central government and Regional Development Agencies when it comes to performance management arrangements.

The purpose of this bulletin is therefore to follow these four key policy messages and assess the key actions of the Review in relation to these issues. As a precursor to this, the bulletin looks at why it is deemed necessary in the UK for a

renewed emphasis on local, sub-regional and regional approaches to economic development and regeneration.

Why localities, sub-regions and regions are crucial to economic growth

The Government has an overall economic objective to 'raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all'. In order to this, there is a need to reduce the disparities that exist in economic performance, employment, skills and a host of other factors across the nations, regions, sub-regions, localities and neighbourhoods of the United Kingdom. One of the three key pillars of government intervention in recent years to attempt to level the economic growth playing field has been through devolved decision making to the regional and local levels to ensure that economic development and regeneration activity is rooted in and responsive to local economic conditions. At the local level we have seen:

- ❑ The adoption of the well-being power to promote the economic, social and environmental well-being of a local authority area.
- ❑ The recognition, through the Lyons Inquiry, of local authorities not only being local service deliverers, but also being place-shapers and local leaders of visions and objectives.
- ❑ The development of Local Strategic Partnerships and Sustainable Community Strategies to foster local decision making and partnership activity relating to economic development, regeneration and a host of other themes.
- ❑ The development of Local Area Agreements, formal delivery plans of economic development and other related activity and also key vehicles of measuring the contribution to national and local targets.
- ❑ The incentive to promote local economic growth through the Local Area Business Growth Incentive (LABGI) and to promote public-private approaches to economic improvement through Business Improvement Districts.

At the regional level we have seen:

- ❑ The development of the Regional Development Agencies as drivers of economic growth and as strategic leaders of economic development and regeneration in the English regions.
- ❑ The increase of funding in 2007-08 to the Regional Development Agencies to £2.3 billion.
- ❑ The establishment of Regional Assemblies as voluntary multi-party bodies, which perform the role of regional planning body and strategy formulator.

Despite these core interventions and evidence suggesting that the economies of English regions are improving with regard to GVA and employment amongst other factors, the gap between the best performing regions, cities and areas of cities remains. Coupled with increasing pressures on the UK economy from globalised markets and technological advancements, there is a need to build on these interventions to develop new ways of devolving powers and formulating local responses to economic development and regeneration challenges. The Review thus offers a series of reforms that provide regions and localities with the flexibilities, powers and incentives to respond to economic change, and to ensure that all areas are able to contribute to, and benefit from, economic growth.

The objectives and principles of the Review

The overarching aim of the reforms proposed in the review of sub-national economic development and regeneration is to support the achievement of more effective economic development, regeneration and neighbourhood renewal. The Review is shaped around three core principles, which will shape reform:

- ❑ ***Managing policy at the right levels*** – The review states that there should be a devolved approach to economic development, regeneration and neighbourhood renewal, giving both regions and local authorities powers to respond to local economic challenges.
- ❑ ***Ensuring clarity of roles*** – The Review states that regional, sub-regional and local approaches to economic development, regeneration and neighbourhood renewal should be clear, with streamlined decision making and coordinated strategy, policy and funding.
- ❑ ***Enabling places to reach their potential*** – The Review states that in order for places to reach their potential clear accountability and public scrutiny arrangements must be in place and places must have the incentives to promote economic growth.

BIG ISSUE 1 - Empowering the Economic Development Value of the Local Authority

Local authorities have a key role to play in economic development, regeneration and neighbourhood renewal. As identified earlier, there are opportunities for local authorities through Local Area Agreements, Local Strategic Partnerships and the Power of Well-Being for example, to play a strong role in developing local economies. However, there are constraints around flexibilities and powers that sometimes restrain the ability of localities to contribute as effectively as they could do. The Review thus provides a number of incentives and powers to strengthen the role of the local authority in economic development and neighbourhood renewal activity.

Facet 1 – A Statutory Economic Development Duty – The Review has proposed a consultation on the creation of a focused statutory economic development duty. The duty would require upper tier local authorities, either on their own or jointly with other authorities and in consultation with other key partners, to carry out an assessment of the economic circumstances and challenges of their local economies. This duty would provide both the local authority and central government with a stronger evidence base as to their local economic challenges. It would also serve the purpose of underpinning the development of the local Sustainable Community Strategy and ensuring that the Local Area Agreement has more of a localised economic focus in its target setting.

