

2004 Spending Review: Meeting Regional Priorities

Response to the Regional
Emphasis Documents

July 2004



HM TREASURY



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ISBN: 1-84532-034-4

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INTRODUCTION

1.1 Allowing each region to contribute to the design and development of policy is an essential part of the Government's regional policy agenda. The Government believes that when decisions are taken with an awareness of regional priorities, they are likely to be better quality decisions and can allow more appropriate policy responses to be designed.

1.2 Consideration of the regional dimension to the 2004 Spending Review began almost a year before the announcement on 12 July 2004. The Regional Development Agency (RDA), Government Office (GO) and Regional Chamber in each region were invited by the Government to work together towards producing Regional Emphasis Documents. These documents sought to identify areas of public spending key to prosperity in the regions. Government departments took account of the Regional Emphasis Documents when identifying their priorities and completing their spending plans for the 2005-08 period. The primary purpose of this paper is to set out the Government's response to the Regional Emphasis Documents.

1.3 The priorities identified in the Regional Emphasis Documents can be divided into four areas:

- support for the Government's high-level target to make sustainable improvements in the economic performance of all English regions and, over the long term, reduce the gap in growth rates between the regions;
- recognition of the need to ensure that the evidence base firmly and demonstrably supports regional economic policy;
- ensuring that the regional level has the appropriate resources, responsibilities and flexibilities to deliver enhanced economic outcomes; and
- information on the way in which a wide range of policies impact on regions and localities.

1.4 In response to the regional input into the 2004 Spending Review, this paper is divided into five sections. Section 2 reaffirms the Government's commitment to improving regional economic performance. Building on the principles established in the *Devolving Decision Making Review*,¹ published alongside Budget 2004, section 3 describes how the Government is devolving further resources and responsibilities in every region. The fourth section of this paper sets out in detail how the 2004 Spending Review responds to input from the regions. The next steps the Government is taking to ensure that the evidence base supports the Government's regional policy agenda are summarised in the Annex.

¹ HM Treasury, Office of the Deputy Prime Minister & Department of Trade and Industry, *Devolving decision making: 2 – Meeting the regional economic challenge: Increasing regional and local flexibility*, 2004.

2.1 The 2002 Spending Review introduced a Public Service Agreement target to make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between regions. This target is reaffirmed for the 2004 Spending Review, with HM Treasury, the Department of Trade and Industry and the Office of the Deputy Prime Minister taking lead responsibility within the Government for delivering it.

2.2 In recognition of the relevance of regional economic policy to a wide-range of Government activities, as emphasised by the regions in their submissions to the 2004 Spending Review, other departments – notably the Department of Work and Pensions, the Department for Education and Skills and the Department for Transport – will play a key role in delivering the target. Box 2.1 explains how the Government will go about delivering the regional economic performance target in the 2004 Spending Review period.

Box 2.1: Delivering the regional economic performance Public Service Agreement (PSA) target

The Government's regional economic performance target is to:

“make sustainable improvements in the economic performance of all English regions by 2008 and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006.”²

The Office of the Deputy Prime Minister, HM Treasury, and the Department of Trade and Industry share this target, and are accountable for its delivery. There are factors across the regions that have allowed significant regional disparities to exist for generations. Tackling these requires joined-up action in the regions themselves, and across all Government departments. The economic evidence, and views expressed in the Regional Emphasis Documents, particularly highlighted the importance of skills, employment and transport, as well as innovation, enterprise and planning as key in reducing these disparities.

That is why the Secretaries of State for Education and Skills, for Transport, and for Work and Pensions are committed to playing their part over the 2004 Spending Review period in achieving the Government's objectives for regional economic performance. In particular:

- the Department for Education and Skills is committed to policies that raise skill levels and address regional skills disparities;
- the Department for Work and Pensions supports the objective of increasing employment in every region and narrowing regional disparities in employment rates; and
- the Department for Transport is committed to ensuring that transport continues to fully support regional economic performance.

More details on how Departments are contributing to the regional economic agenda are available in the supporting documentation for the Public Service Agreement target, available on HM Treasury's website.

² HM Treasury, 2004 *Spending Review: Public Service Agreements 2005-2008*, 2004

3

DEVOLVING DECISION MAKING IN EVERY REGION

3.1 A consistent theme of the Regional Emphasis Documents was the need for the Government to do more to devolve responsibility to the sub-national level. This was taken forward by the Devolving Decision Making Review, which established a set of principles to support greater devolution. This section summarises how the role of the RDAs, Government Offices, regional assemblies and local authorities will adapt to ensure that they are all geared towards delivering improved economic outcomes in the regions and localities.

Regional Development Agencies

3.2 The RDAs are the key strategic drivers of economic development and regeneration in the regions. Since 1999, the resources and responsibilities of the RDAs have been significantly increased to enable them to deliver their Regional Economic Strategies. The 2004 Spending Review maintains funding for the RDAs' Single Pot in real terms and devolves new responsibilities to the RDAs with a consequent transfer of around £200 million a year from 2005-06. The RDAs collectively will have annual budgets of £2.3 billion a year by 2007-08.

3.3 These increases in resources will enable the RDAs to take on new responsibilities, which the RDAs will be tasked to deliver against. Building on the principles set out in the Devolving Decision Making Review, the 2004 Spending Review:

- devolves responsibility to the RDAs for the delivery of Business Link services from April 2005. To enable an integrated approach to business support at the regional level, the RDAs will also take on responsibilities for the delivery of the Grant for Research and Development and promoting enterprise in disadvantaged areas;
- as part of the Government's response to the *Lambert Review*³, enhances the role of the RDAs in supporting business-university collaboration. The Government will task the RDAs to help a broader spectrum of businesses to develop productive links with the university base in each region, including through support for business-focused research;
- as part of the Modernising Rural Development Programme, devolves additional resources to the RDAs to meet rural socio-economic objectives, which were previously the responsibility of the Countryside Agency. This is in response to recommendations in the *Haskins Review*⁴. Rural priorities will be incorporated into the RDA 'tasking framework';
- announces that UK Trade and Investment's (UKTI's) contribution to the RDA Single Pot for inward investment will be increased in the 2004 Spending Review period. In addition, the RDA Chief Executive and UKTI will jointly sign-off plans for locally delivered trade development services to ensure close integration with Regional Economic Strategies; and
- responds to proposals made by the Northern Way Growth Strategy for devolving decision making in the 2004 Spending Review. On adult skills, this involves strengthening the role of the RDAs in developing joint plans for adult skills budgets with the Regional Directors of the Learning and Skills

³ Richard Lambert, *Review of Business-University Collaboration: Final Report*, 2003

⁴ Christopher Haskins, *Rural Delivery Review: A report on the delivery of government policies in rural England*, 2003

Council (LSC) through the Regional Skills Partnerships, in accordance with the statement of principles for future working between RDAs and the LSC drawn up in discussion between the Department for Education and Skills, the Department of Trade and Industry, RDAs and LSC. The Government agrees that there needs to be a much closer link between the LSC and the RDAs. It will support any region that develops their own mutually acceptable arrangements, in line with the concordat principles, to enable the supply of skills, training and workforce development for adults to be better matched to the needs of the region, within the framework of national targets and priorities set for the LSC and the RDAs. The Government will consider favourably proposals for further integration of planning and funding of adult skills and workforce development at the regional level including, in those regions where the RDAs and LSC desire it, a 'dual key' approach to the management of adult skills budgets operated by the RDA Chief Executive and the Regional LSC Director.

