



Decentralisation in England: How far does the Sub-National Review take things forward?

A discussion paper

by Olga Mrinska

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ippr north, Bioscience Centre, Centre for Life, Newcastle upon Tyne NE1 4EP Tel: +44 (0)191 211 2645 www.ippr.org/ipprnorth. Registered Charity No. 800065

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About the author

Olga Mrinska is Research Director at ippr north.

Executive summary

At a time when all the major political parties in Britain are in agreement that greater decentralisation is needed to increase the effectiveness of public policy and to strengthen the economic potential of regions and localities, specific policy measures and instruments to enable such decentralisation are urgently required. The Government is committed to empowering local authorities and regions and has launched a programme of reforms to achieve this. But these reforms have often attracted heavy criticism from local leaders, businesses and voluntary community. At the same time, none of the other parties has yet offered any comprehensive or practical alternatives to the current policy mechanisms. And while there is a policy drive towards decentralisation, in practice local and regional players still have limited authority to act autonomously and responsibly.

This paper discusses how the reforms suggested in the **Review of Sub-national Economic and Development and Regeneration** (known as the Sub-National Review or 'SNR') can take the decentralisation agenda forward and what should be changed in order to turn good opportunities into a reality.

Opportunities provided by the SNR

The SNR provides a strong basis for further decentralisation of powers to the regions, sub-regions and localities of England. It drives an empowerment agenda for local government in the area of economic development and regeneration which goes beyond the existing framework and opens up new opportunities for territories to use their local potential in a better and more meaningful way. Many proposed changes – streamlining regional strategies; giving a greater role to local authorities in designing, implementing and scrutinising policies to stimulate economic growth; enabling them to join up their efforts and resources through voluntary sub-regional partnerships – will result in the emergence of more capable partners and more proactive initiatives at the regional and local levels.

Obstacles to decentralisation

There are also issues that are not addressed by the SNR and that might hamper the progress of decentralisation.

First, the Government does not propose a balanced redistribution of powers. While there are substantial governance changes at the regional and local levels, the structure, processes and mechanisms of delivery at the national level remain unchanged, leaving questions about how prepared Whitehall is to delegate powers downstream.

Second, the document does not shed light on the financial and fiscal changes which are needed to make new policy initiatives effective: it does not provide any evidence that the Government is prepared to initiate at least some degree of fiscal decentralisation.

Third, the sub-national governance landscape that is described lacks some key existing elements (such as Regional Ministers and Government Offices), provides few details on some of the proposed innovations (such as forums of local leaders) and remains silent on the role of business and voluntary partners. All these might dramatically affect the effectiveness of processes of reaching agreement and making decisions.

At the same time, if the proposed changes are implemented, there will be a significant dispersal of powers in the areas of economic development and regeneration, with different fragments of the same responsibilities assigned to the regional, sub-regional and local tiers. As economic development and planning have traditionally different procedures of agreement and degrees of accountability, this might create confusion, with everyone being involved in everything. The process of decision-making in areas in which prompt decisions and clear priorities are required would thus be delayed.

The reasons behind the above factors might be explained by the fact that the SNR is in fact aimed at achieving two core goals: addressing the democratic deficit between the local and national levels, and enhancing the effectiveness of economic growth policies at the regional and local tiers. While the changes proposed by the SNR might help to achieve the first aim, it is less clear whether they will be effective in meeting the second.

Introduction

The Review of Sub-national Economic Development and Regeneration (known as the Sub-National Review, or 'SNR') was first published in July 2007 and is currently being finalised. It represents an important step towards more effective and responsible governance of the English regions and localities.

However, there are also a number of issues that are either partially addressed or only briefly mentioned in the document without offering specific instruments and resources for implementation. The purpose of this discussion paper is to highlight these issues and to initiate debate around them, in order to find solutions that would add value to the forthcoming legislation and implementation process.

For some time, different stakeholders at the national, regional and local tiers have challenged the complicated and often unaccountable policies and procedures that have guided the country's regional economic development and regeneration. The need for changes to the legal and governance systems was widely acknowledged.

The SNR offers a complex framework of reforms aimed at empowering the sub-national levels of government in the areas of economic development and regeneration. When embedded into legislation and made operational through actual policy instruments (expected to happen over the next two years), these changes will mean that decisions affecting local and regional economic development will be taken at the most appropriate level. There are several encouraging signs of continuous reform such as:

- Streamlined strategies at regional level
- A greater role for local authorities in determining and implementing the policies that are necessary for unlocking their area's potential
- The opportunity to pool resources and ideas through sub-regional partnerships.

The Government's commitment to developing places and communities and its willingness to delegate more functions to sub-national levels is an important element of a progressive agenda. There is a global trend towards greater decentralisation and devolution of power to the regional and local tiers as national governments realise that 'one size fits all' policies no longer deliver the desirable results. The free movement of goods, services, capital and people is changing the role of national states, while technological progress and the rapid growth of knowledge- and innovation-intensive production are shaping a new role for global corporate players and supranational organisations. At the same time, local and regional partners are gaining new bargaining powers in the global competition for resources and skills.

