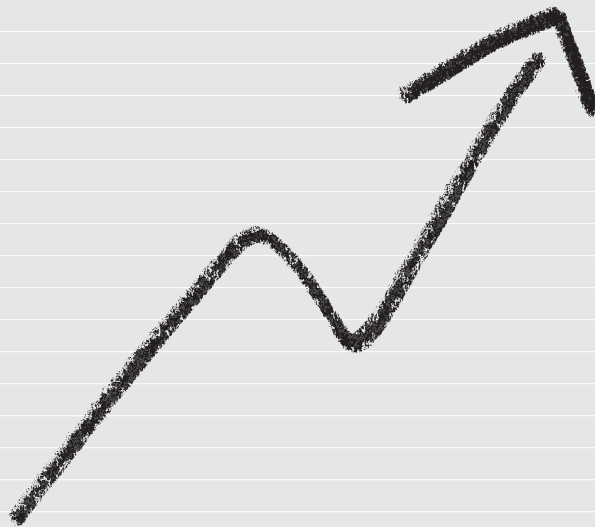


May 2007

# Improving performance? - A review of Regional Development Agencies



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# Summary

## Introduction

England's nine regional development agencies (RDAs) have performed a central role in the delivery of the government's economic policy since their establishment in 1999. The RDAs were established to bridge a perceived administrative gap between central government and local authorities, and have led on attempts to rectify some of the long-standing regional imbalances within the UK economy. Proponents of RDAs have argued that the region is a more appropriate level to work with key stakeholders, and being closer to the issues means they are better able to tailor policy responses. With total RDA budgets now in excess of £2 billion, it is clear that the agencies have the potential to make a serious impact on the economies of the nine regions.

In this report we present a considered view from a business perspective on the operation of the RDAs and how they contribute to the economic performance of the regions. While we acknowledge there is a degree of business scepticism, this work has not addressed the question of whether the RDAs should exist. Instead, we have looked at their effectiveness by looking at the formal assessments of their performance, through the analysis of economic data on the performance of the regions and discussions with our member companies.

## The regions are firmly on the agenda

The future direction of the RDAs is currently part of a wider sub-national review of economic development and regeneration being led by HM Treasury. This review is forming part of the Comprehensive Spending Review, and looks at ways in which activity can be rationalised and prioritised in order to be more effective at tackling regional underperformance. An element of this debate is the role that so-called 'City Regions' may play in tackling some of the transport, housing and general competitiveness demands of certain geographical areas. In addition, the RDAs themselves are currently streamlining their business support portfolio as part of a DTI-led simplification process. Therefore, our work is timely and may contribute to the government's thinking on how business support may be more effectively delivered at the sub-national level.

## Clearer aims will aid effectiveness

The RDAs have twin agendas, which leads to confusion over what is expected of them. On the one hand, the legislation charged them with promoting the economic development of their own regions. But on the other hand, a second agenda of narrowing disparities between the regions has been promoted.

EEF believes that the RDAs should have clearer aims and objectives in order to avoid confusion. We are more supportive of the 'purposes' as stated in the legislation, which would see the agencies focus on maximising their regional economic performance, rather than the narrowing of regional disparities.

## We need to be able to monitor their success

Bringing clarity to what we expect of the RDAs will make it easier to monitor how successful they have been to date. So far, attempts to monitor RDA performance have been undermined by uncertainty about their aims and objectives. In addition, two methods have been employed by the government to assess performance. One of these is based on capturing outputs (such as number of jobs created, number of businesses assisted etc), and the other on measuring process and organisational efficiencies. We would prefer to see a system that monitors outcomes, which will provide a better measure of the impact of the RDAs on the surrounding regional economies.

## Economic impact so far limited

Our analysis does not find evidence of the RDAs having a significant positive impact on the UK's economic performance since their establishment, whether we look at economic growth or increases in productivity. Much of the recent growth in the economy has been driven by increased employment rather than faster improvements in productivity. There are limits to expanding employment and the UK needs to achieve an improvement in productivity growth to see a sustained rise in living standards.

Some regions have seen faster increases in GDP than in the years preceding the establishment of the RDAs but there is limited evidence of any substantial rebalancing between the more prosperous southern regions and those in the rest of the country. In addition, any improvement in economic growth outside the southern regions has tended to be driven by faster employment growth rather than by greater gains in productivity. Economic growth outside the southern regions has also been substantially more dependent on the public sector. This raises questions over whether the RDAs have established the basis for sustained improvements in economic growth and living standards, particularly with the slower increases in public spending announced in this year's Budget.

The focus on reducing disparities has also made RDAs inward-looking. But an economy increasingly based around innovation will be reliant on collaboration between organisations and the spillovers of the benefits of innovation. It is therefore a mistake to believe these benefits

will be contained within regional boundaries. If RDAs compete rather than collaborate, they may harm their own regions as well as national economic performance.

### **RDAs should build on a region's strengths**

With more focused aims and an appropriate monitoring framework in place, it is also important that the operation of RDAs is improved to ensure maximum effectiveness. One of the key original aspirations was for each RDA to be an umbrella organisation for a broad range of stakeholders and bodies within a region, aiming to gain buy-in from as many as possible into the delivery of the region's economic strategy.

The RDAs themselves are not deliverers of programmes or initiatives but rather licensors of provision, engaging other stakeholders as the delivery agents. In particular, the agencies were expected to build on the existing quality deliverers and not create provision from scratch. We very much support this stance and feel it is crucial that the most is made of those already providing a successful service to the business community.

### **Geographical boundaries should not be barriers to RDAs' business support**

EEF also supports a more flexible approach to the geographical boundaries of the nine regions. The current situation where RDAs do not provide support beyond their regional boundaries is not in the best interests of economic performance. A more flexible approach, we believe would enable the agencies to encourage activities with partners (be it other businesses, universities etc) in different parts of the country, which would still ultimately benefit the region.

This is a particularly important issue for the concept of clusters, and we believe that more pan-RDA working is essential in order to support those clusters which occur across a number of regions. Similarly, we do not believe duplication of clusters in a number of regions is in the best interests of business, the regions themselves or the UK as a whole. We would like to see more co-ordination of cluster activity to ensure there is not competition between the RDAs.

Finding the appropriate geographical scale and the balance between national, regional and local delivery is key.

Our research has demonstrated the importance of finding the appropriate balance for activities promoting economic competitiveness between the national, regional and local level. In particular, attempts to improve the transport network, planning framework and skills base – which are key to the competitiveness of the business community – are

currently separated from the responsibilities of the RDAs. EEF believes in the importance of a closer 'fit' between all of the strategies underpinning regional competitiveness, and for the voice of business to be adequately heard in the production of these strategies. We therefore feel that the RDAs should have a monitoring and scrutinising role in the area of skills and training, and should perform a championing role on the issue of the transport and planning needs of the region, all helping to achieve the aims of the regional economic strategy.

### **Summary of recommendations**

- (1) We broadly support the introduction of the IEF with the proviso that any performance monitoring framework meets the following criteria:
  - It is related to the aims and objectives of the RDAs;
  - It focuses on measuring the impact of the RDAs on the regional economy;
  - There is more emphasis on capturing outcomes, and less on outputs.
- (2) Business support should be streamlined to fit under a smaller number of branded themes, concentrating on those programmes and initiatives that have demonstrated the greatest contributions to raising business performance.
- (3) A system should be introduced to ensure that the process of applying for business support is continually monitored and refined to minimise bureaucracy.
- (4) EEF supports efforts to inject greater understanding of business into the workforces of the RDAs through increased use of secondments and placements and the attraction of individuals with successful business backgrounds .
- (5) RDAs must be more flexible around supporting programmes and initiatives beyond their regional boundaries if there is still a demonstrable benefit to the region's economic performance
- (6) We support moves towards more pan-RDA working (including with the devolved administrations), with an enhanced role for the RDA Secretariat to ensure common regional issues and priorities are identified and addressed through joint schemes and initiatives.
- (7) RDAs must ensure that the process of identifying clusters is fully transparent, and that the views of the business community are included at an early stage;
- (8) There needs to be better pan-RDA working to ensure that clusters of national importance are adequately supported

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and that the problem of duplication of clusters by multiple regions is avoided;

(9) The choice of clusters must seek a suitable balance between supporting existing strengths and the creation of clusters from 'scratch'

(10) We wish to see a post-Leitch landscape that reduces the number of bodies involved in skills and training at the regional level and introduces a demand-led, sector-driven system

(11) The role of the RDAs in skills and training should be limited to one of monitoring and scrutinising of the various relevant bodies at the regional level;

(12) We call for a review of the role of the regional assemblies in the production of regional spatial and transport strategies to assess whether they are (a) properly aligned with the RDAs' Regional Economic Strategy and (b) adequately representing the views and needs of the business community.

(13) The UKTI/RDA review of regional trade operations must work to ensure that an appropriate balance is achieved between national and regional delivery of trade support services

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# 1. Introduction

*“We will establish one-stop regional development agencies to co-ordinate regional economic development, help small business and encourage inward investment”*

(Labour Party Manifesto, 1997)

This report takes a fresh look at the role of the RDAs – and how effective they have been in achieving their aims. We take as given that RDAs are part of the delivery of this government’s economic policy, and therefore we have not revisited the case for or against them. In principle, EEF is supportive of the role of the RDAs and has been since their establishment. Instead, we are concerned here with their performance. In particular, we look at the following issues:

- the appropriateness of the RDAs’ aims and objectives;
- their record on delivering against these aims and objectives; and
- the business view of what more can be done to achieve their objectives and improve their performance.

Our findings in this report are based on a combination of interviews and economic analysis. Interviews were undertaken with member companies and our regionally-based EEF Associations. These discussions have been supplemented by reviewing the formal assessments of RDA performance and by analysing some of the economic data available on the performance of the regions.

