



House of Commons

ODPM: Housing, Planning,  
Local Government and the  
Regions Committee

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# **Reducing Regional Disparities in Prosperity**

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**Ninth Report of Session 2002–03**

*Volume I: Report*





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***Volume I: Report***

*Report, together with formal minutes of  
proceedings*

*Ordered by The House of Commons  
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## The ODPM: Housing, Planning, Local Government and the Regions Committee

The ODPM: Housing, Planning, Local Government and the Regions Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Deputy Prime Minister and its associated public bodies

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### Committee staff

The current staff of the Committee are Kate Emms (Clerk), Libby Preston (Second Clerk), Claire O'Shaughnessy and Ben Kochan (Committee Specialists), Ian Hook (Committee Assistant) and Emma Carey (Secretary).

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## Summary

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The economies of six of the English Regions, in the north, midlands and south west have consistently grown less fast than the UK average. This gap in growth rates is damaging to the UK economy as a whole, as it means that these regions are not fulfilling their potential. It also results in reduced life chances for people in the poorer regions where not only low productivity but also unemployment and ill health are concentrated.

The Government has acknowledged the scale and persistence of this gap and has set itself a challenging Public Service Agreement target to grow all regions but also to reduce the gap between them by 2012. We welcome this commitment by the Government.

We are however concerned that not enough has yet been done to ensure that policies and funding are in place to allow this target to be met. The Government has given itself until July 2004 to decide what to do. Our report recommends that the Government needs to take some tough decisions about its priorities including:

- Recognising the differences between regions and prioritising the least prosperous regions, rather than the current approach of developing policies for the benefit of all regions;
- Acknowledging that the measures needed to tackle unemployment need to be different in areas where there are lots of jobs and in places where job opportunities are few and far between;
- Ensuring that the fundamentals for growth—transport, research and development investment and universities—are put in place now in the less prosperous regions;
- Giving adequate powers and resources to elected regional assemblies where they are introduced; and
- Reviewing the allocation of public resources between the nations and regions of the UK.

We also received evidence that the current indicator proposed for the measurement of performance against this target, regional Gross Value Added per head, is not fit for purpose and recommend instead the use of a basket of measures including productivity, employment and unemployment rates, household income and quality of life.

#### 4 Reducing Regional Disparities in Prosperity

# 1 Introduction

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1. In the 2002 Spending Review, the Chancellor announced a new Public Service Agreement target to,

“Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006.”<sup>1</sup>

This target with its commitment to reduce the gap between the English regions marked a distinct shift in emphasis in Government policy.

2. There is no doubt that action to tackle regional disparities is needed. Six of the nine English regions have consistently grown at less than the UK average, a gap which is said to have persisted since the 1920s.<sup>2</sup> As we heard from the North East Regional Assembly, the regional imbalances create problems for all regions,

“The persistent gap in prosperity between the regions of the United Kingdom is socially unjust and economically inefficient. It is unacceptable that someone born in the North East of England is likely to have a shorter life, fewer qualifications and earn less than someone born in the South East. It is also unfortunate that those in the South East suffer poor quality of life due to overcrowding and congestion. And, in an era of intense global competition, it is simply not viable that large parts of the UK should continue to contribute less to the national economy than others.”<sup>3</sup>

3. As the quote from the North East illustrates, the problems caused by economic imbalances extend across public policy. For example, during this and our predecessor Committee’s inquiries into Empty Homes, Affordable Housing and Planning for Sustainable Communities it has become increasingly apparent that problems in the housing market are symptomatic of regional disparities in the economy and are best not addressed in isolation. Similarly in this inquiry we have heard how economic differences are at the root of health inequalities.<sup>4</sup>

4. We therefore resolved to undertake an inquiry into reducing regional disparities in prosperity, focusing in particular on the Government’s new Public Service Agreement Target. Our terms of reference were announced on 6 December 2002.<sup>5</sup> They were to consider:

- the importance of achieving this target,
- whether and how the target can be achieved with current and proposed policies, including:

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<sup>1</sup> Chapter 5, 2002 Spending Review, *Public Service Agreements White Paper*, HM Treasury, 2002

<sup>2</sup> Chart 1.1 and Paragraph 1.7, *Productivity in the UK 3: The Regional Dimension*, DTI / HM Treasury, 2001

<sup>3</sup> North East Assembly, RRD09

<sup>4</sup> Dr Kirkup, Q772

<sup>5</sup> ODPM: Housing, Planning, Local Government and the Regions Select Committee Press Notice 11, 2002-03

- the impact of current regional strategies;
- whether the introduction of the nine Regional Development Agencies has contributed towards a reduction in, or increased the disparities between the regions;
- whether the proposals for regional assemblies will make a difference to the achievement of this target;
- whether a coherent national policy can be achieved; and, if so, how;
- what lessons can be learned from past regional policies;
- what changes to policies are required to achieve the target, including whether Government departments, agencies and non-departmental public bodies should be moved to less prosperous regions; and
- how much additional funding is needed in the poorest performing regions.

5. In response we received 61 written submissions and took oral evidence from 35 organisations over one evidence session in the North East, one in the South West and four in London. Our inquiry concluded with evidence from the Secretary of State for Trade and Industry, Rt Hon Patricia Hewitt MP, the Financial Secretary to the Treasury, Ruth Kelly MP, and the Parliamentary Under Secretary at the Office of the Deputy Prime Minister (ODPM), Christopher Leslie MP. We also visited Germany. We wish to thank our advisers David Coats, Adrian Healy and Professor Kevin Morgan. We also wish to thank all those who gave evidence to the Committee and the North East Regional Assembly and those we met in Germany for their hospitality. The Treasury Sub-Committee has recently taken evidence on *Regional Spending* and the Trade and Industry Committee is currently carrying out an inquiry into *Support to Business from the Regional Development Agencies*.

6. In a democracy, it is necessary to have clear and accurate information, so that informed decisions can be made. As our inquiry has progressed, it has become clear that information about the economies of the English regions is limited. Not only does this mean that that regional policy decisions are being made on the basis of inadequate information, it also undermines the Government's approach to monitoring performance against targets, if the indicators chosen are not robust. We deal with the issue of information in greater detail in Section 2 of this report.

7. Our report looks firstly at the differences in prosperity between the English regions, the rationale for the introduction of the new Public Service Agreement target and how it is to be measured. We then look at the changes needed in central Government to put in place the building blocks for economic growth in the less prosperous regions, the measures available to the regions and the role of regional bodies.

## 2 The Public Service Agreement Target

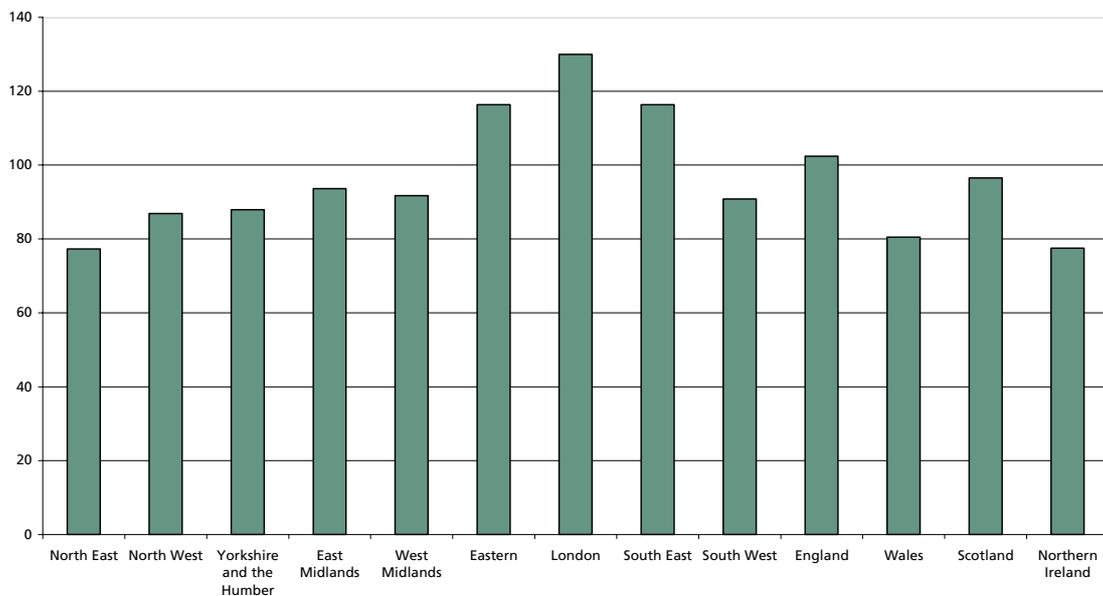
### Regional economic disparities

8. In 2001, the Department for Trade and Industry (DTI) and Treasury published a report, *Productivity in the UK 3: The Regional Dimension* (referred to as *Productivity 3* throughout the remainder of this report). This document set out the scale and persistence of the differences in economic performance between the English regions,

“One of the most remarkable things about the productivity report was the admission of the depth and breadth of the inequalities within and between the English regions.”<sup>6</sup>

9. The graph below shows the differences in prosperity between the English regions, Scotland, Wales and Northern Ireland.

**Chart 1: Gross Domestic Product per head (Residence Based) 1999, (UK=100)**



Source: *Regional Trends 36, Office for National Statistics, 2001*

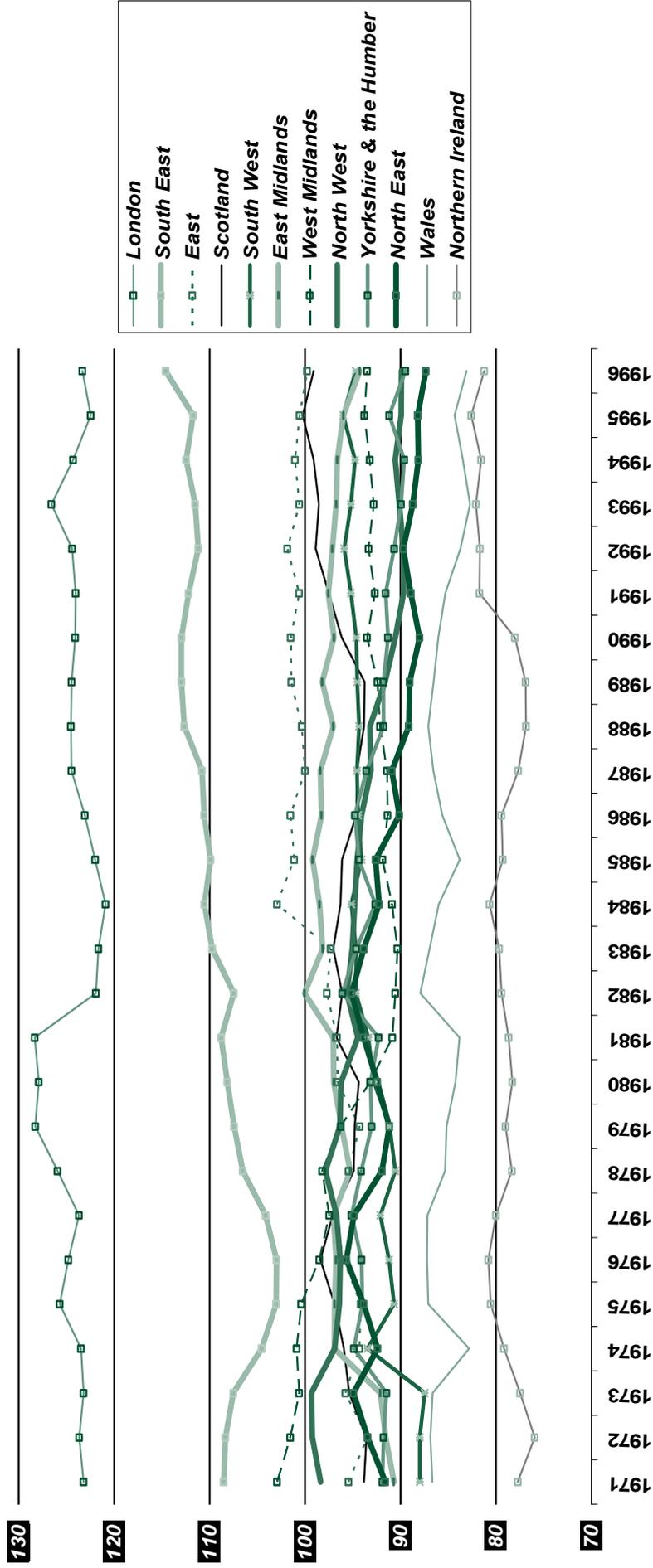
We comment on the quality of the data later in this section.

10. The differences in relative Gross Domestic Product (GDP) per head have persisted over time.<sup>7</sup>

<sup>6</sup> Campaign for Yorkshire, RRD 12

<sup>7</sup> Paragraph 1.6, *Productivity 3*

Chart 2: Relative regional GDP per capita (UK=100)



Source: Productivity in the UK 3: The Regional Dimension, DTI / Treasury, 2001

11. Our evidence suggests that this gap is not only persistent but is increasing.<sup>8</sup>

“A recently published ‘competitiveness’ index for the UK shows that the three best performing regions—London, South East and Eastern—have widened their gap over the three worst by over 30% since 1997, and the gap between London and the North East has grown by more than 30%.”<sup>9</sup>

12. London, the South East and the East (often referred to in this report as the greater south east) have been described as a “winner’s circle”<sup>10</sup> where success breeds success. A “ripple effect”<sup>11</sup> has been identified spreading out from these into neighbouring regions with beneficiaries including the south of the East Midlands region<sup>12</sup> and the east of the South West region. In the South West, however, prosperity clearly declines the further west (away from London) one travels.<sup>13</sup> Regional disparity is therefore not just a north / south issue; rather it is that the places in England that are furthest from the greater south east economy that tend to be less prosperous.<sup>14</sup> Much can be done to improve connections between them and the capital (and we look at transport and information technology later in this report) but as the Local Government Association (LGA) said,

“Ultimately, London and the South East cannot be the only engine on which the UK economy depends. Diversifying and building on regional strengths around the UK will produce more economic stability and improved living standards for greater numbers in the longer term.”<sup>15</sup>

### ***Differences within and between regions***

13. Of course, there are differences within as well as between regions. London not only has the highest GDP per head but also some of the most deprived communities in the country. This reflects the “economic growth and social deprivation [that] coexist in and around most British cities.”<sup>16</sup> There are also very affluent areas outside the greater south east, for example, Chester, Worcester, Harrogate and York. However, taking this diversity into account, the regions with lower GDP per head have a high incidence of deprivation across a range of measures. Over half of the 10% most deprived wards in England (identified by the Index of Multiple Deprivation) are in the three northernmost regions.

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<sup>8</sup> The Campaign for English Regions, RRD 24

<sup>9</sup> *The English Question: Regional Perspectives on a Fractured Nation*, Professor Kevin Morgan, Regional Studies Vol. 36.7, 2002

<sup>10</sup> Institute for Public Policy Research, RRD 26

<sup>11</sup> County Councils Network, RRD 11

<sup>12</sup> *Sustainable Communities in the East Midlands: Building for the Future*, ODPM, 2003

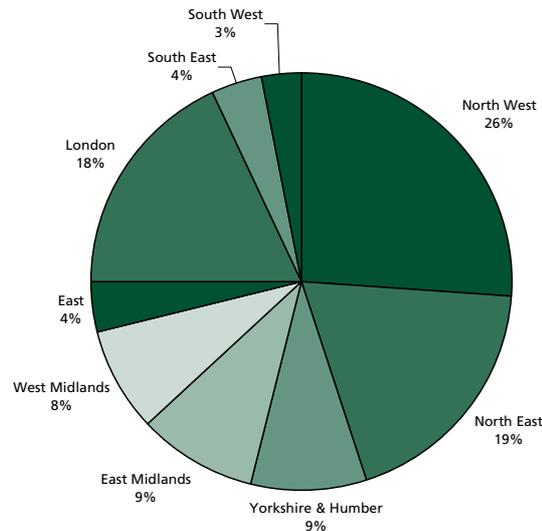
<sup>13</sup> *Regional Economic Strategy for the South West*, South West RDA, 2003

<sup>14</sup> County Councils Network, RRD 11

<sup>15</sup> Local Government Association, RRD27

<sup>16</sup> County Councils Network, RRD 11

**Chart 3: Most deprived 10 per cent of wards: share by region**



Source: House of Commons Library, Standard Note SN/SG/2142

14. The Institute of Public Policy Research (IPPR) commented,

“The Government has argued in the past that intra-regional differences negate inter-regional differences. This is a false distinction as both need to be addressed.”<sup>17</sup>

John Adams of the IPPR added,

“I think it is important to appreciate that there are differences within regions but that does not negate the gap between regions. The fact that there are differences within Yorkshire does not mean that Yorkshire as a whole is not different from London. You have both intra- and inter-regional disparities, to use the jargon. The question then moves on beyond that as to what spatial level do you actually start to attack some of these issues. London, for example, has very high levels of child poverty which is a very important issue for people dealing with public policy in London, but the best method to attack child poverty in London might not be regional at all. It might be via the tax and benefit system at the UK level. You have to address the policies to address the issue and you need regional policies to address regional disparities and other policies to address other disparities.”<sup>18</sup>

**Both inter and intra regional differences need to be addressed but they are different problems and require different solutions.**

### The Public Service Agreement target

15. In the 2002 Spending Review the Government replaced its Public Service Agreement (PSA) target to,

<sup>17</sup> Institute for Public Policy Research, RRD 26

<sup>18</sup> Mr Adams, Q9

“Improve the economic performance of all regions, measured by the trend in growth of each region’s GDP.”<sup>19</sup>

with a target to,

“Make sustainable improvements in the economic performance of all English regions and over the long term reduce the persistent gap in growth rates between the regions, defining measures to improve performance and reporting progress against these measures by 2006.”<sup>20</sup>

The original target was shared by the then Department for Environment, Transport and the Regions (DETR) and the Department of Trade and Industry (DTI). The new target is a joint target for ODPM, DTI and the Treasury.

16. The new target with its emphasis on reducing gaps is needed for a number of reasons:

- **Efficiency**—in Productivity 3 the Government argues that the efficiency of the UK economy as a whole would be increased by improving the performance of those regions with lower levels of productivity;<sup>21</sup>
- **Equity**—the Government also acknowledges the argument for improving the economic performance of the less prosperous regions on grounds of equity;<sup>22</sup>
- **sustainable resource utilisation**—currently under-utilised resources in some parts of the country could be harnessed and the pressures of demand on other parts of the country could be reduced;<sup>23</sup>
- **an aid to UK-wide macro economic policy**—Professor Harding of the Centre for Sustainable Urban and Regional Futures at the University of Salford argued that reducing the differences between regions would result in convergence of the economies of the different regions of the UK, thereby making macro-economic policy (e.g. interest rates) easier to apply without adverse consequences to one part of the country or another.<sup>24</sup>

**We welcome the introduction of the new Public Service Agreement target.**

### ***Growing all and reducing gaps***

17. The target introduced in the 2002 Spending Review has two strands—growing all regions and reducing the gaps between them. The Government argues that achieving both is not only possible but essential and that gap must be narrowed by raising the performance of the less prosperous regions, not by reducing growth in the more successful regions,

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<sup>19</sup> 2000 Spending Review, *Public Service Agreements White Paper*, HM Treasury 2000

<sup>20</sup> Chapter 5, *Public Service Agreements White Paper*, 2002

<sup>21</sup> Paragraph 4.1, *Productivity 3*

<sup>22</sup> Page v, *Productivity 3*

<sup>23</sup> County Councils Network, RRD11

<sup>24</sup> Professor Harding, Q435

“Attempts to address regional differentials must be done by a process of levelling-up, not levelling down.”<sup>25</sup>

This means, as we heard from the Secretary of State for Trade and Industry,

“The target is challenging because, as you rightly say, it does involve the regions with lower levels of GDP growing faster than our richer and fastest growing regions.”<sup>26</sup>

This is what the Chief Executive of the London Development Agency described as “arithmetically a fairly challenging concept”<sup>27</sup> for the less prosperous regions.

18. The Financial Secretary stated that the national PSA target has not been translated into specific growth rate targets for each region.<sup>28</sup> Yet each RDA has been looking at the level of growth required in their region for the national target to be met. The Chairman of ONE North East RDA said,

“I think it is an ambitious target, I do not doubt that. I think ambition in this issue is very, very important indeed. The figures are that we would need to see something like a 25% increase in economic performance in this region up to 2010, which would require a growth rate of about 2.6%, which is roughly double the current rate which we are achieving in the region.”<sup>29</sup>

**The target has two distinct elements, growing all regions and reducing gaps between them. This is not inherently contradictory but makes the target extremely challenging**

19. The Government has given itself two years to identify what policies and programmes are needed to implement the target—it has committed itself to identifying such measures by July 2004.<sup>30</sup> This leaves eight years (2004-2012) to achieve it. **Witnesses have consistently described the target as ‘challenging’ and ‘ambitious’—Government-speak for very difficult. In order to stand even an outside chance of achieving the target by 2012, the Government will need to allocate significant resources to it and make difficult decisions about priorities in the next couple of years.**

20. Productivity 3 concluded, “Whilst regional economic policy must aim to strengthen the indigenous growth potential of all regions, the focus should be on the weakest regions, without constraining the strongest.”<sup>31</sup> The main thrust of our inquiry has therefore been to examine Government policy towards those weaker regions and we have focused on the second half of the PSA target (reducing the gaps between regions).