All these demand more effective central mechanisms to manage diversity in a sensible manner, especially as citizens are concerned that they might lose out in the so-called 'postcode lottery'. Modern trends of socio-economic development require new approaches to the way that the state is managed and to how power is distributed across different tiers and sectors. If a state wants to become and remain competitive in the global economy, centrally planned and implemented growth and productivity policies alone are no longer an option. Greater flexibility and a greater capacity to adjust quickly to global trends and demands are essential. This could be achieved by giving more leverage to sub-national stakeholders.

But it is not only global trends that highlight the need for a more balanced redistribution of powers between the centre and the regions/localities. In recent decades, there was substantial centralisation of powers in the UK. This trend began under the Conservatives in the 1970s, and was not reversed by the Labour Party when it came to power in 1997. Despite many initiatives aimed at strengthening the role of sub-national players in England (such as the creation of Regional Development Agencies, the failed attempt to create Elected Regional Assemblies, and the initiation of debates around city-regions and core cities), central government remained in full control of the development and well-being of regions and localities. It is often argued that this is the best solution to manage inequalities in an effective way.

However, current trends illustrate that inequalities in Britain remain very significant, territorial inequalities in particular. The UK currently has the biggest productivity gap (measured as GDP per head) in the European Union between the most developed and least developed regions and this gap has widened over the last 10 years (EC 2007). Though this tendency towards greater differentiation is typical in many EU countries, no other EU member state faces the same level of divergence. It is thus difficult to justify the correlation between greater centralisation and a more equal society. A more decentralised approach to managing the country's socio-economic development might be better suited to unlock the potential of the British nations and English regions. Combined with a well-established set of national minimum standards, this could help to combat persistent regional inequalities in the UK.

The policy changes in local and regional development and governance offered by the Government over the last year (for example, the Local Government White Paper, the Governance of Britain Green Paper, the Local Government and Public Involvement in Health Bill) are crucial for enhancing the power and economic potential of English regions and localities. The Review of Sub-national Economic Development and Regeneration, which is currently in the process of finalisation, is a very important step towards a less centralised state.

The SNR calls for greater freedom to be given to sub-national tiers of government to manage economic development and regeneration. Originally published in July 2007, the document is designed to be 'a vehicle for reform of public institutions' (HMT *et al* 2008: 5) by better aligning functions and by delegating authority to the level that is the most appropriate for achieving strong results. This represents the subsidiarity principle, which was declared as one of the key principles in relations between the Government and local authorities in the recently signed Concordat.

The need for reforms

The SNR's primary objective is to enhance the economic performance of the English regions and localities by empowering them to unlock local potential and address the needs of the local population. It also represents one of the Government's key instruments for closing the productivity gap between the more prosperous communities of the Greater South East and the rest of the country.

Despite many efforts over the last five years, fulfilling this commitment remains a challenging task. The years of strong economic performance were crucial for spurring growth across the regions and nations, and those that had traditionally lagged behind (such as Scotland, Northern Ireland and the North East) benefited the most from dynamic growth (see ONS 2007). However, the gap in productivity (measured by Gross Value Added per capita) remains significant, with no sign of reduction on the horizon.

As we enter a more turbulent, less favourable macroeconomic climate, the Government's estimates of economic growth for the country and its regions will have to be revisited and will most probably become less optimistic. It will become even more difficult for the Government to meet its Public Service Agreement objective 'to improve the economic performance of all English regions and reduce the gap in economic growth rates between regions' (HMT 2007: 66). As history proves, it is hard to sustain high rates of economic growth in the least developed regions unless they experience fundamental structural changes that make the regional economy more resilient to crises. In the current situation, however, it is unclear how regional economies could be disentangled from the global and the national economies, which are both showing signs of a slowdown.

The SNR highlights the importance of taking decisions at the most appropriate level. For some issues, particularly those related to economic development (we refer here to economic development in a broad sense, including aspects of housing, transport, skills and employment policies), the sub-regional or regional level might be the most appropriate. Often this level plays an important strategic role, which involves developing a vision for an area, identifying the challenges and opportunities it faces, and specifying priority actions and resources necessary for achieving this vision, based on available evidence (CLG 2008). These are not simply technocratic decisions, but ones that will impact on the lives of citizens, such as which areas should be prioritised for regeneration, or whether to focus

development on urban centres or the periphery.

This creates two problems. The first is one of accountability. There are no directly democratic institutions at the regional or sub-regional level, yet a great deal of activity, especially in relation to economic development, takes place at these levels. As there are only two centres of democratic legitimacy in England (Westminster and the local level) the challenge is to inject some democratic legitimacy into regional and sub-regional decision-making through the engagement of the national and local levels. For this reason, the greater engagement of local authorities in regional decision-making is very welcome.

The second is one of effective government. Much regional and sub-regional decision-making relies on agreeing strategic priorities through partnership working, but there are some concerns about the ability of such partnerships to deliver hard-headed strategic decisions.

