



Centre for Local
Economic Strategies

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A NEW ROLE FOR REGIONAL DEVELOPMENT AGENCIES

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Since the publication of the Review of Sub-National Economic Development and Regeneration¹ by HM Treasury in July this year, there has been an ongoing debate around the Review's repositioning of roles between Regional Development Agencies (RDAs) and Local Authorities towards a more strategic and delivery type role respectively.

This has resulted in a lack of understanding among both RDAs and Local Authorities about what their role will be in future, with many local authorities interested in the idea of getting their hands on RDA programme funds and others worried about how they can develop a greater economic development delivery role for themselves through the complexity of sub regional partnerships and Local Area Agreement functions. We believe that there is greater need than ever for strong leadership within Local Authorities along with an evidence based understanding of strengths and weaknesses of local economies to help them set the agenda at both a local and sub-regional level.

The preparation of this *Rapid Research* included a series interviews with RDA and

Local Authority representatives, to consider how this attempt to alter the current relationship might work and what challenges may need to be overcome. This research is particularly timely as we await national guidance on the next steps that RDAs and local authorities will need to take in order to make these proposals operate effectively.

Four of the key changes recommended in the Review included:

- A. Creating a **Single Integrated Regional Strategy**, which sets out the economic, social and environmental objectives for each region;
- B. Introduction of a single **regional PSA target on economic growth** one over-arching growth objective, aimed at increasing regional GVA per head and consisting of five basic indicators, replacing their previous compendium of 12 Public Service Agreement (PSA) targets and ten output targets;

- C. **Greater access to RDA funding** to be given to local authorities who are able to take on a delegated role for spending and delivery, while RDAs focus more on a long term strategic role;
- D. Setting out **new accountability arrangements** for both to central government and the local authority, but the Review also suggested enhanced parliamentary scrutiny which is to be exercised through regional select committees, a new device proposed by Gordon Brown in his Green Paper on *The Governance of Britain*².

In addition, since the Review was published, the Comprehensive Spending Review has outlined an annual 5% cut in the funding available for Regional Development Agencies again with a heavy emphasis on refocusing RDAs towards a strategic rather than a delivery role.

We consider each of the main changes in turn along with the challenges that these changes will pose for RDAs and local authorities alike.

A. Creating a Single Integrated Regional Strategy

The government proposed that there should be a single integrated regional strategy, which sets out the economic, social and environmental objectives for the region. This will be developed by bringing together the Regional Economic Strategy and the Regional Spatial Strategy. Currently, the Regional Spatial Strategy is written by the Regional Assembly.

The adoption of one single integrated strategy should mean greater alignment of priorities in the region and confirmation that all aspects of economic growth across a region will be focused towards the same goal, ensuring, that there is less risk of contradictory priorities. This is a significant improvement over the previous arrangement of individual strategies for each aspect of economic growth, namely transport, housing and planning strategies.

This recommendation is definitely a welcome change from the point of view of Local Authorities and RDAs as it is felt that this will help to clarify regional responsibility and better align regional priorities. However, there are a number of challenges:

Challenge 1: Balancing priorities

The integration of both the Regional Spatial Strategy and the economic strategy will require RDAs to balance economic growth priorities with priorities around social and environmental issues. Our research has suggested that whilst there is a general feeling that the balance of priorities should not be focused purely in favour of economic growth, at the expense of concerns around the environment and society, the main focus for RDA's future work should remain on achieving continued economic growth.

Regional Development Agencies were established with a clear focus on supporting and enhancing economic growth in the regions and it is clear that many RDAs believe that future focus needs to remain on pure economic growth in order to meet government targets on regional economic performance, and that they do not necessarily see this as compatible with other issues.

However, in order to develop a truly "integrated" strategy, priorities cannot be informed purely by economic growth. The new requirement to develop an integrated strategy will require additional understanding of the linkages between the growth strategies that RDAs have traditionally pursued in their area and the way in which our regions should develop spatially in the future to take account of environmental and social concerns. This requires change within RDAs, shifting them from a narrow focus on economic growth strategy and may require a change in culture.

