

Regional Development Agencies: our position

Kieran Larkin, January 2010

The future of Regional Development Agencies (RDAs) is currently one of the big questions in urban policy. The Centre for Cities has been contributing to this debate through a series of comment pieces.

In the first of these RDA comment pieces we set out the facts from the PricewaterhouseCoopers (PwC) evaluation and called for a zero-based efficiency review and spatial assessment of the RDA programmes. In the second piece we highlighted the inconsistencies in the three main political parties' positions. In this final comment piece we set out what we think should happen to the regional tier of government.

The political debate has been too concerned with whether to scrap or keep RDAs. There would appear to be three post-election scenarios:

- All RDAs are scrapped.
- RDAs are kept in some regions but not in others.
- RDAs continue everywhere – with all likely to be smaller, not least because of the spending squeeze.

The Centre for Cities is not overly concerned with the precise architecture of the regional tier, but is concerned that the regional tier delivers the right mix of programmes and that the powers of City Regions are strengthened.

We think the debate should be about the effectiveness of the programmes the RDAs run and at which spatial scale these programmes work best. For many programmes we think that City Regions would be a better level for intervention. Finally, it is wrong to think that this is just a debate about RDAs. While this note focuses on their powers and budgets – because of the prevailing policy interest – a much wider range of powers remain with central government and other public bodies that also need to be reallocated to a lower spatial level.

What do we think?

We think the 'scrap versus keep' the RDAs debate is just too simplistic. We are keen to make the distinction between RDAs as institutions and the RDAs' programmes. While the organisations have played a significant strategic investment role over the past decade, and have recently focused on mitigating the effects of the recession, we now need a clearer debate on the RDAs' programmes – their effectiveness, role in the recovery and value for money.

We think that regions are not necessarily the best spatial level for housing, training and transport interventions. The economic rationale for regions remains unproven and the RDAs are undermined by their lack of democratic accountability.¹

1. Marshall A (2008) *The Future of Regional Development Agencies*, London: Centre for Cities

It is also very likely that the total amount available to spend on the RDAs' programmes will fall from 2011, as the next government is pushed to make across the board savings. RDA programmes, like business support and regeneration, will undoubtedly come under pressure. The agencies' annual spend is already scheduled to fall from £2.2 billion this year to £1.8bn in 2010/11. Further cuts seem inevitable and therefore it's critical that the right activities are retained.

Finally, it is important that this issue is not taken in isolation. Evaluating the RDAs' programmes should only be seen as one step towards achieving greater devolution. Other much larger areas of government activity, such as skills and employment policy, remain very centralised. Subsequent evaluation should also consider how a greater role in policy making in these areas could take place outside of Whitehall, whether at a regional, city-regional or local level.

What's wrong with regionalism and the RDAs?

So what's the problem with the RDAs? We have identified four main issues:

- To begin with, with the exception of the London Development Agency (LDA), they **lack accountability**. As business-led bodies a certain amount of independence was always going to be a feature of their design. They were meant to be accompanied by directly elected regional assemblies. However, the 2004 North East 'no' vote and the inevitable limitations of subsequent attempts to inject democratic legitimacy into the tier have resulted in a democratic deficit.

As RDAs have taken on new powers, particularly those related to planning, and as their resources have increased with the introduction of Single Pot funding, their business-led governance structure has become less tenable. And despite being tasked with promoting a regional voice, in practice they also act as arms of central government. If further powers were to be devolved from Whitehall, RDAs' lack of accountability could act as a barrier to them taking on additional responsibilities.

- Secondly, **the RDAs were set an unrealistic task**, with a Public Service Agreement target (PSA) both to promote growth in every region and to reduce the gap in the rate of growth between the best performing and worst performing regions. A trade off exists between these goals, which the Government has chosen to overlook. The dual target has also created confusion in regional policy, with RDAs often spending too much time comparing their performance with other regions.
- Thirdly, there are **too many regional bodies**. The tier is not restricted to the RDAs, in fact there are a whole host of regional bodies with a hand in matters related to economic development, including Government Offices, regional local authority Leaders' Boards, the soon to be defunct regional Learning and Skills Councils (LSC), regional offices of the Homes and Communities Agency (HCA), Regional Select Committees and Regional Grand Committees. It seems almost certain that duplication is occurring between these bodies. At best some of these bodies are unnecessary; at worst they are a waste of public money.
- Finally, the regional tier has become a **barrier to the emergence of stronger City Regions**. The failure of the Sub-National Review (SNR) to get RDAs to devolve real powers to City Regions indicates that there just isn't space for City Regions to reach their potential while RDAs remain in their current form. Progress has not been helped by the fact that the two tiers are championed by different government departments, with the Department for Business, Innovation and Skills (BIS) championing RDAs and the Department for Communities and Local Government (CLG) supporting City Regions.

