

**SOUTH EAST ENGLAND REGIONAL ASSEMBLY
EXECUTIVE COMMITTEE**

Date: 14 September 2007

Subject: **Review of Sub-National Economic Development and
Regeneration**

Report of: Chief Executive

Recommendation:

That the Committee accords the Leadership Group responsibility for:

- i) steering and facilitating dialogue on the SNR with Government, local government in the region, the RDA and Assembly stakeholder interests, with a view to evolving a model of regional governance for the South East and a timetable for change that has the widest support, and
- ii) reporting back regularly on progress and on key issues for consideration.

Purpose of Report:

The report summarises the SNR and its implications for local government and the Assembly.

Key Issues:

- The SNR aims to improve the capacity and effectiveness of economic development at the local, sub-regional and regional levels.
- At the regional level, assemblies will not continue in their current form beyond 2010. Planning, housing and transport responsibilities will transfer to RDAs.
- The RSS and RES will be combined into a new single regional strategy, in which local government in the region is expected to have a significant role.
- In the future local government in the region will also hold the RDA to account.
- There is much in the SNR that requires further clarification, and the Government will consult on an implementation plan later in the year.
- Regions appear to have scope to develop their own models of regional working.

1. Introduction

- 1.1 I have reported regularly to this committee on the progress of the Government's Review of Sub-National Economic Development and Regeneration (SNR) which was undertaken to inform this year's Comprehensive Spending Review. The review was published on 17 July 2007 and, as reported to the Assembly's annual meeting the following day, confirms that the planning, transport and housing responsibilities of regional assemblies are to be transferred to the regional development agencies (RDAs), who will be responsible for preparing a single integrated regional strategy combining the regional spatial strategy (RSS) and regional economic strategy (RES). At the same time assemblies' scrutiny responsibilities will pass to local government in each region. RDAs are expected to become more strategic, programme management bodies, devolving the delivery of economic development to local authorities 'where there is capacity'. The expected date for these changes, because of the need for primary legislation, is 2010.
- 1.2 Members will recall that the Assembly debated the regional aspects of the SNR on 18 July and resolved that the Assembly 'strongly opposes the proposed transfer of planning, transport, housing and green belt decisions away from democratic accountability to a wholly unelected quango of Government placemen', 'warns Government of growing dissatisfaction with the burgeoning quangocracy in this country', and 'expects Government to honour its apparent commitment to democratic localism'.

2. Devolutionary Reform

- 2.1 The Review focuses on the impact of existing devolutionary reforms on achieving sustainable growth across England. The Government identifies the challenges it believes still remain, particularly in regard to the number of organisations and activities, engagement by the private sector, and leadership at the regional and local level. It then sets out proposals to change current arrangements with the aim of addressing Government's concerns.
- 2.2 The Review re-emphasises the Government's belief that successful economic development and regeneration requires devolution to regional, sub-regional and local levels. The Government's programme of devolution includes:
- Devolution to local authorities: Devolved decision-making and delivery has been provided through Local Area Agreements and Local Strategic Partnerships. Funding decisions have also been devolved with more autonomy and flexibility.
 - Devolution to regions: RDAs have taken on additional responsibilities from central Government, providing flexibility and autonomy to respond to the particular challenges and opportunities within their regions.
 - Area-based initiatives: Funding has been devolved to the local level, for example through the Neighbourhood Renewal Fund, the New Deal for Communities partnerships and the Safer and Stronger Communities Fund.

2.3 One of Government's key intentions, through this devolution, is to allow localities and regions to respond to their particular local circumstances. The Government believes that this will help deliver its objectives of enhancing regional economic performance and tackling spatial concentrations of deprivation.

3. Opportunities to Improve Sub-National Working

3.1 The Government is concerned that sub-national arrangements have so far been unable to realise their potential benefits because considerable fragmentation has resulted in a confused sub-national landscape. The review identifies a number of areas Government believes require addressing:

3.2 **Accountabilities:** The Review concludes that the range of bodies operating in each region leads to complexity of accountability. It believes that some regional assemblies have experienced weak local authority engagement and so have not been able to act as a strong voice for the region. Scrutiny of RDAs is perceived as variable and it is not clear that it adds value, and RDAs feel they are answerable to a range of different stakeholders without having a clear sense of overall direction.