In order to do this, RDAs will be reliant on the working knowledge of strong local authorities, sub regional partnerships and other regional organisations to inform this integrated strategy in the future.

Challenge 2: Working in partnership

The challenge of ensuring that RDAs have the skills and experience to develop the integrated strategy may also be addressed by closer partnership working between RDAs and local authorities. Our discussions revealed that there is an appetite for closer working relationships and that in some cases, RDAs and local authorities have struck up positive and effective working partnerships.

It is important that both RDAs and local authorities continue to foster and maintain partnerships in order to ensure that the strategic priorities within the integrated strategy can be delivered effectively on the ground. This will provide an avenue whereby the experience of local authorities and other organisations in delivery can be fed back to RDAs to inform future strategy. It is also important that wider partner organisations have an opportunity to input into the integrated strategy and there is likely to be a substantial appetite for this activity. Having the RDA as the single lead body on the whole range of issues that need to be put into the integrated strategy may perhaps make it simpler for a wide range of organisations to engage in strategy consultation and development. Developing both the RES and the spatial strategy will create a great deal of interest among a whole range of external organisations and the RDA may need to consider how it will manage, facilitate and administer this process in the future.

B. Introduction of a single regional PSA target on economic growth

Although RDAs will be expected to develop strategy, which is broader, integrating economic, social and environmental priorities for the future, they will be assessed on the basis of a simplified target framework with the focus on a single regional PSA target on economic growth.

The Review and latterly the Comprehensive Spending Review sets out the detail of the PSA target for improving economic growth in the regions and “reducing the gap in economic

growth rates between regions”. This will include indicators around:

- ❑ GVA per hour worked, as a measure of productivity;
- ❑ employment rate, showing proportion of the working age population in work;
- ❑ basic, intermediate and higher level skills attainment, to show skills levels, consistent with the Department of Innovation, Universities and Skills’ targets on skills;
- ❑ Research and Development expenditure as a proportion of GVA, as a measure of innovation; and
- ❑ Business start-up rates, as a measure of enterprise.

Whilst this recommendation has been welcomed because it simplifies the number of reporting requirements, there are some challenges still to be addressed:

Challenge 1: Measuring growth

This simplified reporting framework provides the basis for Central government to measure progress of RDA’s strategy and delivery framework. However, there is concern among RDAs at how this growth target can be delivered indefinitely, particularly with increasing uncertainty around global finance and the UK property market.

Local authorities are concerned about the fact that this measurement of progress does not make reference to other aspects of economic prosperity linked to so called “softer” outputs and outcomes” such as child poverty and the place making agenda.

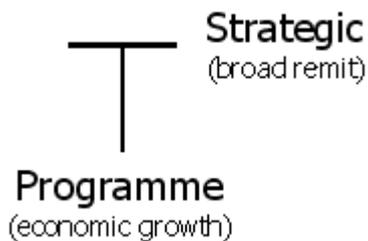
Challenge 2: Translating a broad remit into focused delivery on economic growth

An issue raised by RDAs is around how they will be able to maintain focus on delivering on a programme of economic growth with partners whilst at the same time developing a broad strategic overview for the region. One

RDA representative described this new perspective as being 'T' shaped (see fig.1). This is where strategic aims covered a broad remit at the top, but the delivery programme scope had become more focused on economic growth, and as a result it was more vital that it delivers.

This meant that 'softer schemes', whilst contributing to the strategic aims of the RDAs, would not deliver any specific benefits to the programme aims, and therefore, may not be considered as important.

Fig. 1 – Responsibility of the RDAs



C. Greater access to RDA funding

The possibility of delegating certain elements of RDA funding has raised many interested eyebrows at the local authority level.

The potential delegation of funds to a level below RDAs is motivated by an attempt by Government to re-direct RDAs in a more strategic direction, with the aspiration that less delivery function will provide RDAs with a less cluttered strategic vantage point from which to make effective decisions about the future of a region. There are a number of challenges arising from this recommendation that were raised in our research.