3.4 It is increasingly clear that regional choices on transport, housing, planning and economic development cannot be taken in isolation. The Government is examining ways to integrate RDAs' Regional Economic Strategies with regional transport and spatial development strategies, within a framework of indicative long term funding guidelines for each region.

3.5 These increases in responsibilities need to be balanced by appropriate accountabilities and incentives. With the greater flexibility and role of RDAs announced in the 2004 Spending Review it is important that performance monitoring provides clarity about their performance and incentives for improvement, while minimising the level of bureaucracy. To increase the focus on strategic outcomes, the Government is introducing a new strategic 'tasking framework' for the RDAs, which will ensure that stretching targets are aligned to the priorities identified in the Regional Economic Strategies as well as the most relevant Public Service Agreement targets. This will set all of the outcomes and deliverables for the RDAs that are agreed with departments. To improve performance management, the 2004 Spending Review announces that the Government and the RDAs will work together to agree a new RDA performance monitoring framework by April 2005 which is more transparent and efficient, less bureaucratic and places greater reliance on internal and independent audit.

3.6 The RDAs have agreed to deliver 2.5 per cent efficiencies per year in the 2004 Spending Review period, at least half of which will be cash releasing back into the Single Pot. The Department of Trade and Industry, as the sponsor department, will work with the RDAs to identify further efficiencies where possible. The RDAs will be expected to identify efficiencies in delivering on the additional responsibilities that have been devolved to them.

Elected Regional Assemblies

3.7 In those regions that want them, elected assemblies will play a key role in making regional governance more effective and more accountable to regional electorates. The Government believes that greater accountability will itself lead to a more effective decision making process. The Government is committed to introducing Elected Regional Assemblies in regions where people vote for them in referendums. Orders allowing referendums to take place on 4 November 2004 are currently before Parliament. Following extensive consultation, the Government announced last year that the level of interest was high in the North East, the North West and Yorkshire and the Humber. If these regions choose to adopt elected assemblies, the RDAs will become directly accountable to them. Regional assemblies will also have responsibilities in

areas such as economic development, planning, housing, transport, culture, public health, rural policy, environment, skills, sustainable development, fire and rescue and crime reduction. The Government is committed to meeting the costs of setting up Elected Regional Assemblies, in those regions that vote for them, as and when they are established.

Government Offices **3.8** Government Offices (GOs) continue to have a key role to play as part of central Government in the regions. GOs made a significant contribution to the formulation of Regional Emphasis Documents and will wish, with other regional partners, to keep track of the priorities they identified throughout the Spending Review period.

3.9 The Spending Review also requires GOs to deliver against challenging existing and new priorities, which include:

- the piloting of Local Area Agreements to rationalise or merge funding streams and to develop a strengthened conversation with councils and relevant partners focused on agreed outcomes;
- develop, with key partners, a regional rural delivery framework to deliver the objectives for regional and local delivery outlined in the Rural Strategy;
- the delivery of the Government's sustainable communities agenda; and
- improving outcomes in the most deprived areas through continued support for the Neighbourhood Renewal Fund.

3.10 The role of the nine regional GOs and the Regional Co-ordination Unit will need to adapt to the developing regional and local agenda and demonstrate their added value to the work of departments. Throughout the period covered by the 2004 Spending Review, the network plans to increase its efficiency further, so it is at least as efficient as the best public sector organisations. To encourage this, the 2004 Spending Review announced that GO administration costs will be reduced by 2.5 per cent a year in cash terms over the Spending Review period.

Local Authorities **3.11** The Government also recognises the need for flexibility at the local level. The role of local authorities, working in partnership with other organisations, is central to increasing sustainable economic growth, delivering quality public services and creating sustainable communities. Empowering local government with the flexibility it needs to deliver these is vital to the Government's public service reform agenda. Alongside significant increases in funding since 1997, local authorities have been given important new freedoms and flexibilities including new prudential borrowing powers and a 75 per cent reduction in the number of plans required from local authorities. Local authorities are also being given stronger incentives to support local economic growth through the introduction of the Local Authority Business Growth Incentives scheme, which will allow them to retain a proportion of increases in local business rates revenues from April 2005. Building on these measures, the Government is developing a ten year vision of the future for local government. Central to this vision is a new relationship between central and local government, in which local government should be given the space to determine and meet local priorities, subject to meeting a limited set of targets in areas appropriately considered as national priorities. Box 3.1 summarises the measures in the 2004 Spending Review relevant to local authorities.

Box 3.1 Local Authorities

Devolution and local decision making are essential to improving public services by empowering public service staff and professionals to make a difference, allowing services to be tailored to meet local needs and preferences, encouraging innovative approaches to delivery and increasing efficiency. Local government is central to this approach. Within the framework of strong national standards and accountability that the Government has established since 1997, it is necessary to allow regional and local initiatives and decisions to promote and deliver better public services and stronger economic growth. The 2004 Spending Review recognises and supports the work that the Office of the Deputy Prime Minister is leading on the development of a long-term strategy for local government and sets out further reform that supports the Government's aim of effective and efficient local authorities through:

- introducing three-year settlements for local authorities to allow them to plan budgets in advance. A move to three-year settlements will improve certainty and planning for councils, better supporting the prudential borrowing regime, which requires three-year capital strategies. It will also allow local authorities to cascade three-year budgets down to other local organisations and as appropriate, enable efficiency savings. It will also support improved financial management at the local level as well as help to reduce the volatility in council tax rises by increasing certainty in future funding. The Government will consult on proposals for three-year revenue and capital settlements with local government and other stakeholders with a view to agreeing local authority finance settlements for 2006-07 and 2007-08 during 2005.
- rationalising funding streams, including a new Safer and Stronger Communities Fund which will bring together provision from existing programmes from the Office of the Deputy Prime Minister and the Home Office to promote the Government's commitment to addressing liveability issues, including tackling anti-social behaviour and disorder, improving public spaces, reducing crime and empowering communities.
- the Office of the Deputy Prime Minister working with government departments, local authorities and their local partners over the 2004 Spending Review period to develop a strengthened conversation between central and local government and a single framework for departments to provide additional funding to areas through Local Area Agreements. These agreements will follow the recommendations of the Devolving Decision Making Review, focusing on outcomes and enhanced performance information, bringing together additional funding streams and, where appropriate, merging them. The Office of the Deputy Prime Minister will consult on this as part of their work on a long-term strategy for local government and will test this approach in one authority in each region in 2005-06.
- continuing to support Local Public Service Agreements by providing ongoing funding for rewards in the first and second generation of agreements, and strengthening the conversation between central and local government on shared priorities.

4

MEETING REGIONAL PRIORITIES

4.1 This section summarises the Government's response to the Regional Emphasis Documents (REDs) across the wider range of Government policies which impact on the regions. A more detailed response to the RED from each region will be published later in the year on the 2004 Spending Review pages of the Treasury website at: www.hm-treasury.gov.uk. Copies will also be available from Government Offices.

4.2 In October 2003, the Treasury asked the Regional Development Agency, Government Office and regional assembly (Greater London Authority in London) in each region to provide an input to the 2004 Spending Review. Regions were asked to focus on policies which might require a different emphasis in their region, and to identify areas where funding to meet national objectives does not match regional priorities. The regional institutions were also asked to identify those Public Service Agreement (PSA) targets which have a strong regional dimension and identify how they could assist in the delivery of those targets.