It is particularly timely to be looking at the RDAs. The operation of regionally-delivered economic policy is currently being reviewed as part of HM Treasury’s Sub-National Review (which will feed in to the forthcoming Comprehensive Spending Review), the National Business Support Simplification process is ongoing, and there is an evolving debate on ‘City Regions’. Further contributions to the debate come from think tanks such as the Smith Institute<sup>1</sup>, the New Local Government Network<sup>2</sup> and from the Conservative Party’s policy review process<sup>3</sup>.

<sup>1</sup> *Double Devolution: the renewal of local government* (edited by Geoff Mulgan and Fran Bury), Young Foundation and the Smith Institute (2006).

<sup>2</sup> *Redesigning Regionalism – Leadership and Accountability in England’s Regions* (Chris Leslie and Owen Dallison), New Local Government Network, 2007.

<sup>3</sup> *The Richard Report on Small Business and Government (Interim Report) Conservative Party Policy Review, March 2007.*

## 2. The establishment of the RDAs

The 1997 General Election victory for the Labour Party heralded a new era for regional governance in the UK. Elected on the back of a manifesto commitment to create development agencies for the nine English regions, the 1998 Regional Development Agencies Act<sup>4</sup> established the legislative framework for their creation. The initial eight RDAs<sup>5</sup> came into existence on 1 April 1999, with the London Development Agency following on 3 July 2000.

### 2.1 The Regional Economic Strategy

Each RDA must, according to the Regional Development Agency Act (1998), develop a strategic vision for its region. This strategic Regional Economic Strategy (RES) is very much the *region's* economic strategy, and not the RDA's strategy, thus implying a strong degree of consultation and buy-in by key stakeholders and other delivery agents. The agencies themselves are not seen as sole delivery agents, but as working with, and depending on, a whole raft of partners and stakeholders.

While the RES outlines the strategic vision for the region, the RDAs also produce a Corporate Plan. This plan outlines how the RDA will address the priorities identified in the RES, and how the RDA will contribute to the delivery of government public sector agreement (PSA) targets included in the RDA Tasking Framework.

### 2.2 Who runs the RDAs?

RDAs are run by a part-time board of 15 non-executive directors, of which one is the Chair, plus a full-time Chief Executive. Board members are appointed directly by the Secretary of State<sup>6</sup>. While business people form the largest grouping on the RDA boards, it was also envisaged that other members would be drawn from other backgrounds including the trade unions, local authorities, education sector, rural communities and the voluntary sector<sup>7</sup>.

### 2.3 The changing responsibilities of the RDAs

The responsibilities of the RDAs have not remained static since their inception. Since 1999, new responsibilities have been granted to the agencies, and the funding mechanisms overhauled. In 1999, a number of existing structures were absorbed by the RDAs, including elements of the government's property regeneration agency, English Partnerships, and many of the long-standing local and community regeneration initiatives such as the Single Regeneration Budget (SRB). Further developments have included taking over responsibility for the distribution of Assisted Area grants and managing the pots of EU Structural Funds. In 2005, RDAs also took over the Business Link network.

### 2.4 RDA funding

RDA funding has also undergone a transformation since their establishment. Originally, funding came from a range of government departments, and spending was ring-fenced within individual RDA budgets on projects which reflected this origin. This clearly had implications for the ability of RDAs to be flexible and responsive to the full needs of their respective regions.

In April 2002, funding switched to a Single Programme Budget (also known as 'Single Pot'). Money from the contributing departments (DTI, Department of Communities and Local Government (DCLG), Department for Education and Skills (DfES), Department of Environment Food and Rural Affairs (DEFRA), Department of Culture Media and Sport (DCMS) and UK Trade and Investment (UKTI)) is pooled into one budget which is then available to the RDAs to spend as they see fit to achieve the regional priorities as identified in their RES. As Table 1 (below) illustrates, almost three-quarters of RDA funding comes from the DCLG, with a further fifth sourced from the DTI. The lump sum from DCLG (and before that, the Office of the Deputy Prime Minister) is a historical legacy from previous funding arrangements, as this money was destined for supporting efforts to tackle social deprivation and promote neighbourhood regeneration initiatives.

**Table 1 Source of RDA Single Pot Monies 2005-8, £m**

£M	2005-6	2006-7	2007-8
DTI	463	476	483
DCLG	1,568	1,633	1,676
DEFRA	72	73	74
DfES	43	44	45
UKTI	13	13	13
DCMS	6	6	6
Totals <sup>8</sup>	2,163	2,244	2,297

Source: DTI

The RDAs themselves do not receive equal funding, with the amount destined for each agency dependant on overall

<sup>4</sup> The 1999 Greater London Authority Act amended the 1998 Act by placing the London Development Agency under the control of the Mayor of London.

<sup>5</sup> These eight were SEEDA (South East of England Development Agency), SWERDA (South West of England Regional Development Agency), EEDA (East of England Development Agency), EMDA (East Midlands Development Agency), AWM (Advantage West Midlands), NWDA (North West Development Agency), Yorkshire Forward and ONE (One North East).

<sup>6</sup> The London Development Agency is slightly different, in that the Chair and the Board are appointed by the Mayor of London.

<sup>7</sup> In fact, across all nine RDAs, business people form seven or eight of the 15 members of the boards.

<sup>8</sup> Totals may not sum due to rounding.

need within the region<sup>9</sup>. Currently, as Table 2 shows, the North West Development Agency received the biggest share of the funding in absolute terms with the London Development Agency close behind. The East of England receives the smallest budget of just £138million – only a third of that spent in the north-west. However, taken on spend per head of the population, the North East has the better funded RDA – receiving almost four times what EEDA receives. So, RDA funding arrangements clearly imply a recognition of the need to do more in some regions than others thereby closing the gap in economic performance.

**Table 2 RDA Spend by Region, 2005-8**

Total RDA Allocations by Region	£million			Spend per head £
	2005-6	2006-7	2007-8	2006-7
AWM	272	284	291	54.61
EEDA	129	134	138	25.28
EMDA	156	163	167	39.75
LDA	373	391	400	55.07
NWDA	382	400	409	59.70
ONE	240	251	258	100.40
SEEDA	157	163	167	30.18
SWERDA	153	159	164	32.44
YF	295	310	316	63.26
Total	2,157	2,256	2,309	-

Source: DTI

<sup>9</sup> The funding formula was revised in October 2004 to take into account regional gross value added, whereas previously it has solely been based on unemployment and the number of 'deprived' wards in a region.

## 3. Aims and objectives

### 3.1 Economic performance versus regional disparities

The Regional Development Agencies Act (1998)<sup>10</sup> outlined five ‘purposes’ for the agencies. Each RDA was to:

- further economic development and regeneration of its area;
- promote business efficiency, investment and competitiveness in its area;
- promote employment in its area;
- enhance development and application of skills relevant to employment in its area; and
- contribute to the achievement of sustainable development in the United Kingdom where it is relevant to its area to do so.

The emphasis is on the RDAs to do everything within their powers to promote economic growth within their region. This reflects the Labour Party’s manifesto<sup>11</sup> commitment in 1997 which highlighted that “prosperity needs to be built from the bottom up. We will establish one-stop regional development agencies to co-ordinate regional economic development”.

However, the evidence suggests that there is some confusion concerning what is expected of the RDAs, and that there is an additional agenda not explicitly mentioned in the Bill. This concerns the narrowing of the interregional disparities in prosperity and growth rates and as noted above is reflected in the funding formula for RDAs. Thus:

- The DTI (as sponsor department of the RDAs) describes the primary role of the RDAs as to: *“co-ordinate regional economic development and regeneration, enable the regions to improve their relative competitiveness and reduce the imbalance that exists within and between regions”*<sup>12</sup>.
- The Treasury’s public sector agreement (PSA) targets for monitoring regional economic development (the RDAs are one of the major organisations helping to deliver this) are designed to capture progress in: *“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>13</sup>.

The problem with this parallel agenda is that it creates confusion over what is expected of the RDAs both within the agencies themselves, and among their stakeholders. Muddled policies, programmes and initiatives may be the result of an absence of a single clear agenda.

### 3.2 Employment creation versus increased productivity

The original five ‘purposes’ of the RDAs (as identified in the Bill) also contain some potential areas of discord. This is particularly so for the ‘promotion of business efficiency, investment and competitiveness’ and the ‘promotion of employment’. In a modern competitive economy, the drive for greater business efficiency can result in a reduction in the numbers employed. Therefore policies to encourage greater business efficiency may well result in lower employment levels at the aggregate level of the region – an outcome counter to that which is being sought through the promotion of employment.

### 3.3 Conclusion

The existence of a twin agenda and the potential for conflict within the RDA’s five ‘purposes’ may result in the agencies operating less effectively than would be anticipated. We have concerns that the result would be muddled programmes and initiatives that are not contributing as effectively to improving the economy as should be the case. Moreover, by lacking a clear set of aims and objectives, monitoring the performance of the RDAs is more challenging.

<sup>10</sup> Regional Development Agencies Act 1998 <http://www.opsi.gov.uk/acts/acts1998/19980045.htm>

<sup>11</sup> New Labour - because Britain deserves better. Britain will be better with new Labour (1997 General Election Manifesto)

<sup>12</sup> <http://www.dti.gov.uk/regional/regional-dev-agencies/index.html>

<sup>13</sup> <http://www.dti.gov.uk/reppsa/200612/tables.htm>

## 4. Evaluation of the effectiveness of RDAs

### 4.1 Difficulties with measuring RDA performance

From the previous section, it is evident that there is a degree of conflict surrounding RDAs' aims and objectives. This clearly has implications for assessing the effectiveness of the RDAs: unclear objectives will make it difficult to assess performance.

