HARD TIMES

Briefing 2

Funding for regional development

The government is radically scaling back spending on regional development. This sits uneasily alongside its aspirations to promote a private sector revival and deliver a more balanced distribution of economic activity and jobs across the country.

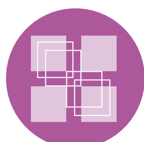
The process is furthest advanced in England, where some of the key players - RDAs and the Government Regional Offices for example - have already been culled. Some key spending programmes (WNF, LEGI etc) are also being brought to an end.

In their place, the government has introduced new initiatives, notably the Regional Growth Fund. But overall, the new initiatives replace only a fraction of the former spending.

Over the next year the government will also find that it needs to engage seriously with the up-coming reforms to EU funding to the regions, and with parallel discussions on the new EU rules governing aid to businesses in less prosperous areas. It is not yet clear that the government has a firm view on either of these issues.

- **Britain's less prosperous areas, which include most of the country's older industrial areas, will need help if they are to contribute in a serious way to the revival of private sector output and employment**

- **There is little evidence yet that the government recognises the need to concentrate the reduced pool of funding for regional development on the areas with the greatest economic needs**



Industrial Communities **Alliance**

Regional Growth Fund

The new Regional Growth Fund provides £1bn in public funding to promote private sector enterprise over the period to March 2013 - an average of £500m for each of the next two financial years. The Fund is England-only, though the government says it "will encourage the Devolved Administrations to undertake similar action".

The Fund's stated aims are:

- to encourage private sector enterprise by providing support for projects with significant potential for economic growth and create additional sustainable private sector employment
- and to support in particular those areas and communities that are currently dependent on the public sector make the transition to sustainable private sector led growth and prosperity

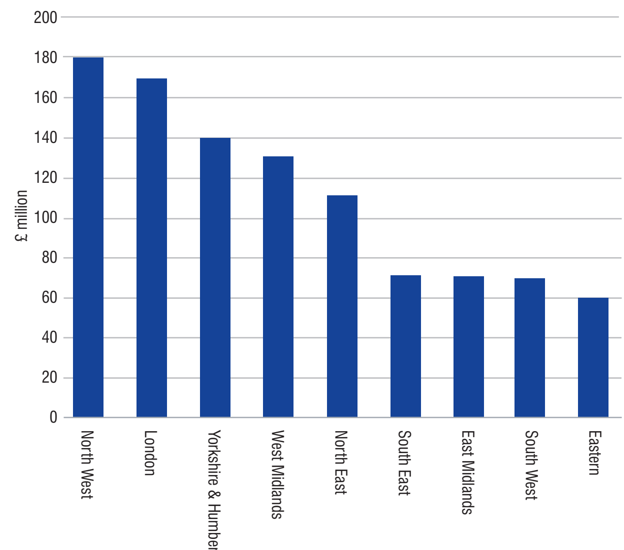
In the coming period the Regional Growth Fund is likely to be the main source of financial support from the Westminster government for regional development in England. In effect, it replaces money from the RDAs and provides the funding for the new Local Enterprise Partnerships.

RDA funding was not evenly spread across England, but favoured the least prosperous regions. On a per capita basis, the RDAs of the North and Midlands often received three or four times as much as those in the most prosperous parts of the South. This distribution of funding reflected economic need.

The new Regional Growth Fund is intended to be available to all parts of the country. Given that the Fund will replace RDA monies, ***there is a good case for an allocation of funds across the regions that reflects the former RDA budgets,*** in which case the allocation of the £1bn would be roughly as shown in Figure 1.

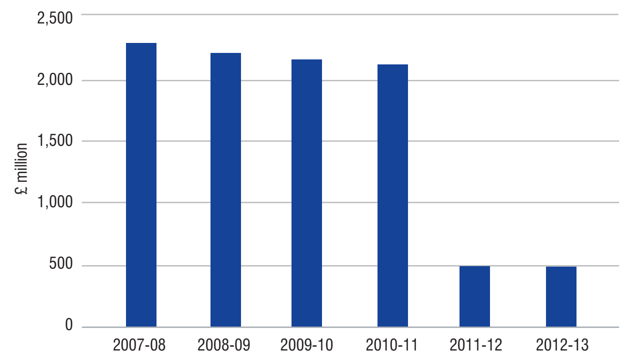
The four regions that would lose out most from a more even distribution of per capita funding would be, starting with the hardest hit: North East, Yorkshire & Humber, North West, West Midlands.

Figure 1: RDA annual funding



Even if the government were to accept the need for targeting of the Fund, it would still represent a massive cut: in the last financial year the government grant to the English RDAs was £2.26bn, compared to a proposed annual spend for the Fund of just £500m.