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<sup>25</sup> Page 43, *Productivity 3*

<sup>26</sup> Ms Hewitt, Q827

<sup>27</sup> Mr Ward, Q89

<sup>28</sup> Ruth Kelly, Q943

<sup>29</sup> Dr Bridge, Q176

<sup>30</sup> PSA Target 2, *Technical Note*, ODPM, 2002

<sup>31</sup> Page 43, *Productivity 3*

## Measuring performance against the PSA target

21. ODPM's Technical Note, which accompanies the Public Service Agreement, describes how performance against the second part of the target (reducing gaps between regions) will be measured,

“While the underlying aim will be to reduce the gap for each of the six<sup>32</sup> regions, this part of the target will be met

- if over the period 2003-12 there is a reduction compared to the baseline in the absolute gap between the average trend growth rate in the three regions which currently have above average GVA per head<sup>33</sup> and the average growth rate in the other six regions; and

- if each individual region's trend rate of growth over the period 2003-12 has increased compared to the baseline.”<sup>34</sup>

22. The core performance indicator for this PSA target is therefore regional Gross Value Added (GVA) per capita. This has recently replaced GDP per capita as the preferred indicator of regional economic prosperity. The two measures are very similar. ODPM's Technical Note explains the slight difference:

“GVA measures the contribution to the economy of each individual producer, industry or sector. GDP is derived from GVA by adding taxes and subtracting subsidies on products.”<sup>35</sup>

23. We have heard two particular concerns about the use of regional GVA per head as the sole indicator to measure progress against the PSA target:

- a) GVA per head does not adequately capture regional prosperity; and
- b) the data currently held by the Office for National Statistics are poor.

### *The use of GVA per head as the core performance indicator*

24. The Halle Institute for Economic Research whom we met in Germany and ONS advised us that GVA per capita is the most commonly used measure because it is internationally comparable.<sup>36</sup> However, they and other witnesses argued that GVA per capita is not adequate as the measure of regional prosperity and should be accompanied by other measures.

25. GVA per head measures output divided by population. It is therefore influenced by a number of factors:

- a) **productivity**—the output that each worker produces; and

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<sup>32</sup> North East, North West, Yorkshire and Humberside, East Midlands, West Midlands and South West

<sup>33</sup> London, South East and East

<sup>34</sup> PSA Target 2, *Technical Note*

<sup>35</sup> ODPM, RRD07

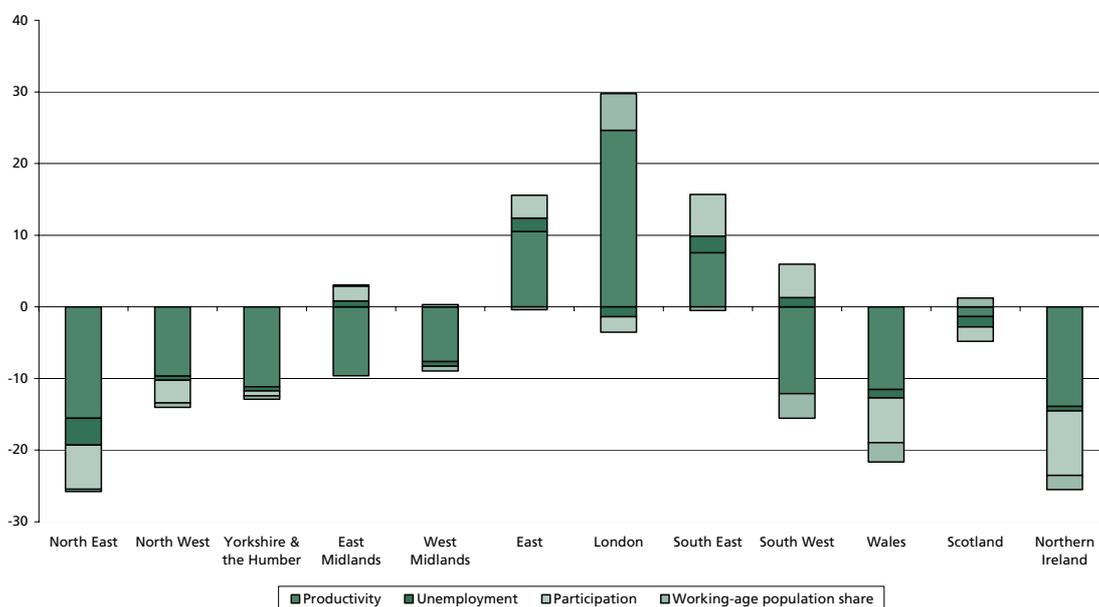
<sup>36</sup> Mr McGinty, Q382 and Visit Note

b) **employment**—the number of people who are working, depending in turn on:

- i) demographics—the working age population;
- ii) labour market participation rates; and
- iii) unemployment rates.<sup>37</sup>

26. Nationally productivity is said to account for 60% of the difference between regions with employment factors comprising the other 40%.<sup>38</sup> The relative importance of each of these factors varies a lot between the regions and nations of the UK, as shown on the graph below.

Chart 4: Decomposition of regional GDP per capita gap with UK average, by region (1999)



Source: *Productivity in the UK 3: The Regional Dimension*, DTI / Treasury 2001

27. The graph shows that in the South West, relatively low GDP per head is caused predominantly by productivity and demographic factors (for example the large number of elderly people in the population). Low GDP per head in the North East has different determinants, low productivity again but also high unemployment and markedly low levels of participation in the labour market, i.e. people who are neither in work nor registered as unemployed.

28. Professor Gripaios of the South West Economy Centre at the University of Plymouth warned that because a number of factors determine GDP per head, care needs to be taken in the interpretation of the headline figures. For example,

“Cornwall is often described as the poorest county in England because GDP per head is only 65% of the UK average. But economic factors such as a high percentage of low wage unemployment are only part of the explanation. Cornwall also has low

<sup>37</sup> Paragraph 1.10, *Productivity 3*

<sup>38</sup> Ruth Kelly, Q881

measured GDP per head because it has large numbers of retired people and large numbers of commuters to Plymouth where their output is measured. If we look at other measures such as household disposable incomes, Cornwall looks much better off, certainly relative to other UK areas which qualified for Objective One<sup>39</sup> and indeed relative to some which did not.”<sup>40</sup>

29. The ONS has recommended that regional prosperity should instead be measured by using two separate indicators:

- a) regional GVA per full-time employee, which they argue is the best way to measure regional differences in productivity as it is not affected by the number of non-working residents; and
- b) regional gross household disposable income, which indicates the prosperity of residents.<sup>41</sup>

### *Employment and unemployment rates*

30. Other witnesses stressed the importance of measuring unemployment and employment rates alongside productivity, to avoid the phenomenon of ‘jobless’ growth: in other words, the situation where productivity increases, possibly as a result of improved machinery with the same or fewer employees.<sup>42</sup> We heard, for example, that in the North East, manufacturing output in 2010 is forecast to be the same as, if not higher than, it is today but it will employ far fewer people<sup>43</sup>—so higher productivity will be achieved with fewer jobs.

31. Both employment and unemployment rates need to be measured to get a true picture of what is going on in a region. Low levels of unemployment can mask people who have withdrawn from the labour market completely.<sup>44</sup> Rates of economic activity vary between the English regions,

“In 1997, for example, the number of men in the 25-64 age group who were classified as inactive was more than double the number classified as unemployed. The contrasts between north and south as regards inactivity are enormous in this age range with some 30% without a formal job in the northern regions compared to less than 12% in the south.”<sup>45</sup>

### *Quality of life*

32. Unlike the Tier 2 target for the RDAs to

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<sup>39</sup> Objective One of the European Structural Funds provides support for the most disadvantaged regions in Europe. Eligibility is based on a GDP of less than 75% of the EU average during a defined period.

<sup>40</sup> South West Economy Centre, RRD03

<sup>41</sup> Mr McGinty, Q380

<sup>42</sup> Alliance for Regional Aid, RRD08

<sup>43</sup> Dr Bridge, Q180

<sup>44</sup> Institution for Economic Development, RRD01

<sup>45</sup> *The English Question: Regional Perspectives on a Fractured Nation*

“Provide the strategic framework to improve sustainable economic performance of each region, measured by the growth trend of GVA per capita, while also contributing to broader quality of life in the region,”<sup>46</sup>

the PSA target makes no reference to quality of life. The Parliamentary Under Secretary also clarified that the “sustainable improvements” referred to in the PSA target meant “persistent” improvements.<sup>47</sup>

33. In his introduction to the Government’s Sustainable Development Strategy published in 1999, the Prime Minister argued that success should be measured by a number of factors, not just economic growth, so as to reflect quality of life,

“In our own lives, we know the value of money. We know it can bring comfort, security, and new opportunities. But we also know that money isn't everything. Feeling safe on our streets or in our homes. Enjoying our rich and diverse countryside. Knowing that a modern and dependable NHS is there when you need it. Living in strong communities. These all matter too. But in the past governments have seemed to forget this. Success has been measured by economic growth - GDP - alone. We have failed to see how our economy, our environment and our society are all one. And that delivering the best possible quality of life for us all means more than concentrating solely on economic growth.”<sup>48</sup>

34. The memorandum from the Council for the Protection of Rural England showed the very different rankings of the English regions<sup>49</sup> using a basket of environmental indicators compared to a basket of economic indicators.

Regional Competitiveness Indicators Ranking	CPRE Environmental Indicators Ranking
1) South East 2) East of England 3) South West 4) North West 5) East Midlands 6) West Midlands 7) Yorkshire and Humberside 8) North East	1) South West 2) North East 3) North West 5) = East of England 5) = Yorkshire and Humberside 6 West Midlands 8) = South East 8) = East Midlands

Source: *What You Measure Matters*, CPRE, 1998

35. The Government has developed a series of indicators for quality of life. Its report *Quality of Life Counts*<sup>50</sup> identified fifteen headline measures—economic output, investment, employment rates, social exclusion, educational qualifications, expected years of healthy life, non-decent homes, levels of crime, greenhouse gas emission, air pollution, road traffic, river quality, wild birds, new homes built on previously developed land and

<sup>46</sup> English Regional Development Agencies, RRD25

<sup>47</sup> Mr Leslie, Q936

<sup>48</sup> *A Better Quality of Life: A Strategy for Sustainable Development in the UK*, Department for the Environment, Transport and the Regions, 1999

<sup>49</sup> Excludes London

<sup>50</sup> *Quality of Life Counts*, Department for the Environment, Transport and the Regions, 1999 and thereafter

waste. This has been the subject of detailed analysis by the Environmental Audit Committee.<sup>51</sup> Performance against these indicators is published on a regional basis.<sup>52</sup>

**36. Gross Value Added per head is not an adequate indicator for this Public Service Agreement target. We recommend that regional prosperity should instead be measured by a basket of indicators. This would explicitly take account of the range of factors that determine regional prosperity, using different indicators for each—productivity, disposable income, employment and unemployment. Quality of life should also be taken into account. The Secretary of State for Trade and Industry’s proposal of a balanced scorecard approach<sup>53</sup> should be taken forward. Using a basket of indicators, each derived from a different source, also reduces the risk of relying on a single source of poor quality data. We recommend that ODPM, DTI and the Treasury consider the regional performance indicators to measure quality of life set out in *Regional Quality of Life Counts* as a potential basis for improving the measurement of performance against this target.**

37. In the 2003 Budget, the Chancellor announced a review of regional pay scales.<sup>54</sup> The data available on regional economies is out of date and we have heard concerns about its quality. It is not fit for this purpose. Before the Treasury pursues the issue of regional pay further, it needs to have better statistics.

### ***The quality of the data***

38. ODPM’s Technical Note admits that current data is inadequate to provide totally accurate information about regional economies,

“Current data limitations mean that we can only produce approximate estimates of the trend rate of growth of GVA per head in the regions.”<sup>55</sup>

### ***Timeliness***

39. One of the biggest problems is simply access to the information. The Technical Note says that there is a 12 month time lag in the production of regional GVA information (meaning, they say, that performance against the target in 2012 cannot be reported until 2014). In recent years the production of regional GVA data has in fact been delayed by much longer than that. Provisional figures for regional Gross Domestic Product (GDP) per capita for 1997, 1998 and 1999 were released by the Office for National Statistics (ONS) in February 2001. In November 2001, revised 1999 figures were released but these have subsequently been withdrawn.<sup>56</sup> Estimates of regional GVA per head for 2000 and 2001 were due to be published in December 2002<sup>57</sup> but have not yet been released.

<sup>51</sup> *Measuring the Quality of Life: The 2001 Sustainable Development Headline Indicators*, Fourth Report, 2001/02, Environmental Audit Committee, HC824

<sup>52</sup> *Regional Quality of Life Counts*, Department for the Environment, Food and Rural Affairs, 2001

<sup>53</sup> Q823

<sup>54</sup> HC Deb Col 283, 9 April 2003

<sup>55</sup> PSA Target 2, *Technical Note*

<sup>56</sup> Mr McGinty, Q370

<sup>57</sup> [www.statistics.gov.uk/notices/regional\\_GVA\\_estimates.asp](http://www.statistics.gov.uk/notices/regional_GVA_estimates.asp), 10 December 2002

40. In oral evidence, ONS officials suggested that the outstanding data might not be published until October 2003,<sup>58</sup> although the Financial Secretary said that the information would be available in the summer.<sup>59</sup> ONS told us that the delays had occurred because the Office's systems have not been designed to make the regional GVA per capita data an automatic outcome of their surveys.<sup>60</sup> **Delays in producing the regional GVA per capita figures mean that decisions concerning regional policy are being made on the basis of what is known to be out of date information. A time lag of 12 months is barely acceptable for data used to measure performance against Public Service Agreement targets. Delays of three years are unacceptable.**

### Content

41. Once the regional information is available, it still needs to be treated with caution. Commissioned research by the South West RDA sets out a detailed critique of the limitations of using regional GDP per head.<sup>61</sup> For example, as ONS admitted, regional data is inherently less reliable than national data because of smaller sample sizes and because it is produced as a result of allocating national data to the regions.<sup>62</sup> There are also issues, particularly at the edge of regions, about the allocation of GVA by residence or workplace. This makes a significant difference to the relative performances of London and the South East and East economies because of commuter flows into London.

1999	North East	North West	Yorks. & Humber	East Mids.	West Mids.	East	London	South East	South West
<b>Residence based</b> (GVA, £ per head)	10,024	11,273	11,404	12,146	11,900	15,094	16,859	15,098	11,782
<b>Workplace based</b> (GVA, £ per head)	10,024	11,273	11,404	12,146	11,900	13,438	18,979	14,296	11,782

Source: *The nine English RDAs, RRD25(a)*

### GDP deflators

42. Gross Domestic Product per head figures are being compared across regions at current prices.<sup>63</sup> This does not take account of differences in prices between regions. The ONS explained that because of the limitations of the data, Government departments using this information are implicitly making incorrect assumptions that prices are constant across regions.<sup>64</sup> The Government has now begun to look at this problem with the work of Christopher Allsop of the Bank of England Monetary Policy Committee, who is reviewing regional statistical information needs, amongst other things.<sup>65</sup> He is considering the option

<sup>58</sup> Mr Cook, Q374

<sup>59</sup> Ruth Kelly, Q911

<sup>60</sup> Mr Cook, Q369

<sup>61</sup> South West Regional Assembly, RRD20(v)

<sup>62</sup> Mr Cook, Q366

<sup>63</sup> PSA Target 2, *Technical Note*

<sup>64</sup> Mr McGinty, Qq376-377

<sup>65</sup> Ruth Kelly, Q910

of ONS developing regional price indices.<sup>66</sup> **We are concerned by the lack of regional GDP deflators. Without them the regional GVA per head figures are, in the Minister’s words, ‘rough and ready.’<sup>67</sup> This is not an appropriate standard for core performance indicators against Public Service Agreement targets.**

**Census 2001**

43. In addition to the concerns about regional GVA data, outlined above, there are concerns about the population data arising from the 2001 Census. The 2001 Census produced a population estimate for England 858,300 people lower than the mid-year population estimate for 2000.<sup>68</sup> The Office for National Statistics argued that most of the fall in population has arisen because they underestimated the number of people leaving the country between 1991 and 2001.<sup>69</sup> They also admit that populations were in fact over-estimated in the 1991 Census.<sup>70</sup> This latter explanation is accepted by some of the councils that have seen above average changes in population between the 2000 mid-year estimates and 2001 Census.<sup>71</sup> However, approximately 20 councils<sup>72</sup> which have seen very dramatic reported falls in population argue that this does not explain their situation and that the 2001 Census has in fact underestimated their population.<sup>73</sup>

44. A number of affected councils have been comparing the outcome of the Census with other sources of information about local population. For example, Middlesbrough Council compared the outcome of the number of children identified by the Census with child benefit claimants.<sup>74</sup> Manchester compared pension data with the number of elderly people in the Census.<sup>75</sup> Across the UK as a whole, there is close correlation between these figures but there is a significant variation between local authorities.

	Across the UK	Differences between individual local authorities
Pensions	Census figure for pensioners is 1.3% higher than the corresponding pensions data.	Range across local authorities—3% lower to 30% higher
Child Benefit	Census figure for children is 0.9% higher than the number claiming child benefit	Range across local authorities—7% lower to 51% higher

Source: ONS, RRD60(ii)

The ONS has identified that there is “a need for a stronger basis for joined up population statistics,” and the National Statistician said that he will be “discussing the way forward

<sup>66</sup> Mr McGinty, Q377

<sup>67</sup> Ruth Kelly, Q911

<sup>68</sup> Memorandum from the Office for National Statistics, HC1289-I, Treasury Sub-committee, Minutes of Evidence, Wednesday 30 October 2002, 2002-03

<sup>69</sup> Mr Cook, Q315

<sup>70</sup> Mr Cook, Q344

<sup>71</sup> for example Canterbury City Council , RRD42

<sup>72</sup> Mr Pullinger, Q350

<sup>73</sup> Southend-on-Sea, RRD52

<sup>74</sup> Middlesbrough Council, RRD40(b)

<sup>75</sup> Manchester City Council, RRD41

with colleagues” in the coming weeks. **There is an urgent need to improve the alignment between different sources of population data. We recommend that in the small number of authorities where there remains a dispute between the council and ONS about the size of the population, following the 2001 Census, a data matching exercise should be undertaken by an independent third party. This should be completed in time to feed into next year’s local government finance settlement and ONS should be bound by the result.**

45. The Government has admitted that ONS does not have complete information on the number of Census forms delivered, as the Field Management Information system used to gather the information “proved unreliable” and the “data reported was of poor quality.” Similarly the ONS does not know how many follow-up visits were made by enumerators.<sup>76</sup> **It is astonishing that the Office of National Statistics does not know how many Census forms were delivered and it was naïve not to have subjected the system to thorough testing. Data on the number of follow-up visits by enumerators should also be centrally held.**

46. The 2001 Census was the first Census not to include a question asking *Where were you on Census night?*<sup>77</sup> Recent Censuses have instead increasingly used data on the basis of what people consider to be their usual address. As our evidence identifies, there is little public awareness of this shift from an objective snapshot to a more subjective view of the respondent as to where he or she usually lives. For some people, for example army personnel and stable hands ‘usual residency’ may be a difficult judgement to make. Richmondshire District Council commented,

“We were alerted to the reasons for the undercount by a local enumerator who noted that many of the Census forms passing through her hands gave a home address other than Richmondshire. This is most likely due to ONS rules on ‘place of usual residency.’ These rules were adopted to give a One Number Census but unfortunately have produced a false impression of the military population in Richmondshire because many of the military present in Richmondshire would have been assigned to residence elsewhere. ONS have told us that anyone consulting the Census helpline would have been asked what address they felt was ‘their home.’”<sup>78</sup>

**The ONS assumes that people know that the Census is based on usual residency rather than where they were on the night.<sup>79</sup> This ignores years of custom and practice and unrealistically supposes that everyone reads their Census form in great detail before completing it. Specific attention needs to be drawn to this issue when the next Census is promoted.**

47. One of the reasons why the Census data is so important is that the population estimates feed into the local government finance settlement. Our report into Local Government Finance: Formula Grant Distribution concluded that,

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<sup>76</sup> HM Treasury, RRD50

<sup>77</sup> *The 1991 Census Users Guide*, Dale and Marsh, HMSO, 1993

<sup>78</sup> Richmondshire District Council, RRD35

<sup>79</sup> Mr Cook, Q323

“The Census has always been seen as one of the objective inputs to the local government finance settlement. The differences between the figures projected from the 1991 Census and the results of the 2001 Census have shifted the population figures into the sphere of contention.”<sup>80</sup>

48. The Parliamentary Under-Secretary of State said that ODPM might be prepared to use its power to make a retrospective correction to the local government finance settlement if ONS identified inaccuracies in the Census data.<sup>81</sup> **If inaccuracies are shown to have occurred in the 2001 Census, ODPM should revisit the Local Government Finance Settlement for 2003/04 so that no council loses out as a result of a badly run Census.**

49. **Clear and accurate information is essential for democratic decisions. Rebuilding confidence in the Office for National Statistics will be a long, slow process. Clear leadership and drive is now needed at the top of the ONS to restore confidence in it.**

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<sup>80</sup> Paragraph 16, *Local Government Finance: Formula Grant Distribution*, HC164-I, First Report of the ODPM: Housing, Planning, Local Government and the Regions Committee, 2002-03

<sup>81</sup> Mr Leslie, Q924

### 3 Creating the fundamentals for growth in the less prosperous regions

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50. Over the next twelve months, the Government will decide what measures it needs to take to achieve this target. The memorandum by the Yorkshire and Humberside Assembly and Yorkshire Forward said,

“To make the step-change required by the Government’s target to ‘reduce the persistent gap in growth rates between regions’ to which we are committed will require much more significant action than that undertaken to date.”<sup>82</sup>

51. This section of our report looks at the bold and radical changes in policy and funding that need to be made for this ambitious target to be achieved:

- in central Government’s overall policy to the regions;
- to the level and type of investment available to the less prosperous regions to put in place the fundamentals for future economic growth; and
- in the flexibility available to each region.

**Although this is a long term target (the Government aims to reduce the gap in growth rates between 2003 and 2012), actions are needed in the short to medium term to put in place the foundations for economic growth in the less prosperous regions.**

#### Pull factors

52. The less prosperous regions have grown more slowly than the greater south east for a long time. This suggests that the greater south east regions have relative strengths compared to the other regions, which have enabled this differential to persist.