Several approaches have been taken for measuring performance:

- measuring the outputs of RDAs' programmes and initiatives;
- measuring the operational effectiveness of the agencies;
- looking at the impact of the RDAs on those aspects of the regional economy in which they have a direct influence; and
- monitoring the general performance of the wider regional economy.

### 4.2 Government assessments

Government has taken two approaches to measuring the performance of the RDAs. The first of these is the DTI's core outputs against targets. As part of the Spending Review 2004 the government announced that a new 'tasking framework' for the RDAs would be developed to replace the original framework, in place since 1998. The new tasking framework was designed to provide better alignment between the RESs and the objectives of the PSA targets.

The methodology measures ten core outputs:

- Employment Creation: Number of jobs created or safeguarded;
- Employment Support: Number of people assisted to get a job;
- Business Creation: Number of new businesses created and demonstrating growth after 12 months & businesses attracted to the region;
- Business Support: Number of businesses assisted to improve their performance;
- Business Support: Number of businesses within the region assisted to engage in new collaborations with the UK knowledge base;
- Regeneration: Public and private regeneration infrastructure investment levered;
- Regeneration: Hectares of brownfield land reclaimed and/or redeveloped;
- Skills: Number of people assisted in their skills development as a result of RDA programmes;

14 AWM= Advantage West Midlands; EEDA = East of England Development Agency; EMDA = East Midlands Development Agency; LDA = London Development Agency; NWDA = North West Development Agency; ONE = One North East; SEEDA = South East of England Development Agency; SWERDA = South West of England Development Agency; YF = Yorkshire Forward.

15 These figures include outputs relating to the National Coalfields Programme which are shared with English Partnerships.

16 The figures reported are the businesses created that have survived for one year. The RDAs will review the figures reported to identify those businesses that have demonstrated growth through an increase in employment between 12 and 24 months from start of trading.

17 This output includes the output listed under 4a.

18 The targets for the London Development Agency are set by the Mayor of London and therefore are a single figure, rather than a range.

- Skills: Number of adults gaining basic skills as part of Skills for Life Strategy that count towards the Skills PSA Target;
- Skills: Number of adults in the workforce who lack a full level 2 or equivalent qualification who are supported in achieving at least a full level 2 qualification or equivalent.

Table 3 shows the output figures for the nine RDAs against these ten core targets. The table shows that 93 % of all targets were achieved in 2005-6, with only six targets in total missed. Some targets were actually exceeded by a considerable amount, which suggests that they may not have been sufficiently ambitious.

On balance, EEF believes that the core outputs against targets approach to monitoring performance has a number of flaws. In particular, it takes little account of outcomes, and instead focuses on the aggregate outputs of all the schemes and programmes run by the RDAs. We recognise that capturing outputs does have its place, particularly in monitoring individual programmes and schemes. However, we believe that outputs (as a measure of activity such as the number of jobs created) is less useful than outcomes (the changes that happen as a result of what is being delivered) in capturing the impact of the RDAs on the regional economy.

This method also happens to include three outputs (in skills) in areas where RDAs have only very limited powers of influence. It is perhaps not surprising then that all the RDAs' missed targets were in this area. We also have concerns that the establishment of output targets may have a perverse effect on RDA activity. For example, the 'employment creation' target may simply result in the introduction of programmes that maximise the generation of jobs, regardless of the quality of the jobs, and of the likelihood of them being sustainable.

The second approach is the National Audit Office (NAO) Independent Performance Assessments (IPA). The 2005 Budget charged the NAO with collating independent performance assessments of the eight RDAs by March 2007<sup>23</sup>. The IPA process is based on the comprehensive performance assessment (CPA) system applied to local authorities. This work assesses RDAs as strategic drivers of regional economic development and provides each RDA with an assessment of organisational performance.

19 This target shows the RDA contribution to a national target on brownfield land remediation, as set out in the Sustainable Communities Plan 2003. The figures include outputs relating to the National Coalfields Programme which are shared with English Partnerships.

20 This includes the outputs of 6a and 6b.

21 The targets for the London Development Agency are set by the Mayor of London and therefore are a single figure, rather than a range.

22 One North East has had to record a zero on its Level 2 skills output because the target was set against anticipated outputs via LSC projects. Whilst the anticipated activity took place the funding from LSC was paid directly to the training provider, bypassing the agency, who was project managing the delivery of the training. Therefore the outputs do not qualify under this output heading.

23 The London Development Agency (LDA) is assessed separately by the Audit Commission.

**Table 3 Regional Development Agency Reported End of Year Outputs for 2005-6**

RDA <sup>14</sup>	1. Employment Creation: Number of Jobs Created or Safeguarded <sup>15</sup>			2. Employment Support: Number of people assisted to get a job			3. Business Creation: Number of new businesses created and demonstrating growth after 12 months and businesses attracted to the region <sup>16</sup>			4. Business Support: Number of businesses assisted to improve their performance <sup>17</sup>			4a. Business Support: Number of Businesses within the region assisted to engage in new collaborations with the UK knowledge base		
	Annual Target Range			Annual Target Range			Annual Target Range			Annual Target Range			Annual Target Range		
	Min	Max	Achieved	Min	Max	Achieved	Min	Max	Achieved	Min	Max	Achieved	Min	Max	Achieved
AWM	8,500	11,500	11,500	1,500	3,500	2,563	1,200	1,800	1,650	4,600	8,400	6,950	750	1,750	956
EEDA	3,400	4,600	4,299	900	1,500	2,284	1,336	2,004	2,563	2,960	4,440	12,202	150	250	312
EMDA	5,184	7,014	8,193	1,388	2,313	4,260	1,621	2,431	2,208	2,684	4,026	7,869	248	414	400
LDA <sup>18</sup>	16,000	16,000	21,287	10,000	10,000	12,898	2,000	2,000	3,077	20,000	20,000	51,084	275	275	415
NWDA	11,500	15,500	15,738	675	1,125	9,131	1,680	2,520	2,770	9,360	14,040	20,936	410	690	1,809
ONE	11,800	15,800	16,004	1,920	3,180	7,811	2,310	3,850	3,406	6,000	10,000	16,252	520	860	1,522
SEEDA	3,485	4,715	4,240	1,800	3,000	8,770	1,536	2,304	2,027	18,400	27,600	35,700	293	488	627
SWERDA	5,000	7,500	6,301	1,100	1,700	1,922	160	240	198	4,800	7,200	8,766	240	360	734
YF	18,296	24,754	23,810	1,538	2,563	2,558	697	1,046	1,007	5,200	7,800	6,502	188	313	313
Total	83,165	107,383	111,372	20,821	28,881	52,197	12,540	18,185	18,906	74,004	103,506	166,261	3,074	5,400	7,088

Source: DTI

Key to colour code:  = Minimum target exceeded  = Minimum target not exceeded

**Table 3 (continued) – Regional Development Agency Reported End of Year Outputs for 2005-6**

RDA	5a. Regeneration: Public and private regeneration infrastructure investment levered (£million/ % private)			5b. Regeneration: Hectares of brownfield land reclaimed and/or redeveloped <sup>19</sup>			6. Skills: Number of people assisted in their skills development as a result of RDA Programmes <sup>20</sup>			6a. Skills: Number of adults gaining basic skills as part of the Skills for Life strategy that count towards the Skills PSA Target			6b. Skills: Number of adults in the workforce who lack a full Level 2 or equivalent qualification who are supported in achieving at least a full Level 2 qualification or equivalent		
	Annual Target Range			Annual Target Range			Annual Target Range			Annual Target Range			Annual Target Range		
	Min	Max	Achieved	Min	Max	Achieved	Min	Max	Achieved	Min	Max	Achieved	Min	Max	Achieved
AWM	113/38	263/88	219/60	38	88	90	16,000	24,000	27,500	1,500	3,500	123	375	875	217
EEDA	60/33	100/55	90/35	27	45	39	12,000	18,000	32,659	338	563	814	420	700	709
EMDA	62.6/58	104.4/82	88/89	98	163	107	8,000	12,000	14,562	321	534	650	641	1,069	701
LDA <sup>21</sup>	300/100	300/100	404/100	50	50	56.58	23,550	23,550	34,334	2,900	2,900	2,912	3,550	3,550	3,797
NWDA	270/38	450/62	378/61	310	410	327	13,600	20,400	23,112	900	1,500	3,353	1,500	2,500	929
ONE	140/45	230/65	231/86	85	135	138.65	48,000	72,000	121,099	230	370	253	950	1,570	0 <sup>22</sup>
SEEDA	98/38	163/63	261/21	95	158	101.11	29,880	44,820	41,783	1,988	3,313	5,248	1,350	2,250	437
SWERDA	120/48	180/72	217/71	80	120	94	8,400	12,600	19,599	375	625	512	800	1,200	1,330
YF	150/20	250/30	212/93.3	55	165	117	41,820	62,370	58,607	218	363	316	1,088	1,813	1,587
Total	1,314	2,040	2,100	838	1,334	1070.34	201,250	290,100	373,255	8,770	14,868	14,181	10,674	13,688	9,707

Source: DTI

Key to colour code:  = Minimum target exceeded  = Minimum target not exceeded

**Table 4 – National Audit Office IPA Results**

Theme	EEDA	NWDA	SWERDA	ONE
Publication	June 2006	June 2006	Nov 2006	Nov 2006
Ambition	3	4	4	4
Prioritisation	2	4	3	3
Capacity	2	3	2	3
Performance Management	2	3	3	4
Achievement (double weight)	3 (6)	3 (6)	3 (6)	4 (8)
Overall Score	15	20	18	22
Overall Result	PERFORMING WELL	PERFORMING STRONGLY	PERFORMING WELL	PERFORMING STRONGLY

Theme	SEEDA	AWM	EMDA	YF
Publication	Nov 2006	March 2007	March 2007	March 2007
Ambition	4	4	4	4
Prioritisation	3	4	3	3
Capacity	3	3	3	4
Performance Management	3	3	4	3
Achievement (double weight)	4 (8)	3 (6)	4 (8)	3 (6)
Overall Score	21	20	22	20
Overall Result	PERFORMING STRONGLY	PERFORMING STRONGLY	PERFORMING STRONGLY	PERFORMING STRONGLY

Table 4 lists the IPA results for the eight RDAs. While focusing on operational performance (assessing capacity and performance management), the IPA does not take into consideration the aims or achievement of the agencies in terms of economic impact. Specifically, the process does not aim to assess the effectiveness of the regional economic strategy, nor the appropriateness of its ambitions or priorities.

