

Policy Paper: What business needs from a Regional Economic Body

Introduction

EEF, the manufacturers' organisation, provides manufacturing and engineering support and advice as well as general business support to over 6000 manufacturing, engineering and technology companies.

Our recently published report, *Manufacturing. Our Future*, sets out our vision for developing a stronger manufacturing base in the UK. We believe this is essential if the UK is to address the imbalances within our economy and close the trade deficit. Amongst other things, rebalancing the economy will require a refocused more effective sub-national structure which champions the needs of business, catalyses action to raise the standard of the business environment and provides the appropriate support. In addition, given the need to reduce the public sector deficit, it will be important to look at how RDAs, or any future equivalent body, can be made more effective and deliver better value for money.

Do we need a regional economic body?

EEF has consistently argued that, though the performance of the Regional Development Agencies (RDAs) has not been perfect, there is a need for a Regional Economy (REB). Such a body would have a number of key roles, including:

- taking a strategic view of the needs of their region;
- arguing the case to central government to tackle areas of specific need in their area;
- catalysing action in the area to improve the business environment;
- bringing together a range of parties to respond to crisis situations e.g. major company closures, floods etc;
- providing services close to the customer, customising them where appropriate according to differences in demand.

RDAs sit at the right geographical level between central government and local authorities to be effective in these roles. Central government is too distant to engage with businesses in a local area, understand their needs and get them working together with each other and the key delivery agents. In addition, though business problems are similar in nature across the country, their relative impact will vary significantly and a regional body is better placed to ensure that it is providing the appropriately weighted package of measures.

Local authorities lack the critical mass, the funds and the ability to step outside local politics to identify the priorities for their region, to set out how to best to meet them and to make it happen. In principle, local authorities could work together to achieve the same ends but the view from business is that the process tends to be slow and fraught with politics.

What should a regional economic body do?

Under the terms of the Regional Development Agencies Act 1998, each Agency has five statutory purposes, which are to:

- further economic development and regeneration;
- promote business efficiency, investment and competitiveness;
- promote employment;
- enhance development and application of skill relevant to employment;
- to contribute to sustainable development.

These translate into the core responsibilities illustrated in Table 1. It is worth noting that these statutory purposes are so widely drawn that RDAs can easily get dragged into a range of activities that go beyond their remit. For example, furthering economic development and regeneration tends to drag them into the community cohesion agenda.

Table 1 Core responsibilities of RDAs

Responsibility	Programme
Business development and competitiveness	Regional economic strategies Providing finance for small and medium-sized enterprises, promoting enterprise and assisting start-ups. Cluster and sector support Science, R&D and the innovation infrastructure Promoting inward investment Responses to economic shocks
Regeneration, including tourism promotion	
People and skills interventions	Skills and workforce development Matching people to jobs Supporting the development of educational infrastructure

Over the years, RDAs have acquired a range of responsibilities that are listed in Table 2. While many of these responsibilities have laudable objectives (and some such as the Manufacturing Advisory Service have strong support from business), we are concerned that the overall impact has been to divert RDAs from what should be their key focus – facilitating wealth creation in their the region. Currently RDAs are being required to balance economic growth and a range of other agendas. For example, RDAs were involved in the development of a procurement portal to help companies access opportunities associated with the 2012 Olympic Games. This is entirely appropriate as it helps business improve its ability to engage with public sector contracts, bringing more wealth into the regions. However, RDAs have also been required to get involved with initiatives to use 2012 as a motivator to reduce childhood obesity.

It is therefore vital that RDAs are refocused on their original wealth creation remit. This will help to improve their effectiveness and also deliver cost savings.

Table 2 RDAs take on extra responsibilities

Additional responsibilities accumulated since 1998

BREW (Business Research, Efficiency and Waste) support programme
Broadband Aggregation Programme
Business Link
EU Structural Funds
Farm Action Plan
Grant for R&D
Market Towns Initiative
Olympic Games preparation
Manufacturing Advisory Service
Modernising Rural Delivery
Regional Tourism Boards
Regional Skills Partnerships
Rural Strategy
Selective Finance for Investment
Statutory consultee on planning decisions
Sustainable Farming and Food Strategy (regional implementation)

Our paper focuses particularly on the role of RDAs in furthering economic development and regeneration and in promoting business efficiency, investment and competitiveness. We highlight some priorities and offer comments on some specific areas in which RDAs get involved or for which there are proposals for them to do so.