“Each region is working to build on its strengths so regions that are already strong are likely to improve more quickly than those that start from weaker positions. This tends to reinforce the concentration of activity in the successful regions.”<sup>83</sup>

53. Reducing the gap in prosperity means reducing the differences in these underlying strengths. There appear to be two ways to do this—make the greater south east less attractive or make the other regions more attractive. **The Government has refused to constrain the growth of the south east. Given the Government’s stance, the only way in which the gap between regions can be reduced is to make conditions in the less prosperous regions more conducive to business growth—what the IPPR described as increasing the ‘pull factor.’**<sup>84</sup> At the moment, our evidence suggests quite the opposite—that much Government policy is, inadvertently, acting against the interests of the less prosperous regions.

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<sup>82</sup> Yorkshire Humber Assembly and the Yorkshire Forward, RRD22

<sup>83</sup> North East Assembly, RRD09

<sup>84</sup> Institute for Public Policy Research, RRD26

54. These ‘pull’ factors are things which approve the attractiveness of the currently less favoured regions, thereby reducing the comparative advantage of the greater south east. This might include things such as infrastructure, external image and internal confidence and a number of improvements to the productive capacity of a region include the skills base and its capacity for research and development.

### ***Sustainability***

55. It is worth stressing at this stage the importance of ensuring that the approach to improving the conditions of the less prosperous regions is sustainable. English Nature commented that sustainability is all too often an after thought.<sup>85</sup> A ‘nice environment’ is in itself a pull factor.<sup>86</sup> Even more importantly, a new approach to sustainability is needed, so that decision makers do not need to make a trade-off between economic and environmental factors on a particular scheme but instead economic strategies are underpinned by sustainability.<sup>87</sup> **Sustainability needs to be at the heart of, not an afterthought to, regional policy.**

56. A sustainable approach to regional development would take account of the differing pressures on resources across the country,

“There is a danger that in seeking to accommodate the high level of development pressure in the south and south east of England in particular, this will create a cycle of a continually deteriorating physical environment, overcrowding, and increasing Government investment and resources being mopped up in seeking to provide transport, infrastructure, housing and support for key workers. This support will only serve to firefight rather than tackle the problem in the long term. At the same time it is likely to further accelerate depopulation from deprived areas in poorer regions—in turn requiring Government resources to address the problems that creates. Spreading development across the regions would be far more sustainable in that it will reduce ‘overheating’ in the more prosperous regions and stimulate development in those which are less prosperous.”<sup>88</sup>

## **Government policies towards the regions**

### ***Regional Policy***

57. The Government recently listed programmes which are either “set with a significant degree of regional discretion over its use” or “specifically targeted at deprived communities within regions.” The programmes identified were funding for the RDAs, New Deal for Communities, the National Strategy for Neighbourhood Renewal, England Rural Development Programme, Regional Selective Assistance, the Government Office for the

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<sup>85</sup> English Nature, RRD54

<sup>86</sup> Ms Ward, Q540

<sup>87</sup> Ms Ward, Q541

<sup>88</sup> Yorkshire and Humber Assembly and Yorkshire Forward, RRD22

Regions and the Structural Funds.<sup>89</sup> **Disappointingly, the Government could not provide a regional breakdown of expenditure on programmes targeted at regions.**<sup>90</sup>

58. Yorkshire Forward noted that expenditure by the RDA makes up less than 0.5% of regional GDP and only 1% of Government spending.<sup>91</sup> Although important, the resources available through explicit regional policies are nowhere near adequate to overcome the comparative advantages of the south east. The memorandum from the nine English RDAs (who are charged with delivering this target) observed,

“RDAs will look to maximise economic performance. However, given diverse regional economic bases and assets that exist, it is inevitable that better performing regions have considerably higher targets than the less well performing. While individual RDAs will attempt to reduce the disparity gap, it seems likely that stronger regional economies will have a comparative advantage, thereby making such a reduction unlikely within the context of the existing national policy framework, certainly in the short term.”<sup>92</sup>

**Regional programmes alone will not be sufficient to reduce the gaps between regions.**

### ***Regional policy-making across Government***

59. Professor Harding argued that more attention should be given to the consequences of other Government activities on the regions,

“The much broader range of ‘implicit regional policies,’ that have an impact upon regional development prospects. The resources flowing into regions through the latter—e.g. spending on education, transport, housing, health, the arts, culture, sport, business support and research and development—dwarf those administered by regional agencies.”<sup>93</sup>

**The actions of a wide range of Government departments will affect the chances of the target being met. Tackling regional disparities should be a responsibility across Government departments, not simply those departments with traditional responsibilities for the economy and regional policies—“mainstreaming” regional policy.**

### ***Spending Reviews***

60. Our evidence suggests that there is currently limited consideration of the regional dimension to policies by other Government departments. ODPM and the Cabinet Office recently published a report which aims to improve regional input to the central Government policy process. It makes fairly depressing reading about the current level of responsiveness to issues within the regions amongst some Government departments,

<sup>89</sup> Page 7, *A Modern Regional Policy for the United Kingdom*, DTI / ODPM / HM Treasury, 2003

<sup>90</sup> ODPM, RRD07(c)

<sup>91</sup> Mr Riordan, Q65

<sup>92</sup> English Regional Development Agencies, RRD25

<sup>93</sup> SURF Centre, RRD16

“The impact of different departmental cultures remained crucial in determining how effectively they engaged with regions. Departments that in the past had a good working relationship with regional offices have maintained and developed it. Listening to regional views has been more of a challenge in departments where policy making has traditionally been nationally defined.”<sup>94</sup>

61. The Treasury sees its role in helping to deliver the target as being to increase the regional dimension to wider Government policy, in particular through the Spending Reviews.<sup>95</sup> The 2002 Spending Review was intended, for the first time, to take account of regional issues, following a consultation process that involved the RDAs and Government Offices for the Regions. As a result, Chapter 23 of the 2002 Spending Review made reference to promoting the economic growth of all regions and contains measures such as improved funding for innovation and skills development in all regions. For example, the section on transport states, “Every region will also benefit from projects funded by the Strategic Rail Authority’s Rail Performance Fund” (our emphasis).

62. There is however little mention of measures to reduce differences between regions. For example, there is no suggestion that additional powers or resources be introduced that would be of benefit to the economic development of only some regions. There was certainly no consideration whether some of the policies introduced for the benefit of all regions might in fact be more relevant to the more prosperous regions. The Chairman of the South West Regional Assembly said that he did not notice a regional dimension to the outcome of the 2002 Spending Review.<sup>96</sup>

63. The sole exception to this is housing policies. The Deputy Prime Minister’s Communities Plan which proposed resources for additional housebuilding in the southern regions and housing market renewal in the northern regions explicitly acknowledges differences between regions. However, we received evidence from the IPPR that such interventions might, in fact, compound the problem of regional disparities.<sup>97</sup>

**64. We welcome the Government’s commitment to introduce a regional dimension to the Spending Review. Like much of the Government’s ‘regional policy,’ this has got as far as acknowledging the existence of regions and contains proposals for the benefits of all regions. It needs now to go beyond this and consider how the effects of policies will vary across regions and whether different measures are appropriate in different regions.**

65. As our adviser Professor Kevin Morgan has commented,

“Treating unequals equally is hardly a recipe for promoting equality.”<sup>98</sup>

The LGA added,

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<sup>94</sup> Page 9, *Incorporating Regional Perspectives into Policy-Making Report*, Cabinet Office / ODPM, 2002

<sup>95</sup> Ruth Kelly, Q885

<sup>96</sup> Cllr Hanney, Q473

<sup>97</sup> Mr Taylor, Q25

<sup>98</sup> *The English Question: Regional Perspectives on a Fractured Nation*

“Government’s policy on RDAs appears to adopt the perspective of treating unequal regions ‘equally’ and doesn’t take into account the national target of reducing the disparities between them.”<sup>99</sup>

66. The Parliamentary Under Secretary at ODPM said that the policies to implement the PSA target would include,

“having extra support and extra initiative to make sure that those regions that perhaps have poorly performed historically get that extra help and support in order that they can speed up that growth rate.”<sup>100</sup>

Yet there is little evidence from the 2002 Spending Review that policies are being designed expressly to improve conditions in the less prosperous regions. **To reduce differences, emphasis must be given to the less prosperous regions. Treating unequal regions equally is not a recipe for reducing disparities.**

### *Floor targets*

67. A number of Government departments have ‘floor targets.’ Floor targets promote a minimum standard for the disadvantaged groups or areas, or a narrowing of the gap between them and the rest of the country.<sup>101</sup> The Government consultation document, *A Modern Regional Policy for the UK*, describes the following floor targets as having an implicit or explicit regional dimension:

- the Office of the Deputy Prime Minister’s target to achieve a better balance between housing availability and the demand for housing in all English regions;
- the Department of the Environment, Food and Rural Affairs’ target to reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006;
- the Department for Education and Skills’ target to improve adult skills;
- the Department for Culture, Media and Sport’s target to improve the productivity of the tourism, creative and leisure industries;
- the Department for Work and Pensions’ target for increasing the employment rates of disadvantaged areas;
- the Department of Trade and Industry’s target to improve innovation;
- the Department of Health’s target to reduce inequalities in health outcomes by 2010.

**Interestingly, the Department for Work and Pensions didn’t think that its floor target had a regional dimension,<sup>102</sup> although the Secretary of State for Trade and Industry said**

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<sup>99</sup> Local Government Association, RRD27

<sup>100</sup> Mr Leslie, Q897

<sup>101</sup> A full list of floor targets is contained in ODPM’s Technical Note, 2002

<sup>102</sup> Mr Judge, Q799

that it did.<sup>103</sup> Similarly, the Department of Health does not view its targets as being regionally focused<sup>104</sup> and the regional dimension to its operations is being reduced.<sup>105</sup> This is disappointing as it works against any ‘mainstreaming’ of regional policy.

### The role of public investment in reducing disparities

68. At a national level, the Government sees a link between public expenditure and improving productivity. The 2000 Spending Review stated,

“Individual spending programmes also have a considerable contribution to the Government's productivity goal. Government spending has important effects on productivity and sustainable economic growth by enabling markets to function effectively in the public interest.

The contribution of spending programmes takes place at four levels:

- improving the basic resources of the economy: the infrastructure and the skills of the labour force;
- improving the way technology brings together those resources to create products and services;
- enhancing the enterprise and competition that drives the markets in which those products and services are sold; and
- in addition, public services themselves account for about a fifth of the real resources of the economy. Programmes for more efficient public services therefore also have a direct and significant impact on the productivity of the economy as a whole.”<sup>106</sup>

In this section we consider how those ‘basic resources of the economy,’ the building blocks of economic growth can be improved in the less prosperous regions to enhance their economic capacity.

### The total allocation of Government funding to the regions

69. The Government has commissioned a review of the flows of public expenditure into the regions, which was due to report to Ministers in May 2003. The terms of reference of the study are to,

- Identify the form and level of public expenditure (domestic and European) flowing into the English regions; and
- Identify—for each expenditure flow—what determines the level of that expenditure.<sup>107</sup>

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<sup>103</sup> Ms Hewitt, Q831

<sup>104</sup> Dr Kirkup, Q800

<sup>105</sup> Dr Kirkup, Q804

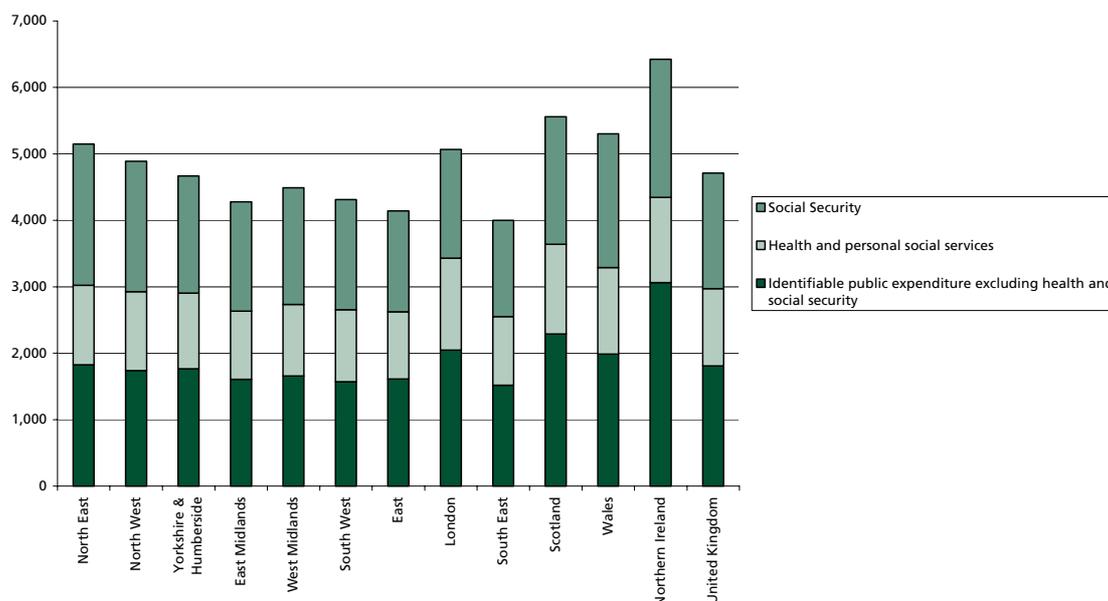
<sup>106</sup> Chapter 5, *2000 Spending Review*, HM Treasury, 2000

<sup>107</sup> ODPM, RRD07(b)

ODPM’s study is considering both the location of expenditure (spending ‘in’ the regions) and the location of benefits arising from it (spending ‘for’ the regions). So for example, money spent on health care occurs ‘in’ a region and is ‘for’ the benefit of the residents of that region. Money spent on transport infrastructure by contrast may be ‘in’ one region but its benefits could be ‘for’ the residents of several regions.<sup>108</sup> The Treasury Sub-Committee has also taken evidence on *Regional Spending*. **The Government should publish Professor McLean’s study into the flow of public expenditure to the regions by the end of July 2003.**

70. The graph below, taken from the Public Expenditure Statistical Analyses (PESA) shows total ‘identifiable’<sup>109</sup> Government funding in each of the UK nations and regions. Despite recent concerns about the quality of the data on regional expenditure contained in the PESA tables,<sup>110</sup> the Parliamentary Under Secretary of State said that he was satisfied with the systems used to record public expenditure in the regions.<sup>111</sup>

**Chart 5: Allocation of identifiable expenditure by region and country (£ per head), 2000-01**



Source: Public Expenditure Statistical Analyses 2002-03, HM Treasury/ONS 2002, Tables 8.6 and 8.12.

71. There has been much debate about whether the current allocation of funding between the nations and regions of the UK is appropriate. The Treasury Committee carried out an inquiry into the Barnett formula (which allocates increases in public expenditure across the

<sup>108</sup> Mr Leslie, Q988 and ODPM, RRD07(b)

<sup>109</sup> Non-identifiable expenditure, i.e. that which is considered to be of benefit to the country as whole, not any particular region includes defence expenditure, payments to the EU, the security services, the cost of Parliament, etc. The full list is set out on page 97, *Public Expenditure Statistical Analyses 2002-03*, HM Treasury / ONS, 2002

<sup>110</sup> English Regional Development Agencies, RRD25(a) and Professor McLean, Q16, *Regional Spending*, Treasury Select Committee, 3 July 2002

<sup>111</sup> Mr Leslie, Q988

UK nations) in 1997/98 and concluded that there was insufficient evidence that total expenditure, not just increases, was allocated in accordance with need.<sup>112</sup>

72. Professor McLean of Oxford University, who is carrying out the expenditure mapping study for ODPM, has written in a recent academic article,

“Almost all Governments, when they distribute the proceeds of centrally raised taxes to the localities to spend, do so under some sort of equalisation arrangement so that the poor areas get more per head and richer areas get less ... Therefore there should be ... a strong inverse correlation between GDP per head and non-social-security spending per head.”<sup>113</sup>

The chart below shows total identifiable Government funding per head (excluding social security) and GDP per head in each of the UK nations and regions. McLean and McMillan argue that there would be a fairly strong inverse correlation between GDP per head and public spending per head in the UK if the three outlying territories—Northern Ireland, Scotland and London—were removed.<sup>114</sup> The six least prosperous English regions (and Wales) have lower GDP per head than Scotland and lower public expenditure per head.

**Chart 6: Scatter Plot of Per Capita Public Expenditure and GDP: UK Regions and Territories, 1999-2000**



Source: *The Distribution of Public Expenditure Across the UK Regions*, McLean and McMillan, 2003

<sup>112</sup> *The Barnett Formula*, HC341, Second Report, Treasury Committee, 1997/98 and HC619, Fourth Special Report, Treasury Committee, 1997/98

<sup>113</sup> *The Fiscal Crisis of the United Kingdom*, McLean and McMillan, Nuffield College Working Papers in Politics, 2002

<sup>114</sup> Page 48, *The Distribution of Public Expenditure Across the UK Regions*, McLean and McMillan, Fiscal Studies 24, 2003

73. The effects of the allocation of funding between the nations and regions of the UK are profoundly felt in the North East. Councillor Flynn, Chairman of the North East Regional Assembly observed,

“Scotland is so close to our borders and if you just go to Berwick and cross over the road into Scotland you see a totally different level of funding.”<sup>115</sup>

There is growing discontent in England about the allocation of funding between the nations and regions of the UK.<sup>116</sup> In their submission to us Yorkshire Forward and the Yorkshire and Humber Assembly said,

“What is crucial to closing the gap between Yorkshire and Humber and the best performing regions in the UK is a fundamental reassessment of how mainstream public funding is allocated. We recommend that the aim of reducing current regional disparities should be at the heart of a new approach to allocating funding.”<sup>117</sup>

74. Professor McLean has recently commented,

“The only way to meet Lord Barnett’s complaint that the present arrangements are ‘terribly unfair’ is to use the same formulae to distribute grant to both the devolved and non-devolved territories of the UK.”<sup>118</sup>

**75. Increased public funding to the less prosperous regions is a necessary condition to improve their prosperity. The allocation of public funding to the nations and regions of the UK does not reflect 21st century patterns of need across the country. We recommend that the Government reviews the total allocation of funding to all parts of the UK, including the Barnett formula, as part of the post-devolution constitutional settlement.**

### ***Productive expenditure***

76. A useful distinction when considering the regional distribution of public expenditure, not considered by the ODPM study, is Professor Harding’s split between productive and non-productive expenditure.<sup>119</sup> Productive expenditure includes items like transport, education and cultural expenditure which increase economic activity. Conversely expenditure programmes like social security have no productive effects—they are simply transfer payments. As Chart 5 shows, such transfer payments which “support failure” make up a significant proportion of total public funding to the less prosperous regions.<sup>120</sup> Ideally, improvements in regional prosperity will result in a fall in transfer payments to a region.

77. It is “productive” expenditure by Government, e.g. spending on transport, culture and science, that is most important to put in place some of the fundamentals for economic

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<sup>115</sup> Cllr Flynn, Q214

<sup>116</sup> The Campaign for English Regions, RRD24

<sup>117</sup> Yorkshire Humber Assembly and the Yorkshire Forward, RRD22

<sup>118</sup> *The Distribution of Public Expenditure Across the UK Regions*

<sup>119</sup> Professor Gripaios, Qq425-426

<sup>120</sup> Cllr Flynn, Q203

growth, creating a more level playing field between regions. Yet many decisions about productive expenditure are made without consideration of their regional impacts, inadvertently resulting in adverse consequences to the less prosperous regions. The memorandum from the University of Newcastle said,

“The national procurement decisions of government can have highly uneven regional effects. In the defence sector procurement decisions are made to meet value for money concerns of HM Treasury and the National Audit Office but they have regional industrial policy implications, in general favouring the south. More generally, the government’s sponsorship of R&D massively favours the South East of England. Many government policy decisions are made without an assessment, evaluation or even awareness of the likely regional impacts. This is likely to have a bearing on the prospects for meeting the government’s target. In England prospects for development in lagging regions are partly dependent on decisions made by a plethora of national government bodies, which spend large amounts of public money but whose activities are rarely coordinated at the regional level. On the contrary, these organisations have an explicitly national mission, which can conflict with regional priorities.”<sup>121</sup>

### *Public sector research and development*

78. In a paper for the DTI, Professor Michael Porter of Harvard Business School commented that levels of public sector investment in research and development (R&D) across the UK are very low,

“The UK has in the recent past invested less public sector money into R&D than most other advanced economies. And over the last decade, the UK’s position on public R&D spending relative to GDP has worsened. Recent policy changes have started to address this and the government budgets for the next few years register a significant ramping up of public sector R&D spending.”<sup>122</sup>

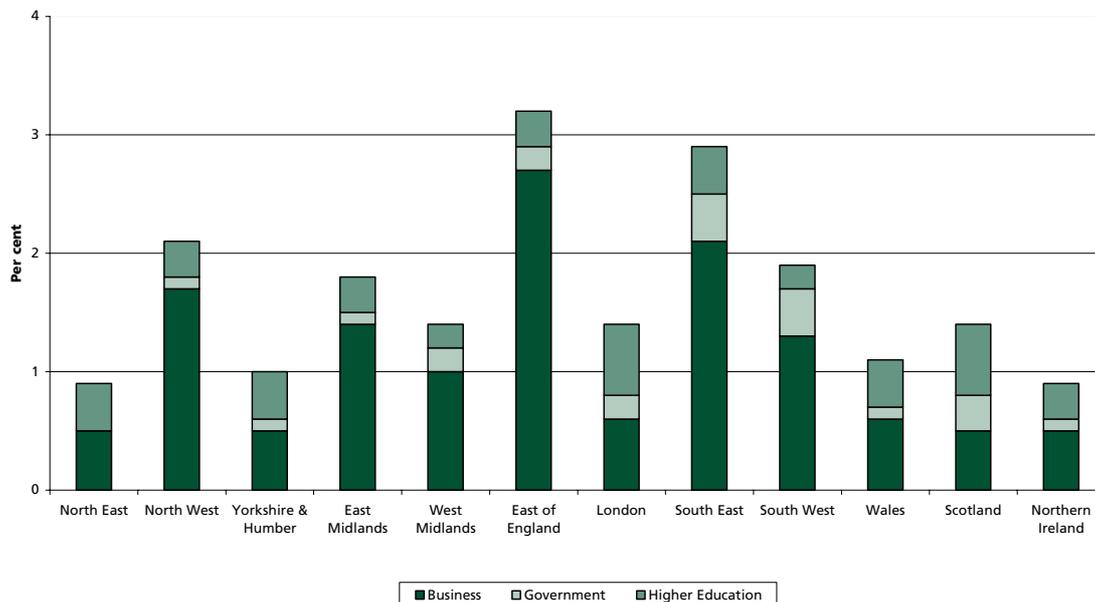
79. The graph below shows the differences between the UK nations and regions in terms of the percentage of gross domestic product spent on R&D by the public sector, the universities and the private sector.