It is important to recognise the changing nature of the wider governance structure of the state. Over the last year, some new players have entered the regional scene (such as Regional Ministers and the proposed regional select committees in the House of Commons), while others are being abolished (Regional Assemblies [RAs]) or are having their responsibilities seriously reshaped (Regional Development Agencies [RDAs]). Reforms to local government are also ongoing, with single-tier authorities replacing many previously two-tier areas.

It is unfortunate that the SNR consultation document does not include this wider picture and gives no clue as to the role played in the new system by Regional Ministers or Government Offices in the regions. There is more clarity about the role of local authorities and sub-regional formations; however, some new functions look uncertain, as they are presented only in vague terms such as the 'right tools to increase growth in the region' (CLG and BERR 2008 para. 2.4) and even less clearly stated prospects of financial flexibility (the ability to manage resources independently). The SNR document also completely ignores the question of how central government should be changed in order to adjust to the new system.

The proposed changes

Below we analyse aspects of the proposed changes at the different spatial levels.

National level

The SNR suggests some fundamental changes in the way decisions about economic development and regeneration are taken at sub-national levels. It entails a quite significant redistribution of powers, which will mainly benefit local authorities as it enhances their control over the performance of regional and sub-regional quasi-governmental institutions (such as RDAs). It also offers relative freedom to local authorities to decide how exactly they are going to build consensus across the region in achieving important goals of economic development (which may be more challenging than previously expected – see below).

However, it ignores the fact that to bring about meaningful results from all these changes, national government structures will also need to change. *There is thus a risk that the governance innovations suggested by the SNR will not address England's fundamental problem of over-centralisation.*

As ippr argues in other research, when powers were devolved to the three nations of Scotland, Wales and Northern Ireland, Whitehall failed to adequately reflect this new reality in its institutional framework (see for example Lodge and Schmuecker 2007). Some Whitehall departments remain insensitive to devolved policy areas, and there is a lack of capacity at the centre of government to coordinate devolved activities and manage policy differences. Unless some integrity and coherence is brought into the way Britain's nations are governed, the tension between London and the devolved administrations will not ease, and might even increase.

With the English regions, the situation is quite different and the level of powers decentralised to regions and localities less prominent. Decentralisation within England cuts across multiple Whitehall departments, whereas devolution to the nations was relatively more straightforward, just requiring the democratisation of the already administratively devolved territorial departments (including the Scottish

Office and Wales Office). However, the role of sub-national stakeholders in economic development policies is about to be enhanced and *the administrative structure, processes and mechanisms of delivery at the national level should be changed* to become more coordinated and responsive to what should be a more flexible and diverse system.

Whitehall should move from a strictly functional towards a more territorial approach when dealing with decentralising and devolving powers of economic development, regeneration, improving quality of life and so on. This will also require better coordination mechanisms at the national level given that the present arrangement at regional level (through Government Offices) is not the most suitable way of delivering the new agenda as it does not provide a strong platform for delivering regional voices to the national level. Currently, there are three departments that deal with the core issues of regional and local development (including funds allocation): Department for Communities and Local Government (CLG), Department for Business, Enterprise and Regulatory Reform (BERR) and the Treasury (HMT). Of course, there are also a range of other ministries that contribute greatly to the economic development agenda through their programmes and budgets, including the Department for Work and Pensions (DWP), Department for Children, Schools and Families (DCSF), Department for Innovation, Universities and Science (DIUS), Department for Transport (DfT), and the Department for Environment, Food and Rural Affairs (DEFRA).

To achieve the results articulated in the SNR document, the level of coordination between these departments will have to be strengthened. *A single coordination centre at the national level* which will be a 'face' for communications with the regions and localities will have to be formed and granted with respective authority and resources to influence core departments (which the existing Regional Coordination Unit does not have). It might be established on the basis of the existing CLG or a newly expanded Department for Nations, Regions and Local Government (or Department for Nations and Localities – see Lodge and Schmuecker 2007).

The SNR gives no indications that any of these reforms are planned by the Government. It was suggested in the initial SNR document (HMT *et al* 2007) that Regional Ministers might execute this coordination role. But with nine people representing nine distinctive regions, this would be difficult to achieve. Moreover, the Ministers' goals and the scope of their responsibilities (on top of their main portfolio as all have other ministerial jobs too) remain unclear, and they lack administrative support to carry out their regional functions. The consultation document sheds no light on how they will function under the new system (see below under 'Regional level').

For the entire system to become effective, what is needed is a sort of *'mirror' SNR for national government* which would outline how central government is going to change in order to manage ever-changing sub-national governance structures. This will create opportunities for growing national and regional economies, and will allow a more decentralised, 'hands-off' approach in relations with local authorities and groups of local authorities that are active at the sub-regional level. If nothing changes, the Government will still be trying to address the challenges of increasing territorial diversity through an inflexible, functions-driven administrative system.