4.3 All nine English regions produced their Regional Emphasis Documents at the end of 2003. Departments considered the regional perspective provided by the REDs as they prepared their submissions to the 2004 Spending Review. The Treasury has used the evidence provided in the REDs as well as the evidence base on the Regional Economic Performance PSA target, to which the regions also contributed, to help determine departmental spending priorities. The REDs were also used to inform the Budget 2004 announcements regarding devolution of Business Link services to RDAs and, in transport, work to consider whether regional budgets and greater regional involvement can result in better outcomes. The Devolving Decision Making Review, published alongside Budget 2004, reported on the way in which the REDs had contributed to policy decisions. The work on PSA targets informed consideration of reforms to targets, particularly the regional economic performance PSA target outlined in Box 2.1. The Public Service Agreement White Paper⁵ refers to the contribution of the regions to discussions around PSA targets.

Overview

4.4 The English regions used the opportunity provided by the REDs to argue for rationalisation of funding streams into 'single pots'. REDs included examples of how flexibility and co-ordination of funding streams could improve delivery and outcomes. As a first step, as set out in Box 4.1, several existing funding streams from the Office of the Deputy Prime Minister and the Home Office will be amalgamated into a single Safer and Stronger Communities funding block from April 2005.

4.5 The West Midlands proposed the creation of a regional personnel function (funded through savings in pooling of some human resources functions) with the ability to create regional career paths, promote staff interchange between agencies and exchange of skills and expertise. The Cabinet Office will be working with departments to develop proposals for greater regional co-ordination of public sector personnel issues so that knowledge about planned changes following the Lyons and Gershon Reviews can be shared, and considering how regional career paths might be developed.

⁵ HM Treasury, *2004 Spending Review: Public Service Agreements 2005-2008*, 2004

4.6 The East, North East, West Midlands, East Midlands, South West, South East and North West called for a rationalisation of funding streams at the regional level and a reduction in ringfencing of budgets from departments. Another common theme was the need to reduce the number of conflicting targets aimed at regional and local delivery agents and to move towards a more integrated target framework.

4.7 The Devolving Decision Making Review (DDMR) reports, published alongside the Budget in March 2004, noted that many representations from the regions focused on the need to ensure that the regional and local institutions can work closely together to provide a joined-up approach to improving economic performance. In response, the report identified the need for changes to promote more flexible institutions and innovative and responsive policy design which is exercised at the level where market failures are most effectively tackled. It also identified the need for a robust regional evidence base.

4.8 The reports also set out the Government's approach for interventions to take place regionally, when there is a regional market failure. This means a market failure which only affects some regions or localities, affects different regions to different degrees or has the majority of its impact regionally or locally. Regional intervention should then take place, according to the principles in the Devolving Decision Making Review, when there are not significant and clear economies of scale or scope that would make national delivery more efficient.

Transport

4.9 Seven regions highlighted transport as a significant issue in their region. The North West and West Midlands both identified transport as one of their region's priorities. Issues raised varied from congestion in the Midlands and Yorkshire and the Humber to support for public transport in London to issues around peripherality and rurality in the South West and North East. The East Midlands noted that it has the worst road safety record in England, and the West Midlands highlighted its high population density and reliance on inter-urban transport links. The East and Yorkshire and the Humber proposed a national ports policy so that decisions on capacity and location could be taken strategically. As outlined in the recently issued Department for Transport 'Transport Strategy Review', the department will be undertaking a review of the policy framework for ports development once decisions have been taken on the current proposals for major container port development.

4.10 The 2004 Spending Review settlement for the Department for Transport underlined the Government's commitment to transport. Transport spend will rise by an average of 4.5 per cent a year in real terms over the next three years, amounting to over £2.4 billion additional funding by 2007-08, as compared to 2004-05.

Regional Transport Boards

4.11 All regions which included transport in their REDs, argued for the establishment of a Regional Transport Board (RTB). Some argued that regional involvement would improve connectivity with economic growth, housing and regeneration agendas. The South East RED suggested that the following should be members of the RTB: Government Office, Regional Development Agency, regional assembly, Highways Agency, Strategic Rail Authority and representatives of local highways authorities.

4.12 The South East proposed that the RTB should have a mandate to make recommendations on investment priorities and ensure their implementation. Yorkshire and the Humber suggested that the RTB should oversee and better join-up delivery of nationally agreed transport projects and advise Ministers on funding for local

authorities. The East of England RED argued that devolution of small-scale Highways Agency and rail spend would sharpen incentives for prioritisation of transport plans at the regional level and improve alignment with regional economic, spatial and social strategies.

4.13 The Government believes that choices on regional and local transport investment are best taken when informed by local stakeholders. It is also becoming increasingly clear that regional choices on transport, housing, and economic development cannot be taken in isolation. Therefore, the Department for Transport will be working with the Office of the Deputy Prime Minister and Department of Trade and Industry and regional stakeholders to examine new ways to integrate regional transport and economic and spatial development strategies within a framework of indicative long term funding guidelines for each region.

4.14 Following the Devolving Decision Making Review, pilots of regional advisory boards have been established in the South East and Yorkshire and the Humber regions. These pilots will be used to evaluate how such groups can best advise on spending priorities on the basis of illustrative budgets. The progress made will be evaluated in Autumn 2004.

4.15 The majority of the REDs referred to the need to ensure that the wider impacts on productivity are captured in the transport appraisal process. The West Midlands RED recommended that the appraisal system should take account of the impact of transport projects on competitiveness. The North West RED argued that investment decisions by national bodies must take full account of their impact on the regional economic performance PSA target. The South West argued that, given the importance of tourism to the region, leisure travel should be weighted as business travel in appraisals.

4.16 In response, the Department for Transport is working with the Treasury, the Department for Trade and Industry and the Office of the Deputy Prime Minister to improve the way that wider economic effects are captured in future appraisals.

Local transport **4.17** Some regions recognised the importance of local transport schemes in delivering a variety of Government agendas.

4.18 Local Transport Plans have brought greater certainty over funding and allowed consideration to be given to a broader range of investment options by local authorities. Guidance on the next set of transport plans for 2006-2011 will be published in summer 2004 and will look to build on the success of the previous plans.

Rail **4.19** Some regions called for greater public investment in rail, through, for example, grants from the Rail Passenger Partnership for small-scale local improvements and an increase in heavy rail capacity in the West Midlands.

4.20 The Government is investing record amounts in the railways. For example, the current £8 billion West Coast Mainline Renewal programme will benefit in particular the West Midlands and North West, by improving connections to London and the South East. The Secretary of State for Transport has made clear that, before the railway takes on new projects, he needs to be satisfied that there is proper control over existing costs and a significant improvement in performance. The recently concluded Rail Review considered the structural and organisational changes needed to enable the industry to deliver for its customers, the regulation of safety and the progress being made in improving performance and controlling costs. The Rail Review White Paper recognised that central government is not always best placed to take decisions on the transport

needs of different communities. Consequently, in respect of train services and – where possible – infrastructure, the Government is attracted to an increased role for regional and local stakeholders, where there are politically accountable and financially robust institutions, a clear financial responsibility and a distinct geographical pattern of service responsibility.

Finance 4.21 The London RED proposed new financing and funding arrangements such as bond financing, land value capture and business rates levies to fund transport projects. It also proposed that Private Finance Initiative (PFI) credit provision is extended for local authorities.