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<sup>121</sup> Centre for Urban and development Studies, RRD21

<sup>122</sup> Page 22, *UK Competitiveness: Moving to the Next Stage*

Chart 7: Regional Expenditure on R&amp;D as a proportion of GDP by source of funding in 1999.



Source: *Productivity 3: The Regional Dimension, DTI/Treasury, 2001*

**If public sector investment in research and development in the UK as a whole is low, then the North East's share is pitiful and the North West, Yorkshire and Humberside and the East Midlands do not do much better.**

80. Investment in R&D by the public sector in England was £1,816 million in 2000 (12% of the total).<sup>123</sup> Approximately 40% of this is spent by the Ministry of Defence<sup>124</sup> (and almost 15% of R&D expenditure by the private sector was also on defence<sup>125</sup>). Surprisingly, given that a breakdown of total government R&D expenditure by region is available, the Ministry of Defence was unable to tell us how much it invests in R&D in each region.<sup>126</sup> The Ministry of Defence told us that it does not take any account of regional economic effects when making decisions about R&D.<sup>127</sup>

81. John Hacking of the Manchester Joint Health Unit argued for a gradual equalisation of research and development expenditure across the regions by the National Health Service—this would allow the development of at least one internationally acknowledged centre of research excellence in each region.<sup>128</sup> Public sector research and development is important because it brings direct economic activity, helps to develop capacity in this way and sends a clear signal to the private sector.<sup>129</sup>

82. The Secretary of State for Trade and Industry recognised the problem of uneven distribution of public sector R&D spend but said that the solution is outside of her control,

<sup>123</sup> *Economic Trends*, ONS, 2002

<sup>124</sup> Mr Lewitt Q639

<sup>125</sup> Table 9, Research and Experimental Development Statistics 2000, *Economic Trends*, ONS, 2002

<sup>126</sup> Mr Lewitt, Q642

<sup>127</sup> Mr Lewitt, Q644

<sup>128</sup> John Hacking, RRD65

<sup>129</sup> Yorkshire Humber Assembly and Yorkshire Forward, RRD22

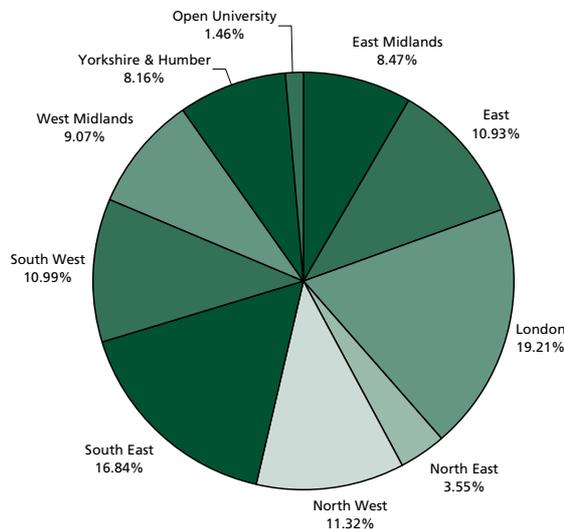
“We do recognise there is a disparity and we are certainly looking at it ... I am not pretending we have a solution or there is a magic wand we can wave over allocations that have been built up over the last decade or more to suddenly switch them to give other regions a greater chance ... New allocations is one of the issues that we have to look at with each Government department, this is not something we control out of DTI.”<sup>130</sup>

**Professor Michael Porter argues that increases in public sector R&D are needed to improve the economic performance of the UK. The same argument applies at the regional level. The location of public sector R&D investment is outside of the control of the departments that share the PSA target. All Government departments should therefore be required to consider regional impacts before making new R&D investment decisions and to publish regional impact assessments.**

*Research and development in universities*

83. As Chart 7 shows, the universities are also significant investors in R&D. Of the Higher Education Funding Council for England’s (HEFCE) annual budget of £5.5 billion,<sup>131</sup> £1 billion is spent on R&D.<sup>132</sup> This expenditure follows existing patterns of academic success. HEFCE’s discretionary expenditure, which is able to take account of regional economic development issues, the Higher Education Innovation Fund (HEIF) is tiny (£180 million<sup>133</sup>) by comparison and is spent in all regions. Even HEIF is concentrated in the more prosperous regions, as shown below.

**Chart 8: Higher Education Innovation Fund Allocations by Region, 2001/02 - 2003/04**



Source: HEFCE, RRD 63(a)

<sup>130</sup> Ms Hewitt, Qq855-857

<sup>131</sup> Mr Thirunamachandran, Q611

<sup>132</sup> Mr Thirunamachandran, Q616

<sup>133</sup> Mr Noyce, Q610

**The proportion of investment in research and development by universities which can be allocated using regional economic development criteria should be increased. HEFCE should use such funds to prioritise the development of research capacity in regions which are currently at a disadvantage in terms of higher education R&D spend.**

84. It is not enough simply to spend money on research and development in universities. A report by the TUC and the Work Foundation found,

“There is a problem in the UK, not because there is a paucity of good ideas but because there is an innovation gap between pure research and its commercial application. This gap is caused by the traditional arms length relationship between business and universities.”<sup>134</sup>

85. Effort is therefore needed to ensure that the benefits of university R&D are transferred into the local economy, into spin-off companies and local firms. The Government has recently launched two relevant studies:

- Richard Lambert former editor of the Financial Times has been asked by the Treasury and DTI to examine the national, regional and local economic impacts of business-university interactions, including how regional development agencies and learning and skills council can best support such interactions.<sup>135</sup> and
- Sir Tom McKillop (as chair of the first Regional Science and Industry Council) is to work with the Regional Development Agencies to ensure that best practice in promoting innovation and knowledge transfer is shared and spread rapidly between the regions.<sup>136</sup>

The House of Lords Science and Technology Sub-Committee II is also considering *Science and the Regional Development Agencies*. **We welcome the Government’s announcement of reviews of the links between universities, industry and the RDAs and look forward to practical measures being implemented as a result, targeted at the less prosperous regions.**

### *Culture and sport*

86. Cultural and sporting projects are hugely important in improving the ‘pull factor’—they raise regional confidence, improve a region’s image and help to create a critical mass. Very important within this are ‘icon projects’<sup>137</sup> and major sporting events. The LGA said,

“It should be remembered that the best successes in challenging stereotypical perceptions have been developed around approaches which have emphasised distinctiveness, such as the Newcastle / Gateshead Millennium Bridge, Manchester’s

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<sup>134</sup> Page 31, *Networking Know-How*, TUC / Work Foundation, 2002

<sup>135</sup> 2002 Pre-Budget Report, HM Treasury, 2002

<sup>136</sup> Chapter 3, Budget Report 2003, HM Treasury 2003

<sup>137</sup> *Regional Economic Strategy for the South West*

approach to hosting the Commonwealth Games or Birmingham’s redevelopment of the Bull Ring.”<sup>138</sup>

87. We heard about the Eden Project in Cornwall from Cornwall County Council,

“It is of major significance to the county repositioning itself, getting its confidence back, having something which is a tremendous success we are all proud of. It has got six hundred full-time jobs. It is a tremendous economic regenerator for the whole county.”<sup>139</sup>

88. In the North East we visited the Quayside in Newcastle and Gateshead, where a number of major cultural projects are being developed. They,

- “- Form significant attractions for tourism and inward visitor investment;
- act as amenity value forming part of the necessary infrastructure of a modern region; and
- increase the region’s image and awareness in the national and international consciousness.

While the creative industries are not unique in any of these roles, they combine these multiple roles to an extent that no other activities do.”<sup>140</sup>

89. These particular icon projects have been successful because not only do they serve an important purpose in enhancing the region’s image, and engendering pride amongst residents, they have also been embedded in the region’s economy. The Eden project, for example, has not only increased the number of tourists to Cornwall; we were told that it has also invested in the development of its staff and promoted university links.<sup>141</sup> Similarly, the development of the cultural quarter on Quayside in Newcastle / Gateshead is not simply a capital project—it is the centre of an initiative to promote the arts and creativity throughout the North East.<sup>142</sup> The Culture, Media and Sport Committee has looked at a number of important icon projects including the *Commonwealth Games* and the *Wembley National Stadium*.

**90. Cultural and sporting projects can make a huge difference to a region’s image, confidence and economy. Those making decisions about the location of major projects should take full account of the consequences of their decision on the target to reduce regional disparities and publish their assessment. As the Commonwealth Games in Manchester showed, decisions to locate the national football stadium and other icon projects in London represent a wasted opportunity to develop the less prosperous regions.**

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<sup>138</sup> CPRE, RRD29

<sup>139</sup> Mr Stethridge, Q522

<sup>140</sup> ONE North East, RRD61

<sup>141</sup> Mr Bayly, Q721

<sup>142</sup> Mr Lloyd, Q746

## Defence

91. We heard from the Ministry of Defence that the location of defence procurement and military bases affects the economy of surrounding areas. There is a range of estimates for regional employment multipliers in the defence industry between a value of one and two—i.e. for every direct job in defence production there are between one and two additional jobs supported through the supply chain.<sup>143</sup> When a decision is made to close a defence facility, a regional impact assessment is carried out.<sup>144</sup> Yet when positive decisions are made to spend money on defence procurement and open new facilities, the regional impact is not a significant factor.<sup>145</sup>

92. Even more surprisingly, the Government's study to map the flows of public expenditure into the regions is not taking account of the effects of defence expenditure on regional economies. The study undertaken by Professor McLean distinguishes between expenditure 'in' and 'for' the regions. Defence expenditure is treated as neither in nor for regions, it is instead described as 'non-identifiable,' meaning that all the benefits of defence expenditure are said to accrue to the UK as a whole.<sup>146</sup> **The treatment of defence expenditure as 'non-identifiable' when regional expenditure is mapped, fails to recognise the significant effects that it has on economies of towns where defence bases and equipment production are located.** As an example, the Ministry of Defence procurement function was located in Bristol in preference to the West Midlands.

## Transport

93. Looking at the productivity of the UK as a whole, Professor Michael Porter has recently argued in a paper for the DTI,

“Physical infrastructure emerges according to 2002 Global Competitiveness Report Survey data as the UK's most important weakness. The quality of railways ranks particularly low, but the port infrastructure, even the telecommunications infrastructure register as relative disadvantages. In all three areas, the UK's ranking has dropped by five or more places relative to other countries throughout the past five years. These weaknesses reflect the lower rate of public investment in the UK compared to other advanced economies over the last two decades.”<sup>147</sup>

94. Cornwall County Council described investment in transport as a necessary but not sufficient condition for regional economic growth;<sup>148</sup> in other words whilst the provision of transport does not guarantee economic growth, the lack of transport infrastructure can act as a block.<sup>149</sup> We heard arguments from the less prosperous regions that improvements to transport were needed at a number of levels to improve access to markets:

- locally, to improve people's access to jobs;

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<sup>143</sup> Ministry of Defence, RRD64

<sup>144</sup> Mr Lewitt, Qq 628-629

<sup>145</sup> Mr Lewitt, Qq632-635

<sup>146</sup> ODPM, RRD07(b)

<sup>147</sup> Page 21, *UK Competitiveness: Moving to the Next Stage*, Porter and Ketels, DTI Economics Paper No. 3, 2003

<sup>148</sup> Cornwall County Council, RRD06

<sup>149</sup> Mr Stethridge, Q508

- within the region, to increase access to opportunities and markets for businesses; and
- between regions, especially improving connections (in particular stabilising journey times) to London and the rest of the world.<sup>150</sup>

95. Despite this, we heard that the criteria used to make national transport decisions fail to take account of regional development issues. The Government Office for the North East told the Committee,

“There is certainly a feeling in the region that the way Government expenditure on transport is determined is very much led by congestion, particularly road congestion ... for the national schemes, the major upgrades of motorways, trunk roads, we are tied into an assessment process which is very much geared towards congestion. The more traffic you have, the more problems you have, therefore the better benefits you get when you put forward an improvement scheme.”<sup>151</sup>

96. Similarly in the South West,

“An important priority for the Regional Transport Strategy is to improve the long-distance rail network. However, there are concerns about the targets set by Ministers for the Strategic Rail Authority. These are national targets, focusing on increasing total passenger miles and freight tonnes. This could potentially disadvantage the South West, where the case for investment is based primarily on wider impacts on tourism and economic development, rather than increasing passenger numbers in absolute terms.”<sup>152</sup>

**The current criteria used for transport-decision making are weighted towards reducing congestion. Given the limited resources available, this means that resources are being spent on dealing with the consequences of success and are not available to put in place the fundamentals for economic growth in the less prosperous regions.**

97. In Germany, the Federal Government has explicitly addressed this dilemma. 90% of the transport budget is allocated on the basis of traditional cost/benefit analysis. The remaining 10% is reserved for allocation using criteria that consider its effect on reducing regional disparities.<sup>153</sup> **We recommend that the UK Government should adopt the approach used by the German Federal Government where a proportion of the transport budget is allocated on regional development grounds, rather than by the usual criteria.**

**98. Government investment decisions including transport, culture and sport, defence and research and development are made without consideration of their consequences on regional economies. As a result decisions have been made which have inadvertently had adverse consequences for the less prosperous regions. Significant public expenditure decisions by all Government departments should include a formal regional impact assessment and decision-makers should be obliged to consider whether or not investment will contribute to reductions in regional disparities.**

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<sup>150</sup> Mr Stethridge, Qq508-518 and RRD61

<sup>151</sup> Mr Johnson, Q154

<sup>152</sup> Page 117, *England State of the Regions*, Tomaney and Mawson eds., 2002

<sup>153</sup> Visit Note

## *Flexibility*

99. As well as looking at the level of funding available to the regions, the Chairman of the North East Regional Assembly argued that flexibility was needed across a wide range of programmes to ensure that solutions can be developed which respond to each region's needs. This happens north of the border, where the devolved administration is able to vary funding between programmes.

“Because within Scotland they can decide where that money is going to be allocated. The perceived need there is to allocate it for skills and give extra funding to provide classroom teachers at certain levels and that is seen as an improvement for the competitiveness of Scotland ... It is about the powers and how it is directed and a regional say about where that money should be directed. Obviously you have to work with the Central Government but it is money that is less targeted and decided on at a national level. It is more regional decision making about how that money should be spent ... There needs to be increased money but more say regionally about how that money is spent would be an improvement. Very often that money comes with Government targets to achieve certain things and we might question the value of money spent in that way if there was an opportunity for us to determine that regionally. We would argue for extra resources but more self-determination is the point I am trying to make.”<sup>154</sup>

100. Government Ministers have highlighted the importance of the RDA ‘Single Pot’ in increasing regional flexibility.<sup>155</sup> The Single Pot is Government funding allocated to the RDAs on the basis that they achieve an agreed list of targets, e.g. job creation, rather than RDAs being required to spend their funding through prescribed central government programmes, e.g. the Single Regeneration Budget (SRB). Such expenditure is however, marginal in terms of total Government expenditure in the regions. RDA budgets represent approximately 0.8% of identifiable public expenditure in the regions.<sup>156</sup> Of this 41% is already committed to inherited programmes.<sup>157</sup> This means that less than 0.5% of public funding to the region available to be flexibly allocated through the Single Pot. **The RDA’s Single Pot represents a very small proportion of Government expenditure in the regions. Genuine flexibility across a significant range of policies and programmes is needed in the less prosperous regions.**

## *Maximising local benefits from public investment*

101. The effect of public expenditure on local economies can be felt at three levels:

- a) **Direct effects**—direct expenditure or employment by the public sector;
- b) **Indirect effects**—employment and income generated in the local economy by the operation and procurements of the public sector; and

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<sup>154</sup> Cllr Fynn, Qq216-218

<sup>155</sup> Ms Hewitt, Q837

<sup>156</sup> English Regional Development Agencies, RRD25(a)

<sup>157</sup> English Regional Development Agencies, RRD25(b)

- c) **Induced effect**—the expenditure of those directly and indirectly employed on goods and services produced in the local economy.<sup>158</sup>

### *Direct public sector employment*

102. Direct expenditure has been considered above. The Government is also looking again at the location of direct public sector employment. In the 2003 Budget the Chancellor announced,

“The Deputy Prime Minister and I now propose that we examine not only the civil service but non-departmental bodies and other public services with the aim of achieving best value for money. Successful relocation out of London by private companies suggests public sector jobs transferred to regions and nations could exceed 20,000—to the benefit of the whole country. So today we are asking departments to submit updated workforce development plans and asking Sir Michael Lyons—Director of the Institute of Local Government Studies at Birmingham University—to advise with a view to decisions on relocation by the next Spending Review.”<sup>159</sup>

103. A commitment to move civil servants out of London does not mean that they will end up in the less prosperous regions of the country. Recent significant relocations such as the MoD procurement function’s collocation at Abbey Wood in Bristol and the Meteorological Office’s move to Exeter have both resulted in civil servants moving to places where the economy was already flourishing and the housing market strong. **We welcome the Government’s commitment to review the number of civil servants based in London. This will however only contribute to a reduction in the gap between regions if they move to the least prosperous parts of the country. The Government may find it very hard to persuade relatively low paid public sector workers to move out of London if it abolishes national pay scales at the same time.**

### *The indirect effects of public expenditure*

104. Public sector bodies have significant procurement budgets. Local procurement can significantly reduce the ‘leakage’ of funding from the regions. A recent study by the King’s Fund looked at the potential role that the NHS’s purchasing power could play,

“The NHS has substantial power as a purchaser—it spends about £11 billion a year on goods and services. Its purchasing policy could influence health and sustainable development by encouraging local suppliers and helping to regenerate and support the economies of disadvantaged neighbourhoods.”<sup>160</sup>

105. We were told how decisions to purchase locally are limited by European procurement rules. However some councils work with local businesses to develop their capacity to tender for public sector contracts.<sup>161</sup> Improving local well-being is of direct concern to

<sup>158</sup> Ministry of Defence, RRD64

<sup>159</sup> HC Deb Col 280, 9 April 2003

<sup>160</sup> *Claiming the Health Dividend: Unlocking the Benefits of NHS Spending*, King’s Fund, 2002

<sup>161</sup> Mr Lloyd, Q767

councils. National bodies in other parts of the public sector have no such interest and where Government departments and agencies do not have a regional focus they are less likely to be concerned with the development of local supply chains.<sup>162</sup> **Where money is allocated to the regions to reduce regional disparities, it is very important that it is spent and kept within those regions to maximise multiplier effects.**

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<sup>162</sup> Dr Kirkup, Q804

## 4 Policies and interventions to tackle unemployment and promote growth

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106. In the previous section we considered the importance of the whole range of central Government policies and funding streams in creating the fundamental conditions for economic growth in the less prosperous regions. In this section we look at the more traditional areas in which Government intervenes to promote economic growth including measures to tackle unemployment, develop skills, promote indigenous business growth, and increase innovation. We also look at the role of the cities and rural areas, and Government proposals for the reform of the European Structural Funds. The recommendations in this section will not be enough on their own to close the gap between regions but should be undertaken together with the fundamental investment described in the previous section.

### Tackling unemployment

107. The Treasury's approach to reducing unemployment focuses on the 'supply-side' of the economy. In other words, interventions aim to reduce the barriers to accessing markets. In the labour market, the emphasis is on identifying and addressing the problems faced by long-term unemployed people when returning to work, for example ensuring that their skills are brought up to date through training, or trying to improve their confidence for job interviews. The New Deal is a good example of such interventions.

108. This emphasis on the supply-side has been criticised on the grounds that it is more appropriate in some parts of the country than others (an example of a 'one size fits all' policy). Academic research, such as a recent study into the New Deal for Young People has suggested significant regional variations in the New Deals' effectiveness—it has been less successful at getting young people into work and keeping them there in cities and regions with low levels of employment growth and demand for labour. It found that:

- the proportion of jobs attained and retained for 6 months has been highest in southern and central England and lower in northern England, Cornwall, Wales and Scotland; and
- the churn rate of young people who go through the New Deal and then return to benefits has been highest in northern industrial areas such as Newcastle, Tayside, Sheffield and Barnsley; and in some coastal areas.<sup>163</sup>

109. The IPPR argues that in some parts of the country, the lack of job opportunities means that the New Deal will not work without additional demand-side (i.e. job creation) measures.<sup>164</sup> Peter Robinson told us,

“I think the Government would explicitly deny that there is any difference in the employment problem across the UK's regions. “There is no difference between

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<sup>163</sup> *The Geography of Workfare: Local Labour Markets and the New Deal*, Sunley and Martin, 2002

<sup>164</sup> Institute for Public Policy Research, RRD26

jobseekers in Hackney and jobseekers in Hartlepool.’ We think that is the one element of the Government’s analysis that does need to be challenged.