### 4.3 Regional economic performance

The previous sections have highlighted the contradictions in the aims and objectives of the RDAs, and how this makes it more difficult to assess their performance. Therefore, when it comes to looking at the economic performance of the regions, we have couched our analysis within the twin agendas (of narrowing disparities between the regions, and maximising the economic performance of the regions) that have governed the RDAs' activities since their establishment.

In looking at the impact of the RDAs, we need to answer two key questions:

- Have the resources provided to RDAs, as well as the organisation of business support on a regional basis, contributed to an improved performance in enough of the regions to raise the overall national economic performance?
- What impact have the RDAs had on economic disparities between the regions?

Our analysis does not find evidence of a significant positive impact on the UK's economic performance since the establishment of the RDAs, whether we look at economic growth or increases in productivity. Much of the recent growth in the economy has been driven by increased employment rather than faster improvements in productivity. On face value, the fact that employment has risen is welcome, as is the increase in the supply of workers generated by the rise in immigration from Central and Eastern Europe. However, there are limits to expanding employment and the UK needs to achieve an improvement in productivity growth to see a sustained rise in living standards.

Some regions have seen faster increases in GDP than in the years preceding the establishment of the RDAs but there is limited evidence of any substantial rebalancing between the more prosperous southern regions and those in the rest of the country. In addition, any improvement in economic growth outside the southern regions has tended to be driven by faster employment growth rather than by greater gains in productivity. Economic growth outside the southern regions has also been substantially more dependent on the public sector. Greater public sector spending may therefore have prevented the twin forces of globalisation and technological change from worsening economic inequalities between the regions. However, it is questionable whether the RDAs have established the basis for sustained improvements in economic growth and living standards, particularly with the slower increases in public spending announced in the 2007 Budget speech.

The focus on reducing disparities has also arguably made RDAs inward looking. But an economy increasingly based around innovation will be reliant on collaboration between organisations and the spillovers of the benefits of innovation. It is a mistake to believe these benefits will be contained within regional boundaries. If RDAs compete rather than collaborate, they will harm their own regions as well as national economic performance.

**Little evidence of better economic performance**

We start by comparing economic growth over the six years up to the establishment of the RDAs (1992-1998) with the following six years (1995-2005). In both periods economic growth was stable and above the long-run average of 2.25%. Indeed with national economic growth rates practically identical over the two periods – 2.7% per year between 1992 and 1998 and 2.6% between 1999 and 2005 – it is difficult to see how the relative performance of each region differs between the two periods.

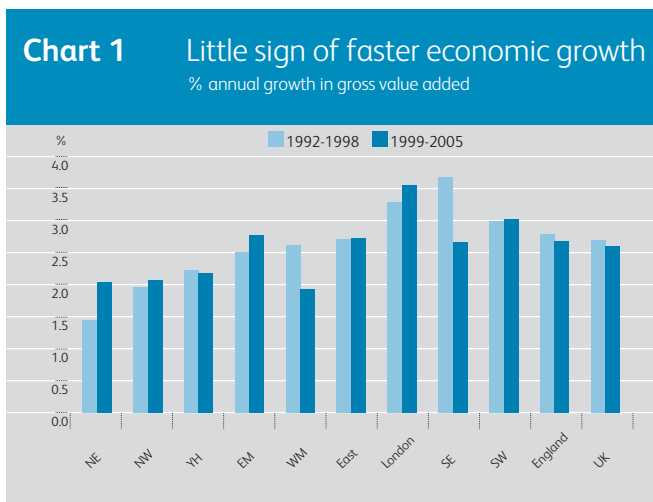
Before analysing the data, it is important to acknowledge that evaluating the economic impact of the RDAs is far from an exact science. For example, a full evaluation of their impact would need to look at how the different regions would have performed in the absence of the RDAs or if an alternative approach had been employed. It could well be that under the twin forces of technological change and globalisation, the relative performance of regions outside the South would have weakened given their more traditional industrial structures. At the same time, though the UK economy grew at roughly similar rates over the two periods, it had clearly entered a later stage of the economic cycle between 1999 and 2005. At this stage, we would expect to see tighter labour and housing markets in the southern

regions to cause some companies and people to relocate to regions where labour and housing were cheaper. Indeed, Chart 1 suggests that this happened in the second period with economic growth in the South East slowing significantly.

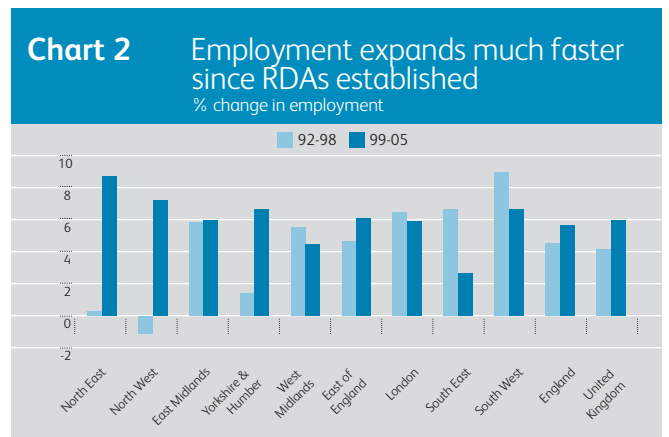
However, Chart 1 indicates that aside from the North East, and to a lesser extent the East Midlands, there was little sign of any acceleration in economic growth in any of the regions. Indeed, the West Midlands experienced a significant slowdown in economic growth. In three of the regions (Yorkshire and Humberside, East of England, South West), the rate of growth was identical in both periods and in another (North West) it changed by just one-tenth of a percentage point.

While there was limited change between the two periods in the rate of economic growth, Chart 2 shows that there was a substantial acceleration in the rate of expansion in employment between 1999 and 2005 compared with the previous six years. Nationally, employment grew by 4% in the first six years and by 6% in the following period. Most of this acceleration was seen in the three northern regions - North East, North West and Yorkshire and Humberside. At the same time, growth slowed in the South West and South East. A range of factors are likely to have driven these trends, not all of them attributable to the RDAs' activity. For example, the government was embarking on a programme of relocating jobs outside London to others parts of the country. Programmes such as the New Deal, which sought to get more of the unemployed back into work, are also likely to have benefited regions outside the south where unemployment was higher.

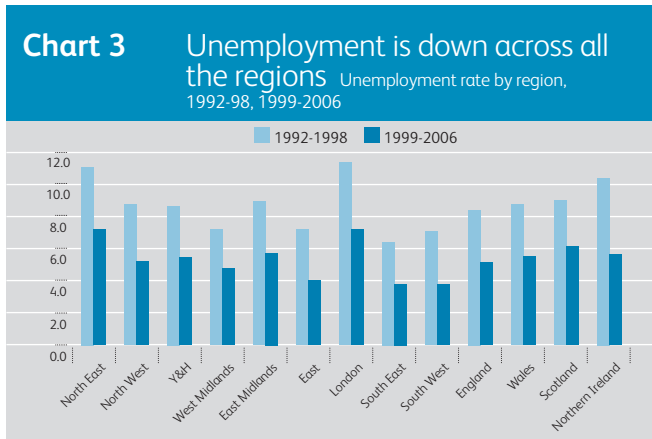
Faster growth in employment has contributed to the fall in unemployment in every region, as Chart 3 shows. Nationally, the unemployment rate has almost halved between the periods 1992-98 and 1999-2006. This downward trend has also been repeated in the regions, with every region



Source: National Statistics



Source: National Statistics



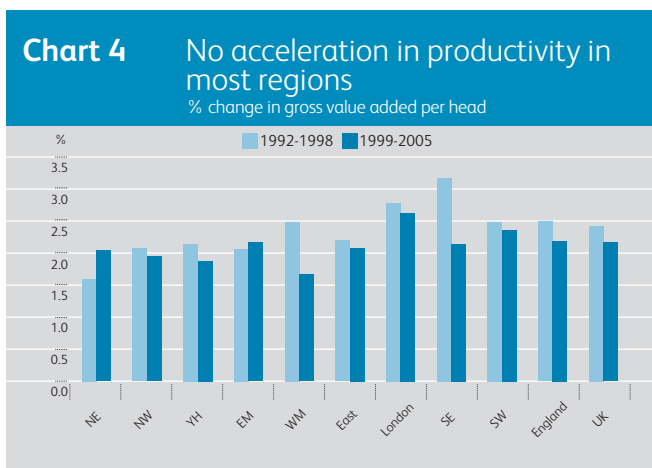
Source: ONS

witnessing substantial reductions in those out of work. However, there would appear to have been no major narrowing of the disparities in unemployment, with similar size falls across the country. This left the regions with the highest unemployment rates in 1992-98 more or less unchanged in 1999-2006.

