



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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Sub National Review
Bay 116
Department for Business, Enterprise and Regulatory Reform
1 Victoria Street
London
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Dear Sirs

Review of Sub National Economic Development and Regeneration

Introduction

The Institute of Chartered Accountants in England and Wales (ICAEW) welcomes the opportunity to comment on the consultation document on "Prosperous Places: Taking forward the Review of Sub National Economic Development and Regeneration" published by the BERR and the Department for Communities and Local Government on 31 March 2008. As a world leading professional accountancy body, the ICAEW provides leadership and practical support to over 130,000 members in more than 140 countries, including over 50,000 who work in a direct business capacity.

The Institute agrees with the consultation document that, in order for the UK to continue to prosper and meet the challenges of the global marketplace, the UK government must ensure that its policy-making and governance is robust enough to create the right platform for our wealth-creating companies and entrepreneurs. The UK needs a system of national, regional, sub-regional and local government which allows British business to invest, innovate and make profits, and at the same time creates opportunities for all.

Why Regional Policy Matters

The differing levels of regional economic performance were acknowledged in the 2004 Spending Review and the government set its objective to "make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions".

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Whilst some improvements in performance have been achieved since 2003 the persistent gap in growth rates between the regions largely remains. Moreover, the relative share of English GDP per head since 1991 has declined or remained static for all regions other than London and the South East. We therefore question whether this is an effective performance target.

Consequently we believe that it is appropriate to revise the performance targets for the English Regions (and Scotland, Wales and Northern Ireland). Given that the regions outside the South East are making little progress against previous targets, it might be appropriate to broaden the comparison to include comparable regions within the European Union, using NUTS (The Nomenclature of Units for Territorial Statistics) data compiled for Eurostat.

The Sub National Review recognises that a radical shift is required if the poorer performing regions are to make progress against their more economically efficient counterparts.

An effective economic policy for the English regions has been given added impetus by several macro economic factors including:

- The growing move towards globalized sourcing of supplies and increasing cost pressures means that the UK manufacturing sector, already accounting for a diminishing proportion of UK GDP, will face increasing competitive challenges. On the other hand the recent decline in the value of Sterling against a basket of currencies has acted as a boost to UK manufacturing as well as increasing the attractiveness of UK assets to overseas investors.
- The rising costs of energy and raw materials will favour countries which maximize their indigenous sources of supply and focus on sustainable economic development.
- The EU's cohesion policy reform aims to make structural actions "more concentrated on the least favoured regions while anticipating change in the rest of the Union". This will inevitably reduce the amount of EU aid for UK businesses as well as assisting the businesses of less well developed EU regions to compete with UK businesses.
- The UK government 2007 Comprehensive Spending Review will reduce the average annual real growth rate in public spending to 2.1% with a consequent impact on economic activity. After a significant increase in public expenditure in the period from 2000 to 2007, the reduced growth in spending during 2008/11 is to be welcomed, but its impact on business activity will be significant at a time of a general economic downturn.

These factors suggest that UK businesses need a proactive regional economic policy to enhance their competitive position.

Key Points

The ICAEW supports the Government in its belief that a regional dimension is important to achieving long lasting regeneration and prosperity for all. Input from, and dialogue with, business is essential to achieve an effective regional economic policy.

Business is at the heart of any work to regenerate the regions. Without the active involvement of businesses – the wealth creators - the public sector will struggle to achieve economic prosperity.

Increased regional prosperity needs the engagement of business. It is important that the RDA Boards continue to be business led. However greater devolution of economic development requires greater consultation and involvement at lower levels and this might present challenges for sub regional bodies and councils as well as for the bodies representing business such as ICAEW. Nonetheless, the business representative organisations have a key role to play in providing feedback and engagement in a devolved regional economy.

Nowhere is the active involvement and participation of business more required than in the proposals for Supplementary Business Rates (SBR). The government has announced its draft legislative programme for 2008/9 which includes a Business Rates Supplements Bill. We have polled ICAEW members on these proposals.