“The basis for challenging that is to recognise that Hackney as a deprived London borough has a concentration of individuals with a range of disadvantaging circumstances that create barriers to those individuals finding jobs in the wider metropolitan labour market, but there may well be a lot of employment opportunities in the wider metropolitan labour market. What we need to address the problems of the residents of Hackney is the battery of supply side measures that the Government has already evolved over the last few years in terms of helping people to find work programmes aimed at specific problems. Like the New Deals in various different groups and other measures designed to tackle those barriers to people finding work.

“If we look at Hartlepool, the Government’s story that there is nowhere in the UK that is not close to an area of prosperity begins to look less convincing if you think that Hartlepool is bounded by Easington and Teesside, areas where there are fewer employment opportunities. For those communities you have to think more about what measures you can find that would create employment opportunities in those areas, measures to increase the demand for employment.”<sup>165</sup>

110. Les Southerton of the Middlesbrough Town Centre Company concluded,

“It is important that we recognise that labour market interventions are important but they are only half the story, if we are not successfully growing new jobs, training and making people job ready is almost pointless.”<sup>166</sup>

**111. The Treasury’s ‘supply-side’ approach to reducing unemployment through programmes like the New Deal fails to recognise the different conditions across the country. In some places deprived communities are located very close to job opportunities. In other parts of the country, those opportunities simply do not exist and a supply-side only approach is simply not adequate.**

## Skills

112. Witnesses share the Government’s analysis that increasing the number of skilled people employed in a region will boost productivity. As a recent report by the Performance and Innovation Unit has identified, there are two sides to this—increasing demand for trained workers amongst employers, alongside increasing the supply of trained individuals.<sup>167</sup> This is important to break a cycle of low skills,

“Only about 28% of all managers in the North East are graduate level themselves so it is not particularly surprising that they do not recruit from that field.”<sup>168</sup>

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<sup>165</sup> Mr Robinson, Qq11-12

<sup>166</sup> Mr Southerton, Q748

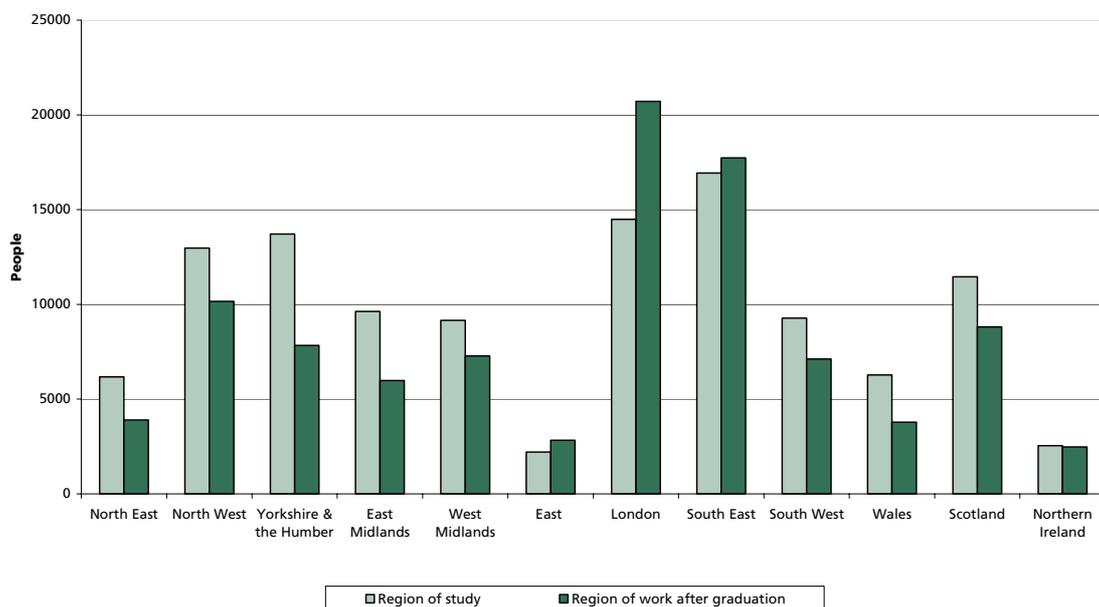
<sup>167</sup> *In Demand: Adult Skills for the Twenty First Century*, Performance and Innovation Unit, Cabinet Office, 2001

<sup>168</sup> Dr Bridge, Q199

**We welcome the Government’s new emphasis on encouraging employers to employ skilled workers as well as increasing the supply of skills.**

113. We have heard about the importance of improving skills at all levels—from attainment at schools, to basic skills, through to ensuring that there is a significant number of graduates in the region.<sup>169</sup> Graduates are seen as important both as skilled employees and as potential entrepreneurs.<sup>170</sup> Some of the less prosperous regions have very popular universities and as the table below shows, the North West and Yorkshire and Humberside in particular, attract large numbers of undergraduates. However, there is a net outflow of students after graduation in all regions outside the greater south east.

**Chart 9: Region of study and work after graduation (2000)**



Source: *Productivity in the UK 3: The Regional Dimension, DTI/HM Treasury, 2001*

The Chairman of ONE North East RDA suggested that one reason for this outflow was that graduate opportunities were simply not available in sufficient quantities in the region.<sup>171</sup> The other most important issue for graduate retention is to increase the attractiveness of the regions, the ‘pull factors’ described in Section 3.

### Industrial policies

114. Whilst the less prosperous regions lack some of the comparative advantages of the South East, it should not be concluded that they are inherently unproductive. As with other indicators it is important to recognise that there are differences in productivity both within and between regions. Much of the difference in productivity between regions comes as a result of the historic industrial base of the poorer performing regions.<sup>172</sup>

<sup>169</sup> Mr Blyth, Qq748-750

<sup>170</sup> Dr Bridge, Qq196-199

<sup>171</sup> Dr Bridge, Qq196-199

<sup>172</sup> Dr Bridge, Q178

115. The less prosperous regions are now looking at a dual strategy to improve the productivity of companies within their regions:

- developing indigenous companies (“helping them up the value chain”<sup>173</sup>); and
- promoting new, high productivity activities—in particular around science and innovation.

### ***Lessons from past regional policies***

116. Since the 1960s, Government regional policy has taken the form of incentives to encourage companies to locate in poorer places. Under the rules of the European Union this now takes the form of grants such as Regional Selective Assistance<sup>174</sup> to encourage companies to locate in the Assisted Areas.<sup>175</sup> The Government has recently been relatively dismissive of the effectiveness of past regional policies. The Deputy Prime Minister has said,

“In the past we have pumped huge sums of money into enterprise zones, subsidies for property development and hand-outs to compensate for unemployment. They have achieved no overall economic gain. They have not helped people get back to work. And they have left whole communities abandoned and on the dole.”<sup>176</sup>

In oral evidence Ministers were more conciliatory, acknowledging the role that investment in the 1960s and 1970s played in safeguarding jobs.<sup>177</sup>

117. Regional policy has however, had to adapt to changing circumstances. We heard from the RDAs in the North East and Yorkshire and Humberside that there is no longer significant demand from large scale, mobile inward investors.<sup>178</sup> However such regions still see an advantage in using a differentially applied regional policy to attract more productive activities to the less prosperous areas<sup>179</sup> and to stimulate demand.

### ***Building on regional strengths***

118. Each regional economy has different strengths and weaknesses. Differences in geography and history have left different industrial and cultural legacies in each of the regions and each region has different opportunities. This diversity means that different responses are needed in each region.

119. In principle, the Government’s strategy is based on this idea of building on strengths,

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<sup>173</sup> Mr Lloyd, Q759

<sup>174</sup> The Public Accounts Committee took evidence from the Department for Trade and Industry on *Regional Grants* on 23 June 2003

<sup>175</sup> A list of the Assisted Areas in the UK can be found at [www.dti.gov.uk/regions/assistedareas.htm](http://www.dti.gov.uk/regions/assistedareas.htm)

<sup>176</sup> Speech to the Campaign for the English Regions, 24 February 2003

<sup>177</sup> Mr Leslie, Q964

<sup>178</sup> Mr Riordan, Q75 and Dr Bridge, Q185

<sup>179</sup> North East Assembly, RRD09

“What we want to do is really grow indigenous strengths and innovation from particular areas.”<sup>180</sup>

But our evidence suggests that this is being hindered by a ‘one size fits all’ approach to developing national policy,

“We detect a tendency to adopt a ‘one size fits all’ approach ... We believe it would be more effective to support greater creativity and encourage more distinctive regional approaches based on the needs, capacity and historic legacies of different regions.”<sup>181</sup>

120. This ‘one size fits all’ approach is particularly apparent in Government industrial policies which have been accused of having a sectoral and not a spatial dimension.

“Industrial policy may be spatially blind, and if so it is quite distinct from regional policy; for example privatisation, technology policies, science policies, competitiveness policies, and so on. These policies will generally have different regional impacts, but these are often effectively unintended consequences.”<sup>182</sup>

121. National policies are therefore being introduced which may in fact only be appropriate in some regions and not others. An example of this is the Government’s clusters policy. The DTI defines clusters as “Concentrations of competing, collaborating and interdependent companies and institutions which are connected by a system of market and non-market links.”<sup>183</sup> All regions have been encouraged to develop clusters, through the DTI’s Innovative Clusters Fund (now assimilated into the RDA’s ‘single pot’ of funding). Yet the DTI’s own clusters mapping exercise suggests that cluster development is not necessarily appropriate in all regions—regions with a limited cluster base might be better off focusing on general industrial development,

“The proportion of a region’s employment accounted for by the clusters, ranges from 43% in London to 15% in the North West. The low proportion of employment covered in some regions may not be indicative of weakness. For example, the North West figure is low because its clusters are relatively small employers and capital-intensive. This may mean that, even though these clusters may be increasingly competitive, this may not be reflected in significant job growth ... A key question for the smaller regions is whether to encourage fewer but deeper clusters or to broaden the industrial base.”<sup>184</sup>

122. Similarly national policies have also been criticised for focusing too much support on very small businesses rather than established companies. The joint submission from the CBI and TUC to the Treasury argued that greater emphasis should be placed on medium to large sized enterprises where, they said, investment would be more likely to produce results.

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<sup>180</sup> Mr Leslie, Q927

<sup>181</sup> Local Government Association, RRD27

<sup>182</sup> Page 6, *A New Regional Policy for the United Kingdom*, Interim Report, IPPR, 2002

<sup>183</sup> [www.dti.gov.uk/clusters](http://www.dti.gov.uk/clusters)

<sup>184</sup> *Business Clusters in the UK: A First Assessment*, Trends Business Research for the DTI, February 2001

“Much recent public sector investment in business support has been focused at the entrepreneur, start-ups, micro and small firms. However, it is arguable that such a focus on SME's, in particular the small end of this definition, is not likely to make as significant a contribution to national productivity growth as a focus on medium sized, and indeed larger companies, both below and above the 250-employee threshold that the current definition encompasses. Middle market companies are often the prime suppliers to the UK's larger businesses, and as such are determinants of the overall performance of the economy. Yet, the middle market is largely ineligible to access the wide range of productivity (innovation, technology, process and management) performance improvement services supported and funded by government. Official statistics show that 0.8% of firms employ more than 50 people. And yet such companies represent 67% of turnover and 56% of employment. The CBI and TUC consider the need to target this segment of the UK economy as an important part of any joint actions to improve productivity and competitiveness of the UK.”<sup>185</sup>

123. This national approach which prioritises small businesses gives little flexibility to regions. In the South West for example, many small businesses are deliberately kept small by their owners for ‘lifestyle reasons’.<sup>186</sup> Such businesses might not offer significant growth potential for the region yet the national approach is to prioritise micro and small business development.

**124. Trade and industry policies have insufficient capacity to respond to differences between regions. Central Government needs to increase the spatial dimension to industrial policy, recognising that some policies will not be appropriate in some regions.**

### *Regional Economic Strategies*

125. Perhaps inevitably, given the concerns about a ‘one size fits all’ approach to national industrial policy, the first round of Regional Economic Strategies prepared by the RDAs were accused of being too similar,

“It is also evident from reviewing the activities of the Regional Development Agencies, that their approach to regional development is all too similar. The Council [Doncaster] believes that this is in part due to their process of formation, but also in part due to the centralising effect of the Department of Trade and Industry.”<sup>187</sup>

126. Questions have also been asked about the extent to which the RDAs are able to produce economic strategies which reflect the needs of their regions, rather than simply applying national policies regionally. The IPPR said,

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<sup>185</sup> Page 79, *The UK Productivity Challenge*, CBI/TUC Submission to the Productivity Initiative, October 2001

<sup>186</sup> Ms Lennox, Qq694-695

<sup>187</sup> Doncaster Metropolitan Borough Council, RRD18

“National industrial policies might be administered at the regional level, but this does not mean that they become regional economic policies. An example would be using RDAs to administer, with little regional autonomy, a UK manufacturing strategy.”<sup>188</sup>

**Regional administration of national policies is not the same as regionally responsive economic strategies.**

### *Innovation*

127. *Productivity 3* identifies innovation as one of the ‘drivers’ of regional productivity,

“Innovation—the invention and application of new technologies, products and processes—is a key driver of productivity growth. Innovation has accounted for around two thirds of UK economic growth in the post World War II period. Furthermore, a majority of the UK’s productivity gap with the US can be accounted for by differences in the level of innovation.”<sup>189</sup>

128. *Productivity 3* uses investment in research and development as a proxy for innovation.<sup>190</sup> Regional differences in R&D investment are shown on Chart 7. We have considered the potential for increasing public sector and university research and development in the less prosperous regions in the previous section. It is also important to consider innovation in the private sector. As Chart 7 shows, this is currently heavily concentrated in the greater south east. The Government’s own memorandum acknowledges that R&D tax credits—the main fiscal measures to promote company investment—are likely to have a larger impact in the southern part of the country where innovative businesses are more common.<sup>191</sup> Witnesses from the North East argued that fiscal policies should be regionally differentiated to target the less prosperous regions.<sup>192</sup> **National policies to support investment in innovation are not, therefore, reducing regional disparities, as they are available in all regions. We recommend that the Government review the extent to which measures such as research and development tax credits and regional venture capital funds should be applied differentially regions because of the uneven geography of existing R&D activity.**

### *Innovation in processes*

129. As well as product innovation, the Government is concerned about innovation in the processes companies use—UK companies adopt fewer innovative working practices overall than their foreign counterparts.<sup>193</sup> The Secretary of State for Trade and Industry referred to weaknesses in middle management in the UK.<sup>194</sup> The CBI and TUC have identified other factors at company-level that affect productivity. For example, the UK has the lowest rate of adoption of new practices such as just in time production, integrated computer

<sup>188</sup> Page 6, *A New Regional Policy for the United Kingdom*, Interim Report, IPPR, 2002

<sup>189</sup> Page 23, *Productivity 3*

<sup>190</sup> Page 24, *Productivity 3*

<sup>191</sup> ODPM, RRD07

<sup>192</sup> North East Assembly, RRD09

<sup>193</sup> Page 46, *The UK Productivity Challenge*

<sup>194</sup> Ms Hewitt, Q866

technology and total productive maintenance. They recommended that there should be an increase in spreading best practice between UK firms.<sup>195</sup> Similarly, ONE North East highlighted the need to increase companies' knowledge about the work of other local firms, developing opportunities for collaboration and the development of supply chains.<sup>196</sup> **'Bread and butter' business development activity targeted at improving processes within individual firms is not sexy but it is extremely important in achieving the PSA target on regional economic growth.**

### Agencies

130. There are far too many organisations involved in promoting business development. In the North East,

“When we looked at the position of the North East some 12 months ago we found out that there were over 250 organisations offering business support in the North East delivering something like 600 programmes and offering something like 3,000 products.”<sup>197</sup>

131. Numerous reviews and reports have commented on the problem, including the Better Regulation Taskforce<sup>198</sup> and the Cross Cutting Review of Government Services for Small Businesses.<sup>199</sup> We heard evidence that co-ordination amongst strategic regional bodies is improving but at the front line, problems remain,

“I do not think it is a shambles but I think in some sense that top level is one thing. Where I would agree with the point is that quite often that structure leads you to disbursing government monies through a number of grant funding regimes to a myriad of organisations and it is at that level that I have concerns about duplication and whether we are achieving good value for money. I think the basic structure through things like the Regional Economic Strategy is very good in terms of the analysis. Some of the work done specifically in Tees Valley is excellent in terms of its economic analysis. It is the gap between that and delivery.”<sup>200</sup>

**For too long there has been a need to streamline the bewildering array of business support schemes which are confusing to small firms in particular. We need not a one stop shop for business support but a first stop shop which can signpost what is most appropriate for different kinds of businesses, rather than a template, one size fits all solution.**

### Reform of the Structural Funds

132. The current round of European Structural Funds (including Objectives One and Two) comes to an end in 2006. This broadly coincides with the accession of ten new countries to

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<sup>195</sup> Page 70, *The UK Productivity Challenge*

<sup>196</sup> Dr Bridge, Q193

<sup>197</sup> Dr Bridge, Q185

<sup>198</sup> *Local Delivery of Central Policy*, Better Regulation Taskforce, 2002

<sup>199</sup> Chapter 26, *2002 Spending Review*, HM Treasury, 2002

<sup>200</sup> Mr Southerton, Q752

the European Union in 2004. These countries tend to be less prosperous than existing EU member states, which will have a profound effect on the allocation of the Structural Funds. Objective One, which offers the highest levels of funding to the most deprived areas, is currently allocated to areas with less than 75% of the EU average GDP per head. Areas which would have below 75% of GDP per head based on the existing EU membership in 2006, will find their relative position changed as the inclusion of new members will cause a substantial fall in the average level of GDP across the EU. As a result significant changes to the Structural Funds in 2006 are likely.

133. In March 2003, the UK Government published a consultation document, *A Modern Regional Policy for the United Kingdom*, seeking views on its proposed position for reform of the structural funds post-2006.<sup>201</sup> It proposes that those Member States which have the financial and institutional capability to deliver devolved and decentralised regional policies should be encouraged to do so. This has been termed a 're-nationalisation' of the Structural Funds, providing the opportunity to retain what are believed to be the benefits of the Structural Funds whilst removing perceived weaknesses such as the level of bureaucracy associated with their implementation.<sup>202</sup> **We support efforts to improve the benefits that English regions gain from the European Structural Funds programmes. Like the Structural Funds, UK regeneration programmes have a reputation for being cumbersome to administer.<sup>203</sup> Bureaucracy from Brussels should not be replaced by bureaucracy from London.**

134. The consultation document states that by increasing UK Government spending on regional policy, the Government will guarantee that UK nations and regions would not lose out on funding that would otherwise be available to them through the Structural Funds (e.g. any transitional schemes put in place to compensate for the effects of EU enlargement).<sup>204</sup> However, there is a great deal of concern that the Government has not specified how this will be achieved, in particular:

- How a long-term commitment can be guaranteed that transcends any changes in political administrations or priorities;
- Whether current rules for additionality (funding must be spent on a new activity and not replace existing public sector activities) would apply;
- The extent to which demand-side measures will continue to be supported; and
- How any transitional scheme would be agreed—currently negotiations on new rounds of Structural Funds are tripartite between local/regional bodies, national Government and the European Commission. There is a concern that role of local and regional partners will be reduced.<sup>205</sup>

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<sup>201</sup> *A Modern Regional Policy for the United Kingdom*

<sup>202</sup> County Councils Network response to the DTI's Structural Funds Consultation, 2003

<sup>203</sup> Paragraphs 52-55, *The Effectiveness of Government Regeneration Initiatives*, HC76-I, Seventh Report, ODPM: Housing, Planning, Local Government and the Regions Committee, 2002-03

<sup>204</sup> Paragraph 4.16, *A Modern Regional Policy for the United Kingdom*,

<sup>205</sup> Doncaster Metropolitan Borough Council, RRD18 and Draft Response by the West Midlands Regional Assembly to UK Government's Consultation on 'A Modern Regional Policy for the UK' based on West Midlands Statement on the Future of EU Cohesion Policy, WMLGA, 2003

**If the Government’s proposals to ‘re-nationalise’ the Structural Funds are introduced, it must ensure that transitional funding to the current Objective One and Two areas is clearly identified as an additional sum, above and beyond transfers to these regions under existing and new UK regional policies. It is vital that the funds are made available to the regions to be spent in accordance with their priorities, be they supply-side or demand-side measures.**

135. *Modern Regional Policy* links proposals for reform of the Structural Funds with reform to the Common Agricultural Policy and State Aid. Our predecessor Committee’s inquiry into the Need For A New European Regeneration Framework received a great deal of evidence about the urgent need to reform State Aid, which is currently restricting investment in important regeneration projects.<sup>206</sup> We also heard how the process of seeking State Aid approval had slowed down the implementation of the Regional Venture Capital Funds.<sup>207</sup> On the Common Agricultural Policy, the Government Office for the South West described how reforms to change incentives for farmers towards the market and away from subsidies would need to be accompanied by a range of measures to help bring about that structural change in the agriculture industry.<sup>208</sup> The Secretary of State for Trade and Industry told us that she expected it to take three to five year to achieve such reforms.<sup>209</sup> **We welcome the Government’s three pronged approach—looking at reforms to State Aid, the Common Agricultural Policy and the Structural funds together. We remain frustrated by the length of time taken to achieve changes to State Aid.**

## The role of the cities

136. There is an important debate going on about where the public sector should be aiming to stimulate job growth. The Core Cities group argues that cities are the engines of regional economic growth—“competitive cities make prosperous regions.”<sup>210</sup> The Core Cities approach involves building on the growth potential of the big cities within each region as the places which have the greatest relative strengths and are most likely to grow.