City Regions are the economy

Regions don't make a lot of economic sense, they often capture multiple economies. By comparison, City Regions cover the functional economy of a place – the area in which people commute to work, shop and move house, and where businesses connect with each other.

We think that City Regions like Greater Manchester are a better spatial level to carry out many of the policies that support the growth of the economy – like taking strategic decisions on house building, training programmes, transport requirements and employment policies. Interventions at this level are more likely to have an effective impact on economic growth. Likewise, it appears to be a more credible policy to focus on improving Greater Manchester's economy, than on improving the economy of the whole of the North West. Despite a decade of an explicit regional policy, only modest progress has been made towards reducing regional disparities.²

If City Regions capture the area over which key economic markets operate, it makes sense to coordinate government actions at a similar scale – for employment and skills policies to reflect where people work and for transport policies to reflect where people travel. The evidence supports this position. A 2005 study found that where the administrative boundaries of an area matched its economic footprint it was found to experience faster economic growth.³

Thus far, the lack of devolved powers available to City Regions has constrained UK cities' economic growth. A 2004 study found that a lack of powers at the city level helps explain the poor economic performance of UK cities relative to their European counterparts.⁴ For example, the redevelopment of Birmingham New Street station may have progressed faster, providing much needed additional passenger capacity, if the City Region had been able to raise its own funds for the project.⁵

The Government has acknowledged the importance of City Regions and has put into place a supportive policy, first, aiding collaboration between local authorities through Multi Area Agreements (MAAs) and then announcing two City Region pilots in the 2009 Budget. However, it remains early days in the operation of policy at this level and as of yet there are few tangible positive policy outcomes.

Whereas the RDAs lack direct democratic legitimacy - with the exception of the LDA, accountable to the London Mayor - City Regions are more attuned to the preferences of their residents. They are also more democratically accountable. Their leadership is drawn from the Council Leaders of the local authorities involved and in the future they may be led by a directly-elected executive.

Cities Outlook 2010 - published later this month - will highlight the role and importance of City Regions to the UK economy.

Spatial reallocation of programmes

Given the pressures on the public purse we believe that the RDAs' programmes should be subject to a **zero-based efficiency review**. The review might also consider the programmes of other public bodies involved in regional economic policy. The effective programmes should be retained and rest of the programmes should be scrapped. One measure of effectiveness is value for money, as used by the PwC evaluation.

2. HM Treasury et al (2006) *Regional Economic Performance: progress to date*, London: HM Treasury

3. Cheshire P & Magrini S (2005) *European Urban Growth: throwing some economic light into the black box*, LSE Working paper presented to European Regional Science Association Congress, Amsterdam

4. Parkinson M et al (2004) *Competitive European Cities: Where do the Core Cities stand?*, London: ODPM

5. Marshall A & Harrison B (2007) *Connecting Cities: local transport, national connectivity and economic growth*, London: Centre for Cities

Consideration needs to be given to whether RDA programmes **duplicate or overlap** with work being carried out by other government agencies. It is wasteful for multiple public bodies to be deploying very similar programmes and there seems to be a clear opportunity for rationalisation.

RDA programmes should also be **subjected to a spatial assessment**, to identify the most appropriate level for each – national, regional, city-regional or local. Such an approach builds on the logic of the SNR. A spatial assessment should be based on the following criteria, developed by the Government⁶ for the SNR and more recently outlined in the Government’s framework for economic development:⁷

- **Does an RDA programme need to be tailored to different places:** is the programme likely to benefit from being customised to a place’s particular economic challenge? Or are the issues faced similar across the country or caused by the same market failure? For example, Advantage West Midlands’ cluster programme might benefit from being designed at the Birmingham city-regional level to specifically meet the needs of the City Region’s priority business sectors.
- **What impact an RDA programme has beyond its target area:** does the programme have further positive or negative impacts on areas outside of the region covered by the decision making process? These impacts are known as externalities or spillovers – generally, efforts should be made to choose a policy level which captures most externalities. Failure to take account of these impacts means that too much or too little money might be spent on a programme. For example, the full benefit of making higher-level skills investments in the Milton Keynes City Region may have been undervalued by the South East of England Development Agency (SEEDA) because additional positive benefits will accrue to both the East of England and the East Midlands. To reflect this, the three RDAs now work together through the Milton Keynes South Midlands partnership, but it may be simpler for higher-level skills programmes to be delivered at the city-regional level.
- **Whether there are any economies of scale:** are there fixed costs to the programme that could be reduced by delivering at scale? Or is specialist knowledge required to deliver a programme that could be inefficient to develop on a wider basis? For example, both Yorkshire Forward and SEEDA have delivered programmes for the internationalisation of indigenous businesses – helping them to access global markets. These programmes require specialist knowledge of export markets that could be more efficiently delivered at the national level by UK Trade and Investment (UKTI).
- **The importance of coordinating an RDA programme with other activities:** would the programme benefit from being carried out at the same level as another policy area to ensure that the aims are aligned? For example, it makes sense for regeneration decisions in the Leeds City Region, such as bringing brownfield land back into use on the Aire Valley site, to be closely aligned with local transport planning decisions, taken at the city-regional level.