There is also some concern about how serious the Government is about its intention to make sure that, in the words of the SNR, *'decisions are taken and implemented at the most appropriate level'*. A quite sophisticated consultative process has been introduced to develop and agree Integrated Regional Strategies (IRS). Yet the Government reserves the right to amend the strategy document when it is submitted by the regions after full approval from the RDAs and Local Leaders Forums. Admittedly, situations may occasionally arise when the Government does indeed need to step in and amend a strategy document where it goes against national strategic priorities (for example, in the case of housing). Yet the regulations should clearly identify under what circumstances this is possible, since it would be a mistake to allow a general 'amendment option' for all areas of the Strategy.

The opportunity for the Government to make blanket amendments throws into question the SNR's overall ambition of empowering local authorities to identify and realise their own priorities. It looks like the Government is encouraging local authorities to bring their priorities to the national level (through Integrated Regional Strategies) only for them to be (possibly) rejected. If this power is not

exercised with restraint, and only in clearly defined circumstances, it could undermine the whole process and disengage local actors, including from the later stages of implementing IRS priorities. They would be likely to participate only 'formally' in fulfilling their obligations, since the Government will still have the final word even when deciding the most 'localised' issues.

This potentially negative factor could be overcome by establishing *single negotiations framework* – some sort of coordination/consultation mechanism at the final stage of strategy approval, which brings all key national, regional and local stakeholders around one table, whereby local authorities would have the chance to confront the Government's decisions and to protect their right to choose certain priorities. At the moment the whole process is staged around different levels of consultations, engagements and responses, also allowing some 'contractual' relations (in the form of the Concordat between the Government and local authorities or the Memorandum of Understanding between RDAs and local authorities). However, this process would be even more effective and inclusive if at the final stage there were one forum, possibly facilitated by the Regional Minister, where all levels could advocate and negotiate their positions, reach compromise and finally agree the document. This would also mean that local authorities would feel less disengaged from the final approval process, which foresees the possibility for the Secretary of State to amend the strategy document after it has been already agreed by all regional stakeholders. Having an opportunity to present their vision and defend it when necessary will prompt local authorities to be more cooperative and proactive.

Local level

Local authorities are the clear winners from the reforms suggested in the SNR, and their greater involvement in the process of developing and implementing regional and sub-regional strategies will help to address the question of accountability of these tiers of government. After the failure to introduce Elected Regional Assemblies following the negative results of a referendum in 2004, the Government experienced severe difficulties filling the democracy gap at the regional level, while continuing to perform important economic and social functions at that level in response to economic conditions and needs.

The newly proposed forum of local authorities' leaders (known as the 'Forum') could be a step in the right direction, though much will depend on the ability of local authorities to steer the process in a way that contributes to the development of their region. Also, the level of powers delegated from regional to local authorities in the sphere of economic development and regeneration will greatly depend on the capacity of the latter. The Forum will thus have to work alongside the key institutions responsible for expert capacity at the local level (local authorities and their associations, Regional Efficiency and Improvement Partnerships) if local authorities are to fully enjoy the fruits of decentralisation offered (conditionally) by the Government and from the regional level.

Still, there are some obvious weaknesses in the model suggested by the SNR. One of these is the introduction of the *local economic assessment duty*. This is a reduction in status from the 'local economic development duty' that was offered in the initial SNR document in July 2007. While there is no doubt that such an assessment is essential for the development stage of the process (preparing and reviewing the strategy), it will have little relevance for the implementation and monitoring/control stages, which are equally important. This duty is also designed to enhance the capacity of local authorities to manage economic development and regeneration so that more responsibilities could be delegated from the regional level.

However, the assessment duty might help to develop only certain aspects of local authorities' capacity in the area of economic development and regeneration, as they will not have a practical opportunity to develop their skills in delivering action plans, exerting control over resources or overseeing the meeting of previously agreed targets.

The SNR is silent about the specific instruments and resources which local authorities will have to take forward the priorities they believe are crucial for enhancing local economic growth (it mentions only the 'right tools' for implementation, without making clear what they actually are). Moreover, the limited resources available under the current and next spending review settlements for local

government will limit its ability to be creative and flexible in designing action plans that will be based on the assessments of local areas. Themselves having limited resources for conducting assessment, the authorities will have to follow traditional routes to gaining new knowledge about the area (there are some prescriptions already offered by the Government in the SNR annexes), which will limit the potential for developing new skills and knowledge. It may also endanger local authorities' prospects of getting greater delegated powers from RDAs, as the latter will assess the readiness of local government to perform specific tasks in the area of economic development depending on their capacity. Nor will it help to change business stakeholders' negative perceptions of the capacity of local authorities (see below).

It could be argued that local authorities already have *the power to promote and improve the economic, social and environmental well-being* of their area, as established by the Local Government Act 2000. If they do not use this opportunity, provided eight years ago (and the Government reports that only one in 12 local councils use their power of well-being), there is no sense in duplicating the function through a new duty. However, the power of well-being requires more adequate resources and practical tools which would allow local authorities to make the most of it.

