



**BERR** | Department for Business  
Enterprise & Regulatory Reform

# **Prosperous Places: Taking forward the Review of Sub National Economic Development and Regeneration**

**31 March 2008**

# **PROSPEROUS PLACES: *TAKING FORWARD THE REVIEW OF SUB-NATIONAL ECONOMIC DEVELOPMENT AND REGENERATION***

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## **MINISTERIAL FOREWORD**

The powerful forces of globalisation which are shaping our economy, society and culture present us with huge opportunities as a nation. Over the past eleven years, this Government has made global change our ally, predicting its opportunities, and ensuring that our people have the skills to meet the challenges.

By embracing change, we have seen eleven years of economic growth, falling unemployment, stable interest rates, and the revitalisation of our great cities. By cutting the costs of economic failure - welfare bills and unemployment benefit - this Government has been able to invest in schools, universities, training, science, and technology, as well as public services such as the NHS, transport and the police. And by putting the skills and ingenuity of the British people at the heart of our approach, we have benefited millions of British families with higher living standards and more rewarding work.

But our Government also recognises that in a fast-changing world, our economy must continue to be strong so we can weather future turbulence. This means that no area of the country should be excluded from rising prosperity, no child should be allowed to squander their talents, and no-one capable of work should be denied the chance to get on. For our country to continue to prosper, we must unlock the talents of every citizen, community, city and region of the UK. And we must make sure the principles of sustainable development - encouraging change that lasts, that local people feel part of, and that respects the natural environment - remain at the heart of our plans for Britain's future.

For this to happen, we must ensure that our policy-making and governance is robust enough to create the right platform for our wealth-creating companies and entrepreneurs. We need a system of national, regional, sub-regional and local government which allows British business to invest, innovate and make profits, and at the same time creates opportunities for all. Tackling disadvantage remains a core objective for this government, but in the new economy this will be important as much for reasons of national prosperity as for individual fulfilment.

The review of sub-national economic development and regeneration, published in July 2007, set out a vision for reform.

For central Government, it proposed a clearer set of objectives and responsibilities to support better coordination at all levels.

For the regional development agencies, it outlined a continuing focus on delivering for business; but it also proposed a more strategic role, working closely with the private sector, local authorities, both individually and collectively, with public agencies and social partners to prepare and implement a single overarching strategy for the region's sustainable future.

For local government, it built on the devolutionary changes in the Local Government White Paper and proposed a stronger focus on sustainable economic development and regeneration, a renewed partnership with other agencies, and an increased emphasis on the importance of local authorities working together across boundaries to boost sub-regional economies.

In the months since the review was published, there has been real progress in turning parts of our vision into reality. Economic development is an important part of the new local government performance framework, with indicators on housing, transport, skills and worklessness included in the National Indicator Set.

The three-year spending settlement has confirmed the resources for regional development agencies to deliver their part of the agenda.

A new Working Neighbourhoods Fund, worth £1.5bn over the next three years, will target support to places dogged by long-term worklessness.

The ground breaking Climate Change Bill has made clear that leaders at all levels, from the individual to the national and all points between, have a role to play in ensuring Britain's success as a green and growing nation.

Discussions are underway for the first multi-area agreements (MAAs), in which local authorities are preparing to pool resources and expertise to help boost the local economy by addressing complex issues such as transport and housing through more stretching outcome targets, in return for greater flexibilities from Government.

These are already helping to lay the foundations for reform that will unleash the economic potential of every part of the country, but in order to implement the review in full there are still important elements to be decided.

These include the proposed duty on local authorities to assess the economic conditions of their local area, a statutory framework to support sub-regional partnerships, and the process for drawing up sustainable integrated regional strategies. We have been discussing with stakeholders how best to take these proposals forward.

With this document, we are consulting on how we will deliver key parts of the package. We are seeking your views on how our aims can best be achieved, within the context of:

- making it easier for businesses and entrepreneurs to create jobs and wealth, and to unlock the talents of the British people. Global economic challenges will not respect our administrative boundaries so the public sector must adapt to work better for business so that business can play its essential role in creating wealth;
- implementing reforms in a way that ensures we achieve growth that is environmentally sustainable and makes the transition to a low-carbon economy; and

- ensuring that people have a real and meaningful say over the places where they live and about which they care deeply, with effective opportunities to influence regional planning.

Your participation will be central to achieving this, and we look forward to hearing your views.

**Hazel Blears MP, Secretary of State for Communities and Local Government**

**John Hutton MP, Secretary of State for Business, Enterprise and Regulatory Reform**

## **EXECUTIVE SUMMARY**

In July 2007 the Government published the review of sub-national economic development and regeneration (SNR). This provides the framework that will enable central and local government and other partners to work together to help maximise prosperity in all parts of England and tackle social deprivation and inequality.

The reforms set out in the SNR will enable regional, sub-regional and local partners to tailor solutions to their specific problems, making best use of available talent and opportunities. They will help to ensure that decisions are taken at the right level to be effective and that decision makers have the right tools at their disposal. The reforms will help places to provide an economic environment that enables business to adapt to and create new technologies and opportunities. They will contribute to growth, jobs and wealth in a low carbon economy and reduce the disparities between the regions.

This consultation sets out and seeks views on the proposals contained in the SNR for putting in place reforms that would:

- streamline the regional tier, introducing integrated strategies and giving the regional development agencies (RDAs) lead responsibility for regional planning;
- strengthen the local authority role in economic development, including a new statutory duty to assess local economic conditions; and
- support collaboration by local authorities across economic areas.

While this consultation will be of particular interest to those agencies and authorities directly affected by the proposed changes to structures and working relationships, the impact of the changes will be much further reaching. The private sector, in particular, may find less of direct relevance in the content of this consultation but the consequences of the changes will be positive for business.

### **Stronger partnerships for regional growth**

The SNR elevates the importance of both business-led RDAs and democratically mandated local authorities to achieve improved economic outcomes. It demands a strong and deep partnership to be built to ensure complementary regional and local economic, housing, planning, transport and low carbon priorities. It will also be vital for the RDAs to provide the strategic economic leadership to ensure that the business, social and environmental partners in each region can engage and participate effectively. Different arrangements could be developed, within a consistent set of principles, reflecting the different circumstances in each region.

Having considered responses to this consultation on how it should be achieved, the Government will bring forward legislation that will give RDAs responsibility for regional planning alongside regional sustainable economic growth, within a new regional strategy. This wider strategic role will mean significant change to

what RDAs do, how they operate and how they work with local authorities in their region.

RDAs will continue to be business-led so that they are best placed to drive growth in the regions, building on their existing purposes, including their contribution to the achievement of sustainable development. In making future appointments, the Department for Business, Enterprise and Regulatory Reform (BERR) will work in close consultation with Communities and Local Government (CLG) to ensure that the skills and experience of those appointed to RDA boards reflect their new responsibilities. Similarly, the RDAs will need to take account of their changed role in recruiting and developing staff.

As the SNR made clear, economic development should be carried out at the most appropriate level. RDAs will become more strategic bodies in line with devolved decision-making principles. RDAs will continue to deliver and manage services that are best implemented at the regional level, working with a range of delivery agents and working closely with the private sector. Those services include business support, co-ordinating inward investment, support for innovation and responding to economic shocks. They already work closely with local authorities and sub-regional partnerships and, as they take on their more strategic role, will delegate funding, where appropriate, to those best placed to deliver economic improvements provided they have the capacity to undertake this activity. RDAs can provide support to help build capacity and chapter 5 sets out other mechanisms for increasing capacity. The Government's expectation is that, as capacity increases, RDAs will delegate an increasing amount of their funding to those best placed to deliver economic improvements (local authorities, sub-regions and other delivery bodies), within the framework of the regional strategy.

The RDA will lead the development of the regional strategy and its implementation, working with local authorities and other interests in the region, including business. The Government proposes that a forum of local authority leaders, representing all local authorities in the region, would sign off the draft strategy and help to hold the RDA and its regional delivery partners to account. The Government believes that local authorities themselves should decide the most effective structure for a leaders' forum and we expect that this will differ between regions. But any forum should be a streamlined and manageable body and be representative of local government across the region. The Government would intervene if local authorities in a region were unable to reach a consensus on a forum that met these criteria or if it failed to operate effectively.

Under the SNR reforms, regional assemblies will not continue in their current form. Assemblies, which are responsible for regional planning, include representatives from a broad cross-section of stakeholders. The new arrangements will place a premium on effective stakeholder engagement and management, on which the Government expects the RDAs to lead.

Proposals set out in both the SNR and the Governance of Britain Green Paper will change how regional bodies are held to account at the national level. RDAs will remain accountable to Parliament through the Secretary of State for



Business, Enterprise and Regulatory Reform. In the future, BERR's performance management of RDAs will focus increasingly on how well they are performing in their new strategic role.

The Governance of Britain Green Paper stated that regional scrutiny could be achieved through the establishment of nine regional Parliamentary committees. The House of Commons Modernisation Committee has begun an inquiry into regional accountability and this will be a key component of the Government's drive for improved accountability.

The SNR proposals will involve significant changes to the regional structures and roles of delivery partners. The Government expects RDAs to work with local authorities in each region to develop a change management programme which addresses the changes needed to institutions, relationships and processes.

### Transition

In the period prior to the introduction of the regional strategy, it will be important to ensure that momentum is maintained - in particular, towards the goal set out in the Housing Green Paper of delivering 3 million new homes by 2020. The Government is committed to completing the current round of regional spatial strategies, with further reviews where necessary to re-examine planned housing provision. This work will be led by the regional assemblies.

In advance of legislation, we expect the regional assembly and RDA to begin preparations for the introduction of the regional strategy. To assist in handling this transition, the Government has amended the current Planning Bill to empower regional assemblies to delegate any of their planning functions to the RDAs, and allow RDAs to assist the regional assemblies in carrying out their functions related to the regional spatial strategy (RSS), where both agree.

The SNR confirmed the Government's commitment to a new, expanded round of regional funding allocations. The Government will issue guidance in the summer of 2008, asking regions to advise on priorities within the amounts set out in the 2007 Comprehensive Spending Review by early 2009.

### **Integrating regional strategies to promote regional growth**

The new, integrated, regional strategies will replace and build on the strong foundations laid by the regional economic strategies (RES) and regional spatial strategies. The strategies should set out, for each region, a vision of how and where sustainable economic growth would be delivered. They should steer the activities, plans and investment decisions of the RDA, local authorities and other regional partners and be underpinned by the principles of sustainable development.

The Government intends that the process for developing the regional strategy should be robust, transparent, open and efficient. Effective consultation and engagement with stakeholders, business and citizens in each region will be essential. In order to achieve this, greater clarity will be provided on national priority expectations at the beginning of the process. The evidence base used

to develop the strategy will be strengthened. Simplifying both the number and complexity of processes will make it easier for stakeholders to engage and shorten the time it takes to agree a new strategy. Independent examination, which is a critical part of regional spatial planning, will continue as a means of engaging stakeholders and testing the evidence on contentious issues.

The RDA will lead the development of the strategy and be responsible for agreeing the draft with the local authority leaders' forum. The Secretaries of State for CLG and BERR will approve the strategy on behalf of Government. If regional partners fail to agree a draft strategy, the RDA would submit the draft to Ministers noting points of disagreement.

To encourage a greater focus on delivery, it is important that partners agree how they will contribute to meeting the strategy's objectives. The Government is considering whether it should require a delivery plan setting out actions and investment priorities, and the nature of accountability arrangements for such a plan.

In London, the Mayor will continue to be responsible for preparing a suite of strategies for London, including its spatial development plan (the London Plan) and transport and economic development strategies.

### **Strengthening sub-regional economies – the role of local authorities**

Local authorities need to play a stronger role in delivering economic development in their area, building on their power to promote well-being. This document consults on the creation of a focused statutory economic assessment duty for upper tier and unitary local authorities. The results of this assessment would contribute to the analytical underpinning of sustainable community strategies, local development frameworks, local and multi-area agreement targets and the regional strategy.

The assessment would provide an improved shared economic evidence base, enhancing local authority capability and capacity on economic development issues and ensuring more effective prioritisation of economic development and regeneration interventions. It would also help local authorities to contribute to the development of the regional strategy.

Although London has unique governance arrangements, the Government is keen for London boroughs to also promote the conditions for economic success in their area. The document also consults on how best to take forward any duty within London.

The first assessments would be undertaken to inform local strategies and local area agreement (LAA) targets for 2011/12, and to contribute to the development of the first regional strategy. The new duty is likely to result in additional costs to local authorities, which will be assessed and met in line with the Government's new burdens principles.

## **Collaboration across sub-regions**

The SNR set out the advantages of economic development decision-making at a sub-regional level. The Government is introducing multi-area agreements (MAAs) to enable local authorities to improve economic prosperity by working across administrative boundaries. There may be advantages in strengthening the statutory basis for sub-regional collaboration between authorities, including more visible leadership.

The Government is committed to legislate to allow development of formal legal status for collaborative arrangements, subject to feedback from this consultation. Any new arrangements should adhere to four fundamental principles – they should: not be based on collaboration between elected members of existing local authorities; not include any additional council tax precept; not impose additional net costs on local authorities; and they should provide transparent accountability for residents. The Government believes that the focus for new sub-regional arrangements should be economic development. However, the Government is prepared to consider a wider range of functions and does not wish to be prescriptive about these nor the functional economic areas that might be covered, believing that interested partners should develop proposals to reflect their local priorities and circumstances.

### Consultation

This consultation will run until 20 June 2008.

### Impact assessment

An impact assessment has been developed on the local authority economic assessment duty. You are invited to comment on this analysis.

## **CHAPTER 1 - RESPONDING TO CONSULTATION**

### **Consultation process**

1.1 This consultation will run until 20 June 2008. We want to hear views from all interested parties including RDAs, local authorities, business, non-governmental organisations, any other organisation or public body and members of the public.

1.2 During the consultation period we will be keen to engage directly with regional interests and other key stakeholders. We will be holding a series of regional stakeholder events with the respective Government Offices so that we can hear stakeholders' views first-hand. Dates and venues will be publicised on the CLG and the BERR websites shortly.

1.3 A summary of responses to this consultation will be published within 3 months of its closing date on the CLG and BERR websites.

### **How to respond**

1.4 CLG and BERR invite comments on the proposals set out in this consultative document.

1.5 When responding please state whether you are responding as an individual or representing the views of an organisation, making it clear how the views of the members were assembled.

1.6 Responses to this consultation, along with any supporting evidence, must be received by 20 June. You are invited to submit your comments and responses to the following e-consultation address:

<http://www.bmgresearch.co.uk/SNR-Consultation>

This website will give you access to the full consultation document and provide an easy and convenient format for you to submit your response.

Alternatively you can email your response to:

[snrpostbox@BERR.gsi.gov.uk](mailto:snrpostbox@BERR.gsi.gov.uk)

Or in writing to:

Sub National Review  
Bay 1116  
Department for Business, Enterprise and Regulatory Reform  
1 Victoria Street  
London  
SW1H 0ET

## **Consultation criteria**

1.7 The Government has adopted a code of practice on consultations. The criteria below apply to all UK national public consultations consisting of a document in electronic or printed form:

1. Consult widely throughout the process, allowing a minimum of 12 weeks for written consultation at least once during the development of the policy.
2. Be clear about what your proposals are, who may be affected, what questions are being asked and the timescale for responses.
3. Ensure that your consultation is clear, concise and widely accessible.
4. Give feedback regarding the responses received and how the consultation process influenced the policy.
5. Monitor your department's effectiveness at consultation, including through the use of a designated consultation co-ordinator.
6. Ensure your consultation follows better regulation best practice, including carrying out an impact assessment if appropriate.

The code does not have legal force but is regarded as binding on UK departments and their agencies unless Ministers conclude that exceptional circumstances require a departure from it.