Facet 2 – Strengthening Local Economic Development Incentives – The review recognises that in order for local authorities to be more effective in improving local economic growth and in influencing local regeneration activity that it is important that the right incentives for economic improvement are in place. Key proposals in the Review therefore include the reform of the Local Authority Business Growth Initiative to simplify the structure and give local authorities greater certainty over rewards; and to strengthen the Business Improvement District model of local economic improvement.

Facet 3 – A More Locally Economic Focused Performance Management System – The Review details that the Government intend to reform the local

authority performance management framework to make Local Area Agreements the central delivery agreement between central government, local government and its partners, and to give local authorities a clearer role in economic development. The focus on economic development is reflected in the proposed robust outcome indicators around: employment and worklessness; education and skills, for up to 19 year olds; investment in housing and infrastructure; enterprise; and creating an attractive local environment for businesses and citizens.

Facet 4 – New Access to RDA Funding – The Review details that there will be greater certainty for local authorities over access to economic development related funding such as the Regional Development Agency Single Pot and the European Regional Development Fund. The Government proposes working with the Regional Development Agencies to reform the management of their spending so that it is based on long-term programmes focused on achieving agreed outcome targets, rather than funding for individual projects. There will be an expectation that Regional Development Agencies will take on more of an economic development strategic role, with responsibility for spending and delivery delegated to local authorities or sub-regions.

Facet 5 – Supplementary Business Rates – Following the review, government looks likely to consider this avenue to boosting local government finances, stating in the review that "*supplementary business rates have the potential to provide a powerful new tool for local authorities to invest in infrastructure to support long-term economic growth in their areas*". The only concern raised about its implementation relates to the impact such a rate would have on local businesses, particularly small and medium-sized enterprises (SMEs). However, the government would like to consider this route further, and is therefore keen to ensure that all stakeholders, including local business, have a strong voice in its application.

BIG ISSUE 2 – Sub-Regional Collaboration

The review of sub-national economic development and regeneration has begun to formalise city-regional and sub-regional delivery of economic development outcomes. It recognises that in many respects, the sub-region is the key spatial level around which economic growth is concentrated, and thus increasing the extent to which economic development decision-making is managed at the sub-regional level is increasingly important. The Review thus proposes three key methods of enhancing sub-regional delivery of economic development activity:

Facet 6 – Sub-Regional Transport Powers – In line with proposals in the draft Transport Bill, the Review states the benefits of sub-regional delivery of transport activity and its links to economic development and growth. The Review proposes that the boundaries of Passenger Transport Authorities (PTAs) be extended and that PTAs take on more powers, provided appropriate governance arrangements are in place.

Facet 7 – Multi Area Agreements – The Review formalises arrangements for collaborative working between neighbouring local authorities and their partners in the form of Multi Area Agreements. The Review recognises that effective sub-regional working, with particular regard to economic development, is currently hampered by individual authorities having to enter into separate Local Area Agreements with targets on economic performance. This is despite the impacts of economic development policy and interventions often occurring at higher spatial levels, including the sub-region and city-region. Multi Area Agreements

will enable a collaboration of authorities to take a much more active role in leading economic development activities. The agreements will set out agreed priorities between sub-regions and central government for improving well-being and prosperity. Whilst there is expected to be significant flexibility for sub-regions in the development and delivery of Multi Area Agreements, the Review expects approaches to be based around 10 core principles. The most relevant are that Multi Area Agreements should:

- ❑ be voluntary at the point of creation;
- ❑ have an economic core and relate principally to economic development;
- ❑ focus on activities where sub-regional working can add most value – the rationale for cross boundary delivery of objectives should be evidence-based.

Further guidance on Multi Area Agreements will be issued by Government in the Autumn, with the first agreements expected to be in place by June 2008.