The level of local fiscal flexibility is quite limited (in England only about one quarter of local budgets originates from local income) and does not allow for more ambitious local decisions aimed at harnessing local potential and increasing well-being. In the current fiscal climate, even with the increased predictability of central-level funding promised by the Government it will be difficult to take risks in implementing locally meaningful economic projects without first ensuring total support from the national departments, as they remain the only source of funding for any significant investment project. It might be more useful to redirect the energy local authorities spend on bidding for the share of central resources to the meaningful engagement with the business community, gaining business support (including financial support) in implementing crucial investment projects.

We welcome the idea of regional *forums of local authorities' leaders* and flexible arrangements for how they are organised in different regions. Forthcoming research from ippr north suggests that voluntary partnership arrangements often work better than ones that are established in response to an external requirement (Schmuecker, forthcoming). Therefore, allowing the precise arrangements for local forums to be determined by each region, so long as they conform to specified principles, seems to be the right way forward. These principles should be clearly established so that the individuality of forums functioning in different regions is not overshadowed by inequality of opportunities for individual local authorities.

There are inevitably big differences between agreeing a strategy in a region with 12 local authorities and doing the same in a region with more than 70 local authorities: leadership arrangements should be selected accordingly. However, a minimum 'gold' standard stipulated by the Government for decision-making in Forums, for example with regards to voting rules, might be useful. Otherwise, one region could fail to submit a fully agreed strategy due to only one opposing authority represented at the Forum if a unanimous vote is required, while in a situation where only a two-thirds majority is required, another region could provide a successfully approved document even if nearly a third of the Forum's members voted against it.

The SNR offers an opportunity for the Government to step in and approve the regional strategy submitted by an RDA if there is no agreement among the Forum's members. Whether or not government should intervene if the Forum fails to operate effectively depends on what is meant by 'failure to operate effectively'. A Forum that fails to reach a consensus should not necessarily be regarded a failure, as economic development and planning are inherently political matters and invariably involve disagreement and debate, which is healthy for democracy. To strive for consensus is likely to result in the continuation of lowest common denominator strategies, rather than tough strategic decisions being taken. In fact, RDAs, especially in the last strategic planning cycle, have managed to avoid lowest common denominator outcomes thanks to their non-accountability status, which has allowed them to take bolder decisions regarding economic development and thus to perform more successfully.

Local authorities are gaining more powers in a *streamlined regional strategic cycle*, which envisages a merging of the Regional Economic Strategy (RES) and the Regional Spatial Strategy (RSS) into an Integrated Regional Strategy (IRS). After the abolition of RAs in 2010, RDAs will become the key strategic stakeholders responsible for the development and implementation of the IRS. They will have to share many more responsibilities with local authorities and sub-regional partnerships, from evidence building through to control and monitoring. RDAs are also encouraged to delegate as many powers as possible to the levels below, if the capacity of the authorities in question is adequate. At the same time, local authorities will use their power of scrutiny to oversee progress in implementing the strategy and recommend changes when targets are not met.

However, there is a *potential for conflict of interest*, as the same authorities will be responsible for designing the strategy, then taking part in its implementation, and finally for judging how successful the whole process was. There is a need to carefully think through how to separate two crucial functions of local authorities – strategy development and implementation on the one hand, and scrutiny on the other – so that the whole process is not compromised. The Forum of local authorities' leaders might provide an arena for separation by organising different groups or commissions which have carefully identified responsibilities for different stages of strategic process. However, this might complicate consensus building even further and will require more cooperation from local authorities to reach a compromise.

Regional level

The governance structure at the regional level proposed by the SNR and also the Governance of Britain Green Paper (Ministry of Justice 2007) has stimulated vivid debates. There is general consensus that the streamlined strategic process at regional level is a very positive step forward. However, the lack of direct mechanisms for RDAs' democratic accountability, alongside an expanding of their functions, causes some concern.

Our research demonstrates that RDAs are effective in implementing their functions, which are currently largely concentrated on business and investment aspects of regional development (Johnson *et al* 2007). These are business-led organisations which in the next few years will have to change dramatically in order to absorb very different aspects of regional development related to spatial planning, transport, housing and environment. Some of the new priorities, particularly in social and environmental spheres, will be in direct conflict with the business-orientated priorities of the RESs, and the compromise will be difficult to achieve. RDAs will in practice become socio-economic development agencies, and their structure and delivery principles will have to change to reflect that. In particular, the role and expertise of RDA Boards need to be revised so they become more complex and diverse, as they are currently strongly business-led.

While the SNR grants an extended set of RDA functions, at the same time it suggests a much *simplified performance evaluation framework for RDAs* based on a single overarching growth objective (largely based on economic productivity indicators) (HMT *et al* 2007). In a way these are contradictory statements, as it will be difficult to hold RDAs to account for the new responsibilities, such as spatial planning, housing, or sustainable development, through a purely economic objective. In no way are we suggesting that there should be a return to the over-complicated and cumbersome RDA performance assessment framework. However, it is crucial to ensure that the new responsibilities of RDAs will be monitored accordingly, and thus an extended notion of the regional 'growth objective' is required that would encapsulate all other areas for which the RDAs are responsible. This would also mean that the region's performance will not be measured only against narrow economic indicators but will incorporate some wider measures of well-being, in congruence with modern principles of sustainable economic growth (see Johnson *et al* 2007).