The full code may be viewed at: <http://www.berr.gov.uk/files/file44364.pdf>

## **Confidentiality and data protection**

1.8 Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA) and the Data Protection Act 1998 (DPA)).

1.9 If you want information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply. This deals, amongst other things, with obligations of confidence.

1.10 In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of information we will take full account of your explanation but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the Department.

1.11 The Government will process your personal data in accordance with the DPA and, in the majority of circumstances, this will mean that personal data will not be disclosed to third parties.

### **Additional Copies**

1.12 You may make copies of this document without seeking permission. Further printed copies of the consultation document or copies of the response form can be obtained from:

BERR Publications Order Line  
ADMAIL 528  
London SW1W 8YT

Tel: 0845 015 0010  
Fax: 0845 015 0020  
<http://www.berr.gov.uk/publications>

1.13 Or you can visit BERR's website at (<http://www.berr.gov.uk/regional/sub-national-review/page40430.html>) and download a copy of the consultation document.

### **Comments or complaints**

1.14 If you have any comments or complaints about the way this consultation has been conducted, please send them to:

Vanessa Singhateh  
Consultation Co-ordinator  
Department for Business, Enterprise and Regulatory Reform  
Better Regulation Team  
1 Victoria Street  
London SW1H 0ET

### **Impact Assessment**

1.15 An impact assessment has been developed on the approach to the local authority economic assessment duty (see Appendix 1).

1.16 You are invited to comment on the analysis, and/or provide further evidence to demonstrate potential costs or benefits of the proposals set out in this consultation document.

## **Consultation Questions**

We invite your views on the range of proposals contained in this consultation document. We particularly welcome your views on the following questions.

### Chapter 3 – Stronger partnerships for regional growth

- Q1. How should RDAs satisfy themselves that sufficient capacity exists for programme management and delivery at local or sub-regional level?**
- Q2. Do you agree that local authorities should determine how they set up a local authority leaders' forum for their region, and that the Government should only intervene if the required criteria are not met or if it failed to operate effectively? If not, what would you propose instead?**
- Q3. Are the proposed regional accountability and scrutiny proposals proportionate and workable?**

### Chapter 4 – Integrating regional strategies to promote growth

- Q4. Do you agree that the regional strategy needs to cover the elements listed at paragraph 4.13? Are there other matters that should be included in the regional strategy to help in the delivery of key outcomes?**
- Q5. Do you agree with the way in which we propose to simplify the preparation of the regional strategy, as illustrated in the figure (on page 35), in particular allowing flexibility for regions to determine detailed processes? If not what other steps might we take?**
- Q6. Do you think that the streamlined process would lead to any significant changes in the costs and benefits to the community and other impacts?**

### Chapter 5 – Strengthening sub-regional economies – the role of local authorities

- Q7. Which of the options for the local authority economic assessment duty (or any other proposals) is most appropriate?**
- Q8. What additional information or support do local authorities consider valuable for the purpose of preparing assessments?**
- Q9. How should lead local authorities engage partners, including district councils, in the preparation of the assessment?**
- Q10. Which partner bodies should be consulted in the preparation of the assessment?**

- Q11. Should any duty apply in London and, if so, which of the proposed models is most appropriate?**
- Q12. Do you agree that there is value in creating statutory arrangements for sub-regional collaboration on economic development issues beyond MAAs? What form might any new arrangements take?**
- Q13. What activities would you like a sub-regional partnership to be able to carry out and what are the constraints on them doing this under the current legislation?**
- Q14. How would a sub-regional economic development authority fit into the local authority performance framework?**
- Q15. Should there be a duty to co-operate at sub-regional level where a statutory partnership exists? To whom should this apply?**



## CHAPTER 2 – SECURING PROSPERITY IN A CHANGING ECONOMY

This chapter sets out the context and the key principles that underpin the review of sub-national economic development and regeneration.

2.1. The Government's central economic objective is to achieve high and stable rates of economic growth and employment. Productivity growth is the key determinant of long-run growth, and together with employment growth, leads to higher prosperity. Productivity growth is especially important for securing prosperity in light of a number of new challenges and opportunities, including globalisation and climate and technological change. The review of sub-national economic development and regeneration (which has become known as the SNR) has a clear aim – to put in place a robust delivery framework to promote productivity growth at every spatial level, which will help to improve opportunities and secure the prosperity of citizens and businesses in all parts of England in a changing world.

2.2. *The UK economy: analysis of long term performance and strategic challenges*<sup>1</sup> showed how the macroeconomic framework and flexibility of the UK's product, labour and capital markets have been key to building competitiveness and resilience. Flexible markets have also allowed the economy to adapt to longer-term structural changes over the past ten years. In this period, we have seen how this has translated in to a new economic dynamism around the regions, sub-regions and localities in the UK. As a result, progress has been made towards meeting the Government's regional economic performance public service agreement (PSA) to improve the trend rate of growth in every region, and to narrow the persistent gap in growth rates between regions. However, long-established gaps remain in employment, skills and enterprise rates between the top performing regions and the bottom performing regions, with inequalities persisting within as well as between regions.

2.3. To make further progress on promoting sustainable growth<sup>2</sup>, every spatial level must be able to respond effectively to the challenges and opportunities presented by globalisation, rapid technological change, and the need to tackle climate change and carbon emissions. And promoting growth will require progress on the five drivers that underlie productivity – skills, competition, investment, enterprise and innovation – and employment. The evidence base underpinning the SNR recognised that economic activity takes place at different spatial levels: national, regional, sub-regional and local. The challenge for central and local government is to organise itself to facilitate better outcomes at the most appropriate level through more focussed decision-making in competitive, dynamic localities, sub-regions and regions. The SNR is a vehicle for reforming public institutions to enable them to achieve sustainable economic growth, development and regeneration at every spatial level through better

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<sup>1</sup> HMT, March 2008

<sup>2</sup> 'Sustainable growth' here and throughout refers to economic growth that can be sustained and is within environmental limits, but also enhances the environment and social welfare, and avoids greater extremes in future economic cycles.

alignment of economic and spatial planning, within a sustainable development framework. Implementing the reforms in the SNR will support every region, sub-region and locality to respond to the challenges and opportunity presented by globalisation, technological and climate change, and to increase its competitiveness.

2.4. Different places and sub-regions, with their differing economies and needs, will be able to respond in a flexible way as:

- decisions will be taken in the right place and at the right level to be effective;
- decision makers will have a clearer remit and the right tools to increase growth in the region; and
- interventions will be timely and effective.

2.5. The SNR places a strong emphasis on devolved decision-making to the most appropriate level as a means to improve economic development outcomes. This means strengthening the connection between citizens and the decisions being made to help achieve prosperity and quality of life in the areas where they live and work. Within the framework of national policy and the overall regional strategy, the reforms will enable regions, sub-regions and local areas to develop and implement solutions at the level where decisions can best be taken.

2.6. The SNR is part of a wider programme of reform, including:

- Local Government White Paper and Local Government and Public Health Act 2007
- Planning White Paper and Bill
- Housing and Regeneration Bill
- Climate Change Bill
- Energy White Paper
- Science and Innovation White Paper
- Governance of Britain Green Paper
- Enterprise Strategy
- New public service agreements
- Business Support Simplification Programme – ‘Simple Support, Better Business: Business Support in 2010’

2.7. Together these will lead to better decision-making, better integration of economic, social and environmental goals, better value for money from public resources and more efficient delivery, thereby helping businesses and economies to flourish.

2.8. There has already been significant progress towards implementing the SNR and associated reforms. In November 2007, the Secretary of State for Communities and Local Government announced the establishment of the £1.5 billion Working Neighbourhoods Fund (WNF), which will be paid to the eligible local authorities as part of their non-ring fenced area-based grant. The WNF will support councils and communities in developing local solutions for tackling worklessness in the most deprived neighbourhoods. As part of the Pre-Budget Report, the Treasury published a White Paper on business rate supplements, which will be an important tool for local authorities in shaping their economic future. The Government is also working with a number of sub-regions that are developing multi-area agreements that reflect the need to consider economic development and regeneration at the geographical level at which many markets operate.

2.9. The Department for Children, Schools and Families and the Department for Innovation, Universities and Skills are taking forward reforms to the funding for education of 14-19 year olds. Local authorities, often acting in partnership at the sub-regional level, will play a stronger role in developing strategy and the allocation of funding. The two Departments will be consulting on their plans shortly.

2.10. This document builds on the reforms that are already underway. It sets out and seeks views on the proposals contained in the SNR for putting in place a number of structural reforms that aim to:

- streamline the regional tier and introduce single integrated regional strategies, with the RDA designated as the regional planning body;
- strengthen the local authority role in economic development, including a new statutory duty to assess local economic conditions; and
- support collaboration by local authorities across economic areas.

## **London**

2.11. Many of the SNR proposals discussed in this document are not relevant to London. This reflects the capital's unique governance arrangements and, in particular, the establishment in 2000 of the Greater London Authority - comprising a directly elected executive Mayor for London and an elected Assembly - to provide strategic leadership for the city.

2.12. The Mayor will continue to be responsible for preparing a suite of strategies for London, including its spatial development plan (the London Plan), Transport and Economic Development Strategies, and for oversight of the London Development Agency. The Government has also recently strengthened the Mayor's powers and responsibilities through the Greater London Authority Act 2007, especially in relation to planning, housing, and tackling climate

change; and the London Assembly has a gained greater scrutiny powers over the Mayor, including confirmation hearings in relation to key Mayoral appointments.

2.13. Some of the SNR reforms may, nevertheless, be applicable to London and this consultation document seeks views, in particular, on the application to London of the duty on local authorities to undertake assessments of their local economic conditions (see paragraphs 5.21 and 5.22).

## CHAPTER 3 – STRONGER PARTNERSHIPS FOR REGIONAL GROWTH

This chapter sets out and consults on the new arrangements for decision-making at regional level. In particular:

- how RDAs will change to take on a wider, more strategic role including responsibility for regional planning;
- how local government might organise itself to act collectively at the regional level;
- the importance of engaging with stakeholders including businesses and local communities; and
- accountability and scrutiny.

It also provides further information about the next round of regional funding allocations.

3.1 The SNR set out a number of proposals for new arrangements for decision-making and delivery at regional level:

- subject to legislative change, RDAs will have responsibility for regional planning – a function currently carried out by regional assemblies;
- RDAs will have a new executive responsibility for developing a single integrated regional strategy working closely with local authorities and others;
- local authorities acting collectively at the regional level will have responsibility for signing off the draft regional strategy; and
- there will be new arrangements to ensure accountability at the regional level and for scrutiny of the regional strategy and its implementation.

### **RDAs evolving to take on new responsibilities**

3.2 The RDAs will need to undergo significant change in both what they do and how they operate. They will become more strategic in their leadership of the sustainable economic growth agenda in the regions, with a more programme-based, rather than project-based approach, to the management of the RDA single programme budget (the single pot). This will facilitate a greater role for sub-regions and local authorities in economic development as appropriate. RDAs will continue to manage the single pot to fund economic development and regeneration priorities in their region.

3.3 The RDAs will lead on the development of the regional strategy, ensuring economic development and spatial planning are closely aligned. As the body responsible for regional planning, the RDA will be required to play a significant role in relation to how economic, social and environmental issues are balanced through the planning system. They will also need to engage effectively with a wider group of stakeholders and the public and build on their solid relationships with sub-regional partnerships and with local government.

3.4 Contributing to the achievement of sustainable development is already a core principle of existing RDA legislation, and of legislation on regional planning. We intend that this should remain the case under the new arrangements.

3.5 RDAs will continue to be business-led, recognising the strategy's focus on delivering sustainable economic growth in the regions and the RDAs' strategic investment role in promoting economic development. Continued business engagement, through strong RDA boards, is crucial if public and private sector investment is to be properly aligned and private investment leveraged, to focus on the right solutions. In making future appointments, the Secretary of State for Business, Enterprise and Regulatory Reform will work closely with the Communities Secretary to ensure that the skills and experience of those appointed to RDA boards reflect their important new responsibilities in regional planning, along with their existing responsibilities. In practice this means that, in addition to strong business experience, RDA boards will need members with experience in working with regional and local partners and stakeholders. RDAs will also need to reflect the changes to their role in the training and development of board members and staff.

3.6 Appointments to the Board will continue to be subject to the Office of the Commissioner for Public Appointments (OCPA) code of practice. Ministers make the appointment based on recommendations from recruitment panels overseen by an independent assessor appointed by OCPA and taking advice from the Regional Minister.

### **Delegation of RDA funding**

3.7 A key principle of the SNR is to ensure that decisions are made at the right spatial level, by devolving powers and responsibilities in line with economic outcomes. The business-led RDAs will become increasingly strategic through their lead role on the regional strategy and will, as now, want to commission partners to deliver outcomes agreed in the strategy. RDAs will delegate their single pot funding where appropriate, for spending on promoting economic growth and regeneration on a programme, rather than project, basis, to those best placed to deliver economic growth outcomes. Local authorities will play an increasing role in this delivery, with a proposed legal duty to assess their economies and the ability to act with neighbouring local authorities to tackle common problems. Local authorities will be closely involved in preparing the

strategy, which a regional forum of local authority leaders will sign-off on behalf of all local authorities in the region.

3.8 The RDAs will need to agree with local authorities and key regional partners the balance of relevant investment from their single pot between different policy areas. They should identify investment activities and policy interventions best delivered sub-regionally or locally. RDAs will then commission delivery from partners and delegate, where appropriate, associated decision-making and funding to local authorities and sub-regions for investment in line with the regional strategy.

3.9 Each RDA will still deliver directly those services that are best implemented at a regional level, such as inward investment, support for innovation and responding to economic shocks. They will manage the delivery of other services, such as business support, where they will be responsible for ensuring non-proliferation of new products as part of the Government's Business Support Simplification Programme (BSSP). As now, delivery partners may be businesses, universities and other partnership bodies.

3.10 The RDA will need to ensure that capacity exists at local authority or sub-regional partnership level to undertake the delegated activities. It will consider whether it can provide support to build capacity as necessary. As capacity increases, an increasing amount of funding will be delegated to local authorities to deliver outcomes in those areas of intervention where they are best placed to deal. There will also be policy areas and associated programmes on which the RDAs will need to task other agencies or partnerships to deliver economic improvements.

3.11 In order to ensure the flexibility that local authorities will require in managing delegated programmes, legislation is required to amend the RDA Act. Where funding is delegated, the RDA will need to be satisfied that there is a clear rationale for the proposed spending and that expected outcomes are clearly identified for the delegated funds. Delegation will therefore need to be set within the appropriate financial and value for money frameworks. We are exploring whether a memorandum of understanding between the RDAs and local authorities could underpin delegation, by outlining accountability arrangements and providing assurance to Parliament that the funding was spent appropriately and represented value for money.

3.12 In the interim, the Government has made it clear that RDAs should explore, within the current legislative constraints, how greater flexibility can be given to local authorities to meet agreed outcomes, whilst ensuring that appropriate accountability and value for money requirements are in place.

**Q1. How should RDAs satisfy themselves that sufficient capacity exists for programme management and delivery at local or sub-regional level?**

## **Strengthening local government at regional level**

3.13 Under the SNR's proposals, regional assemblies will cease to be the regional planning body and this responsibility will be transferred to RDAs. Local authorities will work with the RDA to develop and agree the draft strategy and its delivery. The aim is for the RDA and local authorities to achieve co-ownership of the vision for each region and its delivery. Local authorities will also have a role in holding to account the RDA and its regional delivery partners.

3.14 In order that local authorities can carry out these roles efficiently and effectively, the SNR suggested the establishment of a local authority leaders' forum in each region. Local authorities in many of the regions are already exploring how they can establish such forums.