Facet 8 – Sub-Regional Thematic Governance – Whilst the formulation of Multi Area Agreements are expected to be as a result of voluntary cooperation between neighbouring authorities, the Review also provides the option for permanent sub-regional structures with regard to specific thematic issues. Whilst the Passenger Transport Authorities fulfil this function for transport, the review recognises that there may also be benefits in pooling responsibilities for other policy areas such as planning and housing at the sub-regional level.

BIG ISSUE 3 – Regional Reorganisation

The Review has proposed key changes to the structure and activities of regional governance and economic development and regeneration vehicles. It recognises that the regional level has an important role to play in economic growth activity through its ability to prioritise investment between places, to provide capacity support and to ensure a consistent approach to policy delivery. The Review thus identifies proposals to further strengthen the regional tiers role in economic development activity.

Facet 9 – Single Integrated Regional Strategy – The Review recognises that the different roles of Regional Assemblies and Regional Development Agencies has led to problems in the alignment of Regional Spatial Strategies and Regional Economic Strategies. The Review thus recommends that there should be a single integrated regional strategy, which sets out the economic, social and environmental objectives for each region. The single integrated strategies will be developed on behalf of the region by the Regional Development Agency, with much stronger involvement of local and sub-regional bodies. The focus of the integrated strategies will be economic development, with the strategies expected to make a far clearer split between the strategic role of the regional level of governance and the delivery roles of sub-regional and local levels of governance. The strategy will be expected to encompass the following elements:

- ❑ Vision;
- ❑ Evidence;
- ❑ Strategic priorities;
- ❑ Policy and spatial priorities;
- ❑ Delivery strategy;
- ❑ Spending information;
- ❑ Consultation schedule.

Facet 10 – Strategy Based upon Outcome rather than Output Focus – The Review has begun to re-hone some of the strategic priorities of regional strategy. It proposes that each region will be set a regional economic growth objective, which will inform a simplified outcome and growth-focused framework for delivery activities. The single over-arching growth objective will be aimed at increasing regional GVA per head; with the current basket of 12 Public Service Agreements and 10 output targets replaced by the following five outcome-focused performance indicators:

- ❑ GVA per hour worked;
- ❑ Employment rate;
- ❑ Basic, intermediate and higher level skills attainment;
- ❑ Research and development expenditure as a proportion of GVA;
- ❑ Business start up rates.

Facet 11 – Regional–Local Accountability – The Review recognises that there needs to be stronger and clearer accountability of the Regional Development Agencies and that un-elected Regional Assemblies do not consistently provide a strong voice for their region and local areas in particular. The review thus makes two key commitments to enhancing regional to local accountability. Firstly, Regional Assemblies in their current form and function will not continue. Secondly, the Regional Development Agencies will be given the executive responsibility for developing the integrated regional strategy. They will however be expected to work far more closely with local authorities and local partners and agree the priorities with these local stakeholders. Indeed local authorities will become responsible for the scrutiny of the Regional Development Agencies, ensuring enhanced accountability of regions to local areas. This particular commitment will be consulted on later in the year, with regard to how the reforms will be implemented.

BIG ISSUE 4 – Central to Regional and Local Relations

The Review also sets out a commitment from central government to more effectively interact with regional and local institutions over devolution issues relating to economic development, regeneration and neighbourhood renewal. In particular, central government departments and agencies will need to play a stronger role in supporting local authorities and regions, devolving where possible and working collaboratively to achieve shared objectives.

Facet 12 – Central to Regional Interface – The Review commits to more effective scrutiny and performance management of regional institutions and regional economic policy. The Regional Development Agencies will be monitored by the newly formed Department for Business, Enterprise and Regulatory Reform with responsibility for the Regional Development Agencies aligned with wider policy to support business and enterprise. This would provide an opportunity for informed public debate, scrutiny and accountability on the regional tier of governance. The new integrated regional strategies will also be signed off by the Department for Business, Enterprise and Regulatory Reform. In relation to the interface between the Regions and Central Government, the Government has also appointed Ministers for the Regions. The role of these Ministers is to provide a sense of strategic direction for their region and to give citizens a voice in central government, ensuring that government policy takes account of the differing needs of the nine English regions.

