

**Devon Strategic Partnership Delivery Board
Meeting 2nd August 2007**

Agenda Item 8: Sub-national Review

Recommendation

That the Delivery Board notes that the Govt has on 17th July published a report on the review of sub-national economic development and regeneration that has implications for partner organisations and potentially for the Devon Strategic Partnership. This item is to be led by Karen O'Donnell from GOSW; the paper here is the executive summary of the report which can be found in full at http://www.hm-treasury.gov.uk./media/9/5/subnational_econ_review170707.pdf

EXECUTIVE SUMMARY

Globalisation and technological change mean that regions and localities need the tools and incentives to build on their indigenous assets so that they can respond quickly to changing economic circumstances if they are to increase prosperity. Since 1997 the Government has therefore undertaken a series of reforms to devolve powers to regions and to local authorities. There are some encouraging signs of progress in meeting the Government's objectives for increasing growth and reducing disparities between regions and sub-regions.

However, the Government's targets for expanding economic growth and opportunity remain demanding. The challenges of reducing disparities between regions and localities are likely to be exacerbated by economic change. The scope and pace of global market integration, and the opportunities for trade provided by new technologies, mean that, in the UK, further specialisation may be required. We need further concentration on the high value-added, knowledge intensive activities in which experience shows that UK firms have a comparative advantage, including in services such as business, legal, creative and financial services.

The diversity of the UK economy means that different areas will be affected in different ways as further global integration and technological progress changes the economic landscape. Regions with clusters of sectors in high value-added manufacturing and services stand to gain from shifting comparative advantage, particularly as the importance of high value services grows. Similarly, regions with sectors that are early adopters of new environmental technologies, such as greater resource efficiency and low-carbon innovation may also gain from comparative advantage.

These trends mean that further reforms are required so that localities are able to provide an economic environment which enables firms to adapt to and create new technologies and opportunities. Regions and localities need greater flexibilities, powers and incentives to respond to economic change, and to ensure that all areas, including the most deprived, are able to contribute to and benefit from economic growth.

The conclusions of the Government's review of sub-national economic development and regeneration in England set out a response to these challenges. The plans build on the reforms made since 1997 and are based around the following principles:

Managing policy at the right spatial levels

- there should be a devolved approach, giving local authorities and regions the powers to respond to local challenges and improve economic outcomes;
- responsibilities should be allocated in line with economic impacts, based on

a bottom-up approach to collaboration between areas;

Ensuring clarity of roles

- objectives need to be clear, with a strong focus on economic development measures and opportunities for sustainable growth;
- decision-making should be as streamlined as possible and bureaucracy must be minimised;
- strategies, policies and funding streams must be rationalised and coordinated effectively;

Enabling places to reach their potential

- clear accountability and public scrutiny arrangements must be in place to allow for devolution of powers and responsibilities, including at the regional level, with an inclusive approach to development of regional strategies;
- places must have incentives to promote economic growth and tackle the problems of deprived neighbourhoods; and
- the public sector must have the capacity to work effectively with the private sector.

The reforms are in four key areas as set out below.

Empower all local authorities to promote economic development and neighbourhood renewal

So that all local authorities have greater flexibilities and incentives to promote economic growth and tackle the problems of deprived areas, the Government proposes to:

- consult on the creation of a focused statutory economic duty for local authorities which would require all upper tier authorities to carry out an assessment of the economic circumstances and challenges of their local economy;
- reform the Local Authority Business Growth Incentive scheme to give a clearer focus and incentive for local authorities to promote economic growth;
- concentrate neighbourhood renewal funding more closely on the most deprived areas with greater incentives for improved performance;
- reform the local authority performance framework so that it includes a clear focus on economic development and neighbourhood renewal;
- consider options for supplementary business rates, working with local government, business and other stakeholders;
- work with the Regional Development Agencies so they play a more strategic role, delegating responsibility for funding to local authorities and subregions where possible unless there is a clear case for retaining funding at the regional level or there is a lack of capacity at lower levels;

- ensure the proposed new homes agency also supports local authorities in its role focusing on housing, housing-related interventions, and the transformation of deprived communities;
- moving funding for most 14-19 year olds education and skills to local authorities as announced as part of the recent machinery of government changes; and
- work with local authorities to improve their capacity to deliver on their new, enhanced role on economic development and neighbourhood renewal.