3.15 The Government believes that local authorities themselves should decide the most effective structure for a leaders' forum to suit the needs of their region. It is the Government's view, however, that any forum should be:

- streamlined, manageable and able to make strategic, long-term decisions and engage effectively with the RDA;
- representative of local government across the region, for example, in terms of representation of key sub-regions and upper and lower tier authorities; and
- comprised of local authority leaders and have sufficient authority to sign off the draft strategy on behalf of all local authorities in the region.

3.16 The Government would only intervene in the formation of the forum if the local authorities in a region were unable to reach consensus on a forum that met the criteria set out in paragraph 3.15 or if it failed to operate effectively.

3.17 The forum's principal role would be to take strategic decisions and agree priorities on behalf of all local authorities in each region in the development and implementation of the regional strategy. This would involve establishing working protocols with the RDA on the process for developing the strategy.

**Q2. Do you agree that local authorities should determine how they set up a local authority leaders' forum for their region, and that the Government should only intervene if the required criteria are not met or if it failed to operate effectively? If not, what would you propose instead?**



## **Accountability and scrutiny**

3.18 Both the SNR and the proposals contained in the Governance of Britain Green Paper will change how regional bodies are held to account. Some of the arrangements build on existing procedures and others will be new. It is important that the new and existing accountability and scrutiny mechanisms complement each other and are proportionate.

3.19 RDAs will remain accountable to Parliament through the Secretary of State for Business, Enterprise and Regulatory Reform, working within a robust performance framework. This focuses on a number of areas:

- audits of the RDAs' accounts and financial management systems carried out annually by the National Audit Office;
- monitoring RDA performance through independent appraisals, corporate plan reviews and financial monitoring; and
- evaluation framework measuring RDA performance in delivering their strategic objectives.

This performance framework is the principal way in which the RDA is subject to external scrutiny and held to account.

3.20 In the future, performance management of RDAs will focus increasingly on how well they are performing their new strategic role. BERR will assess how effectively the RDAs are performing their functions, including leading the development of the regional strategy. Local authorities, in addition to their new role in contributing to the development and implementation of the regional strategy, have existing scrutiny powers which can be applied to RDAs and other government agencies at local level, as well as to their own executive members. With the abolition of regional assemblies, local authorities should develop new arrangements for exercising their scrutiny powers at regional level through the leaders' forum.

### **Q3. Are the proposed regional accountability and scrutiny proposals proportionate and workable?**

3.21 In June 2007 the Prime Minister appointed Ministers for the English regions and published the Governance of Britain Green Paper, which proposed that enhanced Parliamentary scrutiny of the regional tier could be achieved through the establishment of nine regional Parliamentary committees. The introduction of regional committees is ultimately a matter for the House of Commons itself and the House Modernisation Committee has begun an inquiry into regional accountability. The outcome of this will be a key component of the Government's drive for improved public accountability.

## **Engaging with social, economic and environmental stakeholders**

3.22 The new arrangements for the regional strategy place a premium on effective stakeholder engagement and management, on which the RDAs will lead. Currently, although composition varies, all regional assemblies include representatives drawn from business, the Trades Union Congress, the voluntary sector, environmental and faith groups and regional culture and health bodies. In addition, a wider range of stakeholders are currently involved through a variety of working arrangements. For example, each region has set up a regional skills partnership and a science and industry council, while most regions also have a sustainable development champion body.

3.23 We look to each RDA to devise working arrangements which best suit the needs of their region, so that they are most effective in drawing upon the expertise of stakeholders for sound decision-making and outcomes and effectively link the contribution of different spatial levels. The process for the development of regional strategies will include existing requirements in relation to consultation and testing of evidence. The new arrangements will need to be capable of formulating regional priorities in respect of housing, transport, skills, business support<sup>3</sup> and other matters to create the conditions for business and communities to flourish.

## **Change management programmes**

3.24 The SNR proposals will involve significant changes to regional structures and institutions. However, all regions are different, face different challenges and need to develop solutions that meet their needs. There is no single blueprint for what changes are required or how to implement them. We expect RDAs to work with local authority partners in each region to develop a change management programme which addresses the changes needed to institutions, relationships and processes. We expect this programme to establish, among other things, how:

- local authorities would organise themselves to act collectively at regional level;
- RDAs would adapt to address their new role; and
- RDAs and local authorities in their region would work with each other and engage with stakeholders.

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<sup>3</sup> RDAs have been asked to establish regional business support boards which will have a role in ensuring that the business support elements of the regional strategy are in line with the BSSP framework.

## **Securing a managed transition to new arrangements**

3.25 In the period prior to the introduction of the regional strategy, it will be important to ensure that momentum is not lost. In particular, progress towards the goal set out in the Housing Green Paper<sup>4</sup> of delivering 3 million homes by 2020 - including at least 180,000 affordable homes and the development of eco-towns and additional New Growth Points – will need to be maintained. We are committed to completing the current round of regional spatial strategies, with further partial reviews where necessary, by 2011 to pave the way for 240,000 new homes a year by 2016. Establishing a close partnership between the Homes and Communities Agency (HCA), the regional assemblies and RDAs will be key to maintaining this delivery focus.

3.26 As the designated regional planning body in all regions outside London, the regional assembly will be expected to undertake the work on the RSS reviews. This will be informed by Government guidance on housing numbers based on advice from the National Housing and Planning Advice Unit which provides independent advice on affordability. Regional spatial strategies will continue to be in force as the regional tier of the statutory development plan, until replaced by single regional strategies under the new process.

3.27 Once the current round of regional economic strategy reviews is completed, RDAs will not be expected to undertake any further strategy reviews until the new arrangements are in place. Prior to the development of the new regional strategies, RDAs will be expected to use the 3-yearly corporate planning round to set out how they will contribute to delivery of the regional growth objective.

3.28 In advance of new legislation we expect the regional assembly and RDA to begin preparations for the introduction of the regional strategy within their current statutory responsibilities including continued work to develop a shared evidence base and shared approach to monitoring and implementation. The commitment to further RSS revisions, as necessary, to meet the Government's housing ambitions offers scope for joint working which could be the beginnings of the new strategy. The approach taken will need to be determined on a region by region basis. Where there is a need for an RSS revision, the aim should be to complete it by 2011. However, some regions are aiming to integrate existing regional strategies as early as 2010 by bringing together the RES and RSS ahead of time.

3.29 To assist them in handling the transition, the Government has made provision in the current Planning Bill to empower regional assemblies to

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3. Homes for the Future: more affordable, more sustainable, Communities and Local Government, July 2007

delegate any of their planning functions under the Planning and Compulsory Purchase Act 2004 to the RDAs, and allow RDAs to assist the regional assemblies in carrying out any of their functions related to the RSS, where both agree. These provisions will not allow the RDAs to become the regional planning body. Further legislation will be required to allow full transfer of responsibilities.

## **Regional Funding Allocations**

3.30 In 2005 the Government launched the first regional funding allocations (RFA) exercise. The purpose was to enable regional partners to agree realistic, joined-up strategic advice on priorities within agreed levels of central Government expenditure – giving them a say in how money allocated to their region was spent, and helping provide businesses with a stable investment framework.

3.31 The 2005-06 RFA exercise, which included transport, housing and economic development budgets, was very well received by regional stakeholders - and the SNR confirmed the Government's commitment to a second, expanded round of RFA advice. The Government intends this second round will be launched in the summer and include the following additional funding streams:

- further transport streams to enable regions to provide wider advice on priorities for supporting regional and local transport<sup>5</sup>;
- European Regional Development Fund (ERDF)<sup>6</sup>; and
- housing and regeneration delivery in the “growth areas” and the Thames Gateway, and other regeneration programmes due to be transferred to the Homes and Communities Agency.

By asking regions to advise on how these funding streams should be aligned and prioritised, RFA advice will support the development of the regional strategy and ensure it translates into regional investment priorities.

3.32 The Government will issue guidance in the summer of 2008 setting out amounts allocated in the 2007 comprehensive spending review for the period 2008-11 to the above new and existing streams. The guidance will outline the

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<sup>5</sup> This will need to take into account the outcome of current discussions on (1) the implications of acceptance of the Nichols Review and Eddington Study recommendations, with regard to the need to understand that commitment to schemes prior to the construction phase ‘is necessarily a very conditional commitment’, and the need as evidence emerges to have the flexibility to ‘follow the numbers’ to ‘ensure spending is focused on the best policies’ (2) the outcome of current discussions on enabling regions to advise on priorities for distributing block grants of c.£1.3 billion a year for integrated transport and maintenance; and (3) the outcome of current discussions on enhancing their opportunities to advise on future rail investment, taking account of how much is already committed to 2014/15 and how much benefits more than one region.

<sup>6</sup> European Union ring-fencing of ERDF money.

constraints affecting certain budgets<sup>7</sup>, including Ministers' ultimate accountability to Parliament. Subject to these, the Government will seek regions' advice by early

2009 on:

- their strategic priorities within the amounts set out; and
- how money might be moved between funding streams to help achieve them.

3.33 Funding provided by the Learning and Skills Council to support adult skills development will continue to be allocated as now, to support the national skills strategy and PSA targets. But the Government recognises that skills and training are essential components of economic development at regional and local level, and need to be well integrated with the other factors that drive productivity growth. We want to build on the progress that has been made in recent years between the Learning and Skills Council, the regional development agencies, local authorities and other regional and local partners in agreeing shared priorities through regional skills partnerships and the emerging sub-regional employment and skills boards. Within the RFA framework, we therefore look to the LSC, RDAs, local authorities and other partners to develop an agreed view on the skills and training priorities that will best support delivery of regional and local economic development, within the overall framework of the national skills strategy and PSA targets. Where appropriate, that should include considering how different funding streams can be aligned to ensure skills priorities best complement wider economic goals. Those priorities should form part of the advice that RFA partners put to Government.

3.34 A formal Ministerial response in summer 2009 will explain how the advice from regions will inform Departmental spending programmes and will enable regions to develop their first regional strategies and delivery plans based on agreed spending plans from within the funding covered by RFA..

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<sup>7</sup> Existing delivery plans such as the Thames Gateway and the difficulty of disaggregating cross-regional spend.

## **CHAPTER 4 – INTEGRATING REGIONAL STRATEGIES TO PROMOTE GROWTH**

This chapter invites comments on proposals for:

- integrating the regional economic strategy, the regional spatial strategy and other regional strategies into a single long-term strategy; and
- a new process for developing the regional strategy.

4.1 Chapter 3 set out proposals for how RDA and local authorities could best organise themselves to fulfil their new functions. The regional tier will be strengthened by integrating existing regional strategies into a single regional strategy, setting out a high level vision over the next 15-20 years that reflects the region's distinctive geography and economy and creates the conditions for innovation and enterprise to flourish.

4.2 The new regional strategy is designed to ensure closer alignment between economic and spatial planning to support sustainable economic growth. It will build on the strong foundations laid by the existing regional economic strategies and regional spatial strategies. We expect other regional strategies, such as sustainable development frameworks, regional cultural strategies and the regional housing and transport strategies, to be integrated into the new strategies. This will provide the opportunity to take a strategic overview of the region's activity to drive forward economic development and regeneration, taking account of economic geography.

4.3 The regional strategy will steer the activities, plans and investment decisions of the RDA, local authorities and other regional partners to ensure sustainable economic growth, development and regeneration. It should set out which places and sectors should be priorities for investment. It should also influence the policies, plans and investment decisions of central government departments and public agencies (including the Environment Agency, the Highways Agency, the Homes and Communities Agency, Jobcentre Plus, the Learning and Skills Council, the Technology Strategy Board and Natural England) and give clarity and incentives to the private sector to invest in a region. Combined with future regional funding allocation rounds and the regional economic performance PSA, the strategy will result in a stronger alignment between national and regional spending plans. Given this, businesses in the region will want to engage actively with the RDA and other partners in helping to develop the strategy. The regional strategies will be based on evidence and work done by local, sub-regional and regional partners.

4.4 The Government is intending to bring forward legislation that would create a statutory requirement for each region to have a regional strategy. The regional strategy would also be part of the statutory development plan which is the framework against which local planning authorities determine planning applications for individual development proposals.

4.5 The strategies should be succinct documents setting out the region's vision for how and where sustainable economic growth would be delivered, focusing on the relationships between the regional economy and the key drivers of growth (competition, enterprise, innovation, skills, investment and employment), the environment and regeneration. The strategies will contribute to the achievement of sustainable development in the UK and will be underpinned by sustainable development principles. Taking this integrated approach to agreeing social, economic and environmental priorities in each of the regions will help create the conditions for the economy, business and communities to flourish and the environment to be protected.

### **The Government's priority outcomes**

4.6 The Government will work closely with the RDAs and local authorities in developing and implementing the regional strategies to ensure alignment between national and regional policies. Regions will be expected to reflect national policy in drawing up the regional strategy, and will also want to remain alert to emerging Government policies and their likely impact e.g. new policies to mitigate the effects of climate change. This will include planning policy statements and forthcoming national policy statements on infrastructure. Other national frameworks such as the Business Support Simplification Programme, or national aspirations on employment and skills levels, would also provide relevant policy directions.

4.7 Current PSAs where the contribution from the regional strategy is likely to be particularly relevant to delivery include: regional economic performance; housing; transport; natural environment and climate change. The Government believes regional strategies will make a crucial contribution to its regional economic performance and housing aims and there will be clear objectives for the strategies on these aims.

*Regional Economic Performance: 'Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions.'*

4.8 Each region will set a regional economic growth objective to focus attention on how best to raise growth and increase prosperity. The economic growth objective for each region will be to raise its sustainable trend rate of growth in comparison with the previous economic cycle. Regional strategies should set out the key economic policy areas and priorities to achieve the

objective for their regions, taking account of constraints on carbon emissions, such as those proposed in the Climate Change Bill.

*Housing: “Increase long-term housing supply and affordability”*

4.9 As stated in the Housing Green Paper, we will issue formal guidance on the ranges of housing provision required over a 15 to 20 year time period. This guidance will be based on the independent advice of the National Housing and Planning Advisory Unit (NHPAU). We will expect the RDAs and local authorities to test these ranges through the preparation of the regional strategy so that both they and central Government are fully informed when taking final decisions about the appropriate levels and types of housing provision.

4.10 In order to achieve this, we expect the development of the regional strategy to be a transparent, collaborative and evidence-driven process of exploring the potential scale and locations for housing growth. The housing elements of the regional strategy need to start from the local authority assessment of the housing opportunities and needs in their area, and where possible, to be based on the collaborative work done between local authorities within a sub-region to assess the locations and opportunities for growth. We expect the RDA to work in partnership with local authorities through the leaders’ forum to draw on their knowledge of the local potential for housing growth, and ensure local authorities have ownership of the housing distribution set out in the regional strategy.

4.11 The Government will, however, be looking for the regions to develop strategies which, while meeting these objectives, do so in a way which secures an integrated approach, without prejudicing other Government priorities. For example, the Stern Review highlighted the strong economic case for taking action on climate change as well as the opportunities that arise from decoupling growth from greenhouse gas emissions. In setting out the long-term vision for sustainable economic growth and housing supply – alongside key strategic transport and other infrastructure – it will be vital that regional strategies ensure this is done in ways that support the move to a low carbon economy, delivers the objectives set out in the Climate Change and Energy Bills, and is in line with the recently issued Planning Policy Statement on Climate Change.

### **What should the regional strategy contain?**

4.12 The strategy should be founded on a robust evidence base, informed and shaped by regional and local partners. The aim would be to ensure that strategies from different levels are complementary and mutually reinforcing and that there is an iterative dialogue between local authorities and the RDAs and other stakeholders.