In summary our poll reveals that businesses have yet to be convinced of the need for SBRs and at a minimum businesses will need to be actively involved in formulating a local strategy for economic development as well as specific local decisions on any SBR. We set out in Appendix 2 a brief summary of the poll together with our proposed framework for SBR.

The ICAEW is concerned at the proposals for accountability of the RDAs. As we mention in the answer to question 2, different models of accountability are already beginning to emerge in different regions. But we have concerns regarding the cost implications of an unfettered local devolution. Our concern is that the effectiveness of the devolution of economic development is ultimately restricted because of the cost of undertaking the administration, economic assessments, communication and researching the evidence base at sub-regional level. Consequently the ICAEW recommends that government defines the alternative models, identifies the merits of each model and the likely cost of each.

Finally, this SNR represents the most fundamental reform of regional economic development since the creation of the Regional Development Agencies. The ICAEW recommends that once the SNR has been implemented the government commits to no major changes to the organisation of regional economic development for at least two comprehensive spending rounds - 6 years. This will give time for the new regional economic structure to take effect and provide evidence to gauge its effectiveness.

If you have any points you wish to discuss please contact the undersigned.

Yours faithfully

A handwritten signature in blue ink, reading 'Clive Lewis', with a horizontal line underneath.

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We present below our responses to the specific questions posed in the consultation document.

Q1 – How should RDAs satisfy themselves that sufficient capacity exists for programme management and delivery at local or sub regional levels?

Effective performance management is a cornerstone of a delegated economic development. Past practice has been to create an extensive range of performance targets totalling 1200. The current proposals suggest that there will be fewer targets with sub-regional authorities able to choose around 35 priorities for each area from a range of 200 outcome based indicators covering all national priorities such as climate change, social exclusion and anti-social behaviour.

The ICAEW favours “evidence based policy” and rigorous comparison with similar cohorts based on comparison of achievement with targets. In assessing the effectiveness of regional economic policy we believe that there is a case for broadening the comparison of the English regions (and of Wales, Scotland and Northern Ireland) to one with comparable regions within the European Union, using NUTS (The Nomenclature of Territorial Units for Statistics) data compiled for Eurostat.

The new regime of Comprehensive Area Assessment offers a more proportionate risk-based regime which will cut bureaucracy and allow more targeted support or intervention when things go wrong.

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

The ICAEW is concerned at the proposals for accountability of the RDAs. The SNR proposes that the RDAs should be required to agree their strategies with local government within the region. Today’s regional assemblies have about a third of their membership drawn from regional stakeholders such as representatives of business, voluntary organisations, trade unions and education and training bodies. These stakeholders – often referred to as social, economic and environmental partners (SEEPs) – have made an enormous contribution to the work of assemblies and have played a particularly valuable role in the scrutiny of RDAs. It is necessary to distinguish scrutiny - which is the holding of the executive to account – from the executive function of agreeing and monitoring strategies, carried out by the regional local government body.

The ICAEW believes, at least, the representative business such as CBI and IOD and professional bodies should be fully engaged in this scrutiny role. With the service sector representing a large proportion of UK GDP we believe it is vital for major professional bodies such as the ICAEW, the Law Society and the Royal Institute of Chartered Surveyors (RICS) to be involved in economic development decisions at local level.

We are aware that there is a school of thought within Councils that in order for the strategies to be “owned” by the communities in the region it is only councils that have the

direct democratic accountability to local people and detailed knowledge of local areas that will provide this sense of regional ownership. Consequently only democratically elected councillors should have executive roles.

Some regions have encouraged the creation of region-wide business fora with which to discuss and consult on regional issues – the West Midlands is an example working with the West Midlands Business Council. The South East Regional Development Agency (SEEDA), the lead RDA for enterprise, has created the South East Business Forum (SEBUS) as a business representative group for consultations with GOSE and SEEDA. Over the last 12 months there have been active consultations on skills, transport, housing and business support. Other regions appear to operate without strong regional business representation. We are therefore concerned that, if left entirely to their own devices, some Councils and local authorities will either fail to reach a consensus or operate with inadequate input from key stakeholders such as businesses.