Support local authorities to work together at the sub-regional level

Recognising that our cities and towns are often the engines of economic growth and that many economic markets operate at the level of sub-regions, including city-regions, the Government will:

- allow sub-regions to strengthen sub-regional management of transport, and including the possibility of giving greater long-term certainty of funding for transport where suitable governance arrangements exist, as part of the Local Transport Bill;
- develop proposals for Multi-Area Agreements to allow groups of local authorities to agree collective targets for economic development issues;
- work with interested sub-regions to explore the potential to allow groups of local authorities to establish statutory sub-regional arrangements which enable pooling of responsibilities on a permanent basis for economic development policy areas beyond transport;

Strengthen the regional level

The regional tier has an important role in developing overall strategy, identifying priorities and opportunities for growth. More policy and funding decisions should be devolved from the centre. However, accountability arrangements need to be clearer and simplification is required. The Government therefore proposes to:

- move to a single integrated regional strategy which sets out the economic, social and environmental objectives for each region;
- place on the Regional Development Agencies the executive responsibility, on behalf of the region, for developing the integrated regional strategy, working closely with local authorities and other partners;
- set each region a regional economic growth objective, and set out an expectation for regions to work with local authorities and other key stakeholders to set out plans for housing growth that meet regional demographic pressures, and help tackle affordability and the national under-supply of housing;
- reform significantly the RDAs' objectives, replacing their current tasking framework with a simplified outcome and growth-focused framework defined by a single over-arching growth objective;
- give local authority leaders in the regions responsibility for agreeing the regional strategy with the RDAs, and for effective scrutiny of RDA performance;

- work with Parliament to agree the best way of strengthening Parliamentary scrutiny of regional institutions and regional economic policy;
- carry out a second expanded Regional Funding Allocations exercise in the Comprehensive Spending Review period;
- ensure that the work of agencies including the Highways Agency, the new homes agency, the Environment Agency, the Learning and Skills Council (LSC) and Jobcentre Plus informs, complements and contributes to the priorities agreed in the regional strategies;
- reform significantly and simplify the RDAs' sponsorship framework in order to support the devolving decision-making agenda, drive further improvements in strategic and analytical capacity, clarify further the focus of the RDAs, and provide incentives for each RDA to improve continually its impact and performance; and
- give the RDAs a key role in both coordinating business support within the regions and in delivery, with consideration by the time of the Comprehensive Spending Review of a single brokerage service for business support and skills, and better alignment of the RDAs and the activities of UK Trade & Investment.

Reform central government's relations with regions and localities

The Government will also improve its support for regions and localities, including through reforms to:

- give the Department for Business, Enterprise and Regulatory Reform (DBERR) responsibility for performance management of the RDAs;
- give DBERR lead responsibility for the Regional Economic Performance Public Service Agreement (PSA);
- make the regional strategies subject to joint sign-off by the Secretary of State for Business, Enterprise and Regulatory Reform and the Secretary of State for Communities and Local Government;
- appoint a Minister for each of the regions, 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; and
- ensure that all the Departments involved in delivery are jointly responsible through the new performance management framework, as part of the Comprehensive Spending Review.

Chapter 1 of the review sets out the Government's objectives for improving regional economic performance and tackling neighbourhood renewal, and the role of policy interventions in tackling market failure which hold back economic growth. It also reviews the challenges of globalisation and technological change and the challenge of climate change for regions and localities.

Chapter 2 describes the reforms which the Government has introduced since 1997, including devolution to regions and the setting-up and development of the Regional Development

Agencies and the Regional Assemblies. It also describes the steps which the Government has taken to devolve powers and flexibilities to local authorities to enable them to play a greater role in promoting economic growth. It sets out the area-based initiatives the Government has introduced to tackle the problems of deprived areas, and other policy developments including work on spatial planning following the Barker Review of Planning, transport following the Eddington Transport Study, and skills following the Leitch Review of Skills.

Chapter 3 reviews progress to date in meeting the Government's objectives for improving regional economic performance and improving the performance of deprived areas. Although there are currently signs of improvements in the performance of the regions and in deprived areas, it is not possible to say whether the objectives will be met. Raising the growth rate in all regions and reducing the gap in growth rates between regions remains extremely challenging. With the exception of London, English cities are also lagging behind their European counterparts. The data on neighbourhood renewal are encouraging, with a narrowing of the gap at local authority level on key outcomes. However, persistent disparities remain between the poorest neighbourhoods and the rest of the country.

Chapter 4 reviews the further challenges to improving economic performance in England's localities and regions. Globalisation and technological change will increase the challenges in reducing disparities between regions and places. There are benefits in further devolution of decision-making but account needs to be taken of the spatial impacts of economic policies, with many economic markets operating at sub-regional levels. Objectives need to be clear, and it will be important to avoid duplication of strategies, bodies and funding streams. Accountabilities and incentives both need to be improved. Capacities also need to be strengthened and the evidence base and evaluation need to be better than they are currently. The public sector also needs to improve and simplify the interface with the private sector.

Chapter 5 sets out the Government's approach and principles for reform and Chapter 6 sets out the Government's proposals.