4.13 Each region will need to determine its priorities to achieve sustainable economic growth and development over the period of the plan. In terms of policies and spatial priorities we propose that every regional strategy should cover:

- an overview of the key regional challenges over the plan period;
- how economic growth can best be delivered having regard to employment and the key drivers of productivity as well as regeneration;
- a distribution of housing supply figures as well as targets for affordable housing and achieving quality homes for all, including vulnerable and socially excluded people;
- how the region would manage the risks and opportunities of unavoidable climate change, achieving development in a way which is consistent with national targets for cutting carbon emissions;
- those areas within the region identified as priorities for regeneration investment and intervention; and
- strategic requirements and provision for transport, waste, water, minerals, energy and environmental infrastructure, insofar as these are not already specified in national policy.

**Q4. Do you agree that the regional strategy needs to cover the elements listed at paragraph 4.13? Are there other matters that should be included in the regional strategy to help in the delivery of key outcomes?**

#### **Level of Detail**

4.14 Regions will need to achieve a balance between a strategy which is high level but also sufficiently specific to enable effective delivery. The strategy should not generally be site-specific, but might use spatial concepts such as 'corridors' or broad locations such as a settlement.

4.15 The regional strategy will set out the distribution of housing numbers, to meet the Government's ambition of delivering three million new homes by 2020. The Government wishes to encourage local authorities to work across administrative boundaries to agree housing requirements at a strategic level and consistent with their regional growth objective and transport plans. The regional strategy may set housing requirements for a housing market area or sub-region, where local authorities commit to developing joint core strategies and to cover that sub-region. In other cases allocations will need to be made at local planning authority level.

4.16 The Government also supports strengthened cross-regional co-operation where this reflects economic geography or existing policy initiatives such as the Milton Keynes and South Midlands growth area, the Thames Gateway growth area and the Northern Way. Adjacent regions will therefore be encouraged to prepare strategies that ensure a strong and more coherent framework for these cross-regional initiatives.

### **Principles for developing the regional strategy**

4.17 The process for developing the strategy should provide flexibility for regions to devise for themselves the most effective working arrangements. At the same time, the process will need to meet high standards for example in relation to stakeholder and community engagement, testing of evidence and sustainability appraisal. Regional and local partners will share a commitment to the strategy and its delivery. The strategy will need to be clear, well managed and enable meaningful engagement with regional stakeholders including local communities.

4.18 Although RDAs will have executive responsibility for developing the strategy, all local authorities must be involved collectively through the leaders' forum and, where necessary, individually, in the full life-cycle of the strategy. We expect the regional tier and local government to work together to ensure that the strategy reflects a coherent story about the region's objectives and mechanisms for delivery, based on a clear evidence base.

4.19 The new process will need to meet certain principles:

- **effective engagement with stakeholders and the public.** Engagement in developing the strategy will be critical to ensuring that it effectively integrates competing demands and to ensuring that it commands support across the region;
- **a robust evidence base.** Strong evidence is fundamental to sound strategy-making. Regions should build upon emerging regional good practice and take into account the results of local economic assessments as well as other relevant evidence;
- **effective sustainability appraisal, including scoping of issues and appraisal of options.** RDAs and local authorities should consider economic, social and environmental impacts by combining assessments required under EU and UK legislation with a sustainability appraisal. In particular, we expect that regional strategies will be subject to strategic environmental assessment. This will involve scoping the issues, appraising options, consulting stakeholders and reporting on how the results of appraisal have informed decision-making;
- **the strategy should be independently tested in public.** 'Examinations in public', which are currently carried out for regional

spatial strategies, provide a model for this at regional level. These are structured debates facilitated by an independent panel and focusing on those issues which are particularly contested. Subjecting the strategy to testing with an independent report acts as a critical safeguard that the wide range of potential interests has been properly considered in a transparent manner; and

- **sign-off** at regional level involving both the RDA and local authority leaders' forum. The RDA will then submit the agreed draft to Ministers for approval.

### **A new process for developing the regional strategy**

4.20 In order to meet these principles, the process for developing single regional strategies will need to be clear, open and transparent. It also needs to be efficient, both to ensure that regional strategies can be put in place and updated in a timely way, and to ensure that regional partners and stakeholders can engage effectively. For these reasons:

- central Government would provide greater clarity on national priority expectations at the beginning of the process, for example through the new national policy statements on infrastructure, advice on regional economic growth objectives and guidance on regional ranges of housing supply requirements;
- the new system would give regions flexibility to determine the detailed working arrangements for preparing the strategy and implementation plan, subject to these meeting the core principles set out above. This means RDAs and local authorities could build on those arrangements that work best in their region, including arrangements at sub-regional level, and could set these out with timings in an agreed project plan at the start;
- the economic assessments undertaken by local authorities under the new duty, if introduced, would be an input to the improved regional evidence base;
- Government would work with RDAs, local authorities and stakeholders to develop a single national core sustainability framework against which all regional strategies can be appraised; and
- 'examination in public' or 'independent testing' would be embedded as a means for engaging stakeholders on contentious issues during the drafting process instead of leaving it as an additional process reporting separately to central Government.

4.21 A more detailed explanation of the proposed process is set out in the figure on page 35. With good process management, a full regional strategy review could potentially be achieved within 24 months. Depending on the issues, a partial review may be possible within 18 months.

## **Independent testing of the strategy with stakeholders**

4.22 Various regions have already found innovative ways of engaging with a wide range of stakeholders, including local communities, in regional strategy-making. Stakeholder engagement needs to be meaningful and to contribute to building consensus around the regional strategy. Independent testing is, however, particularly important in building confidence in regional strategies and allowing full scrutiny by stakeholders.

4.23 The Government envisages that, under these proposals, an independent panel would be appointed early in the process. Once the RDA, working with the leaders' forum, had identified the issues to be tested and possible options, the panel would facilitate sessions, covering specific topics or sub-regions. These discussions would engage stakeholders in appraising the options, test the evidence base and narrow down the contentious issues. On the basis of the information gathered by the panel, the RDA and leaders' forum would identify a preferred set of priorities and actions. At this stage the panel would hold a final session focussing on unresolved issues and report back to the RDA and leaders forum.

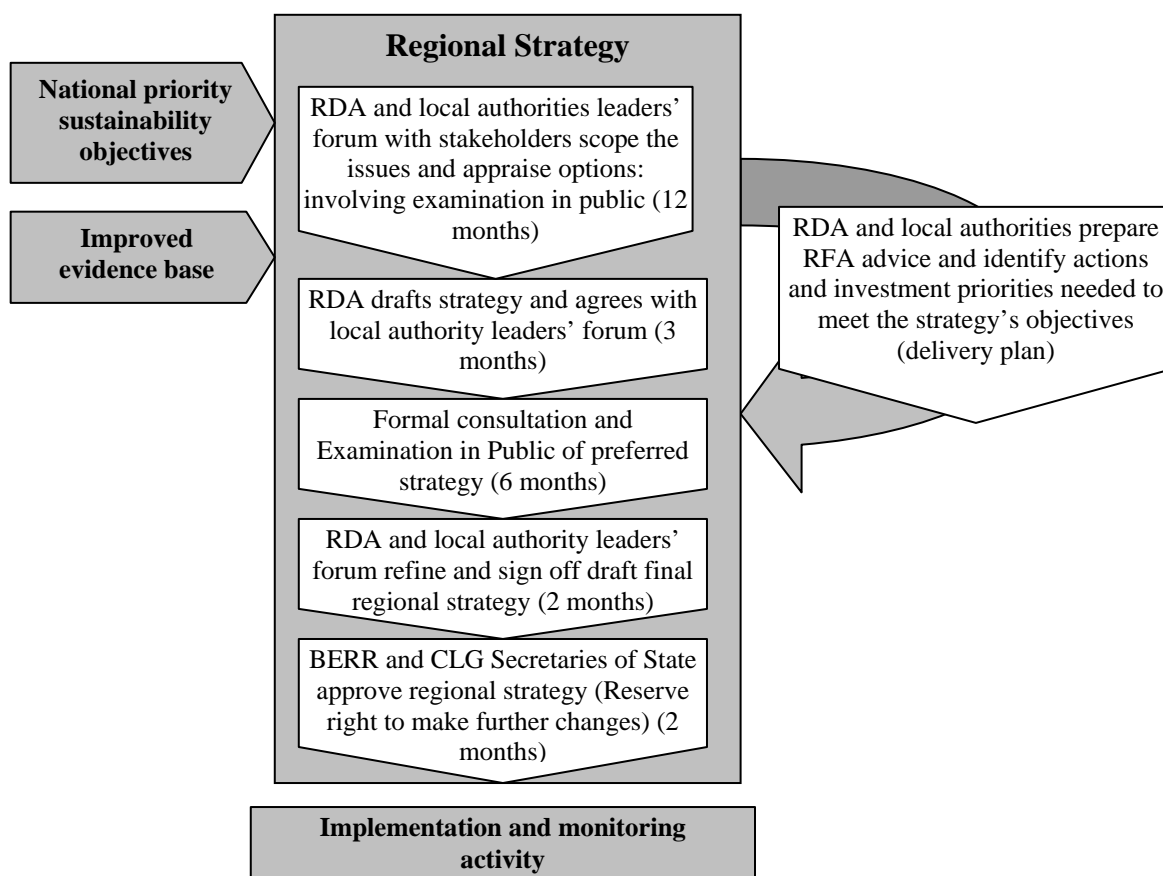
## **Sign off and approval**

4.24 The Government proposes that the strategy is signed off by local authorities and Ministers. A two step process is proposed. The RDA will lead the development of the strategy, taking account of the work of local authorities in the area, and will be responsible for agreeing a draft with the leaders' forum, who will sign off the draft strategy on behalf of all individual local authorities. Following this, the RDA would submit the strategy to BERR and CLG Ministers for approval.

4.25 The Government expects RDAs and all local authorities to co-operate in the development and implementation of the regional strategy and to agree the draft strategy before submitting to Ministers. If the regional partners fail to agree on the draft regional strategy, the RDA should submit the draft strategy to Ministers noting points of disagreement. Ministers would then take this evidence and that of the independent panel into account in reaching a decision on the final content before deciding whether to approve the strategy.

4.26 The figure below illustrates the proposed process for developing and testing the new regional strategy.

*Figure: new integrated streamlined process*



**Q5 Do you agree with the way in which we propose to simplify the preparation of the regional strategy, as illustrated in the figure, in particular allowing flexibility for regions to determine detailed processes? If not what other steps might we take?**

**Q6. Do you think that the streamlined process would lead to any significant changes in the costs and benefits to the community and other impacts?**

### **Delivery plan**

4.27 To encourage a greater focus on delivery, it is important that partners agree how they will contribute to meeting the strategy's objectives. The Government is considering whether it should require a delivery plan setting out actions and investment priorities, and the nature of accountability arrangements for such a plan.

## **Review of the strategy**

4.28 The timing of RSS and RES reviews and publication is flexible. We wish to retain this flexibility and leave it to regions to decide when to review their regional strategy (perhaps every five years). However, Ministers would be able to require a refresh or review of a regional strategy to reflect significant changes to national priorities. Any changes to a regional strategy would need to be submitted to the Business, Enterprise and Regulatory Reform and Communities and Local Government Secretaries of State for approval. Any delivery plan setting out action and investment priorities might be reviewed more frequently, perhaps every 2-3 years.

## 5 – STRENGTHENING SUB-REGIONAL ECONOMIES – THE ROLE OF LOCAL AUTHORITIES

This chapter invites comments on:

- the aim, rationale and form of a proposed local authority economic assessment duty – including options for consultation, extending the duty to London, capacity, assessment, timetable and costs; and
- sub-regional co-operation, including MAAs; statutory arrangements for sub-regional collaboration on economic development issues; and integrated transport authorities.

5.1 The Local Government White Paper<sup>8</sup> provided the blueprint for a new approach to delivery at the local and regional level. Progress across the range of policy areas covered by the White Paper has been rapid. Highlights include:

- *The Local Government and Public Involvement in Health Act 2007*, which provides a legislative framework on which many of the proposals in the White Paper are based, received Royal Assent in October 2007;
- the announcement, as part of the Comprehensive Spending Review, of a single set of national priorities for local authorities working alone or in partnership, to be measured through a single set of 198 national performance indicators;
- a small number of agreed priorities for areas between central government and local government and its partners through the negotiation of new Local Area Agreements (LAAs);
- a new approach to assessment and inspection through the Comprehensive Area Assessment;
- a National Improvement and Efficiency Strategy to build capacity and capability within the system; and
- a concordat between central and local government establishing, for the first time, an agreement on the rights and responsibilities of local government, including its responsibilities to provide effective leadership of the local area and to empower local communities.

5.2 The SNR built on this by providing the framework for local authorities and RDAs to work more closely on economic development and regeneration. Interventions should take place at the most appropriate level, be aligned, avoid duplication and contribute to sustainable economic growth – both in individual places and across the region. The RDA will lead on development of the regional strategy informed by local authorities' contribution to the evidence base and local authorities will work with partners to deliver parts of the strategy at sub-

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<sup>8</sup> Strong and Prosperous Communities – the Local Government White Paper, Communities and Local Government, October 2006

regional and local levels. Local authorities will continue to promote economic development as they do now – for example through LAAs – but in a way that promotes sub-regional collaboration where appropriate and in line with the regional strategy. In the future, MAAs will provide an important lever for achieving this.

5.3 If this collaborative approach is to be effective, it will be important for activities at different levels to be built on a robust, shared evidence base. The SNR proposed that improved knowledge about the economic conditions of every place – including both opportunities and challenges – should inform both activity at local and sub-regional levels, and the development of regional strategies.

## **LOCAL AUTHORITY ECONOMIC ASSESSMENT DUTY**

5.4 The SNR included a commitment to consult on the creation of a focused statutory economic assessment duty for local authorities. Such a duty would:

- require upper tier and unitary local authorities (“lead authorities”) - in consultation with other key partners, including district authorities and RDAs, to carry out an assessment of the economic conditions of their local area; and
- result in an assessment that would contribute to the analytical underpinning of strategies and targets at local, sub-regional and regional levels.

### *Aim and rationale*

5.5 Following research commissioned by Communities and Local Government<sup>9</sup> the Government believes that a new duty would add value to existing arrangements and practice through:

- an improved evidence base to inform the Sustainable Community Strategy, Local Development Framework and LAA;
- improved understanding of how economic development can support regeneration priorities in the area;
- analysis of the ways in which local areas fit into wider sub-regional and regional functional markets, recognising that economic markets and market failures rarely reflect administrative boundaries ;
- better understanding of how local authorities and their partners through their wider policies (e.g. on schools, health, crime etc.) influence sustainable economic development; and
- development of a shared evidence base that supports sub-regional economic development activity (through MAAs or other sub-

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<sup>9</sup> Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level, Middlesex University Business School, February 2008



regional structures) and support local authorities' dialogue with RDAs on the development of the regional strategy.

5.6 In turn, this improved and agreed evidence base could lead to:

- enhanced local authority capability and capacity on economic development issues, with greater understanding of the conditions required for business to flourish;
- more effective prioritisation of economic and regeneration interventions;
- clarity of roles leading to greater delegation of resources from national government and RDAs to local authorities;
- improved local authority engagement with private sector partners; and
- a stronger, higher quality local authority input to the iterative dialogue, led by the RDA, on the development of the regional strategy.

5.7 The assessment may be produced jointly by two or more lead authorities in a single functional economic area or sub-region, for example by all authorities participating in an MAA.

#### *Proposed legislative form*

5.8 The new duty would build on local authorities' existing power at section 2 of the Local Government Act 2000 for local authorities to do anything they consider likely to promote or improve the economic, social or environmental well-being of their area. This power would remain unchanged. Similarly, both the duty on authorities under section 4 of the Local Government Act 2000 to prepare a Sustainable Community Strategy, and the duty on county and local planning authorities to keep under review matters expected to affect the development of their area, or the planning of its development, under sections 13 and 14 of the Planning and Compulsory Purchase Act 2004 would remain. However, an economic assessment duty would complement and strengthen the economic element of this activity, including through a broader, sub-regional approach.