Based on the value for money assessment of the RDAs’ programmes calculated by PwC and the spatial rationale presented above, and with consideration of the need to find significant savings, we have outlined an example of how the RDAs’ programmes might be reallocated. Figure 1 illustrates how a reformed RDA world might look:

6. Communities and Local Government (CLG) (2008) *Why Place Matters and Implications for the Role of Central, Regional and Local Government: economics paper 2*, London: CLG

7. HM Government (2009) *Partnerships for Growth: A National Framework for Regional and Local Economic Development*, London: BIS

Figure 1: Centre for Cities' suggested reallocation of RDA programmes

National level

- **Business Link and generic business support** – many businesses face similar constraints, could be provided at lower cost by further increasing the use of online support
- **Internationalisation of indigenous businesses** – specialist knowledge required, similar for businesses around the country. UKTI could take over
- **Overseas inward investment offices** – wasteful competition at a lower level and expensive. UKTI could take over

Regional level

- **Regional transport projects** – requires regional, or inter-regional, coordination. For example, the connection between Manchester and Leeds
- **Programmes for regionally strategic industries** – impact beyond the city-regional level, requires significant expertise e.g. nuclear industry in the North West

City-regional level

- **Sector/cluster support** – benefits from being tailored to a City Region's priority sectors
- **Inward investment promotion** – coordinated with City Region's economic strategy
- **Bringing land back into use** – fairly localised impact, limited economies of scale and need for coordination with other policy areas
- **Innovation infrastructure** – tailored to City Region's universities

Discontinue

- **Improving the public realm** – while this sub-theme covers a diverse range of projects, many have provided poor value for money
- **Promotion of image and tourism** – limited value for money, regional brands lacks resonance
- **Elements of RDAs' skills provision** – duplication with other bodies delivering skills programmes, particularly at lower skills levels

The reallocation is only a suggested outline, meant to stimulate debate and discussion. It is not a complete or definitive conclusion based on rigorous testing of how each programme performs against our criteria.

We have largely chosen to exclude the skills element of the RDAs' programme provision. As a result of the recent *Skills for Growth* strategy, RDAs will see a significant increase in their involvement in the skills agenda.⁸ But we think skills policy requires a more fundamental reform than the changes suggested in the skills strategy and at the same time, it makes sense to reduce the number of government agencies operating in the skills industry.

While RDAs do make some distinctive contributions to the skills agenda, such as higher skills interventions and educational infrastructure development, in many areas there appears to be significant overlap with the role of other public bodies like the LSC and the Higher Education Funding Council for England (HEFCE). The duplication resulting from current RDA involvement in the skills agenda should be addressed. We will be setting out further details on what we think a more sensible skills policy would look like in the first half of this year.

There would also be value in extending the evaluation outlined above beyond the RDAs' programmes to consider the role of other bodies, such as the HCA, and the significant powers that reside with central government that could be better delivered at a lower spatial level.

8. Department for Business, Innovation and Skills (BIS) *Skills for Growth: the national skills strategy*, London: BIS

And what about planning powers?

This also leaves the question of what to do with regional planning powers - arguably the most important issue for the Conservatives. Following the passing into law of the *Local Democracy, Economic Development and Construction Bill*, RDAs will have joint responsibility with a region's Leaders Board for producing a Regional Strategy. In practice this process has already begun: part one of the North West's Regional Strategy was published in draft form for consultation on the 4 January 2010.⁹

The Conservatives have proposed that all planning decisions be devolved down to local authorities. While this would improve the democratic legitimacy of the process, it would reduce the ability of many planning decisions to take into consideration their full impact on an area's economy. For example, one of the recommendations of the Manchester Independent Economic Review (MIER) was that new house building should be concentrated where people want to live, in the more prosperous south of the city.¹⁰

It is essential that strategic planning functions continue to operate above the level of the local authority, to avoid '**excessive localism**'. We recommend that City Regions should be able to produce a sub-regional plan, put on a statutory footing. As city-regional governance structures are formed by the elected leaders of local authorities there should be no democratic deficit.