4.22 From 1 April 2004 local authorities have new freedoms to borrow for capital investment under the Prudential Regime. They no longer require permission from central government to undertake borrowing and are free to borrow to invest in capital assets subject to this being affordable. This should encourage more efficient and effective capital investment by making spending decisions more open and locally accountable, within a framework of professional accounting standards.

4.23 The Government is committed to supporting local authority PFI where it represents best value for money. Local authority PFI credits guarantee a stream of revenue funding to support the financing costs relating to the capital element of a PFI contract. The level of PFI credits agreed in each Spending Review is determined so as to strike an appropriate balance between long-term affordability and a balanced overall capital programme for the local authority sector. Local authority capital spending including PFI will more than double between 1996-97 and 2007-08. As a result of the 2004 Spending Review, local authorities will receive an additional £755 million of PFI credits in 2007-08, above 2004-05 levels. This includes £200 million for the Thames Gateway Bridge.

Public Service Agreements 4.24 Several regions commented that the Department for Transport PSA1 (congestion) should be modified to recognise the differing impact of congestion in different regions.

4.25 The Government acknowledges and understands these issues, but needs to strike the right balance between addressing serious problems in one part of the country and ensuring the rest of the country is not adversely affected.

Employment and Skills

4.26 The English regions referred to employment and skills as key issues in their REDs. Regions highlighted low skills levels in some areas, ranging from basic skills to management and leadership skills, as well as 'low wage-low employment' cycles, in some areas.

Employment 4.27 The North East highlighted the high proportion of workless people on incapacity-related benefits, and the North West, Yorkshire and the Humber and London also highlighted high levels of benefit dependency in some areas. London, the North East and Yorkshire and the Humber all said that there should also be more flexibility in helping workless people search for and make the transition to work.

The Government announced, in Budget 2004, that it will extend the additional support for incapacity benefit claims being offered in Pathways to Work pilots to existing, as well as new, claimants. And, in *Building on New Deal*⁶, the Department for Work and

⁶ Department for Work and Pensions, *Building on New Deal: local solutions meeting individual needs*, 2004

Pensions (DWP) announced its plans for a new framework for devolving more responsibility for the allocation of resources to local managers, within a national framework of rights and responsibilities, which will empower them to tailor provision according to their local labour markets and priorities and the barriers that stop individuals getting into work. DWP will be developing and testing this model in a number of prototype areas.

Education and Skills **4.28** The need for support for workforce skills was highlighted in the REDs and one region called for stability in skills policies so that long term solutions can be used.

4.29 The West Midlands identified skills as one of the region's priorities. The South West, North East, London, West Midlands, Yorkshire and the Humber and South East suggested that Learning and Skills Councils (LSCs) should have more discretionary funding available to them, and that LSC targets should be better co-ordinated with those of other agencies.

4.30 Like other policy areas, greater flexibility to tailor solutions to particular areas was a common theme. A particular issue was the need to place greater emphasis on the skills of those in work rather than being constrained to focus on current national priorities around the young and unemployed. Some regions commented that Department for Work and Pensions and Department for Education and Skills targets were not closely aligned when it comes to encouraging people to take high skilled jobs.

4.31 The Government is committed to addressing regional skills disparities, which can only be achieved with the Department for Education and Skills making a strong contribution. The national Skills Strategy, published in July 2003, set out a cross-Government agenda for improving both supply and demand for skills. It noted specifically the importance of ensuring that the supply of training better matches regional needs. It therefore announced the introduction of Regional Skills Partnerships, co-ordinated by the RDAs and bringing together, as core partners, the LSC, Jobcentre Plus, the Sector Skills Development Agency and the Small Business Services, so that the provision of adult skills and training, business support, labour market services, and support for innovation and productivity can be better integrated to serve the priorities set out in Regional Economic Strategies. Those Regional Skills Partnerships will be established in every region this year.

4.32 Earlier this year the Learning and Skills Council appointed Regional Directors. These Directors are key members of the Regional Skills Partnerships, able to use the LSC's planning and funding powers to deliver the skills needed to achieve regional economic development. They also ensure that the LSC plays its full part in developing the Regional Economic Strategy and Framework for Regional Employment and Skills Action (FRESA). During the last year, the LSC has carried out a fundamental reform of its planning and funding of training. The new planning cycle will provide a new focus within colleges and training providers on meeting employers' skills needs, and supporting local, regional and national sectoral skills priorities.

4.33 As part of the drive to improve vocational skills over 90 additional Centres of Vocational Excellence were created in 2003-04, offering specialist training and support for employers and learners in defined vocational areas. In addition, the LSC are leading Strategic Area Reviews across the country. They are assessing whether the pattern of further education and training meets local and regional skills needs and offer choice for employers. To encourage employers to invest in skills the Government is testing a range of demand led measures through Employer Training Pilots. So far the 12 Employer Training Pilots have enabled over 10,000 employers to sign up over 60,000 low-skilled

employees for training to gain relevant workplace qualifications. From September 2004, ETPs will cover over one third of England through 18 pilot areas. The full evaluation of two years' operation of the pilots will be completed by the end of the year.

4.34 Building on these reforms to develop Regional Skills Partnerships, the commitment to tackle barriers to joint working, and proposals from the Northern Way group of RDAs, the Government intends to strengthen the role of RDAs in developing joint plans for adult skills budgets with the Regional Directors of the Learning and Skills Council through the Regional Skills Partnerships, in accordance with the statement of principles for future working between RDAs and the LSC drawn up in discussion between the DfES, DTI, RDAs and LSC. The Government agrees that there needs to be a much closer link between the LSC and the RDAs. It will support any region that develops their own mutually acceptable arrangements, in line with the concordat principles, to enable the supply of skills, training and workforce development for adults to be better matched to the needs of the region, within the framework of national targets and priorities set for the LSC and the RDAs. The Government will consider favourably proposals for further integration of planning and funding of adult skills and workforce development at the regional level including, in those regions where the RDAs and LSC desire it, a 'dual key' approach to the management of adult skills budgets operated by the RDA Chief Executive and the Regional LSC Director.

4.35 The Government has also committed to take forward the New Deal for Skills and the implementation of the National Employment Panel report Welfare to Workforce Development. This will include closer working between Jobcentre Plus and the LSC, including the production of joint delivery plans. The plans will specify measurable objectives for a range of collaborative activities, including the respective contributions to national skills targets. This will directly address the concern noted above (paragraph 5.36) on the need for better alignment of targets and programmes to encourage people to take high skilled jobs.

Enterprise

4.36 All regions referred to enterprise and business support in their REDs, and noted the barriers to growth and low levels of business start ups outside London and the South East.

4.37 Many regions called for more flexibility in business support delivery to meet local and regional needs. Better links between the Learning and Skills Council and Small Business Service, to ensure business support is demand led were recommended. London called for funding for business support to be rationalised into fewer funding streams with more closely aligned policies and targets.

4.38 The North East argued that Regional Selective Assistance should be modified to focus on driving up value rather than job creation.

4.39 The South East proposed that where budgets for best practice, sectors and innovation were devolved to the regions, this should be done by reference to the value for money that each region can offer in terms of meeting the Department for Trade and Industry's national productivity target.