- **Taking a strategic view of the needs of their region.** Each region needs a body with the ability and authority to step outside local politics and to identify its strategic economic needs. The Sub-National Review has laid the basis for this by making RDAs responsible for a new single Regional Strategy, bringing together the former Regional Economic and Spatial Strategies. This is a sensible approach.

The Sub National Review has also given Local Authorities a greater role in the development of the single regional strategy – through the direct involvement of so-called Local Authority Leaders’ Boards. This helps to address questions around the democratic accountability of the process. But we have concerns that this new approach could end up leading to delays in developing regional strategies, as a result of turf wars or party political disputes. Instead we suggest that the local authority leaders’ forums are given the power to make recommendations on regional strategies, but not to block them. These recommendations could then be adopted by the RDAs or subject to negotiation.

Should disagreement remain, the regional strategies should then be subject to final sign off from the relevant regional ministers, and not the Secretary of State. Empowering regional ministers in this way gives the regional economic strategies democratic accountability and enhances the role of regional ministers who have, to date, been open to criticism for lacking clear responsibilities.

Of course there may be better solutions to ensuring genuine stakeholder involvement in the process but our first and last word on this is the need for a Regional Economy Body to identify the strategic needs of its area and to develop a plan to meet them.

- **Delivering support to business where there is a gap in the market.** Business support delivers economic benefits by developing solutions to problems that would be at best partially addressed by leaving them to the market. These include issues such as access to finance (particularly for innovation) and improving business performance (e.g. Manufacturing Advisory Service, Designing Demand programme). These, and other services that require a degree of advice and guidance, need to be delivered close to the customer. In contrast, this delivery route is not appropriate for the provision of more basic forms of information. In this case, increasing use should be made of web-based or a telephone helpline solutions. These could be provided most cost effectively through one national Business Link website and telephone number rather than a series of regional structures.
- **Innovation.** We have given this topic a separate heading as the activities of RDAs in this area go beyond some of the business support activities such as provision of finance for research and development. In particular, RDAs play an important role in facilitating collaboration between companies, Higher Education Institutions (HEIs) and other bodies such as Research Councils. They also play an important role in collaborating with the Technology Strategy Board. Most of the innovation funds available to RDAs go to the HEIs to invest in new product development, innovation and incubator units and industry led research and development. These tend to be matched by funds from the Higher Education Funding Council for England. Despite having the skills and infrastructure to access more complex funding streams, HEIs have historically struggled to engage with the business community. RDAs therefore play an important role in fostering collaboration between business and the science base. This is reflected in EEF research shows demonstrate an increase in the quantity and quality of interaction between manufacturers and HEIs.

HEIs are also regarded as major wealth generators in their own right. Nottingham University for example receives over £100m per annum public funding for its research programme; much of this ends up in the region's economy. They are also own significant land owners, often in city centre locations and make a significant contribution to regeneration. They are also a source of high level skills and the RDAs work with them to encourage graduate retention; graduates still tend to migrate south on completion of their course – meaning a shortage of higher skilled, “new knowledge” recruits for the region's employers. These

It is therefore important that RDAs continue to work closely with HEIs , though it is also critical that RDAs themselves work effectively with each other as many innovation issues cross geographical boundaries (e.g. a firms' preferred partner may well not lie in the immediate region.)