5.9 The Government is currently consulting on a new Planning Policy Statement (PPS4) on planning for sustainable economic development. This sets out how planning bodies should, in the wider context of delivering sustainable development, plan positively for sustainable economic growth and respond to the challenges of the global economy, in their planning policies and decisions. The economic assessment duty and PPS4 will be mutually reinforcing and will improve the capacity and quality of local economic development. Additionally, the economic assessment duty would contribute a sub-regional analysis.

## Options

5.10 Three options are set out in paragraphs 5.11 to 5.18 below.

### *Option 1*

5.11 Primary legislation would be introduced, the effect of which would be to place a duty on lead authorities to assess the economic conditions of their local areas. There would also be a duty on lead authorities to consult certain named partners (see Responsibility for carrying out the assessment section below) – and others whom they consider to be appropriate - in the preparation of any assessment. Lead authorities would have a power to require information from named partners (including lower-tier authorities), who would also be under a duty to respond to consultation within a specified period of time. RDAs would be required to have regard to assessments in the preparation of regional strategies.

5.12 The lead authority would be required to have regard to any guidance issued by the Secretary of State as to the preparation of the assessments. This guidance would describe the manner in which assessments might be conducted. The guidance would set out clearly:

- the purpose of an assessment of economic conditions;
- how they might be undertaken;
- who could undertake the assessment on behalf of local authorities;
- questions the assessment should look to answer, including in support of the regional strategy; and
- the data sets available that would support successful completion of any assessment.

5.13 The purpose of any guidance would be to support effective assessments while remaining light-touch. The guidance would be consistent with the commitments, made in the Local Government White Paper and the Central Local Concordat, to keep guidance to a minimum. It could also signpost other relevant government policies, for example the need for local authority business support to comply with the Business Support Simplification Framework. Any such guidance could be included as part of the final statutory guidance, *Creating strong, safe and prosperous communities* (which covers, amongst other things, Sustainable Community Strategies and Local Area Agreements).

5.14 This option would be similar in approach to section 116 of the Local Government and Public Involvement in Health Act 2007, which includes at section 116 a provision for a Joint Strategic Needs Assessment for Health and Social Care.

### *Option 2*

5.15 As for option 1, there will be a requirement on authorities to assess the economic conditions of their local areas. There would be no requirement on

authorities to have regard to guidance issued by Secretary of State. However, the legislation would set out some priority areas that would need to be covered by the assessment such as:

- the level of employment in the area;
- transport;
- procurement of goods and services; and
- land and property markets.

5.16 While no statutory guidance would be issued under this option, non-statutory guidance could be issued by the Secretary of State to assist local authorities in preparing their assessments in accordance with the requirements set out on the face of any Act. Any such guidance could also suggest that other areas that local authorities might wish to cover in an assessment. In addition, local government partners may decide to issue documentation such as good practice examples of effective assessments, advice on capacity building and links to the location of valuable data sets.

### *Option 3*

5.17 No new duty would be introduced. Local authorities would continue to use their current statutory powers and duties to play a stronger economic development role.

5.18 The Government believes this option fails to enhance economic development and regeneration interventions, but recognises the importance of consulting on a 'no change' option.

**Q7. Which of these options (or any other proposals) is most appropriate?**

**Q8. What additional information or support do local authorities consider valuable for the purpose of preparing assessments?**

### **Responsibility for carrying out the assessment**

5.19 The SNR proposed that, in two tier authorities, the upper tier - either on their own or jointly with other authorities - would carry out the required assessment of economic conditions in consultation with other key partners. This is because functional economic areas are likely to be sub-regional and it therefore makes greater sense to place the duty on the upper tier authority. However, the Government recognises that economic development expertise and capacity - particularly in relation to planning functions - also exists at district level and is committed to ensuring that, where the duty applies principally to upper-tier authorities in two-tier areas, the lower tier should be fully involved. The Government would expect the assessment data gathered to be made available widely across local government, the RDAs and other regional partners.

5.20 In the preparation of any assessment, lead authorities would be required to consult certain named bodies and would be able to consult others whom they consider to be appropriate. Those whom lead authorities would need to consult would include appropriate delivery partners, for example, the Environment Agency, the Highways Agency, the Homes and Communities Agency, Integrated Transport Authorities, Jobcentre Plus, the Learning and Skills Council, Natural England, and the Regional Development Agencies. We would strongly encourage them to consult additional bodies and organisations including businesses and business organisations. There would be a duty on named partners (including lower-tier authorities) to respond to any consultation within a given period of time.

**Q9. How should lead authorities engage partners, including district councils, in the preparation of the assessment?**

**Q10. Which partner bodies should be consulted in the preparation of the assessment?**

## **London**

5.21 The capital has a unique set of governance arrangements: the Greater London Authority (GLA) – through a directly elected Mayor of London – provides strategic leadership and is responsible for preparing a suite of strategies for London, including a spatial development plan (the London Plan), transport strategy and economic development strategy, while the 32 London Boroughs and City of London provide local services.

5.22 The Government is keen for London boroughs – like other local authorities nationally – to promote the conditions for economic success in their area, and a statutory requirement on individual boroughs to undertake an assessment of their local economic circumstances could further help to strengthen the economic evidence base for their Sustainable Community Strategies, Local Development Frameworks and LAAs. But given London's governance arrangements and the nature of its economy, this could lead to individual assessments which fail to reflect the wider trends affecting the capital's economy and analysis underpinning the Mayor's city-wide strategies. Accordingly, three options for taking forward any duty within London have been identified:

- a duty only on London boroughs to undertake an assessment of their local area, with a statutory requirement to consult the GLA. Boroughs could discharge this duty individually or jointly with each other;
- a duty on boroughs and GLA to undertake joint local assessments. It would be for the borough and GLA to decide the best way of discharging this duty but it could be on a pan-London or sub-regional basis; and
- No duty on boroughs.

**Q11. Should any duty apply in London and, if so, which of the proposed models is most appropriate?**

**Capacity and assessment**

5.23 Lack of capacity to carry out the assessment effectively among some local authorities is an issue that has been raised by a number of stakeholders since publication of the SNR. The Government will work with the Local Government Association and the Improvement and Development Agency (IDeA) to assess capacity and develop strategy for overcoming any shortfall that is identified. This – and subsequent capacity building programmes – will be supported through the National Improvement and Efficiency Strategy.

5.24 If adopted, the Government will not monitor lead authorities' assessments of the economic conditions of their areas. The Government expects that assessments would improve local authorities' knowledge and ability to strengthen performance against the local government performance framework's economic indicators. The Audit Commission has indicated that inspectorates would take account of the effectiveness of local economic assessments as part of the evidence base of the new Comprehensive Area Assessment (CAA). This would also make it possible to identify whether there were further capacity issues to address.

**Timetable and frequency**

5.25 The Government would expect to enact the duty as part of legislation to take forward SNR proposals at the earliest available opportunity. Subject to legislation – and following any necessary capacity building - local authorities could be asked to undertake their first assessments in 2010-11 in time to contribute to local strategies and LAA targets for 2011-12 (which will similarly be informed by the regional strategy). Reviews of assessments might then take place annually with new assessments at least every third year.

**Costs**

5.26 The Government expects that the new duty will incur additional costs to local authorities. The Government will fund any reasonable costs following a new burden assessment. A partial impact assessment is attached at appendix 1.

**COLLABORATION ACROSS SUB-REGIONS**

5.27 Functioning economic markets are unlikely to follow local authority boundaries, so collaboration between local authorities, for example across city-regions, can be an important means of delivering better economic outcomes. The SNR set out the advantages of economic development decision-making at the sub-regional level. There are a number of examples of effective sub-regional working in England (e.g. Tees Valley) and the Government wishes to support these and encourage stronger sub-regional leadership and collaboration in other places.

## **Multi-Area Agreements**

5.28 The Government has set out the case, through the Local Government White Paper and the SNR for Multi-Area Agreements (MAAs) to complement LAAs and enable local authorities to move further and faster towards improved economic prosperity by working across administrative boundaries. Guidance on MAAs was issued in November 2007 as part of the Communities and Local Government publication, *Development of LAA Framework: Operational Guidance 2008*. This guidance sets out the rationale for MAAs and the principles that govern their development. The Government is currently negotiating with over a dozen sub-regions looking to agree the first MAAs by June 2008.

## **Integrated Transport Authorities**

5.29 The Local Transport Bill - which was published on 8 November – empowers local authorities to review existing governance arrangements in their area for planning and delivering transport services and, where they consider that these could be improved, to bring forward proposals for change. This allows flexibility for different areas to propose different arrangements according to the specific needs of their area. In particular, it allows for changes to transport governance in the former Metropolitan counties, including to the strategic roles of Passenger Transport Authorities (PTAs), which are renamed by the Bill as Integrated Transport Authorities (ITAs) to reflect their new expanded responsibility for transport planning across the whole Metropolitan area. In carrying out their reviews areas will, among other things, need to consider the relationship between the revised arrangements they propose and the changes at regional level which will flow from the SNR. In turn, revised regional architecture will need to take account of changes in sub-regional transport arrangements.

## **Alternative approaches to planning sub-national transport infrastructure**

5.30 In his 2006 report, Sir Rod Eddington highlighted the importance of transport to economic performance. Strong transport networks link people to jobs, deliver products to markets and support trade.

5.31 The 2007 Planning White Paper responded to one of Sir Rod's key findings: that improvements to transport infrastructure can only be delivered effectively through a fresh approach to planning. It also acknowledged a new potential role for local authorities as decision makers in relation to local transport infrastructure. The Planning Bill currently before Parliament is already paving the way for improvements to the system for planning nationally significant transport and other infrastructure.

5.32 At present, the Secretary of State for Transport acts as the consenting authority for a range of sub-national transport projects, including trams; local highways and guided busways. The Planning Bill does not seek to change this. The existing approach allows the Secretary of State to consider a scheme in its

entirety and act as an impartial decision-making body. However, it could also be seen as reducing a local authority's ability to act as a "place shaper" and creating distance between people and the planning of their local transport infrastructure.

5.33 The Government will consider the case for devolving some or all of these consenting powers to alternative bodies at the regional, sub-regional or local level and has already begun informal consultation with a range of stakeholders. This might involve local authorities, Integrated Transport Authorities and the Greater London Authority.

5.34 No decisions have yet been taken about whether these powers could be devolved, or if so, to which authorities. The Department for Transport will consult on this later this year.

### **Statutory arrangements for sub-regional collaboration on economic development issues**

5.35 The SNR recognised that some sub-regions may wish to go beyond MAAs and other existing mechanisms for sub-regional collaboration. Some sub-regions have already established joint committees to strengthen partnership working. However, there may be advantages in strengthening the statutory basis for sub-regional collaboration where there is demand from local authorities and it is appropriate to do so.

5.36 The Government proposes to work with interested local authorities towards establishing statutory sub-regional arrangements for economic development activity going beyond transport. This would enhance the ability of authorities to drive forward improvements to support sustainable sub-regional growth, and enable funding and responsibility to be devolved or delegated directly to the sub-region, rather than to individual local authorities or to one local authority acting as the accountable body for a sub-regional partnership. Such arrangements would also bind in local authorities to long-term decision-making.

5.37 The Government would like to know what type of projects would be facilitated by giving a sub-regional partnership powers to carry out activities of this kind and what is preventing them from being carried out under the current legislation. These might be new duties, or potentially delegations of existing powers from the collaborating authorities. The bulk of these would be expected to have strong links to economic development, for example:

- delivering relevant parts of the regional strategy;
- preparing a joint local development framework, and/or taking certain planning decisions of a strategic nature;
- assuming the responsibilities of an integrated transport authority for planning and delivering sub-regional transport;

- co-operating on economic growth projects supported by business rate supplements (subject to legislation);
- implementing any business rate supplement (subject to legislation);
- making decisions in relation to higher education and skills funding (subject to legislation);
- investment for housing growth and renewal; and
- Local Authority Business Growth Incentive scheme.

5.38 The Government would not wish to unduly constrain the scope of a sub-regional partnership and would be prepared to consider a wider range of functions. Nevertheless, in circumstances where co-operation is proposed that extends significantly beyond economic development to cover a large part of local authorities' activities, councils may wish to consider whether an appropriate way forward, perhaps using the processes under the Local Government and Public Involvement in Health Act 2007, might be to merge, or to propose some well-targeted and clearly focused reorganisation.

5.39 Placing sub-regional economic development activity on a statutory basis would require primary legislation which would set the framework in which sub-regions would operate. The detailed arrangements for each sub-regional authority would be set out in secondary legislation. However, the Government anticipates that any sub-region that wanted to pursue this option would need to adhere to four fundamental principles:

- membership – collaboration would be on the basis of co-operation between elected members of existing local authorities. Where an ITA already existed the Government would normally expect the new sub-regional partnership to assume its responsibilities;
- funding – there would be no additional Council Tax precept. Funding for running costs would be provided by partner local authorities. Programme funding would come from those local authorities and other public and private sector contributors;
- costs – the new arrangements would be expected to be cost-neutral with additional costs covered by efficiency savings arising from joint working; and
- accountability – there must be a clear way in which the public can hold local councillors to account for the way the arrangements operate and how local taxpayers' money is being spent.

5.40 There are a number of factors which may help to facilitate effective sub-regional working. These could include ensuring that members are jointly responsible for delivering against their agreed sub-regional priorities or the ability to jointly hold assets and award contracts. Government is considering



different approaches, including building on the existing joint committee or joint board arrangements.

5.41 Under a joint committee, it may be possible to add certain specified powers and responsibilities beyond those of an ordinary joint committee. For example, it might have powers to hold money on a joint basis and be jointly and severally liable for any decisions made as to how to spend it. However, a joint committee would not have legal personality.

5.42 Building on a joint board model could provide a legal entity which is able to employ staff directly. It could own its own assets and award its own contracts, but would not have precepting powers.

5.43 The Government would also welcome views on the way in which statutory sub-regional collaboration would fit into the local government performance framework. One approach would be to have an MAA focussing on economic development issues with the participating authorities. A related issue is whether the duty to co-operate that currently applies to LAAs should be extended to MAAs with statutory sub-regional partnerships.

5.44 Subject to this consultation, the Government intends to legislate to allow development of formal legal status for sub-regional collaborative arrangements to support economic development. This is one of a range of options that are being considered as a means of strengthening sub-regional leadership.

**Q12. Do you agree that there is value in creating statutory arrangements for sub-regional collaboration on economic development issues beyond MAAs? What form might any new arrangements take?**

**Q13. What activities would you like a sub-regional partnership to be able to carry out and what are the constraints on them doing this under the current legislation?**

**Q14. How would a sub-regional economic development authority fit into the local authority performance framework?**

**Q15. Should there be a duty to co-operate at sub-regional level where a statutory partnership exists? To whom should this apply?**

## Summary: Intervention & Options

<b>Department /Agency:</b> <b>CLG</b>	<b>Title:</b> <b>Impact Assessment of Local Authority Economic Assessment Duty</b>	
<b>Stage:</b> Consultation	<b>Version:</b> Draft	<b>Date:</b> 08/03/2008
<b>Related Publications:</b>		

Available to view or download at:

Contact for enquiries: Chris Megainey

Telephone: 020 7944 3137

### What is the problem under consideration? Why is government intervention necessary?

Local government faces weak incentives to consider how their activities affect economic performance both locally and in neighbouring areas, due to: requirement to perform other statutory duties; limited financial gains from economic growth due to business tax centralisation; the costs of growth tending to be localised whilst benefits disperse across LA boundaries.

Economic activity does not respect administrative boundaries and it is important that local authorities and their partners understand how the local economy fits into the wider functional economy.

### What are the policy objectives and the intended effects?

The objectives are to ensure local authorities and their partners develop a sound understanding of local economic conditions to inform existing local strategies and strengthen the economic role of local authorities.