Different models of regional accountability are emerging. In the North West an Executive board is proposed with local authority representation drawn from its five constituent sub regions and high level stakeholder representation, and with the support of GONW and NWDA. It will be supported by three commissions (planning, housing and transport) and a 30 strong local authority –led policy forum that will bring other key stakeholders: these will all support the development of the regional strategy. Such an organisation will not be appropriate in other regions which, for example, have a strong city-region presence such as Yorkshire and Humberside where the Leeds City Region will represent over half the total region. We also have concerns regarding the cost implications of an unfettered local devolution.

Consequently the ICAEW recommends that government defines the alternative models, identifies the merits of each model and the likely cost of each. A concern is that the effectiveness of the devolution of economic development may be restricted because of the excessive cost of administration, economic assessment, communication and providing an evidence base. Included in the consideration of the merits of each model must be how to achieve effective consultation with business.

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

The ICAEW believes that past accountability has been inhibited by a tension between central government targets reflecting national priorities whilst regional economic strategies are developed with regional and local stakeholders.

We believe a more focussed set of performance measures are vital to effective accountability and scrutiny. The single set of national priorities for local authorities working alone or in partnership, to be measured through a single set of 198 national performance indicators must be the starting point for a bottom up approach to performance measurement and accountability. These performance indicators will be a more solid foundation for the evaluation framework measuring RDA performance in delivering their strategic objectives.

The accountability to Parliament through the Secretary of State for BERR will enable rigorous evaluation of regional performance and comparability regarding value for money

for the taxpayer. This supplemented by the more detailed monitoring by the National Audit Office will ensure adequate scrutiny

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

We support this approach as there is a clear economic focus that is needed if there is to be a genuine step change in the regeneration of the regions.

However we have a concern regarding transport. The ICAEW annually surveys its members in business working as finance directors in its Enterprise survey. ICAEW members believe that “Improving the transport infrastructure” is a key priority for government (ranking third behind reducing regulation and taking steps to improve skills). This aspect of regional policy is the glue by which all the other elements – the location of businesses, distribution of housing, economic regeneration, social exclusion – are held together. The ICAEW consequently would wish to see transport being given a higher priority.

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

The ICAEW believes that the new integrated process should allow sufficient time for consultation with, and scrutiny by, business and the other public bodies that have a regional delivery function, such as the Highways Agency and the Environment Agency, the Homes Agency, Jobcentre Plus, etc..

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

The ICAEW believes that there will be significantly increased costs for communication and in research to provide material for an “improved evidence base”.

The increased communication costs arise as a consequence of devolving the decision taking and delivery to sub regional level and council level because of the increased requirement to communicate and consult with all stakeholders. This is particularly the case if Councils believe that the strategies should be “owned” by the communities in the region. The potential for confusion increases with differing levels of local or sub regional cooperation through Multi Area Agreements addressing specific issues such as economic deprivation or housing need. To communicate this complex matrix of regional, sub regional and local economic strategies across a diversity of issues – economic growth and challenges, housing, climate change, regeneration and provision of transport, waste, water, minerals, energy and environmental infrastructure – will result in increased costs. The need to engage with business will require more systematic consultation particularly if the proposed Supplementary Business Rate is introduced. Business will need to be convinced that there is not taxation without representation.

The Local Authority Economic Assessment Duty will also increase costs as will the “improved evidence base” to inform the Sustainable Community Strategy, Local Development Framework and the LAA.

Some of these activities are already performed and the reduced number of performance targets for sub regional authorities will help offset some of the increased costs.

But we have concerns regarding the cost implications of an unfettered local devolution. For this reason the ICAEW recommends that government defines at most two or three alternative models, identifies the merits of each model and the likely cost of each.