With the extended powers RDAs have in developing the IRS, it is important to remember their responsibility to engage key regional stakeholders from different tiers and sectors (voluntary sector organisations, business community, Trade Unions and so on) in the process of preparing, implementing and monitoring the strategy. There is a question as to whether RDAs should be obliged to engage local and regional stakeholders in the process of developing and agreeing the strategy at the earlier

stage, as currently there is nothing that can force them to do so. This might be done through a new *duty to engage*. On the other hand, it is possible to harness the role of stakeholders (especially from the business and voluntary sectors) through an independent panel suggested by the SNR. It remains to be seen what functions and powers this panel will have in reality (whether it will simply be consulted, or if it will amend or ‘sign off’ the document), especially in a situation where the RDA and the forum of local authorities’ leaders are unable to reach a compromise over the final document and it is submitted to ministers without agreement. This issue requires further discussion.

It is disappointing to see that the role of *Regional Ministers* is not explained or developed further in the SNR document. These nine posts were established to test whether it is possible to enhance the accountability of regional institutions (mainly RDAs) through the national level (Westminster). However, since regional ministers were introduced in July 2007 ‘to represent the voice of the regions in the central government’ (Ministry of Justice 2007: 37) there has been little progress, and many feel that this initiative has turned into just another voice of Whitehall in the regions.

The role of the nine ministers in the new regional governance structures is unclear, their rights and responsibilities are vague, their capacity to actually take meaningful actions to promote the regions as important players in the national context is limited. With the idea of regional select committees still in the process of refinement (only Parliament itself will decide whether it needs to create them and in what form) the absence of clarity about Regional Ministers adds to the worry that the dialogue between the centre and regions will once again be one-dimensional. However, there is a chance for Regional Ministers to become a very desirable mediator between the local authorities (Forum), regional/sub-regional institutions and central government in the process of agreeing the strategy, filling the gaps in the coordination process as identified above.

Other important regional stakeholders missing from the SNR are the *Government Offices for the regions* (GOs). Despite the fact that GOs are perceived as the voice of Whitehall in the regions, we believe there is some scope for them to take part in the revamped governance structures following the SNR, especially in areas where there is a potential conflict of interests. For example, the reform envisages that RDAs will delegate responsibilities in economic development and regeneration to local authorities, subject to a satisfactory level of organisational capacity. However, RDAs might be considered to be biased since the scope of their power will depend directly on how much is delegated downstream. There is a danger that top-down delegation being conditional on capacity will be used arbitrarily to prevent local authorities from getting involved in the implementation process.

We believe GOs might be better placed to provide a *neutral evaluation of the capacity of local authorities or groups of local authorities* which could then be used by RDAs as a criterion for delegating powers in economic development and regeneration. Also, the SNR does not refer to some other agencies that are crucial in the regional governance ‘jigsaw’ (such as the Homes and Communities Agency and housing boards) and would inevitably change the balance of responsibilities and powers in the newly proposed arrangements. There is thus a need to ensure that any future analysis and proposals for further regulations are extended to include such areas. For example, the new Homes and Communities Agency will be most effective if it fits into the emerging governance architecture at the sub-national level, rather than creating additional structures that could complicate the situation further.

Sub-regional level

The SNR offers a fairly robust agenda for enhancing the *sub-regional tier of governance*, arguing that this is one of the most appropriate levels to perform economic and planning policies that gain from economies of scale (HMT *et al* 2008; see also CLG 2008). Yet the issue of direct accountability at the sub-regional level is as acute as at the regional level. There is a perceived risk that local authorities might lose yet more powers to sub-regional, directly non-accountable, partnerships (though in single-tier authorities the sub-regional level will have directly accountable bodies as the borders of the two will match together). However, the newly proposed arrangements (such as Multi Area Agreements – MAAs) are offered on a voluntary basis, so local authorities can simply opt out and thus avoid this perceived risk. Moreover, if MAA partnerships prove their effectiveness in sub-regional decision-

making, their powers will be gained from RDAs and central government departments, not from local authorities.

There are some concerns about how effectively partnerships can take tough strategic decisions. In particular, the *OECD Territorial Review of Newcastle and the North East* argued that partnerships are less well suited to addressing strategic issues and politically contentious challenges, instead being better for short-term, task-specific engagement (OECD 2006). However, experience in the North East region, such as that of the Tees Valley Partnership, suggests this is not necessarily the case and we believe MAAs and other arrangements can perform well in the form of partnerships. We do, however, need to understand better how to create the conditions for successful partnership working.

ippr north's research finds that there is no single blueprint for what regional and sub-regional governance should look like, and different structures have sprung up in response to different regional and sub-regional challenges (Schmuecker forthcoming). The intensity and quality of relationships between different local authorities and agencies have been a key influence, with the history of relations playing an important role. In some respects this is as it should be, as local areas should have the flexibility to develop appropriate joint structures in order to respond to local needs and opportunities.