Reaction to the Review

Reaction to the Review has been largely supportive. The opportunities given to local authorities to deliver greater remits and budgets for economic development purposes has been particularly welcomed. IPPR's Centre for Cities stresses that local authorities now need to make the most of their new powers and ensure that with the phasing out of regional assemblies, they make sure they fill the accountability gap and hold the RDAs to account². The Centre for Cities has also been a long-standing proponent of the supplementary business rate, first mooted in Sir Michael Lyons 'place shaping' inquiry into local government finance earlier this year and given further support in the Review, as outlined above in *facet 5*. This increase in local finance alone could help contribute significantly to improving local transport infrastructure and help to pave the way for wider devolution. The Centre for Cities' own research indicates that a 2p levy on business rates in Birmingham would cover the funding gap for the New Street Station redevelopment, and the same levy in Manchester would almost cover the local share of the Metrolink Phase III costs².

This additional financing is also likely to be further supplemented by the devolution of budgets from the RDAs, with the government expecting "RDAs to delegate responsibility for spending to local authorities or sub-regions wherever possible"³. The only condition on this devolution of budgets is that the RDA must be confident that the local authority or sub-region in question has the ability and business acumen to spend the money wisely, again giving local authorities the opportunity to prove themselves worthy of further power and responsibility.

This devolution of money also helps to strengthen the case for city-regions. The Review makes wide reference to the use of sub-regions and city-regions, making the case for their functionality, in terms of economic development, transport, housing and planning. The Review is also keen to promote Multi Area Agreements as the route towards the creation of statutory city-regions, with plans to have the first agreements in place by June 2008. John Healey, Local Government Minister, was quoted as saying that these plans "reflected the new prime minister's vision of a modern democracy where power is exercised at the lowest level"⁴.

Concerns raised by the Review centre around the new role of RDAs, and whether they can be truly accountable to both central and local government? With the phasing out of regional assemblies and the delegation of some of the RDAs funding to local authorities, RDAs have now been tasked with generating a sharper focus for economic and planning strategies. Sir Simon Milton, Chairman of the Local Government Association believes that with the movement of funding to local authorities, the Review should have gone a step further by placing the responsibility for the creation of regional strategies in the hands of the local authorities. Sir Simon is also concerned that "with so many parties involved [in the scrutiny of RDAs], we are seeking reassurance that local communities will retain a real say over the decisions that affect them. Ultimately, Regional Development Agencies must be democratically accountable to local people through councils. This is not currently the case and we urge government to change this"⁵.

Conclusion

The publication of the Review has overall been extremely encouraging to those working in local government and the fields of economic development and regeneration. Most of those concerned with sub-national economic development and regeneration are happy to see the phasing out of regional assemblies, the expansion of local government finances and powers, and the strengthening of the move towards sub-regions and city-regions. The Comprehensive Spending Review, to be released towards the end of the year, now has a clear goal of providing the framework for local government to carry through the multitude of recommendations made in support of devolving more power to local government and making them truly able to 'place-shape'. Whilst local authorities need to ensure that they are ready to deliver on their wider remits, proving to central government and the Regional Development Agencies that they are capable of managing greater power and budgets through the upcoming comprehensive area/performance assessments.

Notes

¹ Review of Sub-National Economic Development and Regeneration, HM Treasury. Available at www.hm-treasury.gov.uk/media/9/5/subnational_econ_review170707.pdf <17th July 2007>

² Centre for Cities Response to Sub-National Review of Economic Development and Regeneration, IPPR. Available at www.ippr.org.uk/centreforcities/pressreleases/?id=2801 <17th July 2007>

³ Town Halls Set to Win RDAs' Funding, Regeneration & Renewal, 20th July, p.2.

⁴ City Regions are Born, Local Government Chronicle. Available at www.lgcnet.com/pages/news/article.asp?ArticleID=343082 <18th July 2007>

⁵ Questions over 'beefed up' Regional Development Agencies, Local Government Association. Available at www.lga.gov.uk/PressRelease.asp?id=SXFD90-A7846097 <17th July 2007>

Bulletin is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is a not-for-profit think-doing organisation, consultancy and network of subscribing organisations specialising in regeneration, economic development and local governance. CLES also publishes Local Work, Rapid Research and bespoke Briefings on a range of issues.

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