137. Others argue that the focus should be on the weakest places in a region,

“The view that the most effective way to improve overall performance is by tackling the areas that are performing least well at present. That is the philosophy behind the European Structural Funds, dealing with lagging regions and improving the overall competitiveness of Europe by tackling lagging regions and I think that the same principle can apply within the regions.”<sup>211</sup>

138. Mark Lloyd of Durham County Council argued for a balance between the two approaches,

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<sup>206</sup> *The Need for a New European Regeneration Framework*, HC483-I, Twelfth Report, Transport, Local Government and the Regions Committee, 2001-02

<sup>207</sup> Ms Hewitt, Q873

<sup>208</sup> Mr Render, Q723

<sup>209</sup> Ms Hewitt, Q877

<sup>210</sup> Core Cities Group, RR10

<sup>211</sup> Mr Pitt, Q477

“I think we need to strive to build on our urban centres for economic regeneration and I vote for that and support the notion of core cities, but we also need to make sure that the rural hinterlands that surround those urban areas do have opportunities for people to work locally to ensure a sense of community.”<sup>212</sup>

In addition to the rural dimension we have also heard about the importance of supporting medium-sized cities like Plymouth,<sup>213</sup> Hull or Stoke on Trent<sup>214</sup> and market towns.<sup>215</sup>

**139. Although focusing attention solely on the core cities might be the easiest way to increase average GDP per head in a region, we do not think that the core cities should be the only focus of attention for reasons of practicality (ie the distance between some of the core cities and the rest of their regions) and community sustainability. That said, it is vital to ensure that within local travel to work areas, economic development plays to strengths.**

### The links between regional economic development and neighbourhood renewal

140. Playing to strengths means building on potential job opportunity areas. We heard that it is not appropriate to look to the most deprived areas as potential locations of employment for the people who live there,

“Where the poverty lies is not necessarily where the solution lies.”<sup>216</sup>

141. Les Southerton of the Middlesbrough Town Centre Company observed,

“We have to be careful not to rely too much on working in particular deprived communities in terms of job creation. I think in some ways it is a myth to think that we can go into those areas and within them create a very significant number of jobs. I think the magic - I have seen it now twice, once during my period working on City Challenge but also in Middlesbrough New Deal area - is if you can fit people from those deprived communities to jobs elsewhere, wherever they may be. We have to recognise that those jobs will be where the economic circumstances and the area locates them and we have to be alive to that.”<sup>217</sup>

142. The memorandum from the Alliance for Regional Aid added,

“Where the underlying problem facing an area is a weakness in the local economy the neighbourhood scale is rarely the appropriate level at which to seek solutions. Typically, local labour markets operate over quite wide geographical areas, such as whole towns or sub-regions, with the result that the prime opportunities for assisting deprived residents often lie outside the wards in which they live. The focus on neighbourhoods, at the expense of their wider context, runs the risk of providing

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<sup>212</sup> Mr Lloyd, Q743

<sup>213</sup> Mr Pitt, Q482

<sup>214</sup> Paragraph 33, *The Effectiveness of Government Regeneration Initiatives*

<sup>215</sup> Mr Elton, Q462

<sup>216</sup> Dr Bridge, Q208

<sup>217</sup> Mr Southerton, Q743

merely cosmetic interventions that fail to get to grips with underlying economic causes.<sup>218</sup>

143. Our predecessor Committee has previously commented on concerns that the New Deal for Communities programme is too tightly focused on neighbourhoods and does not have the capacity to look more widely in the local labour market.<sup>219</sup> Unfortunately the Government has not learned from this. Last year it designated 2,000 most deprived wards in the country as Enterprise Areas.<sup>220</sup> Again boundaries have been tightly defined and areas selected on the basis of need and not opportunity, potentially excluding important employment generating sites.<sup>221</sup>

**144. Job opportunities for the residents of deprived neighbourhoods will not necessarily be located in those areas. New Deal for Communities boundaries do not reflect this and the Government's Enterprise Areas are too tightly drawn and could fail to include the sites with the greatest potential for economic development in the travel to work area for deprived communities.**

145. Ward boundaries are designated by the Boundary Commission using criteria that relate solely to electoral issues. It is on those electoral issues that the Commission considers changes, such as seeking to reduce the variation in size between council wards. **Ward boundaries are not designated on the basis of the suitability of areas for regeneration schemes, they do not consider the relative locations of need and opportunity. They are not 'fit for purpose' for the designation of funding.**

146. The Chairman of ONE North East was concerned that social and economic policies,

“Are often conceived in isolation and delivered in isolation and that is where we do not get best value in this region.”<sup>222</sup>

The Parliamentary Under Secretary of State at ODPM did not convince us that the Government's new regional economic development and existing neighbourhood renewal policies (launched in the *National Strategy for Neighbourhood Renewal* in 2000<sup>223</sup>) had yet been fully integrated.<sup>224</sup> **We are concerned that the Government has not yet sufficiently developed the links between its policies on regional economic growth and neighbourhood renewal.**

### **Local transport**

147. If jobs are being created within the travel to work area of a deprived community, good local public transport links are vital. Schemes like the Stephenson Job Link which provides public transport from deprived communities in South Tyneside to the growing jobs

<sup>218</sup> Alliance for Regional Aid, RRD08

<sup>219</sup> *Empty Homes*, HC240-I, Sixth Report, Transport, Local Government and the Regions Committee, 2001-02

<sup>220</sup> Speech Given by the Chancellor at the Urban Summit in Birmingham, 1 November 2002

<sup>221</sup> Dr Bridge, Q209

<sup>222</sup> Dr Bridge, Q179

<sup>223</sup> *National Strategy for Neighbourhood Renewal: A Framework for Consultation*, Social Exclusion Unit, 2000

<sup>224</sup> Mr Leslie, Q954

corridor on the A19 in North Tyneside are important.<sup>225</sup> But what is also important is considering the commercial viability of public transport to a location when sites are identified for development. Andrew Johnson of NEXUS, the Passenger Transport Executive for Tyne and Wear highlighted this,

“Part of the problem of the last few decades has been the disparate nature of the location of jobs. If you are going to have to rely on public transport it is very important that the jobs are located where the public transport is accessible but also commercially viable. Of course, in the conurbations that is fairly easy because you have got the concentration of jobs and you have got the concentration of public transport. In rural areas, in the business parks, places like Doxford Park, Newcastle Business Park, it is much, much more difficult to provide viable public transport.”<sup>226</sup>

## Rural areas

148. The Department for the Environment, Food and Rural Affairs has a PSA floor target to,

“Reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006.”

This will clearly make a very important contribution to the ODPM/DTI/Treasury PSA target to reduce the raise the productivity of all and reduce the gap in growth rates between the English regions.

149. The Chief Executive of Cornwall County Council considered that DEFRA would be “hard pressed to meet their targets.”<sup>227</sup> He, like English Nature,<sup>228</sup> was concerned that too great a distinction has been made between rural and urban development and that co-ordination between the agencies involved in rural development could be improved,

“I think the trouble you have at the moment with the rural programmes is that there are whole seas of agencies actually delivering them and I do not think the linkages between DEFRA and some of the other agencies are good enough. I would like to make that point. The second point I would make is that one of the things that worries us in Cornwall is you can draw too firm a distinction between rural and urban programmes. If you look at the deprivation indices, if you look at the majority of the market towns in Cornwall they demonstrate, at least parts of them do, classical inner city problems.”<sup>229</sup>

**150. Rural economic development needs to be integrated with the economic development of a region as a whole. The number of agencies involved should be reduced and lead responsibility should be given to the RDA (transferring to elected regional assemblies where they are introduced).**

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<sup>225</sup> Mr Parker, Q158

<sup>226</sup> Mr Parker, Q150

<sup>227</sup> Mr Stethridge, Q497

<sup>228</sup> Ms Ward, Q549

<sup>229</sup> Mr Stethridge, Q497

### **Information Technology**

151. Information Technology (IT) offers a way to improve connections between rural areas and potential markets. As Mark Lloyd of Durham County Council said improved IT connections offer a way to integrate rural economies with national opportunities,

“There are some sorts of jobs that are better placed in a rural community, and if we can ensure that there is a supply of broadband connectivity, for instance, to information communication technologies, there are some sorts of occupations that can be fulfilled equally as well in a rural dale in Northumberland or County Durham as in the city of London.”<sup>230</sup>

This issue is the subject of more detailed inquiry by other Committees. The Welsh Affairs Committee has published a report into *Broadband in Wales* and the Environment, Food and Rural Affairs Committee is undertaking an inquiry into *Rural Broadband*.

152. We heard how an Objective One partnership project with British Telecom in Cornwall had brought together support to promote demand amongst businesses with BT’s investment in upgrading exchanges, a project known as Act Now. The Government Office for the South West is exploring ways to extend this across the Objective Two areas in the region, subject to State Aid constraints.<sup>231</sup> **We recommend that the DTI’s State Aid unit should provide pro-active support to develop a State Aid compliant way to support business access to broadband, which is available to all Objective 2 areas.**

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<sup>230</sup> Mr Lloyd, Q743

<sup>231</sup> Mr Bayly, Qq714 and 734-736

## 5 Regional bodies

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### Devolution

153. The White Paper, *Your Region Your Choice* proposed establishing elected regional assemblies, in those regions where the majority of the population chose them through a referendum. The Government argues that its proposals for devolution could make a significant contribution to achieving the PSA target.<sup>232</sup>

154. The Alliance for Regional Aid warned of a confusion between economic development policies and devolution,

“The most important concern is the evident confusion between devolution to the regions and regional economic policy. Regional economic policy—that is, policies to narrow regional gaps in prosperity—require targeted measures that discriminate in favour of the weakest areas. Devolution, on the other hand, is about a shift in decision making to the regions. In itself, devolution does not necessarily imply any discrimination in favour of the weakest regions or any convergence in their economic well-being. Indeed, if devolution were to imply that all regions were treated equally it would work against the objective of narrowing regional differences ...

“It is not self-evident that devolving decision-making, initially to Regional Development Agencies (RDAs) and in future to Regional Assemblies, necessarily strengthens a region’s ability to promote economic activity and new jobs. Decision-making becomes more sensitive to the local context, but what really matters is the scale of resources available to the devolved body and how the resources compare with those in other regions.”<sup>233</sup>

**Devolution does not in and of itself mean a reduction in the gaps between regional economic performance. Unless devolution is accompanied by some reallocation of resources it will not make much difference, though where regional institutions are given powers and are democratically elected they will make better use of the limited resources available to them.**

### Powers

155. Under the proposals, an elected regional assembly would have responsibility for housing, planning, culture and economic development (including European programmes). A number of related budgets will be outside their control—learning and skills, business support, neighbourhood renewal and transport. Professor Tomaney of the Centre for Urban and Development Studies at the University of Newcastle Upon Tyne said,

“Clearly there is an overwhelming case for strengthening the range of powers which are proposed for regional assemblies in the White Paper. I think that is widely

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<sup>232</sup> Mr Leslie, Q939

<sup>233</sup> Alliance for Regional Aid, RRD08

agreed. There is a set of issues around skills, for instance. There is a set of issues around transport. In the White Paper the Government makes a good case that we need to see more in the way of decision-making at the regional level in each of these areas but then proposes rather modest solutions: control over regional skills frameworks, very modest proposals in relation to transport. There is clearly a case, if you are going to move in this direction of regional assemblies, of strengthening these two areas in particular.”<sup>234</sup>

156. Under current arrangements, economic development is undertaken by the RDAs, further education and training by the Learning and Skills Councils (LSC) and business support by local Business Links. RDAs operate regionally while LSCs and local Business Links are organised along co-terminous sub-regional boundaries, reporting directly to a national head office. The Secretary of State for Trade and Industry admitted,

“I agree with you about the danger of simply doing a national—local connection and missing out the regional dimension.”<sup>235</sup>

The Better Regulation Taskforce criticised the current institutional arrangements for regional economic development as confusing.<sup>236</sup> Following their report, the Government announced a series of pilots to bring together business support and learning and skills under the auspices of the RDAs in some regions.<sup>237</sup>

157. In addition, our report into the *Effectiveness of Government Regeneration Initiatives* looked at the Government’s various neighbourhood renewal programmes, administered by the Government Offices for the Regions. It recommended,

“When established, we strongly suggest that Regional Assemblies should be used to provide greater coherence and co-ordination in the delivery of economic, social and physical regeneration.”<sup>238</sup>

**158. Where elected regional assemblies are introduced they should have direct responsibility for at least business development, learning and skills, neighbourhood renewal and transport policies and funding.**

## Regional Development Agencies

159. The effectiveness of RDA business support activities will be considered in greater detail in the Trade and Industry Select Committee’s inquiry into *Support to Business from the Regional Development Agencies*.<sup>239</sup> Paragraphs 125 and 126 of this report considered the effects of ‘one size fits all’ national industrial policies on Regional Economic Strategies. Regional Development Agencies have also been criticised for developing broad, ‘motherhood and apple pie’ strategies rather than taking difficult decisions about priorities. In the North East,

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<sup>234</sup> Professor Tomaney, Q396

<sup>235</sup> Ms Hewitt, Q846

<sup>236</sup> *Local Delivery of Central Policy*

<sup>237</sup> 2002 Pre-Budget Report, HM Treasury, 2002

<sup>238</sup> Recommendation (t), *The Effectiveness of Government Regeneration Initiatives*

<sup>239</sup> Trade and Industry Committee Press Notice 48, 2002-03

“Strategies tend to reflect local concerns, with a tendency to stress broad aspirations, rather than clearly defined priorities.”<sup>240</sup>

In the East Midlands,

“In general the [first] strategy was accepted as well drafted without enough detail to upset anyone.”<sup>241</sup>

160. Professor Tomaney and Dr Benneworth of Newcastle University have used the example of airports to illustrate the type of tough decisions that need to be made,

“A good example is the dispute about the future of the region’s two airports that occurred in the preparation of the RES [Regional Economic Strategy]. The dispute focused on whether the role of Teesside airport was being downgraded in favour of Newcastle International airport. The Teesside press presented the issue in terms of its airport being relegated to the role of a freight terminal. The draft RES had, in fact, recognised that Newcastle airport stood a better chance of increasing the number of scheduled flights to the region—in which it is notably deficient—and sought to develop a strategy based on this. In the end, and in the face of opposition from the media on Teesside especially, the proposal was dropped. Among other things, this episode demonstrated how the RDA lacked the capacity to overcome local parochialism in order to develop a regional strategy.”<sup>242</sup>

161. The Secretary of State for Trade and Industry told us how important it is that RDAs use their resources strategically and do not spread them too thinly.<sup>243</sup> Strategic working includes making difficult decisions about priorities. This will become increasingly important as the RDAs move into their implementation role (having had to produce two Regional Economic Strategies since they were established in 1999). **As RDAs increase their focus on implementation, it is vital that they spend resources strategically. This means making difficult decisions about priorities within the region.**

### ***The relationship between the RDAs and central Government***

162. Commentators have also noted the potentially unrealistically high targets included in the first round of RDA strategies,

“Indeed when the targets of the first round of Regional Economic Strategies was added together they implied a growth rate well in excess of Treasury estimates.”<sup>244</sup>

163. Although all the strategies have now been revised, they still contain ambitious visions for their regions. The RDAs are now in the position of having proposed bold targets and with central Government saying that the regions are in control of their destiny,<sup>245</sup> meaning that they bear a great deal of responsibility for the delivery of the PSA target. For example,

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<sup>240</sup> Page 140, *England the State of the Regions*

<sup>241</sup> Page 152, *England the State of the Regions*

<sup>242</sup> Page 142, *England State of the Regions*

<sup>243</sup> Ms Hewitt, Q843

<sup>244</sup> County Council Network, RRD11

<sup>245</sup> Mr Leslie, Q939

central Government says that the RDAs are responsible for the achievement of everything in the Regional Economic Strategies, although many of the actions contained within the strategies are outside their control. Similarly the flexibility of the Single Pot comes with a burden of responsibility. ODPM's supplementary memorandum described the significant expectation that RDAs will bring about outcomes outside their control,

“Where the regional priorities identified by the Regional Development Agencies (RDAs) can be achieved by RDA-funded activity, they are carried forward by the RDA and the projects are included in their corporate plan. Their Single Pot gives them increasing freedom to prioritise. Where a regional priority requires action by someone else, we look to the RDAs to use their influence to bring about this prioritisation: their effectiveness as regional catalysts is one of the four cross-cutting themes which Government Offices report on in their quarterly performance monitoring returns.”<sup>246</sup>

164. It has been suggested that this leads to a void where regions are being given responsibilities without powers,

“There is a huge asymmetry between power and responsibility, with the latter being devolved way ahead of the former.”<sup>247</sup>

#### **Responsibility is being devolved to the regions before power.**

165. As we have outlined in this section, even where regional institutions have adequate powers, flexibility and resources, central Government will retain some responsibility for reducing regional disparities. This is because it is central Government that decides on overall resource allocation, as well as making important decisions about productive expenditure, e.g. infrastructure projects, cultural and sporting projects of national significance and science investment. As an example, the Core Cities Group pointed to Government policy on airports,

“There is substantial evidence that the UK's international competitiveness is boosted by its pivotal position as an inter-continental air hub. But the concentration of these air services at south east airports not only reduces the attractiveness of other regions as business locations, it also adds to congestion in the south east as businesses which operate internationally cluster near to these airports.”<sup>248</sup>

It has fallen to the RDAs to develop a national response from a regional economic development perspective to the Government's proposals on airports.<sup>249</sup> This suggests a central void in national economic development policies and thinking.

166. Government should not allow this void to persist and needs to take its share of responsibility for the PSA target on regional economic development being delivered. The IPPR said,

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<sup>246</sup> ODPM, RRD07(c)

<sup>247</sup> *The English Question: Regional Perspectives on a Fractured Nation*

<sup>248</sup> Core Cities Group, RRD10

<sup>249</sup> Mr Gerrard, Q62

“A coherent national policy is absolutely necessary for a reduction in regional disparities. Westminster and Whitehall have a responsibility to achieve social and economic justice for all the nations and regions of the UK. Such an ‘active’ role is entirely compatible with the principle of devolution and the government’s ‘bottom-up’ approach to regional development.”<sup>250</sup>

**Even as regions become more powerful, central Government will retain control of issues like infrastructure and needs to share the responsibility for reducing regional disparities—reducing disparities cannot be a matter for the regions alone.**

## The role of Government Regional Offices

167. *Your Region: Your Choice* proposes strengthening the Government Offices for the Regions (GOR). Government Offices are expected to juggle a role as champion for the region in Whitehall and as central Government’s representative in the region. It is not clear that that balance is always successfully achieved. Evidence to the Transport Committee’s inquiry into multi-modal studies from the University of Aston said,

“Stakeholders viewed the GOR as an important but ‘low key’ actor. Some were unclear about how it added value and were critical of its capacity to formulate clear regional priorities, contribute to framing and delivering transport policy and represent West Midlands’ interests. However, we were invariably reminded that the GOR, (and the Highways Agency and SRA) were formally accountable to ministers and not to the region.”<sup>251</sup>

168. The memorandum to us from the Local Government Association said,

“The Government’s programme of decentralising its functions through the establishment of Government Regional Offices (GROs) has tended to operate as ‘Government in the Regions’ rather than by the regions,”

although it noted that some regional directors saw themselves as “genuine champions for their regions.”<sup>252</sup>

169. It is not clear what the precise relationship between Government Regional Offices and elected regional assemblies will be if and where they are introduced. Evidence from the Director of the Government Office for the North East appeared to suggest that the Government Offices would be keeping an eye on the elected regional assemblies, rather than the other way round,

“I am sure that there would always be a keen interest from Government into the performance of an elected regional assembly as well as the Regional Development Agency. I am sure Ministers will retain a key interest.”<sup>253</sup>

<sup>250</sup> Institute for Public Policy Research, RRD26

<sup>251</sup> Aston University Business School, MMS55, *Jam Tomorrow?: The Multi-Modal Study Investment Plans, Third Report, 2002/03*, Transport Committee, HC38-1

<sup>252</sup> Local Government Association, RRD27

<sup>253</sup> Mr Blackie, Q116

170. **Where elected regional assemblies are introduced, arrangements should be put in place to allow some form of scrutiny of the Government Office by the assembly, as has been the case with Regional Development Agencies, which are scrutinised by unelected regional chambers, whilst retaining accountability to Parliament through DTI Ministers.**

## The role of planning

171. Like national economic development policy, national planning policy has supported a strengthening of the regional dimension through Regional Planning Guidance. The promotion of stronger and more spatially orientated planning strategies at the regional level is welcomed. However, this is unlikely to promote a co-ordinated spatial planning approach at a national level. Whilst countries like Ireland have published a National Spatial Strategy and Wales is committed to developing a Wales Spatial Plan, there is no equivalent in England that might support a co-ordinated approach towards delivering the PSA target. Equally, national planning policies are currently developed to apply to England as a whole.

172. Numerous submissions to our inquiry, including that from the Royal Town Planning Institute, advocated a national spatial strategy as a mechanism to “achieve a better balance of development between regions” in particular to identify “national growth poles”—which will be supported nationally reflecting the particular role of the separate regions.”<sup>254</sup> In our predecessor Committee’s report into the Planning Green Paper we recommended that the Government should evaluate the desirability of introducing a national spatial strategy.<sup>255</sup> They responded that this was not appropriate but that a greater inter-regional dimension would be introduced to future revisions of Planning Policy Guidance,<sup>256</sup> now to be termed as Planning Policy Statements. However the tendency is for new Planning Policy Statements to focus more strongly on the broad principles of national policy with limited scope for additional material. **In the same way that mainstream national economic development policies should take regional differences into account, regionally differentiated national planning policies need to be considered.**

173. The relationship between Regional Planning Guidance and Regional Economic strategies is not clear. Regional Economic Strategies have been accused of lacking a spatial dimension. The County Councils Network said,

“The Regional Development Agencies’ economic policies scarcely include any explicit spatial dimension. Because of this difference in approach and because planning and economic development are dealt with by several different regional organisations, there are weaknesses in the horizontal linkages between different policy sectors.”<sup>257</sup>

174. We have previously recommended that regional spatial strategies be made the primary regional strategy. We also recommended that planning should take an enabling

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<sup>254</sup> The Royal Town Planning Institute, RRD28

<sup>255</sup> *Planning Green Paper*, HC 476-I, Thirteenth Report, Transport, Local Government and the Regions Committee, 2001-02

<sup>256</sup> ODPM, RRD07(c)

<sup>257</sup> County Councils Network, RRD11

approach to promoting sustainable economic development.<sup>258</sup> The Campaign for the Protection for Rural England in its evidence to the Committee noted that the Government has been avoiding making such a commitment, leading to what it describes as an ‘ambiguous relationship’ between the two regional strategies. **We recommend that regional spatial strategies be given primary status amongst regional strategies.**

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<sup>258</sup> *Planning, Competitiveness and Productivity*, HC114-I, Second Report, ODPM: Housing, Planning, Local Government and the Regions Committee, 2002-03

## 6 Conclusion

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175. The gap between the English regions affects everybody. Not only do people in the less prosperous regions have less opportunities where they live and suffer from worse health and greater deprivation but people in the south east are increasingly suffering from congestion and unaffordable housing. The gap between the English regions is persistent and increasing. Reducing this gap could improve everyone's quality of life.