However, there is a growing danger of fragmentation and confusion over whether multiple partnerships are operating in a limited space. Different central government departments are suggesting new initiatives, incentives and requirements for further partnerships (for example the City Strategy, Skills and Employment Boards) which may complicate regional and sub-regional governance systems even further. Also, local authorities' capacity might be stretched too far as they are expected to take part in more partnerships, which entails more demand for their skills and resources at least in balancing different partnerships and using them in the most effective way.

Statutory sub-regional arrangements could prove more effective and reduce complexity, but they could only exist where there is broad local support. The SNR offers such an opportunity for local authorities to join together if there is a desire for collaborative initiatives to go significantly beyond the offered economic development areas (transport, skills and employment). But this possibility is quite challenging, as it means that local authorities would have to surrender their powers to the newly created sub-regional statutory authority.

For MAAs to become effective, other public sector bodies should have the *duty to cooperate* (where relevant) – and this should be the case regardless of whether they are statutory or not. This will enable LAs to effectively lead the agenda at the sub-regional level. There is also an option for this duty to be extended to the regional level, as the process of development and implementation of the IRS will now include a much wider circle of stakeholders, meaning collaboration will be essential for the strategy to become a success.

Fiscal decentralisation

The ability of councils to raise their own funding and use existing financial instruments designed by central government in a discrete and flexible way should be seen as a pre-condition for enacting a local vision and priorities. This potential is currently difficult to realise. The incentives to collect more revenues are simply not strong enough, and each programme, from Local Authority Business Growth Incentives (LABGIs) to Employment Zones, has its own entrenched procedures and performance frameworks. Not a lot has changed in the way that resources are distributed, apart from local authorities gaining the prudential borrowing power – the freedom to borrow for capital investments without seeking permission from central government (through the 2004 Prudential Borrowing regime; 60 per cent of authorities have used it so far). The Government is also working on increasing the certainty of long-term central funding, which is also necessary.

However, much more needs to be done to increase the incentives and *flexibility of local authorities to attract and allocate resources*, which the SNR itself identifies as one of the crucial challenges for promoting local economic development. It seems unbalanced to give local authorities new duties without making them more responsible and accountable for both activities and resources aimed at promoting economic growth. Over time, greater financial freedom can also be expected to force

(most) local councils to use resources more effectively. Not only will they have to learn how to act in a more competent and responsible way, they are also more likely to start pooling resources in cases where the need arises or when funding is insufficient to deliver the functions locally. Restructuring resource generation and allocation mechanisms would also provide another opportunity to enhance sub-regional collaborative mechanisms.

But while arguing for fiscal decentralisation it is important to bear in mind the tax base differentiation across the country: not all regions and localities have the same stock of businesses and assets to bring comparable amounts of income. Northern regions face particular difficulties in creating a solid tax base because of how the economy is structured and the dynamics of restructuring. Thus *the debate around fiscal decentralisation should have a wider framework to embrace fiscal equalisation*. There is also a need to open wider perspectives for local taxation: from a community infrastructure levy through supplementary business rates to local income tax top-ups.

The SNR suggested that the Regional Funding Allocation (RFA) will set a clear *financial framework* for the regions to develop their strategies, and regions and local authorities have already been invited to comment on the RFA for the next three years. However, if regions and local authorities are invited to advise on detailed allocation by sectors (which will then be reflected in departmental spending programmes) prior to developing their economic assessments, IRS and delivery plans, *the process will be the wrong way around*. The money allocation would be specified first, with a strategy then developed to match the identified priorities. In theory (and this is the practice in other developed countries), a detailed financial allocation should be developed along with the delivery plan *after* an assessment has been carried out and a strategy has been developed and approved.

Unless the current RFA round is designed as a ‘test bed’ for sub-national stakeholders, giving them the chance to develop their experience in prioritisation and financial planning so that they are better prepared for the next round of the RFA (when nine IRS will already have been prepared and action plans will have been confirmed), the Government should review the proposed timings. A new framework should be designed whereby resource allocation is determined *after* localities and regions are clearer about their priorities for development over the next five to ten years.

Engagement of social and economic partners

It is important to bear in mind *the role of business and voluntary sectors* in the changing governance landscape at sub-national level. With the disbandment of Regional Assemblies and with the introduction of the proposed Forum, local authorities will have a greater role in the planning, implementation and scrutiny of the IRS. However, business and especially the voluntary sector stand to lose influence, weakening their input into the policy process in crucial issues such as planning, housing, environmental protection and sustainability.