Figure 2: RDA/Regional Growth Fund budgets



Furthermore, many of the activities likely to be supported by the Fund are unlikely to be wholly new. Much of the RDA budget would anyway have gone on the sorts of measures that the new Fund is aiming to support.

National Insurance waiver

The government's other new spending initiative on the regions is a National Insurance holiday for business start-ups outside the Greater South East.

It would be hugely surprising if this had any important impact on employment. The subsidy to new businesses is small, and anyway start-up decisions rarely turn on marginal sums. There are also echoes here of the Regional Employment Premium, a subsidy to labour

costs in disadvantaged regions, which proved a conspicuous failure in the 1960s and 70s.

The National Insurance waiver, though well intentioned, looks like a waste of money at a time when funding for the regions is under such pressure.

Grants to businesses

Grants to businesses to protect and create jobs in less prosperous areas are a long-standing and proven tool of regional development. In England the scheme is currently called Grant for Business Investment, in Scotland Regional Selective Assistance and in Wales the Single Investment Fund.

The Westminster government has suspended this scheme in England, and it remains unclear whether it will be resumed following the Spending Review.

The loss of the flexibility to offer financial assistance to companies would be a grevious blow to regeneration efforts and damaging to hopes of promoting a private sector revival. In particular it would cripple many efforts to attract inward investment, especially into the manufacturing sector.

The loss of grants to business would also completely undermine the value of 'Assisted Area' status under EU State Aid rules, something that was retained in the less prosperous parts of Britain only after a formidable battle with the European Commission.

EU funding

For the 2007-13 period, EU Structural Funds bring 9.4bn euros to the UK - rather more than £1bn a year.

The older industrial areas of England, Scotland and Wales have traditionally been the main UK beneficiaries of EU funding. The South Wales Valleys, for example, are eligible for the top-priority 'Convergence Strand' funding, and Merseyside and South Yorkshire currently receive ring-fenced aid.

There can be no doubting the significance of these funding streams. Yet there are concerns that during the reorganisation of regional governance and the phasing out of the RDAs (who managed the Funds in England) the allocation of EU monies will be significantly disrupted. It would be deeply unfortunate if the UK ended up paying back substantial unspent sums.

In Brussels, the discussions are now beginning in earnest about the shape and allocation of EU funds beyond 2013. The UK government needs to engage with this debate, and secure outcomes that will continue to benefit the regions.

In the present spending round, the removal of targeting for 'Competitiveness and Employment Strand' funding was a retrograde step. The result is that some areas with a GDP per head just above the 'Convergence Strand' threshold (75 per cent of the EU average), like Tees Valley and Durham, receive no more priority than the most prosperous parts of southern England.

If the overall EU budget for the 'Competitiveness and Employment Strand' is reduced after 2013, which seems likely in an era of tight public expenditure constraints in many member states,

it makes sense to restore geographically targeted EU aid outside the 'Convergence Strand' regions.

A greater geographical concentration of EU Structural Funds would be of particular value in helping to promote the re-balancing of the British economy, since many of the economically weaker areas that might expect to receive targeted EU funds are places where manufacturing industry continues to be important.

Characterised as the 'perfect storm' by many commentators, the combination of programmes ending and cuts in spending runs the risk of stripping local economies, local business, local authorities and local populations of the means to cope and the tools to recover.

Points to make to government

- **The Regional Growth Fund is welcome -** but it represents a massive cut in the budget for regional development in England

- **The Fund should be strongly targeted on the parts of the country with the greatest economic needs,** not spread thinly across all areas

- **Grants to firms should remain an important part of the armoury -** in weaker local economies they have a proven track record in creating and protecting jobs

- **The National Insurance waiver for new businesses is however unlikely to make much difference -** too little, often at the wrong target, and the resources would be better deployed on other initiatives

- **EU funding must be fully utilised** in the present 2007-13 spending round, and not derailed by the demise of the RDAs

- **Future EU funding to the UK should be more tightly targeted** on less prosperous areas

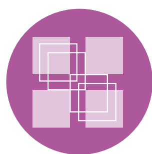
Who we are

The **Industrial Communities Alliance** was formed in 2007 to represent local authorities in the industrial areas of England, Scotland and Wales.

The Alliance brings together two longer-established local authority associations - Coalfield Communities Campaign and SteelAction - together with local authorities from other industrial areas. It builds on ten years' successful collaboration under the banner of the Alliance for Regional Aid and a track record of successful lobbying by its predecessors extending back to the 1980s.

The aims of the Alliance are

- to articulate the needs of Britain's traditional industrial areas
- to attract resources for regeneration
- to press for balanced growth within and between regions
- and to provide a framework for information sharing between member authorities.



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