

Budget 2006

REGIONAL PRESS NOTICE

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Budget 2006 IN THE NORTH EAST

The Budget takes new steps to stimulate growth in the North East, strengthen regional institutions, improve the regional evidence base and increase regional input into national policy.

One North East, along with the other Regional Development Agencies (RDAs), was asked to provide policy advice to contribute to the development of Budget 2006. This press notice responds in full to the RDAs' advice, including the announcement that the Government will work with the RDAs to radically rationalise business support services. The North East, along with other regions, has also provided advice on their priorities within long-term indicative funding allocations.

The Government is today publishing the third of its *Devolving Decision Making* reports. This sets out the Government's analysis of the role that cities play in enhancing regional economic performance and identifies the challenges for building on cities' recent economic performance.

Building on this analysis, Budget 2006 announces that the Government will review the effectiveness and efficiency of economic development and regeneration interventions across local areas, cities and regions. This will be done in preparation for the 2007 Comprehensive Spending Review. The review reflects the Government's commitment to enabling cities and regions to improve their economic performance to deliver full employment and rising prosperity for all. It will be set within the context of further devolving decision making to the regional and local levels.

As an important contribution to delivering efficiency and devolving decision making, the Government has published today *The Review of Government Offices*. This provides for a more strategic, streamlined role for the regional Government Office network.

Measures announced today which are particularly relevant to individuals and businesses in the North East include:



- in response to advice from the RDAs, an announcement that the Government will work with RDAs and other local and national bodies to reduce the number of business support services from around 3,000 now to no more than 100 by 2010;
- the launch of a consultation document, *The Science and Innovation Investment Framework 2004-2014: Next Steps*, which proposes further actions to take forward the Government's ten-year strategy for science and innovation. The document invites consultation responses on new measures to create a more effective science and innovation system in the UK, and maximise the impact of public investment in research on the economy;
- announcing that Richard Ellis, Chair of the East of England Development Agency, will jointly chair a working group with the Financial Secretary to the Treasury, consisting of RDAs, business organisations and the Carbon Trust who will examine how best to provide information and support to businesses on energy efficiency;
- publishing a new strategy before the summer to create a step change in the Government's drive to market the UK economy internationally. To deliver the strategy, UKTI will undertake a programme of organisational change, allocate further resources to increasing trade with emerging markets and implementing an international R&D strategy;
- an intention to extend additional support to firms with between 250 and 500 employees that are above the current SME research & development tax credit threshold. This will build on the £269 million of R&D investment already carried out by firms in the North East;
- the announcement that ten local enterprise growth initiative schemes from fifteen local authorities have been awarded £126 million over three years. This will mean £10.2 million for the North East;
- an HM Revenue & Customs announcement on its plans to reduce the administrative burden of the tax system. Other Government departments will also set out the ways in which they are implementing the Hampton Review and reducing regulatory burdens;
- highlighting the proposals published in the Welfare Reform Green Paper in January 2006, including the national roll-out of the successful Pathways to Work pilot projects for incapacity benefit claimants and replacing the current incapacity benefits with a new Employment and Support Allowance;



- funding for more frequent work focused interviews for lone parents. This will impact on over 610,000 lone parents across the UK, and potentially affects 29,600 lone parents in the North East;
- confirming the rise in the adult rate of the National Minimum Wage to £5.35 in October 2006, affecting 80,000 people in the North East;
- announcing the roll-out of the Women in Work commission recommendations to expand skills coaching pilots and Train to Gain as piloted in the North East;
- refocusing the Fortnightly Job Review from June 2006 to ensure that only those who are able to demonstrate that they have met their jobseeking responsibilities will be able to continue their benefit claim. This potentially affects the 48,300 people in the North East currently claiming jobseeker's allowance;
- a commitment to increase the child element of the Child Tax Credit at least in line with average earnings up to and including 2009-10, building on the support the Government is already providing to 221,200 families in the North East via the Tax Credit system;
- an announcement that the Child Trust Fund, which became operational in April 2005, will be extended so that all children will receive an additional payment at age 7 of £250 and children from lower income families will receive £500;
- giving over 60's and disabled people in England free off peak nationwide bus travel from April 2008. Approximately 987,095 pensioners in the North East will be eligible for free travel;
- an update on progress towards the Government's target to relocate 20,000 public sector posts out of London and the South East. Posts have been relocated to every nation and region including 570 to the North East;
- announcing that an additional £2 million has been made available for a national competition to celebrate innovative projects run by young people as part of the Youth Opportunity Fund and Youth Capital Fund. To date, the North East has been allocated £2.9 million from the two funds; and
- funding of £100 million so that every area will benefit from neighbourhood policing by April 2007, bringing the total number of Police