3.3 **Incentives:** The Government believes it has improved incentives for local authorities to promote economic development. However, experience with Local Area Agreements has suggested that local authorities have given less attention to economic development than their other responsibilities. Government has also identified disincentives preventing local authorities from growing their local economic base, as this can lead to pressures on infrastructure and a need for supporting investment. Government suggests this has led to regional bodies facing difficulties in gaining support for promotion of growth.

3.4 **Capacity:** The Review reiterates Government's previously expressed concerns about the capacity of local authorities, which prompted it to establish a capacity-building programme focussing on leadership, corporate capacity, workforce capacity and support for generic skills.

3.5 **Engagement with the private sector:** The Government says business feel there are shortcomings in the way the public sector currently engages with the private sector. The document stresses that RDAs need to further develop their capacity to engage the private sector in driving economic growth.

3.6 **Co-operation between local authorities:** Functional economic areas are typically much larger than local authorities. The Government believes co-operation between local authorities across wider areas in which key economic markets operate can therefore help improve economic decision-making.

4. Local and Sub-Regional Working

- 4.1 The SNR sets out the Government's proposals for reforms to address these concerns. The overall aim is to support more effective economic development and neighbourhood renewal. The proposals will be subject to consultation later this year.

Local authority role in economic development and neighbourhood renewal

- 4.2 Local authorities need to respond to economic challenges as part of their wider community leadership responsibilities. As such, the Government will consult on the creation of a focused statutory economic development duty. This would require upper-tier local authorities to assess the economic circumstances and challenges of their local economy. The assessment would underpin the regional strategy and the local Sustainable Community Strategy.
- 4.3 The Review concludes that currently local and neighbourhood interventions are not well co-ordinated with wider economic development and regeneration activity. The Government will encourage local authorities to consider how the private sector and voluntary/community sector can be commissioned to provide services, enabling better co-ordination and higher quality provision.
- 4.4 The report emphasises the role of central Government, national agencies and regional bodies in supporting local authorities to deliver improved local prosperity. The Secretary of State for Communities and Local Government will now work with the Local Government Association to establish a concordat to govern the relations between central and local government, which will establish an agreement on the rights and responsibilities of local government.

Strengthening incentives for local authorities

- 4.5 The Government believes local authorities need incentives to promote economic development and neighbourhood renewal, which can be provided through direct financial rewards or through the local authority performance management framework.
- 4.6 The Local Authority Business Growth Incentive (LABGI) scheme is intended to provide financial incentives to local authorities, encouraging them to build partnerships with local business and promote long-term economic sustainability in their areas. The Lyons enquiry found the scheme is welcomed in principle, but that aspects of the scheme could be strengthened. The Government is committed to bringing forward options for reforming LABGI by the summer. This will include measures to link rewards more closely to growth and link mainstream resources more strongly to economic development performance. LABGI will also be simplified and give local authorities greater certainties over rewards.
- 4.7 Business Improvement Districts (BIDs) are partnerships between a local authority and local businesses to develop and finance projects that benefit local businesses and the community. The Government plans to assess the progress and impact of BIDs and consider options for strengthening the model.

- 4.8 The new local government performance framework will be directly linked to national Public Service Agreements and indicators. The Government will explore how place-based indicators in the new framework will help to drive neighbourhood performance on worklessness, health, crime and education.

Powers for local authorities

- 4.9 The Review agrees with Sir Michael Lyons' recommendation that a power be introduced for local authorities to levy a supplementary business rate but stresses it would need to be subject to robust accountability structures, and provide protection for businesses that might be disproportionately affected. The Government will report back on options later in the year.
- 4.10 The Government also believes there is more potential for widespread use of flexible and innovative funding mechanisms to support growth and regeneration. It is considering a range of models, including Local Asset Backed Vehicles where public sector land and property assets are combined with private sector funding to deliver regeneration projects. The report reiterates Government's commitment to developing suitable mechanisms for 'front funding' infrastructure at an early stage of development, such as Regional Infrastructure Funds, and will continue to work with stakeholders to develop innovative financing solutions. The Government will report on progress by the Pre-Budget Report.
- 4.11 The report sets out Government's support for City Development Companies. Specific structures and functions will depend on the issues faced by particular places and it will be for local authorities to decide on the nature of activities to be undertaken, working closely with RDAs and other partners.
- 4.12 RDAs will reform the management of their spending so it is based on long-term programmes, giving greater clarity to local authorities and others. The Government will expect RDAs to delegate responsibility for spending to local authorities or sub-regions wherever possible, unless there is a clear case for retaining spending at the regional level.
- 4.13 Local authorities have a key responsibility for ensuring young people are equipped with the skills needed in the modern economy. Subject to consultation on details and timing, funding for school sixth-forms, sixth-form colleges and the contribution of Further Education Colleges to 14-19 education will transfer to local authorities' ring-fenced education budgets.
- 4.14 The SNR also restates the Government's priorities set out in the Local Transport Bill. The Bill contains proposals to increase local authority powers over bus regulation, and to give local authorities greater powers to introduce road-pricing to tackle congestion. Government is considering how to improve the allocation of transport funding so it is better targeted at tackling constraints to economic growth.