A better understanding of how local economic activity links with the wider economy will lead to more effective economic development policy at sub-regional and regional levels.

### What policy options have been considered? Please justify any preferred option.

The policy options are:

- (i) No change
- (ii) Local authorities to prepare assessment, with regard to guidance set out by the Secretary of State.
- (iii) Local authorities to prepare assessment, no requirement on authorities to have regard to guidance issued by the Secretary of State.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? 2012

**Ministerial Sign-off** For SELECT STAGE Impact Assessments:

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister:

.....Date:

## Summary: Analysis & Evidence

<b>Policy Option: (ii)</b>	<b>Description: Local authorities to prepare assessment, with regard to guidance set out by the Secretary of State</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>	Description and scale of <b>key monetised costs</b> by 'main affected groups' Full assessment (every 3 years): Additional cost to local authorities: £7m (£6.2m excluding London) Cost to partner bodies: £2.5m (£1.9m excluding London) Annual update. Cost to local authorities. £1.1m (£0.9m excluding London)
	<b>One-off</b> (Transition) <span style="float: right;">Yrs</span> £ 0	
	<b>Average Annual Cost</b> (excluding one-off) £ 3.9m	
	<b>Total Cost (PV)</b> <b>£ 30.1m</b>	
Other <b>key non-monetised costs</b> by 'main affected groups'		

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>	Description and scale of <b>key monetised benefits</b> by 'main affected groups' Monetised benefits stem from savings from more co-ordinated economic development services by local authorities and partners. Monetary benefits may be recycled into providing more services and hence result in further improvements in economic outcomes.
	<b>One-off</b> <span style="float: right;">Yrs</span> £ 0	
	<b>Average Annual Benefit</b> (excluding one-off) £ 7.9m	
	<b>Total Benefit (PV)</b> <b>£ 52.4m</b>	
Other <b>key non-monetised benefits</b> by 'main affected groups' There are likely to be benefits from improved employment outcomes, which are likely to be largest amongst those currently workless. There are also likely to be improvements in productivity.		

**Key Assumptions/Sensitivities/Risks** Key assumptions: the duty will help local authorities identify savings from opportunities for joint working duplication, and superior targeting of policies; there will be shared working amongst local authorities, particularly in urban areas; there will be no additional data costs; not all the cost will be additional. See evidence base for more detail.

Price Base Year 2011-12	Time Period Years 9	<b>Net Benefit Range (NPV)</b> £ -14.5m to 57.5m	<b>NET BENEFIT (NPV Best estimate)</b> £ 22.3m
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What is the geographic coverage of the policy/option?	England only			
On what date will the policy be implemented?	2011-12			
Which organisation(s) will enforce the policy?	through inspectorates			
What is the total annual cost of enforcement for these organisations?	£			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	Yes/No			
What is the value of the proposed offsetting measure per year?	£			
What is the value of changes in greenhouse gas emissions?	£ 0			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)		(Increase - Decrease)	
Increase of    £	Decrease of    £	<b>Net Impact</b>	<b>£ 0</b>

Key:    Annual costs and benefits: Constant Prices    (Net) Present Value

## Summary: Analysis & Evidence

<b>Policy Option: (iii)</b>	<b>Description: Local Authorities to prepare assessment, no requirement for authorities to have regard to guidance issued by the Secretary of State</b>
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<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' Full assessment (every 3 years): Additional cost to local authorities: £7m (£6.2m excluding London) Cost to partner bodies: £2.5m (£1.9m excluding London) Annual update. Cost to local authorities, £1.1m (£0.9m excluding London)	
	<b>One-off</b> (Transition)	<b>Yrs</b>		
	£			
	<b>Average Annual Cost</b> (excluding one-off)			
	£ 3.9m		<b>Total Cost (PV)</b>	£ 30.1m
Other <b>key non-monetised costs</b> by 'main affected groups'				

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' Monetised benefits stem from savings from more co-ordinated economic development services by local authorities and partners. Monetary benefits may be recycled into providing more services and hence result in further improvements in economic outcomes.	
	<b>One-off</b>	<b>Yrs</b>		
	£			
	<b>Average Annual Benefit</b> (excluding one-off)			
	£ 7.9m		<b>Total Benefit (PV)</b>	£ 52.4m
Other <b>key non-monetised benefits</b> by 'main affected groups' There are likely to be benefits from improved employment outcomes, which are likely to be largest amongst those currently workless. There are also likely to be improvements in productivity.				

**Key Assumptions/Sensitivities/Risks** Key assumptions: the duty will help local authorities identify savings from opportunities for joint working duplication, and superior targeting of policies; there will be shared working amongst local authorities, particularly in urban areas; there will be no additional data costs; not all the cost will be additional. See evidence base for more detail.

Price Base Year 2011-12	Time Period Years 9	<b>Net Benefit Range (NPV)</b> £ -14.5m to 57.5m	<b>NET BENEFIT (NPV Best estimate)</b> £ 22.3m
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What is the geographic coverage of the policy/option?			England only		
On what date will the policy be implemented?			2011-12		
Which organisation(s) will enforce the policy?			Audit Commission		
What is the total annual cost of enforcement for these organisations?			£ 0		
Does enforcement comply with Hampton principles?			Yes		
Will implementation go beyond minimum EU requirements?			Yes/No		
What is the value of the proposed offsetting measure per year?			£ n/a		
What is the value of changes in greenhouse gas emissions?			£ 0		
Will the proposal have a significant impact on competition?			No		
Annual cost (£-£) per organisation (excluding one-off)		Micro	Small	Medium	Large
Are any of these organisations exempt?		No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)			(Increase - Decrease)
Increase of	£ 0	Decrease of	£
		<b>Net Impact</b>	£ 0

Key: Annual costs and benefits: Constant Prices (Net) Present Value

## Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

### Background and Overview

1. The *Review of sub-national economic development and regeneration* ('SNR') sets out an enhanced role for local authorities in promoting economic development and regeneration. As part of this package, the SNR included a commitment to consult on the creation of a focused statutory economic assessment duty for local authorities<sup>10</sup>. Such a duty would:
  - require upper tier and unitary local authorities ("lead authorities") - in consultation with other key partners, including district authorities - to carry out an assessment of the economic conditions of their local area; and
  - result in an assessment that would form part of the analytical underpinning of Sustainable Community Strategies, Local Development Frameworks, Local and Multi-Area Agreement targets and the integrated Regional Strategy
2. Drawing on research commissioned by Communities and Local Government<sup>11</sup> the Government believes that a new duty would add value to existing arrangements and practice through:
  - improved evidence base to inform Sustainable Community Strategy, Local Development Framework and Local Area Agreement
  - improved understanding of how economic development can support regeneration priorities in the area
  - analysis of the ways in which local areas fit into wider sub-regional and regional functional markets, recognising that economic markets and market failures rarely reflect administrative boundaries
  - better understanding of how local authorities and their partners through their wider policies (e.g. on schools, health, crime etc.) influence sustainable economic development
  - development of a shared evidence base that supports sub-regional economic development activity (through MAAs or other sub-regional structures) and support local authorities' dialogue with RDAs on the development of the regional strategy.
3. In turn, this improved and agreed evidence base could lead to:
  - enhanced local authority capability and capacity on economic development issues, with greater understanding of the conditions required for business to flourish
  - more effective prioritisation of economic and regeneration interventions
  - clarity of the roles leading to greater delegation of greater resources from national government and RDAs to local authorities
  - improved local authority engagement with private sector partners

<sup>10</sup> Para 6.13, *Review of sub-national economic development and regeneration*, HM Treasury, BERR, CLG, July 2007

<sup>11</sup> *Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level*, Syrett, S. February 2008

- a stronger, higher quality local authority input to the iterative dialogue, led by the RDA, on the development of the regional strategy
4. The assessment may be produced jointly by two or more lead authorities in a single functional economic area or sub-region, for example by all authorities participating in an MAA.

### Policy Options

5. Three options have been set out in the consultation paper. They are:
- Option 1, no new duty (“do nothing”);
  - Option 2, an assessment, with guidance;
  - Option 3, Assessment without guidance.
6. The consultation paper also sets out three options for how the duty will operate in London:
- i. Duty on the boroughs;
  - ii. Joint Duty on the GLA and the boroughs;
  - iii. No Duty in London.
7. For the purposes of this Impact Assessment, it is assumed that the costs and benefits of options (i) and (ii) will be the same.

#### Option 1

8. Option 1 would require no change to existing practice, which research shows is highly variable between authorities. Some local authorities already play a strong role in economic development, based on assessments of the economic circumstances of their local area. All local authorities are required to set out sustainable community strategies which set the overall strategic direction and long-term vision for the economic, social and environmental well-being of a local area<sup>12</sup>. Sustainable Community Strategies should contain the following elements:
- The **long-term vision based firmly on local needs**. This will be underpinned by a shared evidence base informed by community aspirations.
  - **Key priorities for the local area**, based upon this vision which may realistically be achieved in the medium term – these will inform the strategy’s delivery agreement – the LAA.
9. Therefore, option 1 is the baseline against which the benefits of options 1 and 2 are compared.

#### Option 2

10. Under option 2, a duty would be placed on lead authorities to assess the economic conditions of their local areas. There would also be a duty on lead authorities to consult certain named partners – and others whom they consider to be appropriate - in the preparation of any assessment. Lead authorities would have a power to require information from named partners (including lower-tier authorities), who would be under a duty to respond to consultation [within a given

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<sup>12</sup> *Creating Strong, Safe and Prosperous Communities Statutory Guidance: Draft for Consultation*, HM Government, 2007

period of time]. The lead authority would be required to have regard to any guidance issued by the Secretary of State as to the preparation of the assessments. This guidance could describe the manner in which assessments might be conducted. The guidance would set out clearly:

- the purpose of an assessment of economic conditions;
- how they might be undertaken;
- who could undertake the assessment on behalf of local authorities;
- questions the assessment should look to answer, including in support of the regional strategy; and
- the data sets available that would support successful completion of any assessment.

11. Providing guidance should help ensure that local assessments are more effective at addressing deficiencies in existing practice. For instance, guidance will help authorities to understand how they can analyse the ways in which local economic activity interacts with the wider economy, and hence should make it easier to build sub-regional co-operation.

### Option 3

12. As for option 2, primary legislation would be introduced to place a duty on upper tier and unitary local authorities to assess the economic conditions of their local areas. There would be no requirement on authorities to have regard to guidance issued by the Secretary of State. However, the legislation would set out some priority areas that would be need to be covered by the assessment.

13. The costs and benefits of options 2 and 3 are likely to be very similar. The list of priority areas would provide much less information to local authorities hence could reduce the benefits of undertaking an assessment. It would also be much more difficult to alter the priority areas set out in option 3, than to revise the guidance, as this would require primary legislation.

### **An economic rationale**

14. The economic rationale for a local economic assessment is two-fold: firstly, because public provision of local economic information will be a form of *public good*, and secondly that the assessment will *improve the effectiveness of public services* that are already provided by local government and their key economic development partners.

15. A publicly available assessment of the local economy will help public bodies, private and third sector organisations to understand the way in which places impact on firms' productivity, and what barriers may be holding back economic growth. It will also help inform local government and others about what public infrastructure will be required to cope with, or catalyse, changes in an area's economy. By ensuring that existing strategies are firmly grounded in evidence, the duty will help reduce uncertainty about future public sector activity, thus benefiting the investment decisions of the private sector. Publicly available assessments and strategies are non-excludable and non-rivalrous, so can be regarded as a form of public good provision.

16. A good economic assessment should influence the public services delivered by the local authority and its partners, so that they more effectively address relevant market failures and tackle disadvantage.
17. Incentives for local authorities to support economic development can be undermined because economic activity does not respect administrative boundaries<sup>13</sup>. Policies with a positive net benefit at FEA level may not have a positive net benefit at LA level. For example, the costs of housing growth can be localised while the benefits are more dispersed through commuting flows. A good economic assessment can help local authorities and their partners understand how the local economy fits into the wider functional economy.
18. Incentives can also be negatively affected by the requirement to perform other statutory duties not relating to economic performance and the limited financial gains from economic growth due to the operation of the local government finance system.

## **Benefits**

### Option 1

19. There will be no additional benefits from option 1, as it represents existing practice. Under this option, it is likely that some authorities would undertake economic assessments of their area and the evidence gathered would be utilised in the formation of local strategies. However, as outlined below, research suggests that evidence on local economic activity is not systematically collected, analysed or utilised. The role of local authorities in promoting economic development would be less effective.

### Option 2

20. The duty will not impact on outcomes directly, but indirectly, through affecting local government processes. The logic chain connecting improvements in local authority analysis and understanding to improved outcomes (higher productivity and employment) is set out below, with a diagrammatical representation in figure 5 (see appendix).
21. This logic chain can be better understood by setting out the key components of a good economic assessment:
  - Better understanding of the local economy;
  - Better understanding of existing policy;
  - Development of a shared understanding with partner bodies, including the private sector
22. An economic assessment will require local authorities to bring together data, evidence – and the expertise of economic development partners - to develop a sound understanding of the economic activity of the residents and firms located in the local area. Although many authorities already undertake some assessment of

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<sup>13</sup> This is further explored in: *CLG Economic Paper 2: Why Place Matters and Implications for the Role of Central, Regional and Local Government*, CLG, March 2008



the economy, these vary in scope and quality, and are often limited in extent<sup>14</sup>. Furthermore, research suggests that local strategies are not always underpinned by evidence.

23. For example, the consultation on the future of LSPs (published in December 2005), drew on findings from the evaluation of community strategies and reported that<sup>15</sup>:

*“many community strategies contain little analysis or evidence to back up proposed actions. They tend to rely largely on community aspirations and make few references to available baseline data that should inform priorities for action.”*

24. Subsequent research has reported that less than 60% of respondents to a survey of local authorities believed that their community strategy had been influenced by local statistical data to a significant extent<sup>16</sup>.
25. An assessment undertaken under the duty would also be expected to include, as a key principle of the assessment, some analysis of how the local economy interacts with the wider economy. Local authorities need to understand how their activities impact on economic activity in their area, and because successful economic development is a partnership, they should also understand how the actions of the key economic development activities in their area impact on the economy. This will require local authorities to work with their key economic development partners to map the extent and form of existing activity.
26. Developing a sound understanding of the economic conditions within the context of the wider functional economy cannot be achieved by the collection of statistical data alone, and requires analysis and interpretation, drawing on information and knowledge held by key economic development partners, including the private sector. This should help local authorities, and their partners to develop a better understanding of the needs of the private sector, and the ways in which they can work better together.
27. Developing and producing an assessment with these components should influence the way in which local government and their partners decide on their local priorities, strategies, and the way in which they work together. This in turn should have a positive effect on outcomes, in the way described below. *Further evidence on the impact of an assessment on economic outcomes will be collected through case-studies and as part of the consultation.*

### Improved outputs

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<sup>14</sup> *Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level*, Syrett, S., February 2008

<sup>15</sup> *Local Strategic Partnerships: Shaping their future. A consultation paper*. ODPM, 2005.