Community Support Officers (PSCO) in England and Wales to 16,000 by April 2007, meaning 238 more PCSO's for the North East.

Annex – RESPONDING TO THE RDA's INPUT INTO BUDGET 2006

This annex outlines the input made by the RDAs for Budget 2006, and the Government's response to their recommendations.

A. How can business support services in each region be simplified and made more cost effective?

1. RDA recommendation: There should be a stronger push nationally, with commitment from Government departments, for the Business Link brand as **the prime access point** for all publicly funded SME support. The Business Link brand should be supported as the brand for access to business support whether sourced at a national, regional or local level or in specialist areas such as farm support.

Government Response: The Government agrees with the aim that the Business Link brand should be the prime access point for all publicly funded SME support. We will consider this as part of the business support simplification work stream in the run up to the 2007 Comprehensive Spending Review (CSR07).

2. RDA recommendation: There is a strong need for central Government to be more **co-ordinated in its approach to business support**. One possibility would be that responsibility for business support should be located in a single Government Department to reduce duplication, increase cost efficiency, and align targets.

Government Response: There is concern at all levels that the proliferation of business support schemes has created a complex picture making it difficult and time consuming for businesses to access relevant support.

The Government accepts that this proliferation is partly due to the number of funding streams for business support at a national level as well as delivery at a sub-national level, and will consider the options for tackling this in the run up to CSR07.

3. RDA recommendation: There should be a strong emphasis on channelling delivery of business support services and funding through RDAs' Single Pot and making these accessible at a local level. RDAs are well placed to ensure co-ordination of support across all public funding streams to reflect regional economic priorities and ensure quality.

Government Response: The introduction of the single pot for the RDAs reinforced the Government's commitment to devolving decision making to the



most appropriate level. One way to overcome spatial disparities in productivity and employment rates is to allow each region and locality the freedom, flexibility and funding to exploit their indigenous sources of growth. However, the constraint to devolving policy-making and implementation downwards is:

- the potential loss of economies of scale;
- greater effort required to avoid overlap in the perception of the customer; and
- the need to ensure the level of Government matches benefits with costs, so that it has the right incentives to balance the two in making decisions.

The Government will be considering these issues further in its sub-national review of development and regeneration ahead of the CSR, as well as in the business support simplification work stream.

4. RDA recommendation: The de-proliferation agenda should be reinforced to streamline and simplify the offer to business as well as the flow of funds through Government, and must deliver successful integration of Government support to business from rationale and targets to delivery mechanisms. **De-proliferation** should be seen as a way of driving up quality, effectiveness and reach of business support – rather than a cost-cutting measure.

Government Response: As set out above the Government agrees that the de-proliferation agenda must deliver genuine simplification of business support services funded at national, regional and local level.

The Chancellor, in his Budget speech today, has therefore called for a reduction in the number of business support services from around 3,000 now, to no more than 100 by 2010. The Government will work closely with RDAs and other business support delivery bodies at sub-national level in the run up to CSR07 to achieve this aim.

5. RDA recommendation: Alignment of EU Structural Funds. With the post 2006 funding arrangements, clearly Government Offices are gearing up for new European Regional Development Fund (ERDF) support programmes which will very largely focus on business support/enterprise. It is essential that all new support through ERDF is managed and designed with and through RDA-led, Regional Economic Strategy (RES) driven arrangements and must not create duplication and proliferation.