4.40 The Government announced in Budget 2004 that responsibility for the delivery of the Business Link network would be devolved to the Regional Development Agencies, from April 2005. This is expected to achieve better targeting of local barriers to enterprise and more flexible delivery of policies, informed by RDAs; greater local

knowledge, and more efficient management of the Business Link network, resulting in better value for money and greater coherence in business support delivery. Regional Skills Partnerships will bring together the planning of adult skills, business support and labour market services to reflect regional priorities and ensure that businesses can be offered better co-ordinated packages of support to meet business needs.

4.41 In addition, the 2004 Spending Review announces that the RDAs will also take on new responsibilities for the delivery of Grant for Research and Development (R&D) and promoting enterprise in disadvantaged areas.

4.42 These new responsibilities should provide RDAs with the flexibility they need to determine the delivery of business support as they see fit for their region, in line with priorities in their Regional Economic Strategies, and should also enable RDAs to better integrate and rationalise the business support offerings in their regions.

4.43 DTI has already devolved a further £10 million of its Selective Finance for Investment in England (SFIE) (formerly Regional Selective Assistance) budget to the RDAs. SFIE includes new criteria, so that it focuses more strongly on productivity and skills.

Science and Innovation

4.44 Most regions used their REDs to note the importance of innovation and science to their regional economies. The South West, Yorkshire and the Humber and the North West noted the challenges they face in increasing innovation and private sector investment in R&D. London noted the weak interaction between universities and small and medium sized enterprises (SMEs) as a barrier to innovation. The South East and East noted the importance of their R&D bases to the UK economy.

4.45 Regions made a range of suggestions in their REDs to stimulate increased investment in R&D and innovation. The East Midlands argued that a wider range of sectors, such as Business Links, should be included in steps to facilitate collaboration between universities and businesses. London argued that knowledge transfer funding streams should be rationalised and the North West argued that a single pot for innovation funding, joined up through regional programmes, should be created.

4.46 The Yorkshire and the Humber RED, along with the North West, North East and West Midlands, argued that proximity plays a role in knowledge transfer from higher education to business and that funding decisions therefore have an impact on regional economic performance. The Yorkshire and the Humber RED also called for the implementation of the recommendations of the Lambert Review of Business-University Collaboration⁷.

4.47 The South West argued for increased investment in the region's research base and knowledge transfer capacity, to help higher education institutions with the potential to do so to achieve world-class status. The South East RED argued that RDA funding arrangements must reflect the size and potential of the science, engineering and technology base in each region and encourage cross-regional collaboration.

4.48 The Government published a ten-year investment framework for science and innovation alongside the 2004 Spending Review to provide a platform for future

⁷ Richard Lambert, *Review of Business-University Collaboration: Final Report*, 2003

productivity growth and public service delivery through innovation to the UK⁸. As a first step, the 2004 Spending Review provides for substantial increases in science spending through the DTI and DfES (with the devolved administrations receiving corresponding increases) to maintain and build on the UK's excellent science base, in total over £1 billion extra by 2007-08 compared with 2004-05, which will benefit all of the UK's regions and nations.

Knowledge transfer **4.49** The *Lambert Review* confirmed the view that proximity is important in successful knowledge transfer and collaboration, and suggested that the RDAs are therefore well placed to promote business-university collaboration. In response to the *Lambert Review*, the Regional Development Agencies in England are being given an enhanced role in supporting business-university collaboration. The Government will task the RDAs to help a broader spectrum of businesses develop more productive links with the university base, including through support for business-focused research.

4.50 Building on current plans to support business innovation through links to the research base, the three Northern RDAs will enhance those plans in response to Lambert to over £100 million by 2010, strengthening university-business collaboration and technology transfer across the North. To complement this and the growing engagement of all RDAs' in this area of economic development, the Government will work with RDAs in the development of the new Higher Education Fund metrics, to ensure that proper account is taken of measures underpinning Regional Economic Strategies and the RDAs' 'tasking framework'. It is important that universities and the RDAs work in partnership to deliver this agenda.

4.51 The 2004 Spending Review also collates growing resources for DTI's knowledge-transfer and innovation goals. DTI's Technology Strategy, with a total budget of at least £178 million in 2007-08, will fund collaborative research and development (encouraging businesses and universities to work together on research and development) and knowledge transfer networks (so that location is not a barrier to exploiting new technologies). DTI's settlement will also fund knowledge transfer partnerships (allowing companies to benefit first-hand from qualified scientific advice).

4.52 The East of England RED argued that the short-term and competitive nature of third-stream funding allocation – through the Higher Education Innovation Fund (HEIF) – hinders the creation of stable structures able to attract and retain the best academic talent. The East Midlands RED also argues that HEIF should receive continued support, while the London RED argued that knowledge transfer funding streams should be rationalised.

4.53 The Government's aim for future policy is to create a funding regime that promotes and rewards high quality knowledge transfer, addresses demonstrable funding gaps inhibiting the translation of research and expertise into the market, and further embeds knowledge transfer as a permanent core activity in universities alongside teaching and research.

4.54 The Government confirms its support for the Higher Education Innovation Fund (HEIF) as a dedicated third stream of funding for universities in England in order to increase capacity within the university sector for knowledge transfer, and will increase the funding for HEIF to £110 million a year by 2007-08. The Government will work with funding bodies, Higher Education Institutions (HEIs) and RDAs to develop

⁸ HM Treasury, Department for Education and Skills and Department of Trade and Industry, *Science and innovation investment framework, 2004-2014*, 2004.

metrics to underpin the allocation – to HEIs on a national basis – of an enlarged HEIF, ensuring that proper account is taken of measures underpinning Regional Economic Strategies and the RDAs’ tasking framework, and that universities and the RDAs work in partnership to deliver this agenda.

Public Service Agreement targets **4.55** Several regions commented that DTI PSA 2 on science and innovation should give a higher priority to innovation, with science and knowledge transfer as supporting objectives.

4.56 The DTI PSA 2 target for the 2004 Spending Review makes a commitment to “increase the overall innovation performance of the UK economy making continued progress to 2008, including through effective knowledge transfer amongst universities, research institutions and business”. The RDAs will agree with Government their own targets, which will relate to this PSA target.

Housing

4.57 Each of the nine English regions referred to housing in their RED. The South West noted that parts of its region are suffering from ratios of house prices to income of similar levels to London. The South East and East are concerned about pressures arising from growth, whereas the North West and Yorkshire and the Humber focused on problems arising from housing market failure. London and the North East referred to poor quality housing in parts of their region.

4.58 Regions made a wide range of specific proposals to tackle their housing problems. Many of the proposals were consistent with the findings of the Barker Review of housing supply ‘Delivering stability: securing our future housing needs’, which reported in March 2004.

4.59 The South East proposed that the Right to Buy scheme should be reviewed to analyse whether there is a net cost to the Exchequer and whether local authorities should be allowed to suspend Right to Buy or reduce the discounts available.

4.60 The most recent analysis shows a long-run saving to the Exchequer of the Right to Buy policy. Nevertheless, the Government has lowered discounts in 41 pressurised areas and is reviewing the position in other areas. The Housing Bill includes measures designed to discourage profiteering by tenants and companies.

4.61 The 2004 Spending Review provides for a substantial increase in housing investment. In particular, it responded to the recommendations in the Barker Report providing a 50 per cent increase in new social house building – an extra 10,000 homes a year by 2007-08 compared to 2004-05, the establishment of a £150 million Community Infrastructure Fund, and resources to deliver 200,000 homes in the four growth areas and goes further by responding to new proposals for growth, all of which will facilitate a more responsive housing supply, improved affordability and reduced homelessness.