Challenge 1: Clarifying roles

The Sub national Review highlights the opportunity for local authorities to play a "stronger role in economic development and neighbourhood renewal" therefore placing local authorities in the role of delivery partners for the RDA strategy. Our research has suggested that local authorities are keen to become more involved in this delivery work in partnership with the RDAs. However, the

research also highlighted the fact that local authorities and RDAs are also keen to understand how their new roles will operate alongside that of sub regional partnerships and urban regeneration companies.

One local authority representative wanted to see the development of a clearer definition of what the true role of the region was, what the true role of the sub-region was and what the true role of the local authority was? Only then could the various levels work together to agree who is the most qualified to take on the funding and delivery of which services. The complexity of current multiscalar governance in the UK means that the management of delegated funding between RDAs and local government will vary from region to region and will be dependent on the strength of existing partnerships between the regional, sub regional and the local.

Challenge 2 – Management and administration of funding

Linked to a changing role for local authorities were concerns among RDAs about the capacity and expertise of local authorities to manage and administer large pots of funding, normally handled by RDA staff. Local authorities will need to be aware exactly what they will be taking on with such funds and need to look carefully at themselves, and genuinely assess their capabilities. All those spoken to agreed that there needs to be a full assessment of the funding responsibilities within organisations. One suggestion involved the use of "investment planning" as part of a more intelligent approach to the joint responsibility that all stakeholders should have in improving their region. This way overall priorities can be agreed and set, and responsibility for each aspect clearly laid out.

Local authorities will also need to prove that they are "fit for purpose" as one representative put it. Being fit for purpose may require the creation of a City Development Company (CDC). It appears that a number of local authorities are undertaking this route to ensure that they can present an accountable and capable body to which the RDA can feel confident to delegate funding. Once funding has been delegated, the RDA

may need to act as a support service, aiming to provide a transfer of knowledge, maybe through a secondment process, so that the local authority can successfully deliver that funding. Local authorities should in theory, offer an additional role in terms of being “fit for purpose”, in that the funding may be open to greater accountability through local democratic structures.

Challenge 3: Evidence based approach

If funding for economic development and regeneration lies with local authorities, there was consensus among our respondents that this process needs to be informed by an evidence-based approach. Local authorities need to demonstrate how best available funding is to be spent according to local priorities. However, one RDA representative was concerned at the lengths of time this can often take to inform the process. However the need for a firm evidence base is something that does provide local authorities with the opportunity to inform how regional funding should be spent.

Local authorities should be working to develop their positioning strategy which outlines the evidence for how funding should be spent in their area and how this contributes to the regional economic growth target. In many cases, Local Authorities will find themselves working alongside each other through Multi-Area Agreements and sub regional partnerships to develop this work.

D. New Accountability Arrangements

The broadened remit that the RDAs have been given, inevitably will come with greater scrutiny from a wider number of authorities. RDAs are already accountable to Ministers through the Department for Business, Enterprise and Regulatory Reform as well as to the National Audit Office. Proposals in the Review set out plans to have local authority level scrutiny as well as greater parliamentary scrutiny, through the recently proposed regional select committees, which will also help. The main challenges of this recommendation from our research are as follows:

Challenge 1: Accountability of the strategic process

Feedback from our research revealed that the discussion around scrutiny has not been resolved, with RDA staff keen to ensure that all those involved in the creation of the integrated regional strategy, and those involved generally in improving regional economic growth, are also held to account, and that the scrutinising bodies recognise the role that other partners have in delivering growth. Others felt that there should be more scrutiny on issues such as how RDAs manage risk and how they achieve good value for money. These are unlikely to be of major concern to the new raft of scrutineers and so clear responsibility over who will scrutinise what, needs to be established.

Challenge 2: Accountability of the delivery process

Questions were also raised in our research about the capabilities of local authorities to scrutinise their delivery of economic development at a regional level, as they may be focused too heavily on their own concerns. These are valid concerns, which need to be carefully considered. LSPs have a role to play in this process offering a broad membership of key players and stakeholders in an area to consider RDA activity and local authority funding priorities. In addition, accountability could also be provided through Local Area Agreements. Multi Area Agreements may also have an interesting role to play in this work as they will work on a more sub-regional basis.

Key to the internal scrutiny within Local Authorities is the presence of well informed, active and interested local members who understand the needs of their community and who can work closely with local officers to achieve this.