Government Response: The Government agrees that the management and design of ERDF programmes should not create duplication with domestically funded business support schemes nor lead to unnecessary proliferation. The Government is currently consulting on the strategy for and architecture of new Structural Fund programmes to operate from 2007, following the European agreement on a new Financial Perspective (2007 - 2013) in December. The Government proposes stronger alignment between Structural Funds and domestic funding streams and has it in mind that the ERDF should be aligned to the RDAs' Single Programme budget. The consultation document is available on the DTI website at www.dti.gov.uk/europe/structural.html



6. RDA recommendation: RDAs need consistency between the tasking framework and the output requirements of departments e.g. DTI alignment of Business Link Key Performance Indicators. The output specification of EU funding should also be made consistent. RDAs should be set targets for business support that reflect the demands of business and impact on business performance. Targets could usefully be designed to align with those that businesses themselves collate. More fundamentally, too many targets are set in terms of outputs rather than outcomes. RDAs would welcome a shift to outcome based targets for business support.

Government Response: The Government agrees that targets and indicators should be as outcome focused as possible while respecting the need for appropriate accountability and performance management arrangements. As part of the review of sub-national development and regeneration ahead of CSR07, the Government will consider how reforms to the performance management frameworks can support devolved decision-making including through an assessment of the RDA tasking framework.

B. How can we get better links between the national and regional frameworks on innovation?

7. RDA recommendation: Sharing the development of the evidence base for CSR 2007, to provide a thorough analysis and avoid duplication. In particular we need a uniform approach to coordinate and improve the quality and quantity of data and intelligence on innovation across the regions, improving the measurement of impact of innovation support initiatives. RDAs would welcome such a mechanism to cover these initiatives across the UK business base developed e.g. on the model of European Trend Charts or expansion of the Department of Trade & Industry R&D scoreboard.

Government Response: The Government agrees that high-quality national and regional data is essential to monitor progress towards the ambitions set out in the *Science and Innovation Investment Framework 2004-2014*, as well as developing the evidence base for CSR07. Regional Economic Strategies are also an important means by which RDAs can develop a shared evidence base for their region. The Government would welcome further analysis by the RDAs on how data on regional innovation could be improved.

8. RDA recommendation: Analysis of the potential for joint DTI-Office of Science & Technology-Higher Education Council of England (HEFCE)-RDA development of coherent initiatives for “**Innovation Hubs**” of international stature.

Government Response: The Government welcomes plans by the RDAs to explore the potential for creating “innovation hubs” to improve the UK’s international competitiveness, building on existing centres of excellence in industrial collaboration. The Government will continue to work with the RDAs to consider how national funding streams, such as those administered by HEFCE and the new Office of Science and Innovation, can be better coordinated with regional funding to achieve critical mass.



9. RDA recommendation: Analysis of what needs to be done to inform a joint action plan to develop a coherent network of national/regional **innovation and technology advisors**.

Government Response: Creating the right “brokering” mechanisms between business and the research base is essential if the UK’s scientific excellence is to be translated into economic gain. The Government welcomes plans by the RDAs to ensure that the provision of specialist innovation advice to business is credible, demand-led, and identifies the best solutions to business needs from available national and regional products. The Government will continue to work with the RDAs to explore how national and regional advisory mechanisms for innovation can work together more effectively to engage businesses, in particular SMEs.

10. RDA recommendation: Closer national-regional working to achieve a much greater impact on priority areas for the **skills needed to deliver the 10 year framework**, through Science Technology Engineering Mathematics (STEM) Hubs and management and leadership programmes.

Government Response: A strong supply of highly-qualified STEM graduates is essential to underpin the Government’s long-term objectives for science and innovation. The Government will continue to work with the RDAs to consider how national and regional initiatives can best complement each other to improve STEM attainment. The Government is today publishing a consultation paper, *The Science and Innovation Investment Framework 2004-2014: Next Steps*, which outlines further measures to make science a priority in schools, improve the skills of the teaching workforce, improve the quality of science lessons, and increase student progression to A Level sciences.