4.62 The settlement also trebled funding to address the problems of areas facing low housing demand and abandonment, with funding of over £450 million a year by 2007-08 compared to 2004-05. This additional funding will enable an expanded programme for the North and Midlands.

4.63 The 2004 Spending Review will enable ODPM to introduce a gap funding scheme for ‘negative value’ housing stock transfers which will help local authorities, particularly those in deprived areas with a legacy of poor social housing to bring this stock up to a decent standard.

4.64 The East Midlands RED called for a shift in resources from the East, South East and London to assist in meeting the needs of the Milton Keynes/South Midlands growth zone – some of which falls in the East Midlands area.

4.65 The Government is considering the way in which Regional Housing Board funds are distributed between regions, including the extent to which new affordable housing in Growth Areas will meet needs in other regions and how this might be taken into account in the distribution of resources.

Neighbourhood Renewal

4.66 Most regions referred to neighbourhood renewal in their REDs. Regions highlighted the extent of deprivation in their area and the importance of recognising intra-regional disparities.

4.67 The South West argued for a regional budget to tackle deprivation. Other regions argued for rationalisation of existing funding streams which are aimed at tackling deprivation. The Yorkshire and the Humber RED proposed a Social Inclusion Fund to pool resources from around 20 separate funding streams administered separately by the Government Office. The East of England argued for a rebalancing of neighbourhood renewal resources between policy and delivery, with a greater role for Government Offices and local partnerships to concentrate on effective delivery. The West Midlands proposed that the Neighbourhood Renewal Fund should be reorganised to provide a combination of support for administration and performance grants based on progress against floor targets.

4.68 The Devolving Decision Making Review, described in paragraphs 4.7 and 4.8 above included a range of measures and principles to address some of the issues raised in REDs. Similarly, Local Area Agreements, described in Box 4.1, are intended to meet some of the needs raised in REDs.

4.69 Good progress has been made in deprived areas since publication of the National Strategy for Neighbourhood Renewal in January 2001, including improved educational attainment, reduced levels of crime in high crime areas and more people into work in areas with the worst labour market position. The Government, however, remains committed to reducing the gap between the most deprived areas and the rest of the country. In order to respond to the continuing challenge in these areas the 2004 Spending Review rolls forward provision of £525 million a year through the Neighbourhood Renewal Fund and continues provision for the New Deal for Communities programme. To reinforce this commitment, the 2004 Spending Review strengthens the current suite of PSA floor targets which hold departments accountable for their performance in deprived or otherwise challenging areas as well as the national average. This will encourage departments to give greater priority to deprived areas in mainstream budgets and further drive up the performance of key public services such as health, education and the police.

4.70 The Government is also committed to improving the quality of the local environment and addressing other ‘liveability’ issues such as anti-social behaviour and disorder. Safe, clean and attractive public spaces have an important role, not just in improving the physical environment in our towns and cities, but also in enhancing people’s health and well-being, reducing crime and the fear of crime and increasing prosperity. The Cleaner, Safer, Greener Communities initiative launched on 1 July brings together a range of Government policies, programmes and support under a single brand to promote action to improve the quality of life in every neighbourhood by

making our streets, parks and other public places better. The initiative's website, www.cleanersaferegreener.co.uk, includes information, advice and ideas from across Government and its agencies, to encourage people to use, care for, maintain and improve their local environment.

4.71 In recognition of the importance the Government attaches to improving 'liveability' outcomes, the 2004 Spending Review also establishes a Safer and Stronger Communities Fund (see Box 4.1) which draws together a number of existing programmes that will enhance flexibility and reduce bureaucracy at the local level. This is underpinned by a new national target to deliver cleaner, safer and greener public spaces.

Health

4.72 Several regions identified health inequality as a significant issue in their region. Regions highlighted where they have relatively low levels of life expectancy, or high levels of sickness absence and chronic illness.

4.73 Both the East and West Midlands argued for better joining up between departmental priorities, for example to link transport targets on road safety to health targets. The North West suggested that the Department of Health should ensure its performance management systems reflects its wider role in regeneration.

4.74 The Department of Health's first objective is to improve the health of the population. This includes increasing life expectancy, reducing health inequalities, reducing infant mortality, tackling obesity in children and reducing teenage pregnancies.

4.75 The 2004 Spending Review announced new floor targets to assist in tackling health inequalities. Floor targets set minimum standards and are a way of ensuring that poor performing areas receive attention, as well as those areas where higher level targets are easily achieved. There are new targets on smoking, and floor targets will be added to the existing targets on mortality from cancer and heart disease.

Crime and Social Inclusion

4.76 Regions used their REDs to highlight where they have levels of crime that are higher than the national average.

4.77 The West Midlands, East and London argued for rationalisation of Home Office funding streams aimed at tackling crime and disorder issues. London argued for greater flexibility over funds, including the ability to withdraw funding from underperforming partnerships. The South West argued that regions should have more flexibility to pool budgets with other organisations to improve effectiveness. The East Midlands suggested that Government Offices could negotiate stretching targets for high crime areas, within a framework agreed by the Home Office.

4.78 To increase capacity at the local level for local authorities, the police and other partners to improve liveability, strengthen communities and to augment the contribution made by the voluntary and community sector to this agenda, the 2004 Spending Review also sets out plans for simplified funding for safer and stronger communities. As described in Box 4.1, this will bring together existing funding streams from ODPM and the Home Office to tackle anti-social behaviour, improve public spaces, reduce crime and empower communities at the neighbourhood level. This will

allow services to be provided by the voluntary and community sector where this makes local sense.

4.79 The 2004 Spending Review announced commitments to reduce crime by 15 per cent, and further in high crime areas, and also to reduce the fear of crime and anti-social behaviour. There is a significant overlap between high crime and high deprivation areas, and also to reduce the fear of crime and anti-social behaviour. To strengthen support for neighbourhoods, the Government will increase neighbourhood policing, including providing 20,000 Community Support Officers by 2008. The drug PSA target now reflects an increased focus on outcomes, with an overarching commitment to reduce the harm caused by illegal drugs.

Environment

4.80 The East Midlands noted that it has the lowest level of wildlife rich habitats and biodiversity of all English regions, and – like the South West - argued for a single fund to facilitate co-ordination of funding for environmental improvements.

4.81 The South West, noting its high quality environment, proposed that departments should recognise the importance of environmental assets to regional infrastructure. The South West also recommended that regional funding for renewable energy opportunities be continued.

4.82 The South East RED argued for innovative ways of developing environmental infrastructure for waste, water and energy. The East, which noted it is the driest region in the country, argued for greater emphasis on water efficiency and recycling.

4.83 In line with the Budget 2003 commitment that landfill tax increases from 2005-06 will be revenue neutral to business as a whole, the revenues, rising to £146 million a year in England by 2007-08, will be used to fund a roll out of programmes to support business in improving its resource efficiency. This will include support that specifically targets waste minimisation and diversion of waste from landfill, as well as resource efficiency more generally. Up to £20 million a year by 2007-08 of these resources will be used to co-fund the Department for Trade and Industry technology strategy to support research and development aimed at waste minimisation and energy efficiency, and at least £40 million a year by 2007-08 will be used to expand the Carbon Trust's programmes supporting business in improving energy efficiency. In introducing these new programmes, the Department for the Environment, Food and Rural Affairs will establish a customer focused delivery structure. Local authorities also have a crucial role to play in meeting the challenge of delivering more sustainable waste management practices.