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

We support Option 1 as clearly local authorities and RDAs must act in the interests of providing added value to the national economy rather than having processes that are divorced from the national macro economic picture.

It is this balance between national, regional and local decision making which is essential to ensure sustainable economic development and we support the Government in this aim.

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

No comment

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

The ICAEW recommends that the UK government issues guidance on engaging with the business community. Responding to scrutiny and consultation requirements at sub regional and local level will require business representative organisations and professional bodies to organise themselves to meet this new challenge. Some business representative organisations are already organised on a more local level. Other organisations may need to commit greater resources and local organisation to play a more active role.

But it must be incumbent on local authorities to ensure that a representative economic picture emerges from consultation. A number of local authorities consider consultation with business to be an annual presentation to a Chamber of Commerce. This cannot be the standard for consultation in the future. Government guidance should specify the minimum level of consultation required with business.

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

The ICAEW agrees that the bodies listed in 5.20 should be consulted by lead authorities, particularly if they are partners in the MAA. We would also contend that local business must be engaged in this process.

In the answer to the previous question we recommend that government issues guidance to local authorities on consultation with business. We suggest that in order for a rigorous assessment of economic impacts local authorities seek opinions through “dipstick” surveys

of groups of businesses. In return for taking part in regular surveys businesses might be offered incentives.

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

We believe that the current arrangements for public administration and economic planning for London already involve a complex array of stakeholders and seeking to further involve London boroughs will further dilute the effectiveness of the planning system.

The current City-wide government in London was introduced in the GLA Act which has only recently come into force. We believe that it is too soon to be proposing further changes to the governance for London.

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

MAAs bring together key players in flexible ways to tackle issues that are best addressed in partnership – at regional and sub-regional level. We are concerned how the democratic accountability of statutory bodies might appear to the voter at local authority level. Doubts have also been expressed as to the extent to which government departments will allow their agencies to align their priorities with those identified by local partnerships.

However, there is a concern that local authorities might refuse to co-operate. In addition some MAAs have very limited objectives. Accordingly we suggest creating statutory arrangements for sub regional collaboration on economic issues beyond MAAs.

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

It is proposed that the sub regional partnerships carry out a wide range of differing activities as deemed appropriate for local needs. One constraint on them doing so will be the capacity and assessment tests.

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

No comment

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

Yes. There should be a statutory duty on local authorities to co-operate with RDAs as the enforcers in support of business.

**Summary of ICAEW Poll on
Supplementary Business Rates**

A poll of members of the Institute of Chartered Accountants found widespread mistrust that the money would be spent wisely or well and concern that another imposition on businesses could do more harm than good.

Asked if they were in favour of a supplementary business rate, 85 per cent of those who responded said they were against it in any circumstances.

Of the rest, 13 per cent supported the idea of a rate as long as it was limited to no more than 2p in the pound, which works out at an increase of five per cent in the rate bill for business while the remainder supported idea of an unlimited tax.

However the response rate was low – less than 1%. This suggests that Councils and business representative organisations will have to work hard to secure engagement of local businesses in both the economic assessment process and any consultation on Supplementary Business Rates

**ICAEW Proposals for
A framework for Supplementary Business Rates**

- No Supplementary Business Rate should be introduced without a vote in favour from a majority of businesses subjected to the Supplementary Business Rates in the affected area. A vote should be called before projects are agreed, regardless of the proportion of the money being contributed by businesses.
- Exemptions for businesses not eligible for Supplementary Business Rates should be automatic and should not require any application process, to cut down on red tape.
- Where a Supplementary Business Rate is proposed, the rate revenue should be ring-fenced for specific projects.
- Supplementary Business Rates should operate for fixed terms. For example if the proposed project is an infrastructure project this would be the construction phase of infrastructure project.
- The proposed rateable value threshold of £50,000 below which ratepayers would not pay the Supplementary Business Rate must not be reduced.