Regional Development Agencies: the facts

Kieran Larkin, December 2009

The future of the Regional Development Agencies (RDAs) has become a topic of hot debate. But the views of those that have come out either in favour or against have sometimes bordered on the ideological rather than being based on the evidence. We think the 'scrap versus keep' the RDAs debate is just too simplistic.

In this, the first of two opinion pieces, we will begin a discussion of the future of the RDAs by laying out the facts. We return to the PricewaterhouseCoopers (PwC) evaluation report of March 2009 to highlight the numbers behind the RDAs and to assess their effectiveness thus far. This report was commissioned by BERR, the department responsible for the RDAs, in 2007.

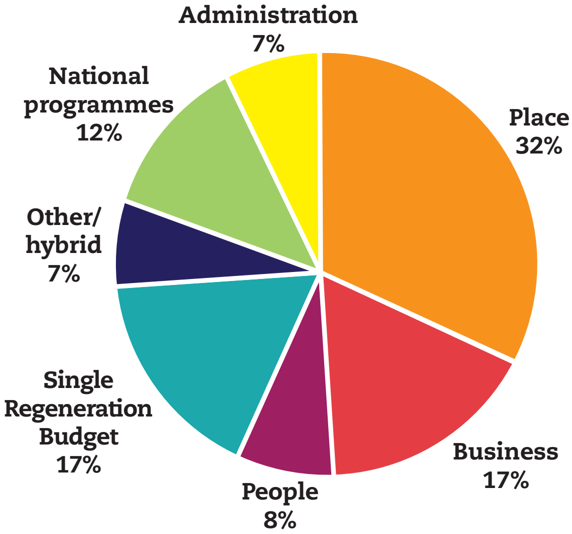
This is an important exercise for three reasons. Firstly, we want to set out the facts from the report – we suspect that few people have actually read the evaluation and that some of the impacts it finds may be overstated. Secondly, in the current spending environment the Government needs to look closely at the effectiveness of all areas of spending. Finally, there is a tendency to over exaggerate the importance of the RDAs, which account for less than one percent of public expenditure in the regions.

A further opinion piece will outline the current positions of the three main political parties and set out our proposals for the future of the RDAs and their programme funding.

How much do they spend and what on?

The RDAs were set up in 1999 to promote economic growth in the regions. They operate under the Regional Economic Performance PSA target, both to increase the economic performance of every region and to narrow the gap in regional economic growth rates.

Figure 1: RDA spend by area (2002/03 to 2006/07)



Examples of theme interventions

- **Place:** YF's regeneration of Bradford's city centre
- **Business:** AWM's high technology corridors
- **People:** EEDA's construction skills programme
- **Other / hybrid:** AWM's Regeneration Zones
- **National programmes:** Management of Business Link

Source: PwC (2009) Impact of RDA spending

The RDAs have a sizeable budget. Between the financial years 1999/2000 and 2006/07 the agencies spent £15.1 billion, an average of £1.9 billion a year. The PwC study chose to focus on spending in the period between 2002/03 and 2006/07, the period in which the RDAs were in receipt of the Single Programme budget.

Of this spending 32 percent was spent on regeneration activities (place), 17 percent was spent on business development and competitiveness (business) and 8 percent was spent on labour market and skills interventions (people) (Figure 1).

Getting rid of the RDAs as institutions won't save that much money. Even if the RDAs are scrapped it is likely that some of the programme spend would need to continue. In addition, the RDAs' administration costs, not linked to programmes expenditure, were only 7 percent of total spend over the period 2002/03 to 2006/07, which is probably less than many people think.

Are the RDAs good value for money?

The PwC report identified that there was "credible evidence" to suggest that the RDAs had delivered net economic benefits. The much quoted statistic is that every £1 spent by the RDAs has **added £4.50 to regional Gross Value Added (GVA)** – a measure of economic contribution. This key measure of value for money was based on the net number of jobs created or safeguarded by RDA activity.

However, not all of the RDA activities have performed equally well. Based on the PwC evaluation the economic impact achieved from business programmes was far higher than the impact achieved from place and people programmes.

The key column in Table 1 is **'Achieved GVA (cumulative, NPV): cost'**. This is a measure of the benefits that add up over time for each net job created or safeguarded, with near term benefits valued more highly. Business interventions have generated economic benefits of £7 for every £1 spent, whereas for every pound spent regeneration programmes have generated £3 of economic benefit and skills interventions have generated just £2.50.

Table 1: Summary of RDAs' value for money (2002/03 to 2006/07)

Theme	Achieved GVA (annual): cost	Achieved GVA (cumulative, NPV): cost	Achieved & future potential GVA (cumulative NPV): cost
Business	2.8	7.3	11.6
SRB	1.9	4.5	4.5
Place	0.7	3.3	8.0
People	0.9	2.5	2.5
Other	0.9	2.3	3.2
Total	**1.6**	**4.5**	**6.4**

Source: PwC (2009) Impact of RDA spending

If the potential positive future impacts are included (i.e. the jobs that do not yet exist) the regeneration programmes can be assessed to have performed better, achieving £8 worth of economic benefit for every £1 spent. This type of delayed impact is to be expected from capital investments, which are likely to generate positive economic impacts in the longer term, once land has been reclaimed and buildings have been constructed.