4.84 The 2004 Spending Review has provided additional resources for the local authority Waste Management Performance Reward Grant, which will be introduced in 2005-06, to help local authorities achieve a step change in their waste management. Additional Private Finance Initiative (PFI) credits will enable further investment in waste disposal facilities.

4.85 Funding for sustainable energy of £85 million by 2007-08, in addition to a total of £60 million allocated in the Energy White Paper, will help the UK meet its Energy White Paper goal of putting itself on a path to cut UK carbon dioxide emissions by some 60 per cent by about 2050, with real progress by 2020. It will also put DTI on track to meet the Government's aim for renewables, which is to supply 10 per cent of UK electricity in 2010, subject to the costs being acceptable to the consumer.

Sustainable Development

4.86 The principle of sustainable development is recognised by all the regions. It seeks to develop integrated policy responses that take account of social, environmental and economic considerations.

4.87 In line with the principle of devolving decision making it is right that regional bodies should feel empowered to develop sustainability policies that recognise the needs and circumstances of their own region. Regional strategies of the different regional bodies recognise sustainable development as a cross-cutting theme and all the regions have existing sustainable development frameworks.

4.88 The Government will continue to work with regional bodies to ensure that sustainable development is pursued alongside regional development outcomes, and to demonstrate long-term progress towards integrating social, economic and environmental considerations, in a way that is specific to each region.

Rural Issues

4.89 The North West argued for greater co-ordination of rural priorities and the North East called for funding allocations to reflect the dispersed nature of rural areas and the increased costs of service provision.

4.90 The South East and South West both referred to the Haskins review of rural development arguing that its recommendations should be implemented, and that functions should be of a scale sufficient to the South East rural profile.

4.91 The rural productivity target has been aligned more closely with the regional growth target. The Department for Environment, Food and Rural Affairs (DEFRA) is developing rural versions of the regional growth indicators in conjunction with the RDAs and the Treasury.

4.92 In line with the recommendations of the Haskins Rural Delivery Review, an extra £21.3 million has been devolved to the RDAs to better meet the government's rural socio-economic priorities.

4.93 DEFRA and the Countryside Agency have organised a seminar and commissioned reports to look at the funding of rural public services and in particular whether there are additional costs of delivering services in rural areas.

Children and Young People

4.94 The West Midlands noted its relatively high level of infant mortality, and London noted high levels of child poverty. The region argued that the range of programmes targeted at children should be top-sliced to ensure adequate resources to support delivery of the Children's Green Paper, and that the Children's Fund should be mainstreamed.

4.95 London proposed a single funding stream for childcare, which would reduce the costs involved in matching funding from different sources and contribute to a pan-London focus on increasing provision and training. The East noted that more consistent childcare provision is one of the most important things in helping lone parents and women back into work.

4.96 The Chancellor announced an increase of £300 million in 2006-07 and £500 million in 2007-08 compared to 2004-05 to the Formula Spending Share for Children's Social Services in this year's Budget. Some of these resources might be used by local authorities to support Children's Green Paper implementation programmes. Additional top-sliced funds from relevant children and young people programmes in the West Midlands will be an important contribution to this.

4.97 In his Budget announcement, the Chancellor confirmed that the Children's Fund will be continued to 2008 to allow a smooth transition to new Children's Trusts. This process can take place at an earlier date, on a case-by-case basis where Children's Trusts are demonstrably operational.

4.98 The 2004 Spending Review announced an additional £769 million for early years and childcare in 2007-08 compared to 2004-05. This funding will be used to deliver 2,500 Children's Centres by 2008, going beyond the Government's commitment to a Children's Centre in each of the 20 per cent most disadvantaged wards in England. This will provide childcare places, early years education and Sure Start services for children living in these areas, contributing to the Government's aim of tackling early disadvantage and giving every child the best possible start in life.

Regeneration and Public Realm

4.99 The North East and North West both referred to the importance of investment in public realm as a driver of regeneration. The North West proposed that endowment payments by RDAs and other bodies should be allowed to provide for investment in public realm. Yorkshire and the Humber argued that financial and fiscal mechanisms should be developed to encourage commercial developers to incorporate public realm in development schemes.

4.100 Delivering an urban renaissance in our towns and cities is a major priority for the Government and a key component in the drive to improve regional economic prosperity and create jobs in our poorer urban areas. Physical regeneration has a vital role in this and the Government is keen to remove the barriers that prevent its successful implementation. Weaknesses in the planning system are being addressed to make it faster, more flexible and responsive. The *Egan Review*⁹ put forward a challenging set of proposals to drive forward the skills agenda, including a regeneration skills agenda. Funding and fiscal incentives have been introduced to encourage regeneration in urban areas and physical regeneration is being promoted through Urban Regeneration Companies and Housing Market Renewal Pathfinders.

4.101 Improvements in the public realm – well designed civic squares, parks, open spaces, canal and river frontages, culture and sports facilities - are often the catalyst to encourage large-scale investment in wider regeneration. Many of our city centres have also been transformed through imaginative restoration of mills and warehouses and by well designed modern architecture. English Partnerships, the national regeneration agency, together with RDAs and organisations such as the Commission for Architecture and the Built Environment (CABE) and CABE Space are working with local partnerships and communities to drive forward improvements in the public realm and breathe new life into our towns and cities.

⁹ John Egan, *The Egan Review: skills for sustainable communities*, 2004.

Regulation

4.102 The North East and South East commented that regulation on smaller businesses should be reduced. The North East said this would help enhance entrepreneurial dynamism in the economy, and the South East argued that deregulation is essential to ensure the region maintains and improves its competitive position.

4.103 Effective yet light-touch regulation is vital if UK businesses are to remain competitive, and the Government is taking forward a set of measures with the aim of improving the regulatory regime, from the point at which a regulatory proposal is first considered, to its eventual implementation and enforcement.

4.104 All proposed major new burdens on business now have to go before the Panel for Regulatory Accountability, chaired by the Prime Minister, before they can proceed for wider Ministerial clearance. This is a significant hurdle Departments now have to face if they plan to introduce a new regulatory impact.

4.105 In Budget 2004 the Government asked Philip Hampton, former finance director of Lloyds TSB, BT and British Gas, to consider the scope for promoting more efficient approaches to regulatory inspection and enforcement while continuing to deliver excellent regulatory outcomes. This is now underway.

Pay

4.106 London and the South East argued that regional pay should be introduced so that the pattern of public sector wages across the regions is made the same as in the private sector.

4.107 Yorkshire and the Humber argued that the impact of regional disparities when considering policies on regional pay differentials should be taken into account.

4.108 The Government continues to strongly promote the use of local pay across the public sector as a means to ensure it has the right people in the right place with the right motivation to deliver services to the public. Local pay also supports regional economic development by improving the operation of local labour markets, which ensures that the Government has the right recruitment and retention levels and makes the movement of staff and their skills easier.

4.109 The key aim of the policy is to increase pay flexibility within national bargaining frameworks, where this can assist to meet recruitment and retention needs and better reflect local labour markets. It is critical this policy is developed by using transparent, objective and evidence based information, to ensure pay movements will have the most positive effect.

4.110 This year evidence will be provided to Pay Review Bodies on local recruitment and retention needs and where pay flexibility could address current and upcoming issues. Civil service departments have been required to consider local pay as part of their remit proposals for the current bargaining round, and all departments are to assess the need for local pay within the context of their pay and workforce strategies.