<sup>16</sup> Page 5, *Formative evaluation of Community Strategies. The use of evidence in Community Strategies*, CLG, 2006

*Local government services more sensitive to economic development*

28. As outlined above, local authority services are not always sensitive to their effect on economic development. Improving the understanding of how the local economy operates should help local government to ensure that their strategies and interventions are based on robust evidence and are more sensitive to the distinct needs of the firms and residents located in their area.
29. Local government delivers a number of services that contribute towards economic development, including land use planning (though this is primarily undertaken at the lower-tier level), housing, education, amenities and leisure, environmental health and regulation, licensing and permitting, street and road management, which all impact on attracting and developing a skilled workforce and productive firms.
30. For example, the economic assessment may reveal that high land prices and a shortage of land for commercial premises is a key factor constraining the growth of local firms. Evidence suggests that premises are overwhelmingly the most important reason for firm relocation<sup>17</sup>, and that tight land use planning policies can restrict economic growth<sup>18</sup>. Local authorities may use this evidence to further investigate where land for commercial development can be appropriately supplied.
31. Local authorities also play a role in delivering education and skills to their residents, which can help equip them with the skills to access work. If the assessment leads local authorities to provide skills training that are more relevant to available jobs, this could lead to higher employment and productivity through improved job matching. As part of an assessment that considers local economic activity within the context of the wider economy, authorities should also consider the skills that will be required by employers that are outside the local area but within easy reach of local residents.
32. A third instance where local government services impact on productivity and employment is their role in providing street and road management. The impact of transport on productivity has been set out in the Eddington Review<sup>19</sup>. Economic assessments may help to identify areas where local provision of public transport, or other forms of improved access could enhance employment outcomes.

*Identifying duplication of economic development activities and opportunities for better co-ordination*

33. Economic development is influenced by a wide range of bodies, and different agencies may operate similar interventions in the same location. The Audit Commission have highlighted a “widespread pattern of fragmentation and

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<sup>17</sup> *Territorial Competition: some lessons for policy*, Cheshire, P. and Gordon, I., *The Annals of Regional Science*, **32**, 3, 321-46, 1998.

<sup>18</sup> *Barker Review of Land Use Planning*, Barker, K, 2006

<sup>19</sup> *Transport's role in sustaining UK's Productivity and Competitiveness: The Case for Action*, Eddington, R., 2006

duplication”<sup>20</sup> The assessment may help to identify opportunities for greater co-ordination and integration between different activities already undertaken by local government, and by their partners.

34. In its simplest form, this might take the form of signposting, so that, for example, agencies promoting entrepreneurship amongst disadvantaged groups are able to co-ordinate better with agencies that focus on tackling worklessness. This can help deliver better employment and productivity outcomes for the same resource. In some cases, better co-ordination, or even shared delivery may enable bodies to provide the same services at reduced cost.
35. A good assessment will take into account the links between local economic activity and the wider economy. This should reveal more opportunities for working across local authority boundaries, and could identify further scope for gains from co-operation and co-ordination. For example, policies to tackle worklessness in one authority might consider the job opportunities that exist beyond local boundaries. There may also be potential for economies of scale from shared delivery between neighbouring authorities.
36. Strategic co-ordination of the activities of different bodies and agencies can be an important way of promoting economic development, but in some areas there is a confusing array of overlapping partnerships. For example, the Audit Commission identified one local authority which was involved in 21 regeneration partnerships<sup>21</sup>. Ensuring clarity of roles between agencies and partnerships, and helping to build a common analysis of the opportunities and challenges facing the local economy could enable the economic development process to work better.

#### *Identification of groups and areas facing particular economic disadvantage*

37. Even in the most economically successful places, there are large variations in economic performance between neighbourhoods.<sup>22</sup> A good local economic assessment can highlight pockets of deprivation and provide information on why these areas suffer from disadvantage. This could help local authorities and their partners to better focus their policies to tackle the root causes of disadvantage and benefit the most disadvantaged in society.

#### *Identifying opportunities to co-operate across functional economic areas*

38. An assessment that helps local authorities understand the way that local economic activity links with the wider economy may enable cross-boundary working where appropriate. As outlined above, the positive payoffs from local economic development can disperse into adjacent areas, so a policy with a net benefit at sub-regional level, may have a negative pay off at LA level and hence not be implemented. For example, the costs of housing growth can be concentrated in local areas, whereas the wider benefits, from employment growth, can disperse.

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<sup>20</sup> Page 22, *A Life's Work. Local authorities, economic development and economic regeneration*, Audit Commission, 1999.

<sup>21</sup> *A Life's Work. Local authorities, economic development and economic regeneration*, Audit Commission, 1999

<sup>22</sup> *Review of sub-national economic development and regeneration*, HM Treasury, CLG, BERR 2007

39. Therefore, co-operation between local authorities across the wider area in which key economic markets operates increases the economic role they can play and can support economic growth. There is some evidence that effective governance over the functional economic area can have a positive effect on economic growth. Unpublished work by Cheshire and Magrini has suggested a positive relationship between the degree of coincidence of government and economic boundaries in EU (including British) cities and cities' economic growth performance over the 1979-1994 period.<sup>23</sup>
40. A better evidence base at local level will help co-ordination at sub-regional level, and will also assist local areas in identifying their priorities for the regional plan. Regions will also be able to draw on local evidence to produce their strategies.

#### *A better baseline for policy evaluation and appraisal*

41. A better baseline of economic conditions and the economic policies operating can help lead to better appraisal of economic and regeneration policies. Economic development and regeneration involves an element of risk, of trying out innovative schemes to see if they work. However, evidence-based identification of problems and choice of interventions will help authorities to achieve better outcomes from the same resource. Having a clear rationale for activity is also a key element of best value.<sup>24</sup>

### Outcome benefits

#### *Economic growth*

42. Improving the way that local government's services support and promote economic development can impact on economic growth through increases in employment and productivity. The role of local authorities in economic development can support employment, and four of the five productivity drivers<sup>25</sup> – skills, investment, innovation and enterprise – through their roles in planning, skills, transport and enterprise support.
43. Quantifying the potential extent of benefits is extremely difficult, as there is very limited empirical evidence on the drivers of sub-national economic growth or the impact of strategies. However, to get an idea of scale, if more supportive economic development activity by local government resulted in 10 additional jobs per upper-tier LA, and a productivity improvement of 0.01%, this amounts to economic gains of £12m and £97m respectively per annum<sup>26</sup>. *Further*

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<sup>23</sup> *European urban growth: throwing some economic light into the black box*, Cheshire and Magrini, paper presented at the Spatial Econometrics Workshop, Kiel Institute for World Economics, Kiel, April 8-9 2005.

<sup>24</sup> *Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level*, Syrett, S. February 2008

<sup>25</sup> *Productivity in the UK 7: Securing Long-term prosperity*. HMT, November 2007

<sup>26</sup> Gains from employment calculated using data from page 62 of *Reducing dependency, increasing opportunity: options for the future of welfare to work*, Freud, D. 2007. This suggested economic benefits

*investigation of the potential for economic gains from effective economic assessments will be carried out during the consultation period.*

#### *Social benefits*

44. In addition to the economic benefits of enhanced economic performance, there is significant evidence that reducing worklessness has important non-monetary benefits, including improved physical and mental health, and well-being<sup>27</sup>..

#### *Cost savings*

45. It is also difficult to estimate the potential benefits of better targeted spend, reducing duplication and enhancing co-operation. However, it seems reasonable to assume that the assessment could lead to a 1% reduction in the cost to upper-tier local authorities of delivering the economic development services they already provide. Based on data for 2006-07, this amounts to a saving of £7.9m per annum, or £6.3m excluding London boroughs.<sup>28</sup>

46. These savings could be recycled into further economic development expenditure, other local government services, or reductions in local taxation. *Further investigation of the potential for cost savings will be undertaken during the consultation period.*

#### *Present value*

47. The present value shown in figure 1 is calculated on the basis of nine years, beginning in 2010-11 (when the duty first comes into effect). The first gains are assumed to be realised in 2011-12.

Figure 1. Present value of benefits

Scenario	Per annum (excluding London)	Present value (excluding London)
Economic benefits	Not monetised	n/a
Social benefits	Not monetised	n/a
Cost savings - low	£3.9m (£3.2m)	£26.2m (£21.1m)
Cost savings - central	£7.9m (£6.3m)	£52.4m (£42.1m)
Cost savings - high	£9.5m (£11.8m)	£78.6m (£63.2m)

#### Distribution of benefits

48. If the duty succeeds in improving economic development outcomes, it is likely that benefits will be largest amongst the following groups:

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of £8100 from returning a person from JSA to work. Productivity gains calculated from English GVA figures for 2006, from ONS Regional GVA data.

<sup>27</sup> *Reducing dependency, increasing opportunity: options for the future of welfare to work*, Freud, D., DWP 2007

<sup>28</sup> Based on RO5 returns for England, 2006-07.

- a. Age: improvements in employment and earnings outcomes will largely affect those of working age;
- b. Ethnic group: better targeting will produce benefits for groups and areas suffering from economic disadvantage. These benefits should be larger amongst minority ethnic groups;

49. Further information on the potential information on different groups is presented in the equality impact assessments (see annex).

### Option 3

50. The benefits of option 3 depend upon how local authorities choose to carry out an economic assessment in the absence of central government guidance. Given the way in which economic assessments are currently undertaken, it is likely that assessments will be less thorough, have less impact and provide less information on the functional economic area under option 3 than under option 2. This may in part be rectified if the local government associations choose to produce guidance of their own.

51. However, given the significant uncertainties in estimating benefits, separate calculations have not been undertaken for this option, and it is assumed that benefits will be of the same magnitude as for option 2 above.

## **Costs**

### Option 1

52. There will be no additional costs under option 1, as this assumes no change to existing practice.

### Option 2

53. The estimate of the additional cost of option 2 covers the following topics:

- Staff and data costs;
- Possible cost savings from joint working;
- Involvement of lower-tier authorities;
- Involvement of partner organisations;
- Annual updates;
- Capacity;
- Existing expenditure by authorities;
- Net Present Value.

### *Staff and data costs*

54. Although local authorities may choose to make use of data held by private companies (e.g. MOSAIC) or commission specific local surveys, there is enough data freely available to enable a good economic assessment to be undertaken. Therefore, it is assumed that this duty will not require additional spending on data, and so the additional burden will arise exclusively from additional staff costs, plus a provision for overheads.
55. Developing a robust assessment that provides authorities with a sound understanding of the economic conditions within the context of the wider functional economy, cannot be achieved by the collection of statistical data alone. It will require analysis and interpretation, drawing on information and knowledge held by key economic development partners, including the private sector. Local authorities will therefore need to devote resources to analysing and interpreting raw data, and to sharing and developing this information with partners.
56. Local authorities will also need to work with their partners to understand how they and their partners impact on economic activity in their area. The costs to partner organisations are estimated below.
57. Two sources of evidence were used to estimate the costs of carrying out an assessment: case studies of good practice and the cost estimates from the Joint Strategic Needs Assessment.
58. Telephone interviews were undertaken with a number of economic development organisations, including some local authorities, who have undertaken economic assessments that have been identified as being of good quality.<sup>29</sup> The results of these case studies are summarised in the annex.
59. The case studies were used to obtain an indication of the staff structure and time devoted to compiling the assessment. This was then multiplied by an estimate of staff costs<sup>30</sup>, which incorporates National Insurance contributions and pension costs. An additional 30% has also been added to account for overhead costs of 30%, in line with Cabinet Office guidance. The cost of engaging external consultants is also included, where they were used. The case studies indicate a cost range of £55,000 - £95,000 per local authority.
60. As outlined above, authorities will also need to devote resources to developing the assessment with key partners. If preparing, attending and responding to the comments from stakeholder meetings takes two days of a project manager's time and there are five meetings then this corresponds to approximately 70 hours over the lifetime of the project. Including overhead costs, this equates to approximately £6,000 per local authority.

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<sup>29</sup> Good quality economic assessments and strategies were identified in the process of compiling: *Review of Economic Assessment and Strategy Activity at the Local and Sub-Regional Level*, Syrett, March 2008

<sup>30</sup> Hourly wages taken from *Annual Survey of Hours and Earnings (ASHE)*, 2007 -2008

61. Therefore, the overall cost to upper-tier authorities of developing the assessment, in conjunction with partners, can be estimated as falling in the range: £60,000 - £100,000 per authority, at current (2007) prices.
62. A Joint Strategic Needs Assessment (JSNA) is the means by which Primary Care Trusts (PCTs) and local authorities will describe the future health, care and well-being needs of local populations and the strategic direction of service delivery to meet those needs. Whilst the JSNA clearly covers different areas of policy to an economic assessment, it is similarly designed to answer a range of questions that will help PCTs and local authorities to develop their activities so it more closely meets the wants and needs of local people. This suggests it may be a reasonable benchmark for an economic assessment.
63. The costs of this assessment were estimated in the Regulatory Impact Assessment for the Local Government Public Involvement in Health Bill at £72,000 per assessment, including costs to local authorities. This falls in the lower-middle of the range outlined above, and supports a central estimate of £80,000 per economic assessment, at current prices.

#### *Cost savings from joint working*

64. We would expect some authorities to choose to work together on parts or all of an assessment, as this would help them to develop an understanding of how local economic activity interacts with the wider functional economy. There is also considerable potential for economies of scale, so that the cost of undertaking a joint assessment between three authorities is less than the combined cost of three separate assessments. Indeed, our case studies suggest that the costs involved in undertaking a sub-regional assessment were similar to those at a local level. However, it is important for all authorities to engage in the assessment to ensure that it informs their strategies, and some parts of the assessment, such as understanding existing policy and talking to local partners, will be less easily shared between authorities.
65. The costs of undertaking a joint assessment are likely to increase with the number of authorities involved. Our assumption here is that when an additional authority is involved in a joint assessment, the additional cost will be 50% of the cost of undertaking such an assessment on their own. Hence if an individual assessment cost £100,000, a joint assessment between two authorities would cost £150,000, between three would cost £200,000 and so on.
66. It is likely that those local authorities involved in city-regions and prospective MAAs will gain significant benefits from undertaking their economic assessments together and there are likely to be opportunities for joint working elsewhere. The central scenario assumes that all prospective MAAs and existing city-regions will undertake assessments together, which together would amount to 14 joint assessments covering 68 upper-tier local authorities. The central case will yield savings of 23% compared to all authorities undertaking an assessment on their own. Low and high scenarios assume savings of 13% and 33% respectively.



67. There is also likely to be considerable scope for joint working across London boroughs, building on the East and West London City Strategy Partnerships<sup>31</sup>. The central case assumes that there will be 5 joint assessments in London, with joint working savings calculated as for England overall. The central case will yield savings of 35% compared to all authorities undertaking an assessment on their own. Low and high scenarios assume savings of 25% and 45% respectively.

#### *Costs to lower-tier authorities*

68. Lower-tier authorities will also need to be involved in the development of economic assessments covering their areas, and the additional costs they incur also need to be included. If the staff resources required are equal to those required by upper-tier authorities in working with all their partners, this amounts to a cost of approximately £6,000 per authority. This equates to an overall cost for the 238 district councils of £1.4m at current prices.

#### *Costs to partners*

69. There will also be costs to partner bodies that are involved in developing the assessment, which must be included in an estimate of social costs. If the cost to each partner is approximately half of that incurred by local authorities in dealing with all partners, this amounts to an additional cost per authority of £15,000. This equates to £2.4m for England as a whole – or £1.9m if excluding London.

#### *Annual updates*

70. A full assessment would only be carried out every three years, to coincide with Local Area Agreements. However, there will be additional costs if the data contained in the assessment is to be updated on an annual basis. A specialist economic development consultancy would charge approximately £10,000 - £15,000 to provide baseline and trend analysis. In general, this is likely to constitute an upper estimate as many authorities would be able to undertake this updating in-house. Therefore a central estimate of £10,000 per assessment has been adopted, including adjustments for inflation, and the scope for savings from joint working are assumed to be the same as for full assessments.

#### *Capacity*

71. Some authorities may need to build up their capacity and knowledge in order to undertake an effective assessment in 2010-11. Although most authorities will undertake assessments in partnership, and some will rely on external consultants, all will require sufficient capacity and knowledge to understand the evidence produced and use it to develop and support local strategies. Each partnership will also require somebody with sufficient knowledge to commission any external research, but this is likely to exist amongst the partnership.