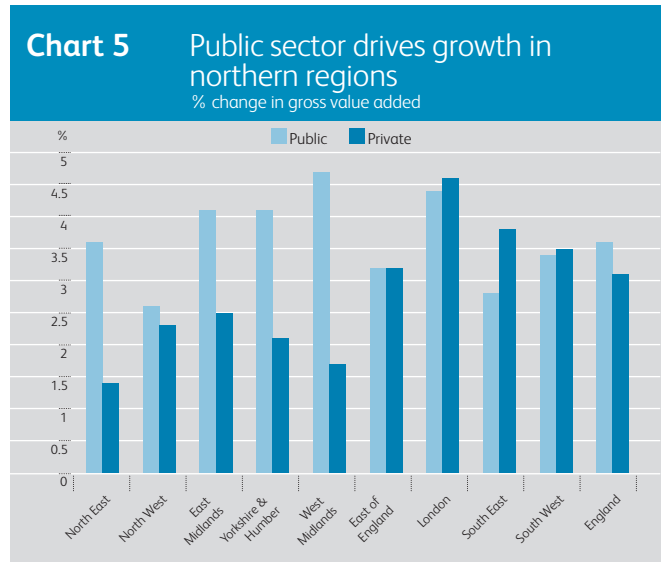
In contrast to faster employment growth, Chart 4 shows that increases in productivity slowed a little at the national level between the two periods and actually worsened substantially in the South East and West Midlands. The only region to show much improvement was the North East. This is important as productivity growth holds the key to lasting improvements in living standards as it allows wages to grow faster without generating higher inflation.

#### Northern regions dependent on the public sector

Just as worrying is the dependence of many regions, particularly the northern ones, on the public sector for economic growth. Chart 5 shows that expansion in the public



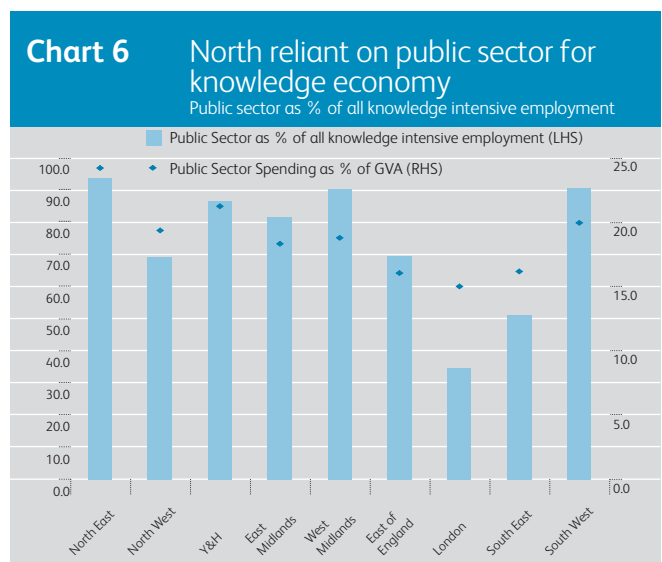
Source: National Statistics



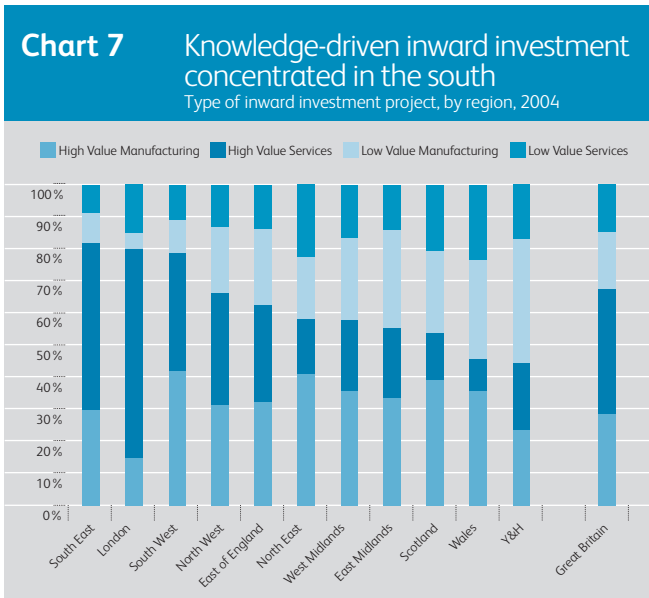
Source: ONS

sector was faster in all regions except London, the South East and South West. Rapid economic growth in the public sector is not surprising given the acceleration in government spending that took place since 1999, and we recognise that this has performed a positive contribution to the economies of these regions. What is striking, though, is how the expansion of the public sector significantly outstripped that in the private sector in the East and West Midlands, Yorkshire and Humberside and the North East. Indeed, the low rates of growth seen in some of these regions suggests that they have not developed the basis for sustaining strong economic growth.

These concerns are also reflected in Chart 6, which looks at public sector employment as a share of all 'knowledge-

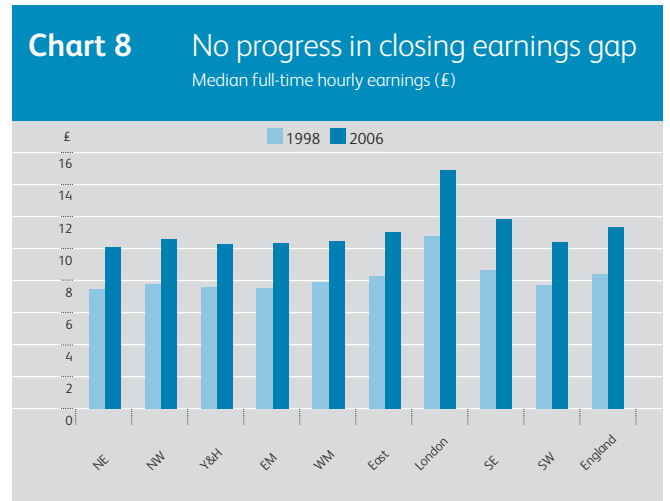


Source: ONS and Local Futures Group



Source: ONS

intensive employment' (highly skilled workers generally in professional and managerial occupations). Without a healthy entrepreneurial culture in the north and the Midlands, the public sector has become the primary knowledge-economy driver in these regions. So great is the difference in private sector performance that different regions rely to a very different extent on employment from public sector jobs. In 2002, the public sector in the North East accounted for almost 94% of all employment in knowledge-intensive sectors. The South West stands out because of its reliance on the public



Source: Annual Survey of Hours and Earnings

sector, including defence and R&D, for knowledge-intensive employment.

Table 5 looks at this issue from another angle – the spread of jobs in different industries. The concentrations of higher value manufacturing, financial and business services and the creative industries means that London and the South East have a much higher share of knowledge economy jobs than any other region. In contrast, the share of employment in the most knowledge intensive sectors in Yorkshire and Humberside and the North East is just over 2%.

Trends in average earnings, which are also an indicator of the quality of jobs, also suggest that the relative position of the

**Table 5 Northern Regions dependent on lower skilled industries**

% of private sector employment in knowledge-intensive sectors, by region, 2002

Graduates as % of workforce	% Employment in most knowledge-intensive sectors		% Employment in least knowledge-intensive sectors	
	>40% (high-intensity)	25-40% (med-high intensity)	15-25% (med-low intensity)	0-15% (low-intensity)
North East	2.2	20.2	18.3	59.3
North West	5.4	21.2	17.6	55.7
Y&H	2.1	18.3	18.7	61.0
East Midlands	2.6	19.4	23.8	54.2
West Midlands	2.8	20.9	33.3	43.0
East of England	5.1	26.4	12.7	55.8
London	49.0	8.7	21.8	20.5
South East	23.8	18.5	21.2	36.4
South West	3.1	31.1	12.1	53.8
Scotland	23.2	15.0	41.5	20.2
Great Britain	18.1	18.8	18.3	44.8

Source: Local Futures Group and ONS data

regions outside the south has not improved since 1998. Since 1998, average earnings have grown slightly faster than the national average in the two regions where they were already higher: London and the South East. In contrast, those in the northern regions grew at or slightly below the national rate of increase. Chart 8 therefore shows that the gap in average earnings between London and the South East and the rest of England remains as large as in 1998.

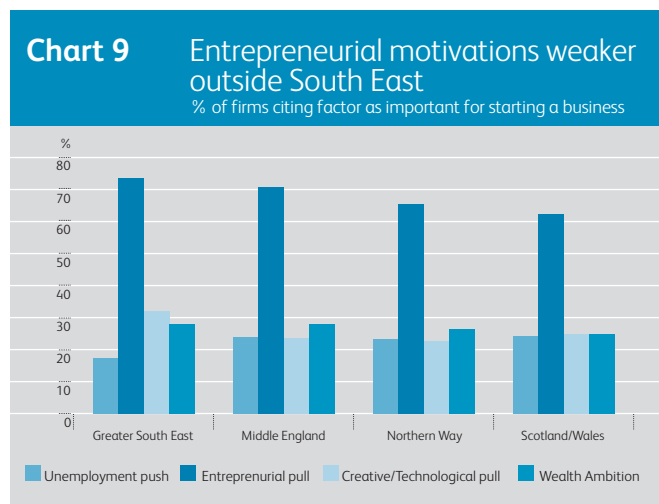
### Limited impact from business support programmes

Our comments on the economic performance of the regions since 1998 do not necessarily imply criticism of what the RDAs have done. For example, some of the structural differences in their economies and the varying skills and motivation of the workforces mean that it would take much longer than eight years to narrow the differences between the regions. Indeed, we would argue that some of these differences are so entrenched that it is unrealistic to target reducing economic inequalities as a policy goal.

We also believe that the twin objectives of maximising economic growth and reducing regional economic disparities has added an unnecessary layer of complexity to the framework under which RDAs operate and made it harder to evaluate their effectiveness. For example, any attempt to reduce economic disparities between the regions would need to take account of both current relative levels of prosperity and the impact of expected economic growth rates. In essence, a moving target is always harder to hit than a static one.

Chart 9 looks at one example of these entrenched differences – the entrepreneurial motivations of firms across the country. Based on responses to its annual survey of UK business, the Centre for Business Research has analysed how motivations for starting a business vary across the UK. The chart looks at four composite regions – the Greater South East (London, South East and East of England), Middle England (South West, West and East Midlands), Northern Way (Yorkshire and Humberside, North East, North West) and in the devolved administrations of Scotland and Wales.