Culture and Tourism

4.111 The South West identified the importance of tourism to its economy, and argued that leisure travel should be weighted as business travel in appraisals. The South West also called for departments to work together to ensure that better business support is provided to those in the tourism sector.

4.112 The Department for Culture, Media and Sport (DCMS) already links with other Government departments and bodies such as the Small Business Service, to support tourism and to achieve the department's aim of increasing the productivity of the tourism and leisure industries. DCMS funds VisitBritain to market England domestically and Britain to international markets as a tourist destination. With tourism being repositioned as a driver of regional economic performance, the department also supports regional tourism by contributing funding to Regional Development Agencies.

4.113 In addition to the Department's sponsorship of the tourism industry, DCMS investment in heritage, museums and galleries supports regional cultural tourism.

4.114 Following the 2002 Spending Review the DCMS allocated funding to a new programme for regional museums and galleries, Renaissance in the Regions. Renaissance works by bringing together museums in each region into a 'hub' in which they can pool resources, share best practice and take the lead for other museums throughout the region. The programme began in April 2003 and so far, three Phase 1 hubs have been fully funded (North East, South West and West Midlands) and the remaining six Phase 2 hubs have been given a smaller amount of funding to consult, research and pilot new services.

4.115 In the first year of Renaissance, Phase 1 hubs regions reported a 28 per cent increase in visits by school children. The settlement for DCMS announced in the 2004 Spending Review will allow the Renaissance programme to be extended to all nine English regions.

4.116 The 2004 Spending Review announced that the DCMS contribution to the RDAs will be brought into the Single Pot, increasing the RDAs' flexibility to promote tourism in each region in line with the Regional Economic Strategies.

Northern Way Growth Strategy

4.117 The Government has also welcomed the proposal made by the three Northern RDAs to develop a Northern Way Growth Strategy. Box 4.1 summarises the measures in the 2004 Spending Review that support objectives of the Northern Way.

4.118 All nine of the English RDAs consider it a priority to support and develop their region's manufacturing base. To deliver this, they have all produced manufacturing strategies for their regions. The three Northern RDAs have committed to build on their regions' collective manufacturing strengths and develop a pan-regional strategy and action plan to support manufacturing as part of the Northern Way. This will be supported by a new, cross-regional approach to the Manufacturing Advisory Service in the North.

4.119 The Regional Development Agencies in the Midlands – East Midlands Development Agency and Advantage West Midlands – together with their key regional partners, are discussing areas on which they could co-operate to address supra-regional issues, under the 'Midlands Way' initiative. Propositions will be put forward for the Sustainable Communities Summit in January 2005.

Box 4.1: The Northern Way Growth Strategy

The three northern RDAs (ONE North East, Northwest Development Agency and Yorkshire Forward), along with other regional partners, have developed the idea of a Northern Way Growth Strategy to establish the North of England as an area of exceptional opportunity with a world-class economy and a superb quality of life. The Government has warmly welcomed this proposal, which builds on the North's many assets and aims to harness its untapped potential for economic growth.

The Northern Way recently submitted an interim report and a contribution to the 2004 Spending Review to the Government. Its final report will be published later this year. The Spending Review announced a number of measures that respond to inputs from the Northern Way, providing a framework for developing, in the final report, an ambitious strategy to boost the North's economic performance. These include:

- **skills** – the Government will consider favourably proposals for further integration of planning and funding of adult skills and workforce development at the regional level including, in those regions where the RDA and LSC desire it, a 'dual key' approach to the management of adult skills budgets operated by the RDA Chief Executive and the Regional LSC Director.
- **innovation** – responding to the *Lambert Review*, the Government will give the RDAs new responsibilities for promoting business-university collaboration. It is important that universities and the RDAs work in partnership to deliver this agenda. The Government will work with RDAs in the development of the new Higher Education Innovation Fund metrics to ensure that this nationally run scheme takes account of regional priorities. In turn, building on current plans to support business innovation through links to the research base, the three Northern RDAs will aim to enhance those plans in response to the *Lambert Review* to over £100 million by 2010, strengthening university-business collaboration and technology transfer across the North. The Government also supports the outline proposals for a single Northern Science and Industry Council;
- **enterprise** – to increase regional flexibility for small business support, the Government is devolving to the RDAs responsibility for delivery of Business Link services. The Government also endorses the Northern Way's proposal to develop a pan-Northern cluster policy;
- **transport** – the Government has announced its intention to significantly increase the level of regional involvement in transport policy and investment choices. It will also consider whether devolution could be accelerated for the Northern Way regions; and
- **housing** – to increase regional flexibility, the Government is introducing a housing affordability target which will feed into Regional Spatial Strategies ensuring they take account of market indicators. The Government will also be making it clear that there can be regional variations from national planning policy where this can be justified in the Regional Spatial Strategies.

A

IMPROVING REGIONAL INFORMATION

A.1 It has been recognised both by the regions, in their contributions to the Devolving Decision Making Review and the 2004 Spending Review, and by the Government, that improving the quality of regional data is critical to improving the regional policy framework and delivering the regional economic performance target.

A.2 The Government has introduced a number of initiatives, in the run-up to the 2004 Spending Review, towards improving the regional evidence base. Christopher Allsopp was commissioned to carry out an independent review of the regional information and statistical framework needed to support the Government's objective of promoting economic growth in all the regions and reducing the persistent gap in growth rates between the regions. The Allsopp Review¹⁰ issued its final report in March 2004 and made a number of recommendations accepted by the Government. Yorkshire and the Humber used its Regional Emphasis Document to call for the recommendations of the Allsopp Review to be fully addressed. In response, the Office for National Statistics will, beginning with new surveys in 2006, deliver reliable baseline Gross Value Added estimates by region, a framework that better reflects economic diversity and change, and put statisticians in every region by March 2007 to strengthen links with devolved administrations and regional bodies.

A.3 The Government published a consultation document in March, *Productivity in the UK 5: Benchmarking UK Productivity Performance*¹¹, which included proposals on how a set of productivity indicators can be utilised at the regional level. Taken together with relevant labour market and other data, indicators for the drivers of regional productivity will provide an analytical basis to monitor growth at a regional level.

A.4 The Government has also taken steps to improve the quality of regional spending data, in response to the McLean study of the Government's regional spending statistics. Building upon the recommendations of the McLean report¹² and the Allsopp review of regional statistics, more and better quality regional spending data was published in Public Expenditure Statistical Analyses (PESA) 2004.

A.5 The Government is committed to a fair and effective regional distribution of spending. As the level of public spending in each region is a reflection of a large number of allocation mechanisms, each tailored to the circumstances of the particular spending programme, achieving this is more complex than reforming any single allocation mechanism. However, the Government is continuing to improve regional spending plans by:

- encouraging departments to ensure that their allocation mechanisms are up to date and reflect the needs of their programmes; and
- intending to publish regional data in future departmental reports as well as PESA.

¹⁰ Christopher Allsopp, *Review of Statistics for Economic Policymaking: Final Report to the Chancellor of the Exchequer, the Governor of the Bank of England and the National Statistician*, 2004.

¹¹ HM Treasury & Department of Trade and Industry, *Productivity in the UK 5: Benchmarking UK productivity performance (A consultation on productivity indicators)*, 2004.

¹² Nuffield College and Office of the Deputy Prime Minister, *Identifying the flow of Domestic and European expenditure into the English regions*, 2003.