176. Government has made significant progress over the last two years in acknowledging the extent of differences in prosperity between regions and beginning to think about how the gaps can be closed:

- a) it has set out the scale of the problem in *Productivity 3*;
- b) it has set itself an ambitious target to reduce the gap; and
- c) it has begun to promote regional thinking in central Government.

177. However if the target to reduce the gap in growth rates between regions is to be met significant actions and difficult decisions are needed:

- a) the current approach of policies for the benefit of all regions, will not reduce differences between regions. Government needs to enable regional differentiation of national policies;
- b) if the least prosperous regions are to begin to catch up with the more successful regions, greater emphasis will need to be placed on their development—in particular putting in place the fundamentals for economic growth and considering the allocation of public funding between the nations and regions of the UK;
- c) mainstream Government policies such as transport, culture and research and development will need to be assessed for their regional impact;
- d) the distribution of economic activity across the UK needs to be sustainable in the long term; and
- e) regional bodies need to be given powers and resources adequate to the scale of their task.

## 7 Conclusions and recommendations

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### Differences within and between regions

1. Both inter and intra regional differences need to be addressed but they are different problems and require different solutions (Paragraph 14)

### The Public Service Agreement target

2. We welcome the introduction of the new Public Service Agreement target. (Paragraph 16)
3. The target has two distinct elements, growing all regions and reducing gaps between them. This is not inherently contradictory but makes the target extremely challenging (Paragraph 18)
4. Witnesses have consistently described the target as ‘challenging’ and ‘ambitious’—Government-speak for very difficult. In order to stand even an outside chance of achieving the target by 2012, the Government will need to allocate significant resources to it and make difficult decisions about priorities in the next couple of years. (Paragraph 19)
5. Gross Value Added per head is not an adequate indicator for this Public Service Agreement target. We recommend that regional prosperity should instead be measured by a basket of indicators. This would explicitly take account of the range of factors that determine regional prosperity, using different indicators for each—productivity, disposable income, employment and unemployment. Quality of life should also be taken into account. The Secretary of State for Trade and Industry’s proposal of a balanced scorecard approach should be taken forward. Using a basket of indicators, each derived from a different source, also reduces the risk of relying on a single source of poor quality data. We recommend that ODPM, DTI and the Treasury consider the regional performance indicators to measure quality of life set out in Regional Quality of Life Counts as a potential basis for improving the measurement of performance against this target. (Paragraph 36)

### The quality of the data

6. Delays in producing the regional GVA per capita figures mean that decisions concerning regional policy are being made on the basis of what is known to be out of date information. A time lag of 12 months is barely acceptable for data used to measure performance against Public Service Agreement targets. Delays of three years are unacceptable (Paragraph 40)
7. We are concerned by the lack of regional GDP deflators. Without them the regional GVA per head figures are, in the Minister’s words, ‘rough and ready.’ This is not an appropriate standard for core performance indicators against Public Service Agreement targets. (Paragraph 42)

## Census 2001

8. There is an urgent need to improve the alignment between different sources of population data. We recommend that in the small number of authorities where there remains a problem between the Council and ONS about the size of the population, following the 2001 Census, a data matching exercise should be undertaken by an independent third party. This should be completed in time to feed in to next year's Local Government Finance settlement and ONS should be bound by the result. (Paragraph 44)
9. It is astonishing that the Office of National Statistics does not know how many Census forms were delivered and it was naïve not to have subjected the system to thorough testing. Data on the number of follow-up visits by enumerators should also be centrally held. (Paragraph 45)
10. The ONS assumes that people know that the Census is based on usual residency rather than where they were on the night. This ignores years of custom and practice and unrealistically supposes that everyone reads their Census form in great detail before completing it. Specific attention needs to be drawn to this issue when the next Census is promoted. (Paragraph 46)
11. If inaccuracies are shown to have occurred in the 2001 Census, ODPM should revisit the Local Government Finance Settlement for 2003/04 so that no council loses out as a result of a badly run Census. (Paragraph 48)
12. Clear and accurate information is essential for democratic decisions. Rebuilding confidence in the Office for National Statistics will be a long, slow process. Clear leadership and drive is now needed at the top of the ONS to restore confidence in it. (Paragraph 49)

## Creating the fundamentals for growth in the less prosperous regions

13. Although this is a long term target (the Government aims to reduce the gap in growth rates between 2003 and 2012), actions are needed in the short to medium term to put in place the foundations for economic growth in the less prosperous regions (Paragraph 51)
14. The Government has refused to constrain the growth of the south east. Given the Government's stance, the only way in which the gap between regions can be reduced is to make conditions in the less prosperous regions more conducive to business growth—what the IPPR described as increasing the 'pull factor.' (Paragraph 53)
15. Sustainability needs to be at the heart of, not an afterthought to, regional policy. (Paragraph 55)
16. Disappointingly, the Government could not provide a regional breakdown of expenditure on programmes targeted at regions. (Paragraph 57)
17. Regional programmes alone will not be sufficient to reduce the gaps between regions. (Paragraph 58)

## Regional policy-making across Government

18. The actions of a wide range of Government departments will affect the chances of the target being met. Tackling regional disparities should be a responsibility across Government departments, not simply those departments with traditional responsibilities for the economy and regional policies—“mainstreaming” regional policy. (Paragraph 59)

## Spending Reviews

19. We welcome the Government’s commitment to introduce a regional dimension to the Spending Review. Like much of the Government’s ‘regional policy,’ this has got as far as acknowledging the existence of regions and contains proposals for the benefits of all regions. It needs now to go beyond this and consider how the effects of policies will vary across regions and whether different measures are appropriate in different regions. (Paragraph 64)
20. To reduce differences, emphasis must be given to the less prosperous regions. Treating unequal regions equally is not a recipe for reducing disparities. (Paragraph 66)
21. Interestingly, the Department for Work and Pensions didn’t think that its floor target had a regional dimension, although the Secretary of State for Trade and Industry said that it did. Similarly, the Department of Health does not view its targets as being regionally focused and the regional dimension to its operations is being reduced. This is disappointing as it works against any ‘mainstreaming’ of regional policy. (Paragraph 67)

## The total allocation of Government funding to the regions

22. The Government should publish Professor McLean’s study on the flow of public expenditure to the regions by the end of July 2003. (Paragraph 69)
23. Increased public funding to the less prosperous regions is a necessary condition to improve their prosperity. The allocation of public funding to the nations and regions of the UK does not reflect 21st century patterns of need across the country. We recommend that the Government reviews the total allocation of funding to all parts of the UK, including the Barnett formula, as part of the post-devolution constitutional settlement. (Paragraph 75)

## Research and development

24. If public sector investment in research and development in the UK as a whole is low, then the North East’s share is pitiful and the North West, Yorkshire and Humberside and the East Midlands do not do much better. (Paragraph 79)
25. Professor Michael Porter argues that increases in public sector R&D are needed to improve the economic performance of the UK. The same argument applies at the regional level. The location of public sector R&D investment is outside of the control

of the departments that share the PSA target. All Government departments should therefore be required to consider regional impacts before making new R&D investment decisions and to publish regional impact assessments. (Paragraph 82)

26. The proportion of investment in research and development by universities which can be allocated using regional economic development criteria should be increased. HEFCE should use such funds to prioritise the development of research capacity in regions which are currently at a disadvantage in terms of higher education R&D spend. (Paragraph 83)
27. We welcome the Government's announcement of reviews of the links between universities, industry and the RDAs and look forward to practical measures being implemented as a result, targeted at the less prosperous regions. (Paragraph 85)

### Culture and Sport

28. Cultural and sporting projects can make a huge difference to a region's image, confidence and economy. Those making decisions about the location of major projects should take full account of the consequences of their decision on the target to reduce regional disparities and publish their assessment. As the Commonwealth Games in Manchester showed, decisions to locate the national football stadium and other icon projects in London represent a wasted opportunity to develop the less prosperous regions. (Paragraph 90)

### Defence

29. The treatment of defence expenditure as 'non-identifiable' when regional expenditure is mapped, fails to recognise the significant effects that it has on economies of towns where defence bases and equipment production are located. As an example, the Ministry of Defence procurement function was located in Bristol in preference to the West Midlands. (Paragraph 92)

### Transport

30. The current criteria used for transport-decision making are weighted towards reducing congestion. Given the limited resources available, this means that resources are being spent on dealing with the consequences of success and are not available to put in place the fundamentals for economic growth in the less prosperous regions. (Paragraph 96)
31. We recommend that the UK Government should adopt the approach used by the German Federal Government where a proportion of the transport budget is allocated on regional development grounds, rather than by the usual criteria (Paragraph 97)
32. Government investment decisions including transport, culture and sport, defence and research and development are made without consideration of their consequences on regional economies. As a result decisions have been made which have inadvertently had adverse consequences for the less prosperous regions. Significant public expenditure decisions by all Government departments should

include a formal regional impact assessment and decision-makers should be obliged to consider whether or not investment will contribute to reductions in regional disparities. (Paragraph 98)

### **Flexibility**

33. The RDA's Single Pot represents a very small proportion of Government expenditure in the regions. Genuine flexibility across a significant range of policies and programmes is needed in the less prosperous regions. (Paragraph 100)

### **Maximising local benefits from public investment**

34. We welcome the Government's commitment to review the number of civil servants based in London. This will however only contribute to a reduction in the gap between regions if they move to the least prosperous parts of the country. The Government may find it very hard to persuade relatively low paid public sector workers to move out of London if it abolishes national pay scales at the same time. (Paragraph 103)
35. Where money is allocated to the regions to reduce regional disparities, it is very important that it is spent and kept within those regions to maximise multiplier effects. (Paragraph 105)

### **Tackling unemployment**

36. The Treasury's 'supply-side' approach to reducing unemployment through programmes like the New Deal fails to recognise the different conditions across the country. In some places deprived communities are located very close to job opportunities. In other parts of the country, those opportunities simply do not exist and a supply-side only approach is simply not adequate. (Paragraph 111)

### **Skills**

37. We welcome the Government's new emphasis on encouraging employers to employ skilled workers as well as increasing the supply of skills. (Paragraph 112)

### **Building on regional strengths**

38. Trade and industry policies have insufficient capacity to respond to differences between regions. Central Government needs to increase the spatial dimension to industrial policy, recognising that some policies will not be appropriate in some regions. (Paragraph 124)
39. Regional administration of national policies is not the same as regionally responsive economic strategies. (Paragraph 126)
40. National policies to support investment in innovation are not, therefore, reducing regional disparities, as they are available in all regions. We recommend that the Government review the extent to which measures such as research and development

tax credits and regional venture capital funds should be applied differentially regions because of the uneven geography of existing R&D activity. (Paragraph 128)

41. ‘Bread and butter’ business development activity targeted at improving processes within individual firms is not sexy but it is extremely important in achieving the PSA target on regional economic growth. (Paragraph 129)

## Agencies

42. For too long there has been a need to streamline the bewildering array of business support schemes which are confusing to small firms in particular. We need not a one stop shop for business support but a first stop shop which can signpost what is most appropriate for different kinds of businesses, rather than a template, one size fits all solution. (Paragraph 131)

## Reform of the Structural Funds

43. We support efforts to improve the benefits that English regions gain from the European Structural Funds programmes. Like the Structural Funds, UK regeneration programmes have a reputation for being cumbersome to administer. Bureaucracy from Brussels should not be replaced by bureaucracy from London. (Paragraph 133)
44. If the Government’s proposals to ‘re-nationalise’ the Structural Funds are introduced, it must ensure that transitional funding to the current Objective One and Two areas is clearly identified as an additional sum, above and beyond transfers to these regions under existing and new UK regional policies. It is vital that the funds are made available to the regions to be spent in accordance with their priorities, be they supply-side or demand-side measures. (Paragraph 134)
45. We welcome the Government’s three pronged approach—looking at reforms to State Aid, the Common Agricultural Policy and the Structural funds together. We remain frustrated by the length of time taken to achieve changes to State Aid. (Paragraph 135)

## The role of the cities

46. Although focusing attention solely on the core cities might be the easiest way to increase average GDP per head in a region, we do not think that the core cities should be the only focus of attention for reasons of practicality (ie the distance between some of the core cities and the rest of their regions) and community sustainability. That said, it is vital to ensure that within local travel to work areas, economic development plays to strengths. (Paragraph 139)

## The links between regional economic development and neighbourhood renewal

47. Job opportunities for the residents of deprived neighbourhoods will not necessarily be located in those areas. New Deal for Communities boundaries do not reflect this and the Government’s Enterprise Areas are too tightly drawn and could fail to

include the sites with the greatest potential for economic development in the travel to work area for deprived communities. (Paragraph 144)

48. Ward boundaries are not designated on the basis of the suitability of areas for regeneration schemes, they do not consider the relative locations of need and opportunity. They are not 'fit for purpose' for the designation of funding. (Paragraph 145)
49. We are concerned that the Government has not yet sufficiently developed the links between its policies on regional economic growth and neighbourhood renewal. (Paragraph 146)

### Rural areas

50. Rural economic development needs to be integrated with the economic development of a region as a whole. The number of agencies involved should be reduced and lead responsibility should be given to the RDA (transferring to elected regional assemblies where they are introduced). (Paragraph 150)
51. We recommend that the DTI's State Aid unit should provide pro-active support to develop a State Aid compliant way to support business access to broadband, which is available to all Objective 2 areas. (Paragraph 152)

### Regional bodies

52. Devolution does not in and of itself mean a reduction in the gaps between regional economic performance. Unless devolution is accompanied by some reallocation of resources it will not make much difference, though where regional institutions are given powers and are democratically elected they will make better use of the limited resources available to them. (Paragraph 154)
53. Where elected regional assemblies are introduced they should have direct responsibility for at least business development, learning and skills, neighbourhood renewal and transport policies and funding. (Paragraph 158)
54. As RDAs increase their focus on implementation, it is vital that they spend resources strategically. This means making difficult decisions about priorities within the region. (Paragraph 161)
55. Responsibility is being devolved to the regions before power. (Paragraph 164)
56. Even as regions become more powerful, central Government will retain control of issues like infrastructure and needs to share the responsibility for reducing regional disparities—reducing disparities cannot be a matter for the regions alone. (Paragraph 166)
57. Where elected regional assemblies are introduced, arrangements should be put in place to allow some form of scrutiny of the Government Office by the assembly, as has been the case with Regional Development Agencies, which are scrutinised by

unelected regional chambers, whilst retaining accountability to Parliament through DTI Ministers. (Paragraph 170)

58. In the same way that mainstream national economic development policies should take regional differences into account, regionally differentiated national planning policies need to be considered. (Paragraph 172)
59. We recommend that regional spatial strategies be given primary status amongst regional strategies. (Paragraph 174)

# Appendix 1 – Visit to Germany

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23–29 March 2003

## Visit Note

### Introduction

#### Purpose

The purpose of the Committee’s visit was to gather evidence relating to its inquiries into:

- Reducing Regional Disparities in Prosperity;
- The Evening Economy and the Urban Renaissance; and
- Living Places: Cleaner, Safer, Greener.

#### Members and staff participating in the visit

##### Members

Andrew Bennett, MP  
Clive Betts, MP  
David Clelland, MP  
Chris Mole, MP  
Dr John Pugh, MP  
Christine Russell, MP

##### Staff

Kate Emms, Committee Clerk  
Claire O’Shaughnessy, Committee Specialist  
  
Mike Bolton, First Secretary, British Embassy  
  
Julian Farrel, British Consul General (Munich)  
Dorte Weisehofer, Press and Public Affairs Officer, British Consulate-General

#### Programme

23-25 March            **Berlin** (population approximately 3.5 million)

Herr Sinz, Deputy Director, East German Reconstruction, Federal Ministry for Transport, Construction and Housing

Professor Dietrich Henckel, German Institute of Urban Affairs  
Dr Ralf Resch, Public Relations, Berlin Transport Authority  
Cornelia Cremer, urban planner  
Alice Döldissen, Federal Environment Agency

Dr Hanns-Uve Schwedler, Director European Academy for Urban Environment  
Jeremy Cresswell, Deputy Head of Mission, British Embassy

Frau Cornelia Poczka, Head of International and Protocol Development, Berlin Senate  
Administration for Urban Development

25–26 March            **Magdeburg**, Saxony-Anhalt (popn. approx. 230,000)

Dr Lutz Trümper, Lord Mayor of Magdeburg (SPD)  
Councillor Werner Kaleshky

Professor Wolfgang Böhmer, Minister President of Saxony-Anhalt (CDU)  
Ann-Kathrin Berger, Government Spokesperson  
Astrid Kuscher, International Relations

State Secretary Dr Reiner Haselhof, Saxony Anhalt Ministry of Economics and Labour

26 March            **Halle**, Saxony-Anhalt (popn, approx. 250,000)

Professor Martin Rosenfeld, Head of Department for Regional and Local Policy, Halle  
Institute for Economic Research

Dr Peter Franz

Dr Gerhard Heimpold

Franz Kronthaler, MA

26-27 March            **Leipzig**, Saxony, (popn. approx. 500,000)

Marlies Dillschneider, Managing Director Karstadt and Head of City Gemeinschaft  
Leipzig [association to promote Leipzig City Centre]

Herr Schimansky, Head, Leipzig Trade Office

Herr Wölpert, Deputy Head, Urban Planning, Leipzig City Council

Frau Herscher, Leipzig City Council

27 March            **Munich**, Bavaria (popn. approx. 1.3 million)

Stephan Reiß-Schmidt, Head of Town Planning and Development, Munich City  
Council

Frau Constanze Linder-Schädlich, Deputy Head of SPD Group, Munich City Council

Herr Dr Lotze, Head of Structural Policy, Bavarian State Ministry for Economics,  
Transport and Technology

Herr F Müller, Economic Affairs, Bavarian State

Herr S Müller, Economic Affairs, Bavarian State

Frau Otto, Economic Affairs, Bavarian State  
 Herr Pössinger, Ministry of Planning and Development, Bavarian State  
 Herr Laren, Ministry of Planning and Development, Bavarian State  
 Frau Schweiger, Ministry of Interior, Bavarian State  
 Herr John, Bavarian Hoteliers and Restaurateurs Association  
 Herr Wöfl, City Marketing Specialist

27–28 March                    **Augsburg**, Bavaria (pop. approx. 250,000)

Mayor Klaus Kirchener, Augsburg Town Council  
 Herr Irlsperger, Augsburg Town Council  
 Herr Sterz, Augsburg Town Council  
 Herr Reinfuss, Head of Urban Renewal and Urban Development, Augsburg Town Council  
 Dr Wolfgang Hübshcle, Head of Augsburg Economic Development Department

## **Reducing Regional Disparities in Prosperity**

All three levels of government in Germany have a role in economic development—the Federal State, the Länder and local municipalities. The German constitution states that matters are dealt with by the Länder unless stated otherwise. The Länder also send representatives to act as the second house of the federal legislature.

### **The disparities**

The *Halle Institute for Economic Research* set out the scale of the regional disparities in Germany:

- GDP per capita in the former east Germany ('the new Länder') increased during the early 1990s from 40% to 62% of the West German level.
- Within the former east, Dresden, Leipzig and Berlin have 75% of the German average GDP per capita, the rest is below 75%.
- On some measures, these cities have caught up with the poorest performing areas in the West (the Ruhr area).
- There has been a stagnation / slight decrease during the second half of the 1990s.
- The reasons include the decline in the construction industry and (less importantly) the fall in population. The manufacturing sector is too small but has good performance

Herr Sinz of the Federal Government noted that the new jobs created have tended to be more productive than the jobs in the traditional, declining industries.

The *Institute* argued that GDP per capita was the best measure for regional performance (as it is best for international comparison) but is not sufficient to give a full picture. Levels of employment, unemployment and migration (as a proxy for quality of life) should also be considered.

Unemployment in the new Länder is still very high—25% in Saxony-Anhalt. In Leipzig unemployment is 18-20%. Levels of participation in the labour market by women tended to be higher in the new Länder than West Germany.

The relative cost of living is about 20% lower in the new Länder.

There has been a significant migration from east to west, especially by young people.

The Lord Mayor of Magdeburg, Dr Trümper explained that the population of Magdeburg had fallen from 280,000 to 230,000 since the early 1990s and was expected to fall by a further 20,000 in the next ten years. That led to problems of excess housing, schools and other infrastructure which needed to be managed (eg through a programme of demolishing unoccupied GDR-era prefabricated housing). Prior to reunification, there had been 46,000 jobs in heavy engineering. Today there were just 4,000. The city suffered from 20 per cent unemployment, with many older workers among the long-term unemployed. The problem would only be solved "demographically", as most of these older workers had no realistic chance of re-entering the labour market. Attention needed to be focused on vocational training for younger people. The new industrial zones in Magdeburg were only 30-40 per cent occupied, while the old industrial areas were still awaiting regeneration.