Only in the Greater South East is the entrepreneurial pull – the desire of the founder to run a business – the dominant reason for starting a business. This driver is considerably higher in the Greater South East than in the Northern Way. Similarly, ‘creative and technological pull’ – the desire to implement a new idea, invention or concept – is substantially more prevalent in the Greater South East than in other regions. This is important given that these are the type of businesses that are likely to grow and add significant value. In contrast, despite the fall in the jobless rate across the UK,



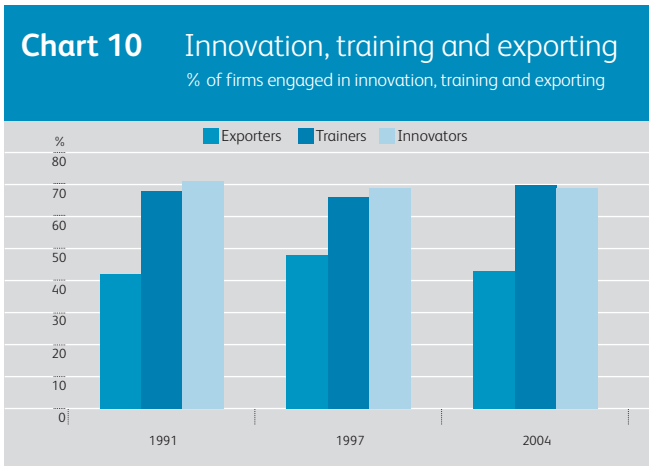
Source: Centre for Business Research (2007)

‘unemployment push’ – starting a business because of the actual or potential unemployment of the founder – is higher outside the Greater South East.

In addition, there are questions about the effectiveness of the support that has been provided. Since 1997, the government has committed more resources to boosting regional and national productivity and competitiveness. In addition decentralising government support for the innovative activity and potential of smaller UK firms has been one of the most important areas for policy attention in recent years. Linked to this has been the importance of training as a way of upgrading the skills base and enhancing productivity in SMEs, as well as the capacity of these firms to demonstrate competitive advantage in international markets.

Looking at three primary drivers of productivity – exporting, training and innovation – Chart 10 shows that there has also been very little change in SME activity between 1991 and 2004. Over these 13 years, there has been very little change in the proportion of firms reporting formal training, or those introducing new or significantly improved products or processes. The share of firms that were exporters rose from 1991 to 1997, but fell back again in 2004 to just above 1991 levels.

Business support policies have also had little impact on some persistent weaknesses such as regional differences in enterprise development. Indicators such as business start-up rates, self-employment rates, business density rates and business survival rates show no significant improvement in recent years. This is highlighted in the GEM 2005 Report on UK competitiveness, which suggests that business start-ups are falling and that there are simply not enough businesses for many regions to establish sustainable competitive economies.



Source: Centre for Business Research (2007)

An area where government support is particularly active is in encouraging businesses to collaborate with universities and government support agencies in order to improve business and regional competitiveness and productivity. However, these linkages have had limited impacts.

For example, concerns have been raised around the constraints of geography on programmes designed to foster linkages and drive knowledge transfer. We have encountered cases of manufacturers who have been encouraged to partner with universities in the same region by the

sponsoring RDA, despite better research being undertaken by an institution outside of the region (and sometimes even outside of the UK).

The geography of collaborators is complex. Table 6 shows that for most firms in the 2004 Centre for Business Research survey of SMEs, collaboration is more important at the national level than at any other level, while international collaborators are more important in most cases than partnerships at the local level.

This suggests that the focus on local networks and collaboration may be misplaced. Not only are these links of relatively minor importance for businesses, they ignore activities that encourage innovation and enterprise, yet often have benefits that spill over geographical boundaries.

In addition to accessing business networks, many firms covered in the survey use government-sponsored business help and finance. The take-up and use of these services such as Business Link has increased since 1991. Yet Table 7 shows that the impact of Business Link has been limited to soft outcomes, such as increasing the ability to manage, while only a quarter of firms surveyed saw at least moderate impacts on productivity, profits and turnover.

A primary aim of Business Link from its outset has been to remove any 'muddle' and overlap in government services

**Table 6 Focus on local collaboration is misplaced**

% of firms entering into formal or informal partnership agreements

Location of Collaborators	Greater South East	Middle England	Northern Way	Scotland/ Wales
<b>Local</b>				
Suppliers	8.0	10.3	16.0	10.1
Customers	7.4	8.4	9.8	24.0
HEIs	4.7	6.1	15.3	12.7
Private research institutes/Consultants	3.2	6.5	9.2	5.0
Firms in similar lines of business	14.5	11.1	14.1	20.2
<b>National</b>				
Suppliers	30.6	38.3	27.6	30.4
Customers	31.4	47.1	41.1	30.3
HEIs	14.0	11.7	16.5	16.5
Private research institutes/Consultants	12.9	13.5	15.4	12.7
Firms in similar lines of business	35.9	35.9	39.8	46.7
<b>International</b>				
Suppliers	17.5	20.0	17.7	15.2
Customers	14.2	15.0	12.3	10.1
HEIs	4.7	2.9	1.8	0.0
Private research institutes/Consultants	5.7	2.8	3.1	1.3
Firms in similar lines of business	22.2	16.3	12.2	12.6

Source: Centre for Business Research (2007)

**Table 7 Business Link services have limited impact**

Mean impact score: 1-no impact, 2-slight, 3-moderate, 4-important, 5-crucial

	All	Manufacturing	Business services	Micro	Small	Medium
Improved productivity	1.9	2.0	1.8	1.7	2.0	1.9
Increased profits	1.9	1.9	1.8	1.6	1.9	2.0
Increased turnover	1.8	1.9	1.7	1.7	1.8	1.9
Increased ability to manage	2.3	2.3	2.3	2.1	2.4	2.2
Other	1.9	2.0	1.8	1.9	1.9	2.0

Source: Centre for Business Research (2007)

and to encourage its use as an initial, single point of contact from which to get advice. Improving the brokerage service was an important part of reforms to Business Link in 2006. However, only a small fraction of firms (3.4 %) expect to receive a referral or brokerage service from Business Link. Expectations of receiving business contacts and networking opportunities from Business Link are just as low despite seminars, marketing opportunities and other networking initiatives having been part of its service from the outset. This suggests that these services are still unsuccessfully marketed aspects of Business Link.

However, these results on the effectiveness of Business Link do not include the performance of the Manufacturing Advisory Service. Manufacturers are generally very positive about the role that the Manufacturing Advisory Service (MAS) has played in promoting best practice production techniques across the sector. This is an initiative that has captured the confidence of the manufacturing community from its inception, and has demonstrated substantial contributions to overall productivity gains in the companies which have taken part in the programme.

It has also demonstrated that efforts to promote best practice – which are mostly geared towards the small- and medium-sized business community – are better delivered at the sub-national level which is closer to the market. By dovetailing with the region's economic strategy, it also contributes positively to the delivery of improved business performance at the regional level. In 2005, MAS dealt with 27,000 enquiries, carried out over 4,000 on-site reviews and completed 1,500 in-depth projects, resulting in an average productivity gain of 20 %. It is estimated to have contributed some £300million of value-added to companies which have been supported by the scheme.

The way a national scheme is regionally delivered and tailored to the region's specific needs is seen as a real strength of the MAS programme. It has strong brand recognition and a good reputation, both attributes which need to be nurtured. Therefore, EEF supports the proposed

changes to MAS, which aim to build on its strengths, but also to incorporate additional features such as management techniques, energy efficiency and perhaps the identification of skills and training need. However, we have two caveats – firstly, it is important that we aim for consistent delivery across the regions, and secondly that any changes are done in a way which protects the existing strengths of the programme.

### Conclusion

Overall, the effectiveness of RDAs in influencing their regional economies has been constrained by entrenched disparities. An inward focus on reducing these disparities has failed to improve the entrepreneurial performance of the regions, leading poor performing regions to rely more on public sector spending. RDA support for businesses should not be constrained by geography, but rather should focus on improving the quality of the support, collaboration and networks businesses need to improve their productivity and competitiveness.

We recognise that within the existing funding arrangements of the RDAs there is an implicit emphasis on the narrowing of the gaps. But, on balance, we believe that the energies of the agencies themselves would be more effectively focused on maximising regional economic performance, through continuing to pursue an agenda of enterprise, innovation and productivity. We feel that this will lead to improved economic conditions, and will help the northern regions move away from a dependence on the public sector towards a more sustainable enterprise driven economy.

**Recommendation: In the RDA aims and objectives, we believe that there should be a greater emphasis on maximising regional economic performance, and less emphasis on the narrowing of interregional disparities. This is better achieved through a continued focus on enterprise, competitiveness and productivity with less emphasis on job creation.**

#### 4.4 The search for a more appropriate monitoring framework

We have previously highlighted how neither of the currently used government assessments of RDA performance is suitable for capturing the impact of the agencies on their regional economies. We have also seen how the data on regional economic performance offers up little conclusive evidence that regional disparities are narrowing, despite the fact that every region has generally improved its performance since the late 1990s.

We are therefore faced with a fundamental mismatch between the government's assessments of RDA performance and what the economic data suggests. On the one hand, we have RDAs broadly achieving and surpassing their core output targets. Yet, on the other hand, the economic analysis of regions has demonstrated little narrowing of disparities nor any major impact on national economic performance.