City region autonomy

While we support allocating effective programmes to the correct level, we also support significant autonomy for City Regions to make their own choices over resource allocation. The funding attached to those RDA programmes best provided at the City Region level should be given to the City Regions in a single budget. It would then be up to the City Region to decide how much they spend in each programme area.

This fits with the rationale behind *Total Place*, allowing for greater local decision making, reducing silo working, and using resources more efficiently. In the future, further budgets may also be added to this City Regional pot. This approach would obviously require a significant transformation in the current PSA regime. The national mindset of government would need to change, with Ministers held less directly responsible for particular departmental outcomes and the leaders of City Regions held more responsible.

Dropping some RDAs or keeping them all?

The spatial assessment described above is likely to result in a smaller set of the existing RDA programmes being allocated to the regional level. Given that some issues differ in importance by region - for example, based on our allocation above, the North West might require a 'regionally strategic industries programme', but the South East might not - the number of programmes allocated to the regional level, may vary by region.

If only a few regional programmes were left in a region, covering a fairly small spend, it may not make sense to retain an RDA to oversee them. Following the assessment of the programmes to be left at the regional tier, a decision could then be taken by the relevant local authorities as to whether to keep their region's RDA. In these cases the programmes could be transferred to another existing regional body, such as the Government Office. However, further reform of these regional bodies would be required to ensure that they had the skills and capacity to carry out any new functions.

9. North West Development Agency (NWDA) and 4NW (2010) *RS2010: Regional Strategy for England's North West*, Warrington: NWDA

10. Manchester Independent Economic Review (MIER) (2009) *Reviewer's Report*, Manchester: MIER

An **alternative solution** to having incomplete coverage of the RDAs – with the agencies in some, but not all regions - would be to scale every RDA back to a business forum role. The new RDAs could then articulate the views of the regional business community on issues such as the priorities for investment.

The RDA would be tasked with drawing together a **'business view' regional economic strategy**, which could feed into the development of city-regional, sub-regional or local economic strategies. This would not cover planning issues and, as it would be a statement of business priorities rather than a plan of action, it would not simply be a return to the 'old' Regional Economic Strategies.

Consideration would have to be given as to whether this role is effectively already being played by business networks, such as the Chambers of Commerce - it might crowd out an existing market solution. Under this solution RDAs may also retain a small programmes budget, with a resource allocation and commissioning role.

Outside of City Regions

In areas outside of a City Region, powers would be transferred to upper tier local authorities or to groups of local authorities working together. Local Enterprise Partnerships, under the Conservatives proposals, would provide a mechanism for both City Regions and groups of local authorities working together outside of urban areas.

While the question of what happens to the programmes outside of City Regions is an important issue, we would expect that more of the resources would be directed towards City Regions than the remaining areas, because of their contribution to overall UK economic growth. Prioritisation is particularly important when there are fewer resources to go round. The RDAs' programmes mainly relate to economic and business growth and this is clearly more of an issue for urban areas than for other parts of the country.

City Regions aren't perfect

It must be conceded that currently the democratic accountability of City Regions is not perfect. City Regions are not widely understood by the general public – most people have never heard of them. If this situation continues it will undermine the legitimacy of sub-regional governance. City Regions may be seen as just another tier of government or as a vehicle for backroom deals hidden from the scrutiny of the electorate. To prevent City Regions from being seen as just another quango, the major political parties should seek to explain City Regions as real places to the general public.

City Regions will also increase the complexity of policy making. We recognise that a City Region approach could be more complex, but think that the potential benefits, such as better policy decisions, probably outweigh the downsides. And while the complexity of government departments' dealings with the sub-national level would increase, it may become simpler to join up the delivery of services at the City Regional level. Our proposals would also lead to the differential treatment of different places.

However, it is clear to us that there are already inevitable differences between regions and different policy approaches are needed in different places - this is the logic of devolution.

Clarity on the future of the RDAs, stronger City Regions

The RDAs seem unlikely to continue in their current form and depending on the outcome of the next General Election, they might find themselves abolished or rationalised in the next spending review. But while the institutions might not all survive and the total amount of money spent on economic development policies will fall, some of the programmes will continue.

Therefore the next government must make a judgement, based on the evidence, to decide which of the programmes to keep and at which level it makes sense for them to operate. We have set out what we think the reallocation might look like and how it is an opportunity to strengthen City Regions. This should only be the first step in a longer discussion about the appropriate level for a whole range of policy interventions. Not only will this restore greater control over local decision making, but it will also support the economic growth of the UK as a whole.



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