72. Therefore there is likely to be a need in some authorities for a deeper understanding of economic analysis. The National Improvement and Efficiency Strategy sets out that one of the future strategic priorities will be to “improve

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<sup>31</sup> East and West London are two of the 15 City Strategy partnerships that have been set up in 15 pathfinder areas to tackle worklessness in the UK’s most disadvantaged communities.

economic and neighbourhood renewal leadership capacity locally<sup>32</sup>. As a result, we do not expect there to be any additional cost in the years leading up to the economic assessment in 2010-11.

#### *Enforcement*

73. The Government does not propose to monitor lead authorities' assessments of the economic conditions of their areas. The Government expects that assessments would improve local authorities' knowledge and ability to strengthen performance against the local government performance framework's economic indicators. The Audit Commission has indicated that inspectorates would take account of effectiveness of local economic assessments as part of the evidence base of the new Comprehensive Area Assessment (CAA). We do not expect that this will lead to any additional costs.

#### *Existing expenditure by local authorities*

74. Most local authorities already undertake some assessment of their local economy, or will be able to draw upon assessments undertaken at the sub-regional level. They are also expected to have an understanding of their local economy in order to fulfil existing duties (annex, figure A1). However, the quality and content of existing duties is highly variable, and most would be unlikely to fulfil the expectations of this duty. If we assume that 50% of upper-tier authorities already undertake assessments, and that the quality of these assessments allows them to be produced at half the cost of the assessments outlined above, then current spending on economic assessments can be estimated at £3.2m in England overall, or £2.5m if London is excluded.

#### Summary of costs

75. The information above has been used to estimate low, central and high estimates of additional costs to local authorities in undertaking a full assessment in 2010-11 (figure 2). The central estimate is £11.0m, if the duty operates in London, and £9.2m if it does not.

Figure 2: Cost estimate for full assessment, including (and *excluding*) London

Scenario	Cost to upper-tier	Cost to lower tier	Cost to partner bodies	Existing cost	Total additional cost
Low	£5.8m (£4.7m)	£1.5m	£2.3m (£1.8m)	£3.2m (£2.5m)	£6.2m (£5.9m)
Central	£8.7m (£7.2m)	£1.5m	£2.3m (£1.8m)	£3.2m (£2.5m)	£9.4m (£8.4m)
High	£12.7m (£10.2m)	£1.5m	£2.3m (£1.8m)	£3.2m (£2.5m)	£13.1m (£11.3m)

76. In addition, the cost of an annual update, to take place for two years out of every three year cycle, will be in the range £0.8-1.0m (excluding London) and £1.0-1.3m (including London) per annum.

<sup>32</sup> *National Improvement and Efficiency Strategy*, CLG, LGA, 2008

## Present Value

77. The present value provides a comparable figure representing the future stream of costs, using a discount rate to reduce the weight placed on future costs. The present values calculated in figure 3 use a discount rate of 3.5% as set out in the Treasury Green Book. The present value is calculated using estimates of the cost of full assessments over nine years beginning in 2010-11. The estimates assume full assessments will be undertaken every three years (starting in 2010-11) and annual updates will be undertaken in the other two years of the three year cycle (starting in 2011-12).

Figure 3: Present value of future costs over 9 years

Scenario	Present value (excluding London)	Present value (including London)
Low	£26.3m	£28.8m
Central	£36.3m	£41.3m
High	£48.0m	£46.0m

## Option 3

78. The costs of option 3 depend upon how local authorities choose to carry out an economic assessment in the absence of central government guidance. It is possible that assessments will be less thorough and hence be less costly; on the other hand, provision of central guidance may reduce costs by providing a framework for local assessments. Separate estimates of cost have not been made at this stage, and it is assumed that the costs of option 3 will be as for option 2.

## **Net Present Value**

79. Figure 4 presents a range of value for the net present value (NPV), based on the monetised costs and benefits. It should be noted that these estimates include no assumptions about the impact of the duty on economic growth or employment rates. Improvement in these outcomes should be regarded as additional to the benefits included in the NPV calculation.

80. The high end of the NPV range is calculated as the high estimate of benefits less the low estimate of costs. Conversely, the low NPV estimate is the low estimate of benefits less the high estimate of costs. The central or best guess, NPV estimate is the central estimate of benefits less the central estimate of costs. This range will be refined as new evidence becomes available during the consultation.

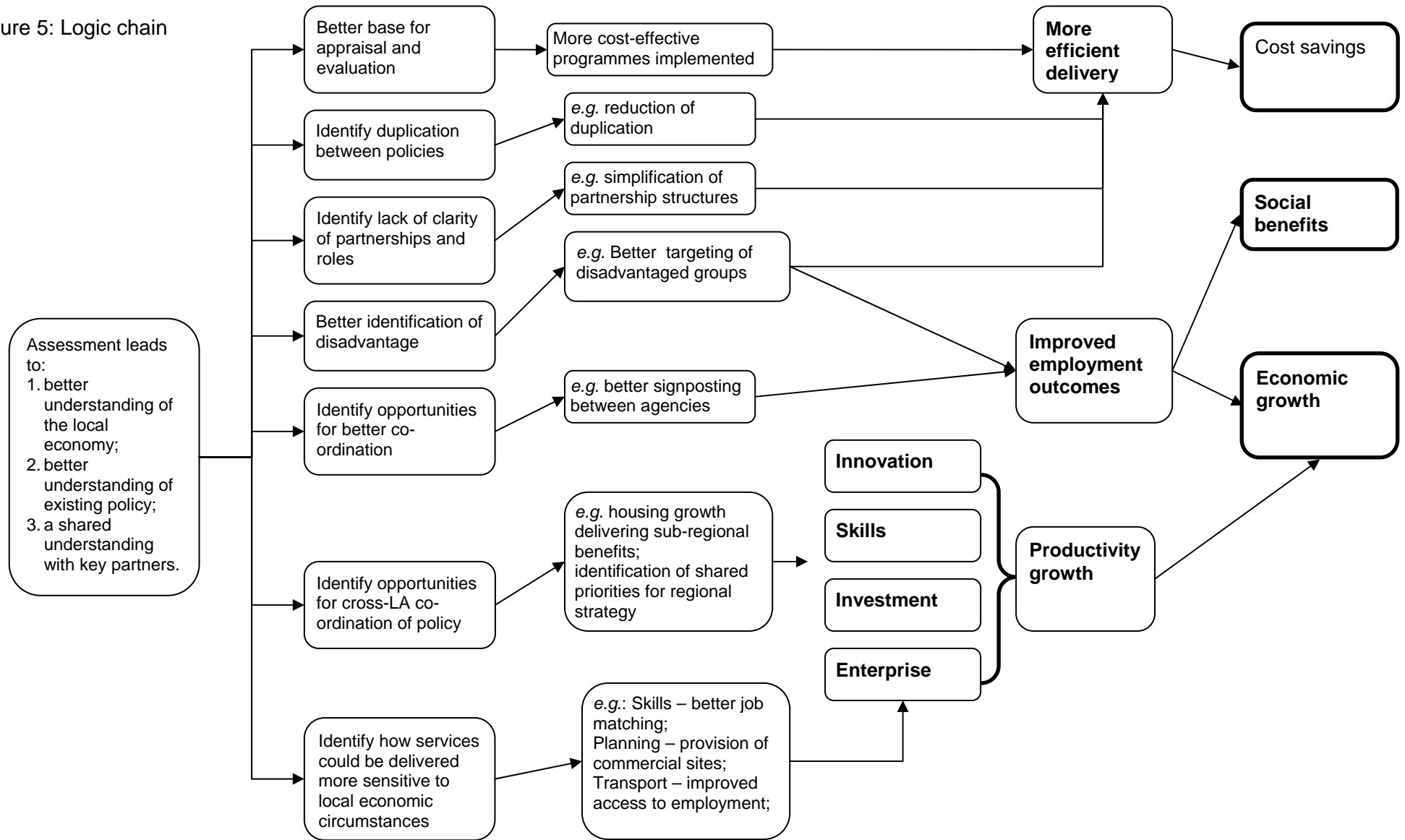
Figure 4: Range of Net Present Value estimates

Scenario	NPV (excluding London)	NPV (including London)
Low	-£13.7m	-£14.5m
Central	£15.7m	£22.3m
High	£43.9m	£57.5m



## Appendix

Figure 5: Logic chain



Annex: Case studies of economic assessments								
Organisation type	Timeframe		Staffing				Overhead costs (30%)	Total cost
	Collection and Collation of Data	Data Analysis	Staff Position	Staff Time (%)	Staff Pay	Staff Cost (collection and analysis of data)		
County Council	2 Mths	2 Mths	Project Manager	50%	63.38/hr	£17,746	£21,665	£93,883
			Principal Research Officer	50%	44.07/hr	£12,340		
			3 Research Officer	75%	33.44/hr	£42,132		
London Borough	3 Mths	2 Mths	Project Manager	20%	63.38/hr	£8,873	£13,514	£58,556
			Middle Manager	20%	44.07/hr	£6,169		
			3 External Consultants	NA	NA	£30,000		
City Regional Partnership	1.5 Mths	1.5 Mths	Project Manager	50%	63.38/hr	£13,310	£15,228	£65,990
			3 Support Officers	NA	33.44/hr	£14,044		
			5 Support Officers	NA	33.44/hr	£23,408		
County Economic Partnership	3 Mths	3 Mths	Project Manager	50%	63.38/hr	£26,620	£14,459	£62,657
			University Placement	50%	21.25/hr	£8,925		
			3 Data Consultants	NA	NA	£5,250		
			Input from other Team Members (8-10 people)	2.5%	44.07/hr	£7,404 - £9,255		

## Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

**Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.**

Type of testing undertaken	<i>Results in Evidence Base?</i>	<i>Results annexed?</i>
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	Yes
Sustainable Development	No	Yes
Carbon Assessment	No	Yes
Other Environment	No	Yes
Health Impact Assessment	No	Yes
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	Yes
Rural Proofing	No	Yes

## Annexes

### Specific Impact Tests

#### *Competition Assessment*

The duty will have a small pro-competitive effect by making it easier for firms to access market information. The public provision of information will reduce fixed costs incurred by new entrants, leading to greater competition.

The sector most affected by the duty is likely to be the private economic consultancy sector, as the requirement to undertake an assessment will increase the demand for services, amongst local authorities without the capacity to undertake the entire assessment internally. With 150 upper tier authorities in England, the demand for economic consultancy services could potentially increase rapidly nationwide, particularly if local authorities carry out an assessment at a particular time of year.

The provision of guidance under option (ii) should encourage competition amongst consultancy firms by reducing market barriers created through specialist knowledge. Local authorities adhere to best practice procurement rules which should ensure competition in the market for consultancy services.

Option (iii) allows greater flexibility in tailoring the assessment to reflect local economic priorities. Without a legal obligation to follow guidance, authorities may decide to focus on a specific area of the local economy, e.g. worklessness, enterprise levels etc. If this requires greater specialisation, this may slightly increase the barriers to entry and reduce the number of firms who can compete for the business.

Research conducted on current economic assessment and strategy activity found that there are a large number of local authorities already carrying out assessments of some sort, and in two out of the four case studies, external consultants had a large role in developing the assessment. This evidence suggests that an absence of guidance will not have a significant effect on the availability of consultancy services.

#### *Small Firms*

The duty will not affect business or small firms directly. The duty will not place any costs on businesses, but may provide some indirect benefits.

The economic assessment duty is expected to increase local authority awareness of local economic conditions and to encourage greater collaborative working across authority boundaries with regard to economic development. In this respect it is likely to have indirect benefits for local businesses, particularly small firms. Local authorities will



be better placed to directly tackle any local market failures and assist small firms whose activity transcends local authority boundaries.

By tackling local market failures (such as the lack of local public service provision e.g. Transport), barriers to entry for start-ups and small firms may be reduced.

The duty will not place any direct or indirect burden on local businesses. The duty will result in some additional costs to individual local authorities, which will be assessed and met in line with the Government's new burdens principles. It is not anticipated that this will lead to higher business rates.

Small firm consultation has not been carried out in the options development phase of this policy because it is not aimed at business and is not expected to place any additional costs or burdens on firms. However, this Impact Assessment is subject to public consultation and as a result we welcome views from small firms on the detail on the policy option adopted.

#### *Legal Aid*

There will be no impact on legal aid from the adoption of a duty on local authorities to commission an economic report on their local area.

#### *Sustainable Development*

This duty aims to improve the economic evidence base that local strategies are based on, including the Sustainable Community Strategy, which sets out the overall strategic direction and long-term vision for the economic, social and environmental well-being of a local area. These strategies should contribute to sustainable development in the UK<sup>33</sup>, and as such should draw on environmental and social expertise, as well as the economic evidence base provided by an assessment.

Assessments should improve the quality of scientific evidence used to inform decisions.

#### *Other Environment*

This duty will not have any major impacts on other environmental considerations.

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<sup>33</sup> *Creating Strong, Safe and Prosperous Communities. Statutory Guidance: Draft for Consultation*, HM Government, 2007

## *Carbon Assessment*

The economic assessment should not lead to an increase in carbon emissions. Emission levels may change if authorities pursue different policies as a result of the assessment, for example if it leads to a change in policy regarding the building of new infrastructure or housing. These emissions should be included in project appraisals, and cost and benefits estimated on a case by case basis.

## *Health Impact*

The proposal will not have a direct impact on health, although there may be beneficial effects on well-being from the formulation of strategies designed to tackle worklessness or poverty.

## *Race, Disability and Gender Impacts (Equality Impact Assessment)*

81. The direct cost of the economic assessment itself will be fully-funded through increased LA resources, so will not lead to a diversion of expenditure from other services. However, the assessment could indirectly lead to increased spending on economic development activity by identifying areas where it could add value. This in turn would reduce the resources available for other LA activity. Alternatively, the duty might enable local authorities to identify economic development activity that is poorly targeted or ineffective, and thus free up resources. By encouraging economic growth, the duty could also lead to additional resources for local government services in the long-term. It is not obvious which of these alternatives is more likely. If funding is diverted from other services, the impact could disproportionately affect those who tend to benefit most from current LA service provision.
  
82. The economic development role of local authorities is often focussed on services to individuals and groups that are underserved by national 'one-size fits all' policies. Improvements to the evidence base that lead to more effective services should therefore tend to disproportionately benefit these groups. The assessment will also help local authorities to identify priorities for expenditure on regeneration and tackling disadvantage, which should lead to particularly positive effects for those in the most disadvantaged groups, and living in the most deprived areas.
  
83. The economic assessment should incorporate the expertise of key partners in economic development. Authorities will be legally required to consult some partners, but will be able to have discussions beyond this. There should not be an unequal consideration of the needs and views of particular groups, *but this will be tested through consultation.*

## *Human Rights*

There will be no impact on human rights from the adoption of this duty.

### *Rural Proofing*

The structure and operation of rural economies are just as diverse as their urban counterparts. Rural England extends from the remote uplands to coastal areas and incorporates thriving market towns and commuter belts that lie on the fringes of major conurbations. The role of the rural community in the sub-regional economy will therefore differ from area to area. Some communities will be self-contained, whereas others will be primarily commuter belts that provide a valuable labour resource to the city.

Some economic assessments may focus on urban than rural issues, because urban areas constitute a large proportion of local economic activity. However, analysis of the flow of people, goods and services between market towns and their hinterlands are an will be an important part of any assessment.

Rural areas do not conform to a set of criteria consistent with “Rural England” and are diverse in terms of their economic base and spatial characteristics. Good assessments will need to consider how challenges and opportunities diverge across the local area, and should recognise the interdependency of urban and “fringe” markets.

The challenges of analysing economic issues that are more common to rural areas may be more easily addressed through the provision of common guidance.

The inclusion of rural representatives, including through a duty to involve lower-tier authorities in the consultation process, should feed into a local strategy that takes into account the needs of the rural economy.

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