However, there is a third method of assessing RDA performance in existence, although this is yet to be used. This is called the *RDA Impact Evaluation Framework (IEF)*<sup>24</sup> and has been established as a response to the difficulty in assessing the impact of RDAs on regional economies. The RDAs have worked with the DTI, HM Treasury, DEFRA, National Audit Office (NAO), and the DCLG to design a framework that provides a more thorough assessment of their impact on the regional economies. It uses national and regional economic conditions to set PSA targets and assess RDA activities, spend and outputs (see Appendix 1 for more details).

We are supportive of the IEF as an alternative assessment of RDA performance as it addresses some of our concerns with the core outputs and IPA approaches. While the NAO IPA has its benefits in assessing operational performance, and the capturing of outputs may also have some value, neither method is sufficiently focused on measuring the outcomes of the RDAs. In contrast, we believe that the IEF approach is a welcome move in the right direction and we support the loosening of the reliance on output targets.

**Recommendation: We broadly support the introduction of the IEF with the proviso that any performance monitoring framework meets the following criteria:**

- It is related to the aims and objectives of the RDAs;
- It focuses on measuring the impact of the RDAs on the regional economy;
- There is more emphasis on capturing outcomes, and less on outputs.

#### 4.5 Conclusion

In this section, we have identified a number of areas EEF feels could – if adequately addressed – improve the effectiveness of the RDAs. Firstly, much more emphasis needs to be placed on the maximisation of regional economic performance by the RDAs, rather than chasing what may be elusive narrowing of gaps between the regions. Secondly, we need an appropriate monitoring framework which will track the impact of the RDAs in improving their regional economies, which has a focus on capturing outcomes – as opposed to outputs – at its heart.

<sup>24</sup> See [http://www.sqw.co.uk/pdfs/RDA\\_IEF\\_FINAL\\_REPORT261005\\_5.pdf](http://www.sqw.co.uk/pdfs/RDA_IEF_FINAL_REPORT261005_5.pdf) for more details.

## 5. Business views on the role and effectiveness of RDAs

While the previous discussion has focused on the formal assessments of RDA performance, and has looked at some of the key economic data on the impact of the RDAs on their regional economies, we now turn to the views of our member companies and Associations.

The discussion follows four main threads. Firstly, we look at how the RDAs need to ensure that they build on inherent strengths of the regions. We then turn to discuss how geographical boundaries may be having a negative impact on the ability of the RDAs to maximise their performance. Thirdly, the effectiveness of the RDA focus on promoting clusters is discussed in more detail. We then move on to look at the ways in which the range of measures to promote economic competitiveness at the regional level could be better co-ordinated to maximise the impact of the RDAs, discussing the relationship between different scales: national, regional and local.

### 5.1 The role of RDAs in bringing order to regional activity

#### Building on existing providers

RDAs are not intended to deliver any schemes or programmes themselves, but rather to act as an enabler by licensing and contracting other bodies to undertake the provision of business support. Building on established providers and expertise is seen as a more efficient and effective use of resources, and avoids duplication of existing provision and the creation of competitor programmes funded from the public purse.

EEF is fully supportive of the role RDAs play as a licensing and contracting body, rather than a direct provider of business support. We believe that this allows for existing quality providers with strong reputations and competencies to help deliver on the objectives within the RES. In addition, we believe that adherence to this approach should reduce the possibility of existing providers being undermined by the creation of publicly-funded competitors.

One of the major strengths of the RDAs has been the ability to act as a co-ordinator of interested and relevant stakeholders on major projects and initiatives. We have witnessed this on two major fronts. Firstly, when it comes to large-scale urban regeneration projects the lead role of the RDAs should be commended. The continued resurgence of the cities of England – led by the RDAs – has had a positive impact on the operation of companies, making it easier to attract and retain staff, and offering a better environment to potential customers and suppliers.

Secondly, the role that the agencies have played in marshalling other organisations and institutions in times of regional crisis should be applauded. The most manifest example of this was the Rover Task Force, as it is unlikely any other agency would have been able to marshal all the key players in such a short period of time on a specific issue.

We support this anchor role that the RDAs perform in major regeneration projects, and the lead taken in organising the regions' stakeholders at times when a quick response is required.

#### Bureaucracy and confusion

There would appear to be a considerable amount of bureaucracy involved in the process of applying for financial support from the RDAs – an obvious deterrent for business becoming involved in programmes and initiatives designed to raise performance. In addition, the experience of our members is that there is such a wide range of schemes on offer to support business that this has led to a state of confusion<sup>25</sup>.

We welcome the steps that are now being taken to tackle the plethora of initiatives (with plans to reduce the number from around 3,000 to 100 or less by 2010) through a targeted process of simplification and streamlining. This should help foster better brand recognition and reduce confusion amongst the business community. However, we agree with the recent Richard Report that the streamlining process must leave in place those schemes which are the most effective<sup>26</sup>.

#### Recommendations

- **Business support should be streamlined to fit under a smaller number of branded themes, concentrating on those programmes and initiatives that have demonstrated the greatest contributions to raising business performance.**
- **A system should be introduced to ensure that the process of applying for business support is continually monitored and refined to minimise bureaucracy.**

#### RDA awareness and understanding of manufacturing

It is important that RDAs maintain a strong understanding of how business operates. The agencies were designed to have a strong degree of business involvement in both their

<sup>25</sup> A similar finding was outlined in the Trade & Industry Select Committee Inquiry 'Support to Businesses from the Regional Development Agencies' (Fifth Report), 2003/4

<sup>26</sup> Richard Report on Small Business and Government, March 2007. Conservative Party Policy Review.

running, and broad direction of policy. To some degree, this has been the case – chairs are often from a business background, and boards have a number of business representatives (as well as public sector, union and voluntary group representation).

However, we do believe that more could be done to widen the knowledge within RDAs of how business operates, particularly in those areas which interact the most with business. A potential way to achieve this is through an increase in the number of staff that take part in job exchanges into the wider business community. We would be particularly keen to see this happening across all levels of the RDAs – even beyond those in the most senior roles. More influential, however, would be a greater emphasis on attracting people with successful business backgrounds into working for the RDAs.

**Recommendation: EEF supports efforts to inject greater understanding of business into the workforces of the RDAs through increased use of secondments and placements and the attraction of individuals with successful business backgrounds .**

## 5.2 Issues of geography

It may seem bizarre but regional boundaries appear to be acting as barriers to the efficient operation of the RDAs. Currently, RDAs are focused on support for schemes and initiatives that help businesses located within their administrative boundaries, which is a reflection of their five ‘purposes’ as identified in the original legislation<sup>27</sup>. However, we believe this focus solely within the regional boundaries is acting as a drag on the effectiveness of the RDAs.

Most companies are operating in an environment in which the boundaries of the RDAs are irrelevant to their day-to-day operations. Customers and suppliers are spread across a wide geographical area, and some of the major factors which drive the competitiveness of a company (such as the labour market, a pool of supplier companies) will be as relevant on one side of a regional border as the other.

In particular, support for clusters is particularly sensitive to the issue of geographical boundaries. Clusters often straddle regional boundaries, and as such, RDA policies which support supply chains, innovation and best practice need to have more flexibility in order to service their pan-regional nature. We also believe that there should be less stringency around university-business links, as RDAs have often encouraged companies to partner with universities within the same region. We believe both companies and the regional economy will be better served if the links occur with

whichever is the most appropriate university, whether located elsewhere in the country or even abroad. Essentially, as long as the performance of the individual company is enhanced, the contribution this makes to regional wealth creation should be enough to satisfy the RDA.

**Recommendation – RDAs must be more flexible around supporting programmes and initiatives beyond their regional boundaries if there is still a demonstrable benefit to the region’s economic performance**

In addition to a relaxation of the geographical boundaries, there has to be much more joint working between RDAs and the devolved administrations. on programmes that are beneficial to multiple regions. We are disappointed at the low levels of pan-RDA working, even where a particular cluster is relevant on both sides of a border. There are some examples of joint working already (e.g. the Northern Way) – but EEF members believe this has increasingly lost momentum. We feel this is something that must be initiated by the RDAs themselves, with Whitehall’s role being restricted simply to strong encouragement. A possible mechanism may be through an expanded RDA Secretariat function, which would allow the initiatives to be ‘grass roots-driven’, more sustainable, and free from any undue interference by central government.

**Recommendation – we support moves towards more pan-RDA working (including with the devolved administrations), with an enhanced role for the RDA Secretariat to ensure common regional issues and priorities are identified and addressed through joint schemes and initiatives.**

### Promoting clusters

A major thrust of the work of the RDAs in supporting business is via the promotion and support of clusters or regional specialisms. Clusters have performed a central role in UK government attempts to promote business competitiveness since the late 1990s, with its intellectual roots in the work of Michael Porter<sup>28</sup>. Porter identified the role that ‘assets’ and policies at the sub-national level can play in driving industrial competitiveness. While there has been general support for this area of policy – particularly where it is building on clearly identifiable regional business strengths – there remains some concern around the choice of clusters, and how the regional focus dovetails with both other regions, and the national level.

<sup>27</sup> Each of the five ‘purposes’ states that it must be achieved ‘in its area’ indicating at least an intention to restrict RDAs to working solely within regional boundaries.

<sup>28</sup> UK Competitiveness: Moving to the Next Stage, (Report for the DTI), Michael E Porter and Christian H M Ketels, Institute of Strategy and Competitiveness, Harvard Business School.

It remains unclear to many companies how the regional focus of clusters is married to the need to support some sectors of strategic importance at a national level. In particular, defence, aerospace, automotive and speciality chemicals are all prominent national industrial strengths which deserve attention at a level greater than individual regions.

In this case, there are dangers of focussing excessively on the regional level. Taken to the extreme, we could be faced with the situation where a key company in a regional cluster's supply chain is not able to receive support due to being just half a mile over the border outside of the region.

Our members are also concerned with the choice of clusters receiving support. While it is widely accepted that policy focused on promoting the competitiveness of existing regional industrial strengths is a sensible approach, there are concerns about the amount of resources being devoted to the creation and fostering of new clusters with no previous history in a region<sup>29</sup>.