In Bavaria we heard about disparities within the land. Unemployment varied from 4.8% - 8.6% between municipalities. The former border areas have the weakest economic performance.

### **Economic development programmes**

The *Halle Institute for Economic Research* argued that there could be potential for growth in the big cities but many of the cities in the new Länder have problems—low levels of entrepreneurship, depopulation etc. Universities in the new Länder are well-funded but this has not translated into innovation and business growth.

The *Institute* called for greater emphasis on economic opportunities and potential growth centres in regional policy, arguing that current regional policy has been targeted on places with the most disadvantages. They called for greater emphasis on differential strengths, improved connections to the EU accession countries and new types of support to increase enterprise and reduce grant dependence. They argued that current federal / EU policy tended to subsidise all companies rather than simply those with greatest growth potential.

The *Institute* also said that the institutional framework should also be improved by placing more emphasis on evaluation, applying time-limits to support programmes and decentralising programmes to promote more initiative and responsibility at local level.

Herr Hübschle of the Augsburg Economic Development Department argued strongly for building on economic strengths. He argued that concentrating resources on the poorest areas could reduce the prosperity of Germany as a whole and that subsidising jobs in uncompetitive places offered poor value for money.

In Magdeburg we heard there were some reasons to be optimistic. The falling number of school leavers meant that those who remained had a better chance of getting an apprenticeship. And Magdeburg now had excellent roads and other transport infrastructure from which it should benefit. Dr Trümper thought that the main source of new jobs should come from the local university, polytechnic and research institutes, which had engineering as one of their main specialisations. Ways needed to be found to allow SMEs to translate the innovative ideas coming from these bodies into commercial projects.

Leipzig has been relatively successful at attracting mobile investors to the city, although Herr Schimansky was not able to offer a blueprint for other areas in the new Länder. Leipzig has targeted a number of high growth sectors, eg health, telecoms etc. It has a strong school and university sector.

The City Council told us that Porsche had chosen to build a new plant in the city as a result of the transport links (especially the airport), the attractiveness of the city and its dynamism. The council described local people as productive and enterprising. Leipzig also tries to take a proactive approach to planning decisions for major developments.

BMW's decision to locate a plant in Leipzig was said by the council to have been on the basis of the skills of the workforce, proactive support from city council including site development (the site was owned by the council) and the road links to the rest of Germany and Poland. Herr Sinz of the Federal Government also noted the importance of the subsidies available through Objective One to the new Länder. Herr Hübschle in Augsburg (which was in the final five possible locations for the plant) also stressed the importance for Leipzig of Objective One funding (EUR 500 million).

Augsburg had become a university town in the 1970s, but there were insufficient chairs in high-tech subjects. It also proved difficult to attract those who had studied in Munich, only 60km away, to work in Augsburg.

## **Transport**

Manfred Sinz, Deputy Director in the Transport Ministry responsible for spatial planning and structural policy, explained that the Länder were responsible for spatial planning within an overall federal framework; and that most traditional regional policy

carried out at federal level fell within the responsibility of the Economics Ministry. However, the development of transport infrastructure - a key part of regional policy, particularly in the new Länder was the responsibility of the Transport Ministry. The new Länder received 40% of transport infrastructure funding, despite having just 20 % of the population. A cost / benefit analysis had to be undertaken for most infrastructure projects, but 10-15% of funding was reserved for projects that had a "positive spatial development impact."

Asked whether he thought the spending on transport infrastructure represented value for money, Sinz replied that it was difficult to tell, because there was no "zero-spending case" with which to compare the current position. It was, however, possible to use improvements in accessibility of regions and regional per capita GDP as proxies for the impact of infrastructure investment and in many cases these have improved.

The *Halle Institute for Economic Research* said that evidence of the effectiveness of the transfer of public funding to the east was mixed. Some infrastructure projects had made a significant difference (eg the airport) others had not brought the anticipated benefits (perhaps because the schemes were not well designed).

### **The distribution of public funding**

The Federal Government administers income tax. The Federal Government redistributes money to the Länder, which in turn redistribute funds to the municipalities, according to a national formula. Herr Sinz explained that local councils have limited fund raising powers—property taxes, local trade taxes and charges.

Professor Wolfgang Böhmer, Minister-President of Saxony-Anhalt, gave a detailed explanation of the financing of the Länder, through the fiscal equalisation system, Solidarity Pact (for eastern Länder) and special instruments for the joint financing of projects. He said that party politics played a subordinate role when the Länder discussed future financing: rich Länder like Bavaria and Baden-Wuerttemberg wanted to reduce the volume of transfers to poorer Länder. The new Länder, regardless of political orientation, tended to stick together to resist cuts. As they were more numerous, they were able to outvote the larger net payers. That meant that, although it might make sense to merge some of the existing Länder into larger units, Professor Böhmer did not expect that to happen soon.

Dr Trümper explained the current financial crisis facing Magdeburg. It expected expenditure to exceed income by EUR 50 million in 2003. German cities are still fiscally weak, raising just 25 per cent of their budgets from local tax income, compared to 60-70 per cent typically in the west. They were thus particularly dependent on the system of transfers from the Land. Dr Trümper described the formula for sharing revenue as producing a result that was "fair, but insufficient."

## **EU enlargement**

All the new Länder are currently eligible for the Structural Funds. There are two tiers 35% and 28% (with 15% more for small and medium sized enterprises). The lower tier tends to be in the cities and their travel to work areas. In Saxony-Anhalt we heard about the need to ensure that transitional measures are in place in 2006. Dr. Reiner Haseloff, Saxony-Anhalt Ministry of Economics and Labour stressed the need for generous transitional arrangements for eastern German Länder graduating from Objective 1 status as a result of the enlargement "statistical effect." The alternative to continuing support for the east would be a further dramatic depopulation to half its current level, to bring the demand and supply of labour into equilibrium.

Most of the people seen by the Committee were cautious about the potential effects of enlargement. It was seen as offering both opportunities (new markets) and threats (increased competition).

## **Location of civil servants**

Approximately 50% of civil servants are now located in Berlin.

## **The Evening Economy and the Urban Renaissance**

### **Bars and restaurants**

Bars and restaurants are seen as important in Magdeburg to keep life in the town centre in the evenings. Dr Trümper said that the centre is too quiet at night and the council wishes to see more activity. The council abolished closing time last year (although bars must close from 5am to 6am). Licenses state the noise level allowed. If a bar is in a residential complex, no noise is allowed after 10pm, so as not to disturb the flats above. Publicans are expected to ensure that their premises are insulated for sound. The council says that there is no particular problem with alcohol, although if there is a major, one day event there may be some liveliness. The council argues that tolerance is needed in such situations. There have so far been no disputes between publicans and residents. The biggest problem is the provision of parking spaces.

Building regulations set out the use, so a change of use order would be required before any change. If the change will have a negative impact in noise or environmental terms, the neighbour's consent is needed. Derelict buildings are being used to develop facilities for young people, although they try to keep this away from residential areas.

In Munich there is a very high demand for bars and restaurants and in some parts of the city centre, the council has had to restrict the number of restaurants (or there would be no other uses) and to limit the amount of outside space used by bars and restaurants (to preserve the public space). The council has a number of powers—to limit the time and space for outside opening, the quality of chairs, to limit advertising space, to require bar

/ café owners to clear the street in the evening and to require them to clean their area. License fees are payable (depending on the relative attractiveness of an area). The council is piloting extensions to closing time (currently 1am).

Alcohol is not usually a problem, apart from days with big football matches and at least in part from a culture of slow drinking and relatively weak beer!

Munich city council argued for different approaches to the balance between residents and bars, in and outside the city centre. In the city centre, they saw no need to curtail opening hours—the residents had chosen to live in the city centre because it was lively. In residential areas, outside drinking is only allowed until 11pm.

In Augsburg we saw some young people drinking in public spaces.

## **Transport**

Key factors in stimulating the evening economy in Munich were the mixture of residential and economic developments; and the integrated public transport system, heavily subsidised at night, linking regions to Munich to ensure easy access into town. The underground runs until 1am and subsidised buses and trams run all night.

## **Events**

Compared to most German towns, there is a very high level of city centre use by young people in Leipzig. Frau Dillschneider stressed the importance of the mixture of culture, theatre, cabaret, museums and the university. Almost every weekend there are major events, eg classical music concerts in the market square. Munich has also used its open space for cultural events, but the number has been limited—to ensure that such events do not take over the public space and to keep them special.

## **Shopping**

Most of the towns visited had seen a decline in town centre activities as a result of the development of out of town shopping centres in the early 1990s. We heard that only Bavaria had a land-wide policy on out of town shopping (regional plans state that a maximum of 10-15% of floorspace can be used to sell items that can be bought in town centres). In Magdeburg we were told that the city was unable to stop neighbouring authorities giving permission for developments on its fringes.

In Leipzig we met Frau Marlies Dillschneider, Managing Director of the Karstadt department store and head of the "City Gemeinschaft Leipzig", an association of retailers and other businesses which aims to promote Leipzig city centre. Since 1995 all new development has been in the city centre, which was also pedestrianised that year. There

is a major shopping centre in the station in Leipzig.

In Berlin we heard that it is important to stress the link between long working hours and having facilities available in the evening. Many of the towns we visited were interested in extending opening hours for shops, especially on Saturdays. Official shop opening hours are until 8pm on weekdays and 4pm on Saturday (and not at all on Sundays) but in towns like Augsburg, many shops close at 6pm.

### **Mixed uses**

Frau Dillschneider said that only 50% of Leipzig's population go to the city centre, despite good access and only 20% of the population of the surrounding area go to the city centre. The partnership is trying to increase that by a mixture of marketing and practical steps such as trying to tackle graffiti and to offer childminding. They believe they have a good mix of uses in the city centre—shops, culture and restaurants. They are promoting city centre living—new developments are required to include flats. Munich has also prioritised city centre living and has stabilised the population of the city centre. It emphasises mixed use developments.

In Berlin, we visited the Potsdamer Platz one of the city's biggest urban regeneration schemes. This brings together evening uses—cinema, cafes, IMAX etc with significant residential development. It is also been used as the basis of a creative industries quarter, with, for example, Sony's head office there. There is a mixture of historic buildings and new architecture.

## **Living Places: Cleaner Safer Greener**

### **Public spaces**

All the towns and cities we visited were proud of the level of public space. We heard in Berlin, for example, that 14% of the city's surface is green open space and 6% water. In Berlin, we heard about the importance of creating a nice environment to a sense of well-being.

The climate makes a practical difference to the management of public space, for example, in Augsburg fountains are boarded up until May.

### **Historic areas**

In Augsburg, the area around the canals had been revitalised recently and was seen as a very attractive place to live. Grants are available for the renovation of historic buildings in the town (financed 40% by the town council and 60% by the federal government).

## **Graffiti**

Halle has a significant amount of graffiti, It is very visible throughout the city centre.

In Leipzig, Frau Dillschneider said that there is little anti-social behaviour by young people apart from graffiti. The council has an anti-graffiti programme but it is a difficult problem. The main tactic is to clean it off almost immediately. One of the biggest problems is roads into the city—which is not good for the city's public image.

## **Safety**

Munich is a very safe city, it has the lowest crime rates in Germany. There is a very high police presence. Generally 'wardens' are not allowed except on private property. There is very limited use of CCTV (only around traffic hot spots)—there is historic and cultural opposition to it.

Street lighting is low. In Augsburg, street lighting in town was deliberately low-level to make the atmosphere more attractive: no security problems had resulted.

## **Initiatives**

The Bavarian State authorities have tried to both promote good practice and look at the use of sanctions. They run a 'social towns' programme, which looks at the needs of deprived areas, often single tenure housing estates. They also run a clean cities competition. There have been attempts to fine people EUR 10 for chewing gum litter but they feel that persuading people not to drop gum is more important. Smoking is banned in stations except for a small area. Towns run a twice yearly communal clean up, which they hope promotes a change in attitude.

# Formal minutes

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**Tuesday 24 June 2003**

Members present:

Mr Andrew Bennett, in the Chair

Mr Clive Betts  
Mr Chris Mole  
Mr Bill O'Brien

Mrs Christine Russell  
Mr Gary Streeter

The Committee deliberated.

Draft Report (*Reducing Regional Disparities in Prosperity*), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 177 read and agreed to.

Summary read and agreed to.

Appendix read and agreed to.

*Resolved*, That the Report be the Ninth Report of the Committee to the House.

*Ordered*, That the Chairman do make the Report to the House.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House – (The Chairman)

[The Committee adjourned

## Witnesses

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### Tuesday 11 March 2003

Page

**Mr Matthew Taylor**, Director, **Mr John Adams**, Senior Research Fellow, **Mr Peter Robinson**, Senior Economist, Institute for Public Policy Research. Ev 1

**Councillor Bill Flanagan OBE**, National Chair and **Professor Steve Fothergill**, Co-ordinator, Alliance for Regional Aid. Ev 6

**Mr Nick Gerrard**, Assistant Chief Executive, North West Regional Development Agency and **Mr Tom Riordan**, Executive Director of Strategy and Policy, Yorkshire Forward. Ev 10

**Mr Michael Ward**, Chief Executive, London Development Agency and **Mr Anthony Dunnnett**, Chief Executive South East of England Development Agency. Ev 14

### Tuesday 18 March 2003

**Mr Jonathan Blackie**, Director, and **Mr Andrew Johnson**, Head of Transport, Government Office for the North East and **Mr Mike Parker**, Director, NEXUS. Ev 19

**Councillor Tony Flynn**, Chair, North East Regional Assembly and **Dr John Bridge**, Chairman, One North East. Ev 28

### Tuesday 1 April 2003

**Mr Len Cook**, **Mr John Pullinger**, and **Mr John McGinty**, Office for National Statistics. Ev 40

**Professor John Tomaney**, Centre for Urban and Regional Development Studies, University of Newcastle Upon Tyne, **Professor Peter Gripaios**, South West Economy Centre, University of Plymouth and **Professor Alan Harding**, Centre for Sustainable Urban and Regional Futures, University of Salford Ev 52

**Tuesday 8 April 2003**

- Councillor Malcolm Hanney and Mr Chris Elton**, South West Regional Assembly. Ev 61
- Mr Nigel Farrow**, Somerset County Council, **Mr Nigel Pitt**, Plymouth City Council and **Mr Peter Stethridge**, Cornwall County Council. Ev 65
- Ms Janette Ward**, Regional Director for the South West Region, English Nature, **Mr Martin Fitton**, Chief Executive, Association of National Parks Authorities and **Mr Malcolm Bell**, Chief Executive, South West Tourism. Ev 72
- Mr Rama Thirunamachandran**, Director, and **Mr David Noyce**, Regional Consultant for the South West of England, Higher Education Funding Council of England and **Mr Gary Lewitt**, Director, Organisation and Management Development, Ministry of Defence. Ev 80

**Monday 28 April 2003**

- Mr Mark Lloyd**, Director of Economic Development and Planning, Durham County Council, **Mr Alan Wann**, Head of Regeneration, Northumberland County Council, and **Mr Les Southerton**, Chief Executive, Middlesbrough Town Centre Company. Ev 98
- Mr Simon Judge**, Head of Labour Market Division, Work and Welfare Strategy Directorate and **Val Gibson**, Jobcentre Plus, Director for the North East, Department for Work and Pensions, and **Dr Bill Kirkup**, Regional Director Public Health for the North East, Department of Health. Ev 104
- Rt Hon Patricia Hewitt MP**, Secretary of State for Trade and Industry, Minister for Women and e-Minister in Cabinet. Ev 108

**Wednesday 30 April 2003**

- Ruth Kelly, MP**, Financial Secretary, HM Treasury and **Christopher Leslie, MP**, Parliamentary Under-Secretary of State, Office of the Deputy Prime Minister Ev 119

## List of written evidence

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3	Three Rivers District Council (RRD 32)	Ev 138
4	Surrey Heath Borough Council (RRD 33)	Ev 139
5	Forest Heath District Council (RRD 34)	Ev 139
6	Richmondshire District Council (RRD 35)	Ev 140
7	Epsom & Ewell Borough Council (RRD 36)	Ev 141
8	Cherwell District Council (RRD 37)	Ev 143
9	Royal Borough of Kensington and Chelsea (RRD 38)	Ev 143
10	Dover District Council (RRD 39)	Ev 151
11	Middlesbrough Council (RRD 40)	Ev 151
12	Manchester City Council (RRD 41)	Ev 152
13	Canterbury City Council (RRD 42)	Ev 156
14	Blackpool Borough Council (RRD 43)	Ev 157
15	Supplementary Memorandum by Blackpool Borough Council (RRD 43(a))	Ev 158
16	Supplementary Memorandum by Blackpool Borough Council (RRD 43(b))	Ev 158
17	Supplementary Memorandum by Blackpool Borough Council (RRD 43(c))	Ev 160
18	Supplementary Memorandum by Blackpool Borough Council (RRD 43(d))	Ev 160
19	Supplementary Memorandum by Blackpool Borough Council (RRD 43(e))	Ev 161
20	Royal Borough of Windsor and Maidenhead (RRD 44)	Ev 162
21	Mike Parker, Director General, NEXUS (RRD 45)	Ev 165
22	London Borough of Richmond upon Thames (RRD 46)	Ev 166
23	Cambridge City Council (RRD 47)	Ev 166
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28	Supplementary Memorandum by Westminster City Council (RRD 49(c))	Ev 201
29	Supplementary Memorandum by Westminster City Council (RRD 49(d))	Ev 205
30	HM Treasury (RRD 50)	Ev 210
31	Rutland County Council (RRD 51)	Ev 218
32	Southend-on-Sea Borough Council (RRD 52)	Ev 219
33	West of England Learning and Skills Council (RRD 53)	Ev 224
34	English Nature (RRD 54)	Ev 225
35	London Borough of Barnet (RRD 55)	Ev 227
36	Association of National Park Authorities (RRD 56)	Ev 230
37	South West Tourism (RRD 57)	Ev 232
38	Norman Stanley Smith (RRD 59)	Ev 234
39	Office for National Statistics (RRD 60)	Ev 236
40	Supplementary Memorandum by the Office for National Statistics (RRD 60(a))	Ev 238
41	ONE North East (RRD 61)	Ev 245
42	Supplementary Memorandum by ONE North East (RRD 61(a))	Ev 249

43	Supplementary Memorandum by the Office of the Deputy Prime Minister (RRD 07(a))	Ev 251
44	Supplementary Memorandum by the Office of the Deputy Prime Minister (RRD 07(b))	Ev 252
45	Supplementary Memorandum by the West Midlands New Economics Group (RRD 14(a))	Ev 253
46	Supplementary Memorandum by the Centre for Sustainable Urban And Regional Futures (SURF) (RRD 16(a))	Ev 255
47	Supplementary Memorandum by the Campaign for English Regions (RRD 24(a))	Ev 257
48	Supplementary Memorandum by the Nine English Regional Development Agencies (RRD 25(a))	Ev 258
49	Supplementary Memorandum by the Nine English Regional Development Agencies (RRD 25(b))	Ev 259
50	Supplementary Memorandum by Forest Heath District Council (RRD 34(a))	Ev 261
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52	Supplementary Memorandum by Richmondshire District Council (RRD 35(a))	Ev 262
53	Supplementary Memorandum by Cherwell District Council (RRD 37(a))	Ev 263
54	Supplementary Memorandum by the Royal Borough of Kensington and Chelsea (RRD 38(a))	Ev 264
55	Supplementary Memorandum by Middlesbrough Council (RRD 40(a))	Ev 268
56	Supplementary Memorandum by Middlesbrough Council (RRD 40(b))	Ev 269
57	Supplementary Memorandum by the London Borough of Richmond upon Thames (RRD 46(a))	Ev 273
58	Department for Trade and Industry (DTI) (RRD 62)	Ev 273
59	Higher Education Funding Council for England (HEFCE) (RRD 63)	Ev 277
60	Ministry of Defence (MoD) (RRD 64)	Ev 278
61	Supplementary Memorandum by the Office of the Deputy Prime Minister (RRD 07(c))	Ev 282
62	Supplementary Memorandum by the Nine English Regional Development Agencies (RRD 25(c))	Ev 284
63	Supplementary Memorandum by HM Treasury (RRD 50(a))	Ev 284
64	Supplementary Memorandum by the South West Regional Development Agency (SWRDA) (RRD 20(a))	Ev 285
65	Supplementary Memorandum by the South West Regional Development Agency (SWRDA) (RRD 20(b))	Ev 287
66	Supplementary Memorandum by the Office for National Statistics (RRD 60(c))	Ev 297
67	John Hacking, Manchester Joint Health Unit (RRD 65)	Ev 298
68	Supplementary Memorandum by the West Midlands New Economics Group (RRD 14(b))	Ev 300

## List of unprinted written evidence

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Additional papers have been received from the following and have not been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons library where they may be inspected by Members. Other copies are in the Record Office, House of Lords and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1. (Tel. 020 7219 3074) hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

Business Link Wessex (RRD 58)

Supplementary Memorandum by the Office for National Statistics (RRD 60(b))

# Reports from the ODPM Committee since 2002

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The following reports have been produced by the Committee since the start of the 2002 Parliament. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

## Session 2002–03

First Report	Local Government Finance: Formula Grant Distribution	HC 164 ( <i>CM 5753</i> )
Second Report	Annual Report to the Liaison Committee	HC 288
Third Report	Affordable Housing	HC 77 ( <i>CM 3783</i> )
Fourth Report	Planning, Competitiveness and Productivity	HC 114 ( <i>CM 5809</i> )
Fifth Report	Departmental Annual Report and Estimates	HC 78 ( <i>CM 5841</i> )
Sixth Report	The Evening Economy and the Urban Renaissance: Interim Report [Responding to issue in the Licensing Bill]	HC 541 ( <i>HC 750</i> )
Seventh Report	The Effectiveness of Government Regeneration Initiatives	HC 76-I
Eight Report	Planning for Sustainable Communities: Sustainable Communities in the South East	HC 77-I