Collaboration across sub-regions

- 4.15 The SNR suggests that in many respects, sub-regions are the key spatial level around which growth is concentrated. Increasing the extent to which economic development decision-making is managed at the sub-regional level is therefore a key priority of the SNR.

- 4.16 Effective sub-regional working is seen to be hampered by individual local authorities having to enter into separate LAAs. The Local Government White Paper signalled proposals to develop Multi-Area Agreements (MAAs); a group of local authorities voluntarily agreeing collective targets and performance indicators rather than having individual targets in separate LAAs. Local authorities and their partners could pool funding streams to achieve these collective outcomes. Flexibility must be maintained, however, allowing different sub-regions to use the mechanism in the most appropriate ways for them. The Government indicates that the intention is that MAAs should not increase the monitoring and reporting burden for local authorities. The Government will issue guidance on MAAs by the end of the year and will work with selected sub-regions and cities to have the first MAAs in place by June 2008.
- 4.17 There may also be benefits in pooling responsibilities for policy areas such as planning and housing at the sub-regional level. Provided clear, transparent and accountable governance arrangements can be put in place, the Government will work with interested sub-regions to explore the potential for allowing groups of local authorities to establish statutory sub-regional authorities. This would enable the pooling of responsibilities for economic development policy areas on a permanent basis.
- 4.18 The report restates the proposals in the Local Transport Bill, which will allow the boundaries of Passenger Transport Authorities (PTAs) to be extended and will allow other sub-regions to put forward proposals to set up PTAs. PTAs may take on additional powers allowing a more integrated approach at a sub-regional level.
- 4.19 The sub-region is the level at which labour markets tend to operate. Therefore, local employer-led employment and skills boards should operate at this level. The Government will allow local authorities to decide how and where these boards should be set up.

5. Regions

- 5.1 The Review suggests that the different roles of the regional assemblies and RDAs have led to misalignment of regional spatial strategies and regional economic strategies. The Government therefore believes there should be a single integrated regional strategy which sets out economic, social and environmental objectives for each region. The strategy should have the support of local authorities, business and other partners from within the region, as well as central Government departments and agencies.
- 5.2 Each region will be set a regional economic growth objective. This will inform the development of a new, simplified outcome and growth-focussed performance framework. The growth objective will be aimed at increasing regional GVA (Gross Value Added - a measure of economic output) per head, consistent with the Government's Regional Economic Performance Public Service Agreement (PSA). It will replace the RDAs' current 12 PSAs and ten output targets.

- 5.3 The objective will be underpinned by five outcome-based performance indicators: GVA per hour worked, employment rate, skills attainment, research and development expenditure, and business start-up rates. RDAs will also be required to demonstrate regard to a set of underlying principles, including the five principles of sustainable development. Being clearer about the role of the RDAs and simplifying their objectives is intended to increase their effectiveness and efficiency.
- 5.4 The SNR also announces Government will be supporting a new centre for spatial economics research, which will be established in 2008. The aim of the centre is to strengthen understanding of sub-national performance, to inform policy approaches to tackling disparities within England at all spatial levels.