Many of these clusters are in technology and innovation-focused sectors of the economy and are by default knowledge-intensive. Linkages to universities with particular research strengths may be a central underpinning of the focus. Indeed, EEF believes that the identification of new growth sectors is an important element of the clusters approach – as is the introduction of new technologies into existing industries in order to raise productivity and value added. But the balance must be correct between this particular focus, and the creation of clusters with no existing regional presence whatsoever, of which we remain sceptical of its effectiveness.

In addition, there are fears that the RDAs are competing with each other in aiming to create the same or similar clusters. This competition and potential duplication is not an effective use of public money, and does not maximise economic performance at the national level.

#### Recommendations:

- **RDAs must ensure that the process of identifying clusters is fully transparent, and that the views of the business community are included at an early stage;**
- **There needs to be better pan-RDA working to ensure that clusters of national importance are adequately supported and that the problem of duplication of clusters by multiple regions is avoided;**
- **The choice of clusters must seek a suitable balance between supporting existing strengths and the creation of clusters from 'scratch'**

## 5.4 The organisation of policy at the sub-national level

We now turn to some specific areas of policy which are important in determining regional economic performance. These include both those already within the remit of the RDAs, and also some which are currently managed by other organisations at the regional level.

A theme of this study has been the need to achieve an appropriate balance between activity undertaken at the national, regional and local level. Whilst RDAs must be given the scope to develop their own regional economic development strategies, there are instances where national co-ordination and delivery are necessary. This may apply to development of certain clusters, transport strategy, co-ordination of inward investment, and some aspects of trade support. At the other end of the scale local government has a role to play, especially in urban development.

The local and regional come together in some circumstances such as the regional assemblies. One of the greatest concerns for business is how these various scales interact. Our research shows that business is not satisfied that RDAs have enough influence in some areas of policy which are crucial to regional economic development, such as in skills, planning and transport.

In many cases, it is a matter of the most appropriate scale for delivering functions – from national level, through the regional level down to local authorities. In this section, we look at a number of policy areas, and we produce a series of recommendations which we believe will improve the effectiveness of the RDAs' impact on the economic performance of the regions.

### Skills and Training

The shortage of suitably skilled individuals is regularly identified as one of the most pressing issues facing manufacturers. However, we are faced with a paradoxical situation – RDAs currently have very little active role in delivering skills and training programmes<sup>30</sup>, yet their core output targets include the improvement of skills<sup>31</sup>. Most of

<sup>29</sup> This is a similar finding to that in the Trade & Industry Select Committee Inquiry Support to Businesses from the Regional Development Agencies (Fifth Report, 2003/4)

<sup>30</sup> The Public Accounts Committee Inquiry 'Success in the Regions' also highlighted that RDAs had too little influence over expenditure on skills and transport, even though both are vital components of regional economic development.

<sup>31</sup> These are (6) Skills: Number of people assisted in their skills development as a result of RDA programmes; (6a) Number of adults gaining basic skills as part of Skills for Life Strategy that count towards the Skills PSA Target; (6b) Number of adults in the workforce who lack a full level 2 or equivalent qualification who are supported in achieving at least a full level 2 qualification or equivalent.

their involvement has been through the regional skills partnerships (RSPs)<sup>32</sup>, which were established to set out how the delivery of adult skills, workforce development, business support and labour market services can best support the RES.

However, one of the major difficulties with skills and training support is that it is a landscape of considerable flux, with proposals for new or revamped bodies at the local, regional and national level. We have recently seen the establishment of the National Skills Academy for Manufacturing (NSAM), and have also experienced a major overhaul of the Learning and Skills Councils, with a shift to a regional focus as opposed to a local presence. And, most importantly, the Leitch Review of Skills<sup>33</sup> which identified the necessity of upskilling the UK's labour force in order to meet the growing global competitive challenge, outlined a range of changes to the skills and training infrastructure.

Our members wish to see a much more demand-led system of providing support to train the workforce. They are concerned with the cluttered and confused structures currently in place and with the over-emphasis on predicting skill needs. EEF has called for a reduction in the number of organisations involved, and that efforts to improve skills and training are both demand-led and sector driven<sup>34</sup>.

EEF has a number of key principles which we feel are critical in this regard. We are looking for a system which is:

- demand-led;
- sector driven;
- reduces the number of agencies involved; and
- possesses clear lines of responsibility and accountability

By sticking to these principles, we can establish a system which can truly have a positive impact on the competitiveness of business in the regions. And, in order to ensure that the various bodies are working towards the same aim, the RDA has a role to play in monitoring and scrutinising at the regional level.

### Recommendations

- **We wish to see a post-Leitch landscape that reduces the number of bodies involved in skills and training at the regional level and introduces a demand-led, sector-driven system**
- **The role of the RDAs in skills and training should be limited to one of monitoring and scrutinising of the various relevant bodies at the regional level;**

### Planning and Transport

Manufacturers identify transport as one of the major drags on regional economies (along with skill shortages). The competitiveness of our member companies is being damaged by congestion on the road network. Given the importance to manufacturers of moving goods and supplies, such delays do contribute to the burden of costs, which in a globally competitive market play a role in harming productivity and thus profitability. With transport therefore being one of the key issues affecting the competitiveness of the regional economy, business rightly sees it as being one of the most pressing areas requiring policy attention. However, our members question the lack of RDA involvement in tackling the region's major transport priorities.

Similarly, planning policy can have a major impact on the competitiveness of the economy and it is important that the success of business is not hampered by a system which does not address their major concerns.

Regional assemblies currently produce regional strategic frameworks in planning and transport<sup>35</sup>, both of which have an important role to play in the functioning of the regional economy. However, we question the effectiveness of this role, with particular concerns over the ability of the assemblies to adequately reflect the needs of the business community in these strategies<sup>36</sup>.

In addition, we feel that by separating the production of these two strategies from the regional economic strategy (which is managed by the RDAs), the interrelated and interdependent nature of planning, transport and economic development is likely to be stifled. In order to ensure maximised regional economic performance, we believe a much more strategic fit is needed between planning, transport and economic development and that the needs of business are properly reflected. We foresee a role whereby the RDA – working with the Highways Agency, Network Rail and the Department for Transport – will work with the business community to identify the major transport network requirements in the region, prioritising those most important to the region's competitiveness.

32 RSPs were established on the back of the Skills Strategy White Paper (21st Century Skills: Realising our Potential) in July 2003. The Government invited the RDAs to lead the new RSPs, which must involve all the key government agencies operating in the region and also representatives of employers and employees.

33 Skills in the UK: the long term challenge – Leitch Review of Skills, HM Treasury (2007)

34 Learning to Change – Why the UK Skills System Must do Better (EEF, 2006)

35 The Public Accounts Committee Inquiry "Success in the Regions" also highlighted that RDAs had too little influence over expenditure on skills and transport, even though both are vital components of regional economic development.

36 In some regions, the Regional Assemblies taken a very different position over some major transport schemes than the RDAs.

**Recommendation – we call for a review of the role of the regional assemblies in the production of regional spatial and transport strategies to assess whether they are (a) properly aligned with the RDAs’ Regional Economic Strategy and (b) adequately representing the views and needs of the business community.**

### **Trade and Inward Investment**

Elements of trade promotion work have been devolved to the RDAs from UKTI in recent years, but that this has led to increased confusion on behalf of companies and trade associations. Business has found it more difficult to participate (or involve their suppliers) in trade missions because of the impact of geographical boundaries. In addition, the regional approach to trade promotion has also made it harder for nationally-organised institutions such as trade associations to collaborate with UKTI and the RDAs.

We are also concerned that there has been competition between the regions in attracting inward investment. There has been an explosion in the number of RDAs with overseas offices and the attraction of inward investment has become fractured between the nine agencies. EEF believes that competition for inward investment is unhealthy and we would prefer a more co-ordinated approach which does not pit one region against another.

**Recommendation – The UKTI/RDA review of regional trade operations must work to ensure that an appropriate balance is achieved between national and regional delivery of trade support services**

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# Appendix 1 – The Impact Evaluation Framework (IEF)

There are four basic building blocks in the framework:

- National and regional conditions: RDAs are to assess the strengths and weaknesses of regional economic performance. Any gaps or failures in addressing regional disparities will form the rationale for regional policy interventions;
- PSA Targets and RES objectives: National and regional objectives will be set according to strengths and weaknesses identified in the first stage. These will be represented by the PSA targets and the distinct strategic objectives for each of the English regions.
- RDA spend, activities, leverage and direct outputs: The RDA monitors spending, outcomes (stemming from the activities of the RDAs, its partners and national policies/programmes) and the direct outputs (core outputs and supplementary outputs that they generate). This is the stage where judgements can be made about effectiveness (performance against objectives) and cost-effectiveness (the unit cost of delivery of direct or gross outputs).
- Assessing national and regional outcomes and impacts: It is in this part of the framework that evaluation has to supplement monitoring because it requires assessment of effects on third parties and unintended effects.

A major element of the framework is the need to capture more quantitative and qualitative data in order to support a more sophisticated assessment of the impact of RDAs. The IEF uses strategic added value (SAV) to evaluate RDA contributions to three key 'intervention categories' – business development and competitiveness; regeneration through infrastructure development; and human resources and communities – which cover the range of RDA activities, their core outputs as well as their PSA targets.



# About us

EEF is a trusted partner to thousands of employers around Britain. We work on behalf of over 6000 companies, in manufacturing, engineering, technology and beyond. Together, they employ close to a million people. On any given day you'll find us helping our members tackle a whole range of employment challenges.

Our regional Associations bring us much closer to the businesses we support, whilst our offices in London and Brussels stay equally close to government – influencing the way policy is made and alerting our members to any changes in legislation that might affect them.

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