Other Recommendations

A lot of emphasis has been placed on the relationship between the local and regional actors involved in economic development and regeneration, but it should be noted that the Sub-National Review opened up the debate on central government relationships with their

regional and local partners. Before the sub-national agencies and authorities can begin to truly act independently towards the future of their own areas, there needs to be much greater freedom granted from Whitehall. The introduction of regional ministers was welcomed as providing a voice for the region in central government and to act as advocates for the development of the regions, but the role of central agencies in the regions needs to be clarified e.g. the new homes agency. And whilst RDAs are continually required to demonstrate how they contribute to national targets, it was hoped that in the future, the central agencies would demonstrate how they also contribute to regional aims. This would then allow for a better balance between regional and national targets and a better understanding of who is delivering what on which outcomes.

There is also a concern that RDAs are unable and unwilling to be outspoken, but in some cases this is necessary. One local authority wanted recognition by the RDA that in terms of the integrated strategy, the urban scale is the most sustainable scale on which to do things economically, environmentally and socially. However, this recognition wasn't anticipated to be forthcoming, since if an RDA were to make such a statement they would fear losing support from the vast swathes of rural towns and industries they are also supposed to represent.

Future Steps

The forthcoming national guidance covering the proposals made in the Review, to be published in December, is expected to set out the next steps that RDAs and local authorities will need to take in order to make these proposals work effectively, and will be eagerly anticipated by both RDAs and Local Authorities. We would argue that essential to the success of the Review's recommendations, and underpinning any guidance on next steps, is the presence of strong local authorities who have already started to plan the greater delivery role they might play in their area. They will also have an awareness of how their ideas will link to other structures such as sub regional partnerships and local area agreements.

Next steps guidance may include:

- Development of proposals by Local authorities (if two tier – county council) to improve their delivery role in their area in partnership with sub regional partnerships and in line with LAA targets;
- Mapping of Local authority activity against regional economic growth targets;
- Development of offer from regional organisations (eg environment agency, PTEs etc, local authorities and other key partners of how they will link to the new integrated strategy);
- Better definition of sustainable economic growth within RDAs and how they hope to achieve this in line with the new regional economic growth target;
- Clear identification of accountability arrangements, and to highlight who will scrutinise what, and who else may be accountable for achieving regional targets;
- Determination of what new skills each level may need to bring in, in order for them to deliver on their new roles;
- Identification of the necessary partnerships that need to be in place in order to ensure "fit for purpose" status and to secure RDA funding at a local level e.g. City Development Companies; and
- A time frame for how the suggestions made in the Review are going to be integrated.

The Review was meant to empower local areas and regions to be able to better control their own destiny. This is not the full autonomy that either are striving towards, but sets out an agenda towards such a point, whilst in the meantime seeking to strengthen relationships between the two, as well as with the burgeoning sub-regional level.

Also, the creation of the integrated strategy is a common sense proposal that now needs to be delivered in a common sense manner.

Those responsible for scrutiny need to ensure that they come to the table wearing the right hat, and that they don't use it as an opportunity to squeeze funding or power from each other, or attempt to simply undermine their work until it is passed on to them.

There is the opportunity for strong effective local authorities to take the initiative and outline proposals for their areas which will help to deliver against the new PSA target, opening up the possibility of additional funding and better partnerships at the local and sub regional and regional level.

Notes

¹ *Review of Sub-National Economic Development & Regeneration*, HM Treasury. Available at www.hm-treasury.gov.uk/media/9/5/subnational_econ_revie_w170707.pdf <17th July 2007>

² *The Governance of Britain*, Ministry of Justice. Available at www.official-documents.gov.uk/document/cm71/7170/7170.pdf <3rd July 2007>

This *Rapid Research* was written by Sarah Longlands, Director of Policy and Phil Northall, Policy Researcher at the Centre for Local Economic Strategies (CLES). CLES can offer support and advice on other aspects of economic development, regeneration or governance.

To discuss this research further or how CLES can assist you please contact Sarah on 0161 236 7036 or email sarahlonglands@cles.org.uk

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