Regional level accountability

- 5.5 The Review concludes that elected local authorities need to have a greater sense of ownership of the regional strategy than they do currently. Local authorities' involvement in regional strategy development and in scrutinising the work of the RDA will need to be strengthened. The Government will therefore bring forward proposals to give RDAs the executive responsibility for developing the regional strategy, including planning and transport strategy development, working closely with local authorities and other partners. Regional Assemblies in their current form and function will not continue. Instead, the region's local authorities will be responsible for agreeing the regional strategy with the RDA.
- 5.6 Central to the RDAs' role will be to work with local authorities in developing the regional strategy. The regional strategy should be based on the widest possible consultation and should involve local authority planners and analysts throughout the process. The regional strategy will be agreed and signed off by both the Secretary of State for Communities and Local Government and the Secretary of State for Business, Enterprise and Regulatory Reform. The spatial aspects of the strategy will then be issued by the Secretary of State for Communities and Local Government as a statutory document. The Government will consult later this year on how to implement these reforms. The consultation will consider the process for developing and testing the strategy and the arrangements for preparing an implementation plan.
- 5.7 The Government will work with local authorities and other partners to develop arrangements for regional scrutiny and strategy development. This will ensure local authority leaders and sub-regions are represented in strategic decision-making, possibly involving a regional forum of leaders. Government will also work with Parliament to develop clear mechanisms for enhanced Parliamentary scrutiny of regional institutions and regional economic policy. Regional Ministers were appointed as part of the Governance of Britain announcement and Parliamentary select or standing committees for each English region are now contemplated.

Links between strategy and funding

- 5.8 The Government believes better alignment of strategy and funding is essential if regional strategies are to be effective. The Government will therefore carry out a second expanded Regional Funding Allocations (RFA) exercise in the Comprehensive Spending Review period. The Government will also seek to expand the RFA further to cover a range of funding relevant to economic growth. The work of agencies such as the Highways Agency, Learning and Skills Council (LSC) and JobCentre Plus will need to inform, complement and contribute to the priorities agreed in regional strategies.

Improving clarity over roles and responsibilities within the regions

- 5.9 The Government recognises that the activities of the RDAs and other agencies operating in the regions need to be clarified and streamlined. This includes recognition of the need to streamline business support services, work with the LSC to ensure there is no overlap in skills provision, and ensure the management of overseas activity is brought together on a national basis.

Pan-regional working

- 5.10 There are some instances where impacts occur across regional boundaries and where joining-up between regions may be required. Regional structures should promote cross-boundary working and central Government may, where appropriate, consider MAAs that cross-regional boundaries.

6. Conclusions

- 6.1 The SNR is heavily influenced by the northern perspective, where strong city-regions are pressing for greater leverage to push the economic development of their areas. The SNR's conclusions about assemblies - their alleged lack of success in engaging key players in the local authority and stakeholder sectors, the perceived lack of ownership of regional strategies by local authorities, the lack of strategy alignment, the questions over regional scrutiny - are not recognisable in the South East where the sense and strength of partnership has evidently been exceptional. The SNR's preoccupation with improving regional and city-regional working elsewhere means that we are faced with implementing solutions to problems we do not have. At least the Review has taken on board our forcibly expressed contention that there should be flexibility in implementation, so that each region is free to develop a model of regional working that is appropriate to the region.
- 6.2 There is much in the SNR yet to be clarified with Government. For example an important dimension how the process currently governing the Regional Spatial Strategy will be adapted to the new integrated regional strategy. Further aspects are the future role of stakeholders in regional policy-making, and the criteria for devolution of economic development delivery to local authorities either individually or as sub-regions.

- 6.3 The fundamental changes to regional architecture signalled by the SNR will require extensive dialogue, debate, negotiation and planning to be implemented. Government recognises that assemblies will need to play a key role in facilitating these changes, and through the English Regions Network (ERN) we have been invited to contribute to the implementation plan for the SNR that civil servants hope to place before Ministers in September, ahead of the consultation later in the year. Following the ERN's meeting in early August with Richard McCarthy, the senior civil servant leading this work in Communities and Local Government, I wrote setting out some of the key issues for clarification; this letter is attached for members' information. In the meantime we have had assurances that grant funding to Assemblies will continue, and confirmation too that assemblies' full agenda of work should continue until the changes are brought in. That agenda includes an early RSS review as well as completing the existing plan preparation process for the South East Plan.
- 6.4 As well as influencing the national agenda, local government collectively in the region will need to come to a view on the model of regional governance it wants to see in the South East: for example, how authorities will input to and steer strategic planning in the future, how they might hold the new RDA to account, and how delivery should be devolved. There will need to be discussions with the RDA on all these matters as well as on the detailed project plan for the transfer of staff and work. The Assembly's Leadership Group met in early August to give initial consideration to the implications of the SNR, and this group will continue to give the detailed steer on the programme for change. Key issues will be brought to this Executive and to the full Assembly as necessary as we proceed.

Paul Bevan
Chief Executive

17 August 2007

Appendix: ERN letter to Richard McCarthy, CLG, 10 August 2007