Business circles are in some ways in a better position, since they will retain their influence over regional strategic processes through RDA board membership (though there are challenges surrounding how the boards of RDAs need to change to reflect their new roles in planning, transport, housing, and so on). On the other hand, local authorities may face great difficulties in changing the rather suspicious, if not negative, perception of the effectiveness of local government among business representatives. Much of the business community remains to be convinced that local authorities will enhance rather than slow down or undermine the streamlined strategic process, especially in areas that are crucial to business such as planning and housing (due to the difficulties of building consensus, especially in the South of England). Many would still prefer a ‘strong hand’ of government to overcome problems at the local level and ensure more straightforward procedures.

The IRS is supposed to combine simplified Regional Economic Strategy procedures with the more sophisticated, publicly accountable Regional Spatial Strategy process, yet there is concern that this may delay the agreement and implementation of the IRS. One thing, however, is clear: there is a need for greater dialogue between business and local authorities in order to allay some concerns and to find solutions for others. In order to plan and deliver genuinely local economic and regeneration policies, which is seen as a key objective of SNR proposals, local authorities need to be better geared up for

dialogue with business – not only by consulting them in a formal way, but also making them strong partners and interested investors in the process of stimulating local economic growth and prosperity.

The role of the voluntary sector in post-SNR governance structures remains less clear. It will no longer have the opportunity to engage in the regional planning process through the Regional Assembly and no clear alternative has been offered. Since the Government intends to engage the voluntary sector (and the private sector) more deeply in the development and implementation of socio-economic policies, the voluntary sector will require better skills and enhanced capacity if it is to be actively and effectively engaged in the new processes at sub-national levels. However, the SNR offers no actions in this direction, which might aggravate existing capacity imbalances even further.

While local authorities will receive substantial help in strengthening their capacity to manage local economic development and regeneration, the scale and nature of support to the voluntary sector (for example through the Capacity Builders programme) is still to be seen. *The Government, jointly with third sector leaders, needs to develop a programme of actions that would prepare voluntary organisations for more proactive and substantial engagement in the process of regional, sub-regional and local strategic planning.*

Wider European context

It is important to remember the ultimate goal of the reforms suggested in the Sub-National Review: enhancing economic growth in English regions and localities and reducing the productivity gap between the most developed and least developed regions. It is often argued that in a country of such great spatial contrasts there is a need to find a more realistic and balanced benchmarking framework (rather than always taking London and the Greater South East as the benchmark), which would allow assessment of the relative performance of English regions and localities on the basis of wider measures of well-being (cf Johnson *et al* 2007).

There is also a need to look at the wider European context and to compare the performance of English regions with the performance of regions in other EU countries. The European dimension is currently completely absent in the SNR, which is unacceptable given the pressures of the Lisbon Strategy for Growth and Jobs adopted in 2000 and relaunched in 2005. The UK undertook obligations to improve the competitiveness of its national economy and the economies of its nations and regions. It would thus only be logical if relevant targets and objectives from the Lisbon Process were reflected in the renewed institutional and policy context of the regional development of England, as the objectives of these two policies are very much congruent.

Conclusions

The Review of Sub-national Economic Development and Regeneration is in general *a very positive step towards empowering local authorities and institutions operating at regional and sub-regional tiers to deliver more individually tailored and needs-based policies aimed at enhancing economic growth and the well-being of the local population.*

However, we believe that in proposing reforms in the SNR the Government was driven by *two quite distinctive and fundamental goals*: (1) to address the democratic deficit existing between the local and national tiers; and (2) to improve the effectiveness of different policies aimed at more dynamic economic growth at the regional and local levels. It would be fair to say that the newly proposed mechanisms are better at tackling the first challenge than the second one.

The streamlined regional strategic process and the greater role of local authorities in economic development and regeneration (supported by some new policy measures at the national level) will ensure greater accountability at the sub-national level of quasi-governmental organisations and their policies. However, the dispersal of powers, where local government will get ‘some’ power in economic development while RDAs will have new planning, housing and sustainable development functions, might add to the confusion and slow down implementation. Under the new arrangement RDAs will still remain the core organisations responsible for economic development, while planning and housing remain core functions of local government. By dispersing these functions across several spatial tiers, the Government is certainly promoting greater inclusion, but it also risks creating complicated and

counter-productive governance arrangements in which everyone is engaged in everything and it is impossible to agree on development priorities crucial for the region.

The losses from excessive consultation, coordination and partnership arrangements might potentially outweigh the gains of greater accountability and negatively affect the effectiveness of regional strategic processes. Thus, despite the drive towards more streamlined regional strategies there is a need to recognise the substantial differences in procedures and lines of accountability in different areas that will be covered by IRS (such as economic development and spatial planning) and to have realistic expectations about the process of agreement and implementation.

It also remains unclear how the structure of central government will be reformed in order to adequately respond to a more sophisticated and flexible system. If the Whitehall approach remains unchanged, the fate of regional and local initiatives might be less positive, since many government policies remain spatially blind (even though they substantially affect the balance of powers and resources in the regions). *The Government should suggest how it will rearrange its structure and functions* in order to cope with the new governance arrangements and challenges and to explain how it will manage more diverse and potentially less controlled regions and localities. Without this, the entire idea of decentralisation might be in danger, as *an over-centralised government cannot lead a decentralised country.*

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