The PwC report also shows that within the five themes different types of intervention have provided varying degrees of value for money. Within each theme the best value intervention was:

- **Inward investment** in the business theme (£13.50 for every £1 spent)
- **Bringing land back into use** in the place theme (£5.10)
- **Supporting the development of educational infrastructure** in the people theme (£5.20)

Other impacts of the agencies

The evaluation also looked at the net impact of five other forms of RDA output. It found that the RDAs have helped 30,000 people into employment, provided skills development for 400,000 people, created 8,500 businesses, assisted 35,000 businesses and remediated 570 hectares of brownfield land. These outputs were not included in the calculation of value for money because the types of impact were not comparable between the themes – for example, many regeneration schemes don't have a skills element.

The report also indicated that there was considerable variation in the additionality of these outputs – the share of the impact that happened only because government intervened – ranging from 39 percent for business assists to 71 percent for land remediation.

Does the evaluation suffer from 'inherent uncertainties'?

Given these broadly positive outcomes the question might be asked 'why would any party possibly want to get rid of any of the RDAs?' Surely if they are generating so much economic good we need more of them not less! It is at this point that it is worth considering a few of the shortcomings of the evaluation by looking at the evidence used.

Firstly, the evaluation was an overarching review of the RDAs' own project evaluations. While these evaluations met the required reporting standards, it is hard to conclude that the assessments were completely impartial or objective. For example, many of the estimations for the number of additional jobs created were established through surveys, asking the views of businesses that had received cash or support from the RDAs or project managers. This type of evidence is always in danger of overestimating the actual additional impact of an intervention.

Secondly, the economic impact calculated is dependent on a set of assumptions about the expected persistence of the jobs created. Of course, a set of assumptions are required for any type of evaluation, but the impact of the recession may have now brought some of those assumptions into doubt. For example, it seems reasonable to imagine that the assumption of how long some of the created jobs will last – five years in the case of an inward investment intervention - may prove to be optimistic. This is particularly the case for those future potential impacts which PwC says are subject to 'inherent uncertainties'.

These likely shortcomings help to explain why not all of the political parties are 100 percent convinced by the RDAs' effectiveness.

How does spend vary by region?

The PwC research also revealed that the RDAs have spent considerably different amounts of money in different regions and that the different regions have chosen to prioritise spending in different areas.

One North East (ONE) has had by far the highest spend per capita, reflecting some of the region's entrenched problems (Table 2). In comparison, the East of England has received a fairly small spend per head. It is easy to see why the North East RDA has been the agency which has garnered the most local authority support.

Table 2: RDA spend per capita by region and theme (2002/03 to 2006/07)

	Spend (£ per person*)						
	Business	**Place**	**People**	**SRB**	**Other /hybrid**	**National programmes**	**Total (including admin)**
ONE	148.4	137.8	58.0	80.4	-	57.1	523.4
YF	53.5	66.0	43.5	65.2	2.1	59.4	307.5
LDA	22.1	133.4	8.8	68.3	22.8	11.1	284.4
AWM	57.3	60.1	11.4	40.8	60.4	27.6	281.6
NWDA	52.3	93.8	18.1	47.2	4.1	33.4	248.7
EMDA	23.5	51.4	4.8	22.1	27.4	28.4	199.0
SWRDA	25.4	67.6	22.9	10.9	2.8	14.6	151.1
SEEDA	11.0	29.9	6.7	15.8	7.3	23.8	107.0
EEDA	15.5	27.1	14.2	11.7	4.5	11.8	94.1
Total	**37.4**	**71.5**	**17.7**	**38.3**	**14.9**	**27.1**	**223.2**

**Spend per capita has been estimated by the author on the basis of the average population for each region between 2002 and 2007*
Source: PwC (2009) Impact of RDA spending; Nomis, Mid-year Population Estimates, 2009

Likewise, the regions have targeted different types of intervention with the money that has been spent:

- One North East and Advantage West Midlands have focused more of their spend on business interventions;

- In the South West and in London more has been spent on physical regeneration;

- The East of England and the South West have dedicated an above average proportion of their spending to people and skills.

And the RDAs aren't as important as many people suggest. On average the RDAs account for 0.7 percent of total public spending in a region. This ranges from 1.5 percent in the North East to 0.3 percent in the East of England. While this is certainly substantial spend that has been directed towards regional priorities, in comparison to some of the other major sources of public expenditure, the RDAs definitely get a disproportionate amount of air time within policy circles.

The future of regional spending

RDA spending is already scheduled to fall from £2.2 billion in 2008/09 to £1.8 billion in 2010/11. It seems likely that this budget will be squeezed further given the current state of the public finances.

We think that, as part of the next Spending Review, all areas of RDA spend need to be subjected to a zero-based efficiency review to decide which functions should be retained. Those programmes that provide significant positive returns should be retained and those that do not should be discarded. While the PwC study could provide the basis for this review, further evidence is likely to be necessary to address some of the problems identified above.

The functions should also be subject to a spatial assessment to identify whether they could be better carried out at the national, regional, city-regional or local level. We would expect that stronger City Regions – which reflect the real way economies function – would be better placed to carry out many of the interventions currently undertaken by the RDAs.

The proposed evaluation would rationalise the number of programmes currently provided by the RDAs, keeping those that offered the best value for money. It would also set out which, if any, of these functions would be best run at the regional level. This is likely to lead to a set of slimmed down RDAs or a situation where the remaining functions could be amalgamated into another of the regional bodies. In the next comment piece we will set out how we think the regional tier should be reconfigured.

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December 2009

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