11. RDA recommendation: Ensure that all Government departments have a strong and explicit **regional dimension to their innovation policies**. Closer alignment of science and innovation work across all Government Departments would help to remove barriers to translating national policy to regional action. This is already happening and it is very welcome.

Government Response: The Government welcomes the progress made by the RDAs to date on developing Science Cities in Manchester, Newcastle, York, Birmingham, Nottingham and Bristol. A national Science Cities workshop is planned for May 2006 to share best practice and consider how national and regional policies can best work together to support Science Cities.

C. How can we better unlock the possibilities of private sector investment for regeneration and economic development?

12. RDA recommendation: More flexibility for RDAs to encourage public/private sharing of investment costs. There would be greater private sector engagement if there was a more accessible and coherent approach.

Government response: The Government agrees on the desirability of levering in additional private sector support for infrastructure investment.



There is a case for looking at the scope for Private Finance Initiatives and other public-private partnership approaches for innovative regeneration schemes. The Government would welcome proposals from RDAs on how to encourage the sharing the costs of infrastructure investment.

13. RDA recommendation: Capital and Current Expenditure and Resource Accounting RDAs will make representations to Government regarding capital/current allocations and the impact of resource accounting on regeneration activity through the CSR 2007 process.

Government response: Government would welcome improved assessment of resource and capital needs for RDAs to deliver economic and regeneration focused priorities. As part of the CSR, the Government will be identifying ways in which the RDA role in promoting strategic economic development might be enhanced, including how the balance between capital and resource allocations might impact on their capacity to deliver. In order to improve incentives for effective asset management, the Government will also consider possible changes to the budgeting rules for impairments in order to remove any unnecessary barriers to asset disposal.

14. RDA recommendation: The UK Government needs to continue to press for the **relaxation of state aid rules** in particular in areas where there have been regionally-determined spatial regeneration priorities in terms of national/European development programmes. There are a number of State Aid approved gap funding mechanisms available at present that provide a framework for public sector intervention but these come to an end on 31 December 2006. There are no alternative mechanisms agreed at present and none foreseeable.

Government response: Government is discussing, with the European Commission, the continuation of the existing gap funding State Aid schemes from 2007 onwards, and would welcome views on any changes to these schemes that may be needed. Government is also working with the Commission on its review of the State Aid rules, seeking tighter controls on large, distortive aids, combined with more flexibility and swifter approvals for aids which are targeted at market failures such as early stage venture capital, R&D and environmental protection.

15. RDA recommendation: Encouragement for regional investment funds. In principle the approach being developed by the South West RDA has wider applicability, but could fall shy of the new Planning Gain Supplement (PGS) proposals. RDAs believe that a substantial element of the proposed PGS tax should be channelled into such funds.

Government response: The Government's proposals for PGS outline our approach to releasing some of the wealth created by the planning system for the benefit of the wider community. PGS revenues will be dedicated to financing additional investment in the local and strategic infrastructure necessary to support growth. Having consulted on proposals, the Government is keen to engage with RDAs and others on mechanisms for allocating PGS revenues that best deliver this objective.



Government has also set up a cross-cutting review into supporting housing growth as part of CSR07 to help ensure that new housing is supported by the appropriate transport, social and environmental infrastructure. Again, RDA input into this work would be welcomed.



NOTES FOR EDITORS

Devolving decision making: 3 – Meeting the regional economic challenge: The importance of cities to regional growth, HM Treasury, Office of Deputy Prime Minister and Department for Trade and Industry, March 2006

Review of Government Offices, HM Treasury and Office of the Deputy Prime Minister, March 2006

Further details of Budget 2006 announcements can be found on the HM

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Further information and all published documents relating to Budget 2006 may be found on the Internet at the following addresses:

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