- **Trade.** Under this heading, we distinguish between business support activities and the more strategic activities that aim to develop our export markets and to attract investment. In the first category are programmes that seek to develop the capacity of firms to export ('Passport to Export) and those that provide market research. These have a good fit with other programmes provided under the Business Link banner. In other areas such as outward trade missions and attracting inward investment, there is a much weaker case for RDAs being involved. These activities should be taken forward by a single national body with the required expertise – UK Trade and Investment.
- **Skills.** The skills landscape is already crowded and complex and we do not believe that carving out a greater role for RDAs will make things better. The

government is currently looking at transferring the Learning and Skills Council's strategic responsibility to RDAs. Strategic planning and engagement on skills provision is much more appropriately delivered on a sectoral rather than regional basis, as the skills need of a region are characterised most strongly by the individual sectors within them. RDAs should therefore not have a leading role in skills policy.

How can a Regional Economic Body be more effective?

- **Governance.** It is important that bodies such as RDAs are genuinely business-led. Business people are currently deterred from applying to be on RDA Boards by the cumbersome application process.

We therefore propose that:

- The appointment process should be streamlined, with appointments made regionally rather than by Ministers. These could be made by an appointments panel that allowed for the regular input into business appointments of business representative groups in the region.
 - Regional Economic Bodies, working together with business representative groups, should also develop a more effective campaign to promote the opportunities to get involved in their Boards.
 - When RDAs are refocused on wealth creation, the composition of the Board should reflect their slimmed responsibilities. .
- **Targets and flexibility.** Given the significant sums of taxpayer money involved, RDAs need to be accountable for their activities. However, the current process is not effective, with too many targets and too few of them measuring outcomes. In addition, too many bodies are involved in evaluating RDAs and the system lacks the right mechanism to address poor performance. We propose that:
 - RDAs or their successor bodies are given a limited number of outcome-based targets that relate to their wealth-creation remit such as economic growth and productivity.
 - The problems caused by RDAs being accountable to a range of government bodies are addressed by strengthening the role of the department for Business, Innovation and Skills (BIS) as a gatekeeper between the RDAs and other government departments. This will ensure RDAs retain their economic focus and are not overwhelmed with conflicting priorities.
 - **Geographical boundaries.** From a business / economic perspective the RDA boundaries may appear arbitrary and result in some dissatisfaction, particularly amongst those businesses that are towards the periphery of their regions. Some regions experience this more than others; for example the East Midlands RDA shares its boundary with five other regions. However, though current regional boundaries are not perfect, a major redrawing exercise should not be a priority, as it would be costly and delay progress on other more important issues. In addition, RDAs have accumulated large amounts of data and intelligence on their areas that would be lost if they were abolished or boundaries changed.

However, it is also vital that Regional Economic Bodies pay increasing attention to working together with each other as the northern RDAs have done under the banner of the Northern Way. For example, industry clusters and supply chains

tend to cross geographical boundaries. Similarly, it is important that RDAs or their replacements learn from each other by sharing best practice.

We also recognise that there is a growing interest in the role that so-called City Regions could play in economic development. Two pilot schemes are currently being prepared in Leeds and Manchester, for example, while a number of strategic City Region partnerships have already developed organically elsewhere. There is now much momentum behind these structures being given a formal role in sub-national governance. We accept that in some places there is a strong argument for City Region coordination. However, any formal structures must work alongside, and be complementary to, existing bodies such as the Regional Development Agencies. Their performance must be subject to ongoing and meaningful evaluation. And they must have strong business representation within their governance structures.

- **Focus on catalysing role.** Our final point underpins much of our thinking on RDAs. To be most effective, they should concentrate on catalysing action and commissioning services rather than delivering them themselves. However, to have influence, the RDA needs to have a funding role. This does not have to be large but is necessary to stimulate and catalyse further contributions from private and public sectors. At a time when funding is under pressure, it will be important to revisit the current split between current and capital funding, which seems to be too heavily weighted to the latter.

Conclusion

We accept that the RDAs are far from perfect, but the rationale for their creation – a business-led, body designed to address a gap in the delivery of sub-national economic development – remains valid. There are debates to be had about how this is organised, funded, delivered and assessed, but we need a body which can rise above local politics and has the clout and ability to make strategic decisions for the benefit of entire regions. We look forward to working with policy-makers on this agenda in the weeks and months ahead.

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