

Regional development agencies in England: comments on government plans

*Juan Luis Gómez Reino**

* MSc in Local Economic Development, Spain.

I. Introduction

In its consultation paper, *'A choice for England'* (1995), the Labour Party made explicit its intention of leading a process of devolution in British politics. The inefficiency of the centralised English political system, which had brought about a lack of innovation in British politics, was put forward as the main argument for devolution. In addition, Labour considered Britain was losing out in the European scene because it could not take full advantage of European Structural Funds. Finally, the need for a better political co-ordination in order to ensure a balanced regional economic development closed the set of arguments given to favour the process of decentralisation. Once in Office, and while the referendums for a Scottish Parliament and a Welsh Assembly were celebrating, the White Paper *'Building Partnerships for Prosperity'* (1997) structured the government plans for English regions. Interestingly enough, the narrow margin by which the Welsh referendum was won transformed the Labour promises of regional assemblies in a much less ambitious agenda. The setting up of nine Regional Development Agenciesⁱ was proposed and five objectives, including economic development and social and physical regeneration, business support, enhancing skills, promoting employment and sustainable development were allocated to RDAs. The final translation of this policy effort led ultimately by Deputy Prime Minister John Prescott was the Bill 100 1998/9 on Regional Development Agencies. RDAs were formally vested the first of April of 1999.

It is the purpose of this essay to assess the likelihood that government plans for RDAs will actually reduce regional disparities in England. The author considers the proposed structure for RDAs a dangerously modest step on the road to regional devolution. Whether RDAs will be successful policy instruments will be analysed in terms of RDAs' democratic accountability and its effects on regional preferences. RDAs' financial structure and their role in regional institutional networks will also be considered. Lastly, their real capacity to undertake the functions attributed to them and the way in which RDAs will finally create (as government pretends) an increased demand for regional devolution will be dealt with.

In Section 2 the case for an active public regional role in economic development is defended. Public choice theories and elements of fiscal federalism literature are used to underpin economically the author's arguments for a higher level of devolution. Section 3 addresses the main limitations of RDAs regarding the conceptual framework defined in Section 2. The author concludes with a summary of these limitations and states the preponderance of politics over economic arguments, an issue of possibly undesirable consequences in this opportunity.

II. The case for a public regional role in economic development

The case for devolution of economic policy powers to the regions -as opposed to localities- is justified by the existence of high intra-regional economic spillover effects and by arguments of "operating efficiency" in the multijurisdictional system of government (Armstrong, 1997). Armstrong's analysis of intra-regional multipliers supports the view that regions can capture most of the benefits of economic policies and therefore certain policy powers should be allocated to regional tiers of government instead to local authorities. The co-ordination of local organisations and the achievement of a 'critical mass' of knowledge and expertise required for economic development are, in Armstrong's view, more likely to be accomplished by a regional organisation.

The provision of public goods for large economic units, although taking advantage of economies of scale, implies the cost of a loss of freedom of choice for consumers on "the level and typology of public services" (Capellin, 1997: 57). Decentralised provision allows for the specificity required at a regional level and takes into account people's preferences (Newlands, 1997). Lower information and transaction costs are allowed as a result of an integrated regional approach to policy (in contrast to the costly inter-departmental co-ordination required in a nationally led regional policy). Finally, in contrast to local 'jurisdictions', in which the moving costs may be marginal, regional authorities will be able to

offset the Tiebout's predicted migration due to differential tax systems. At the same time, competition between public institutions is fostered, in a drive for efficiency of straightforward beneficial consequences (Capellin, 1997).

The author assumes economic development as a quasi-public good. Its spillover effects and the possibility of people to free ride require a public role in its provision. If we just add the impossibility to mark a price to economic development we will have the case for a public regional role in economic development.

A federalist structure of the state would be the natural consequence should we accept the arguments presented above. The problem is the lack of interest for federalism in England (Heald, Geaughan and Robb, 1998). The demand for regional structures varies across the country and it is obvious the caution with which Labour Government is dealing with this problem. Accordingly, the government has not set out plans for elected and full-powered regional assemblies. Instead, it has implemented a different concept, successfully known in Scotland and Wales and many other parts of Europe: the Regional Development Agencies.

One possible RDA model would be "a semi-autonomous organisation supporting mainly indigenous firms by means of soft policy instruments and being able to draw upon a broad range of policy instruments in an integrated manner" (Halkier, Danson and Damborg, 1998: 343-4). The criteria used by Halkier and Danson (1998) to define this RDA 'model' are the political relationship of the agency with superior tiers of government (i.e. level of autonomy), the strategic policy approach of the RDA and the flexibility and range of policy instruments the agency is attributed. Interestingly, English RDAs, on the other hand, fit the description of *non-RDAs* given by Halkier and Danson (1998) as "organisations under close political control or specialising in traditional policy areas." Their setting up may well turn out to be another element of disappointment for English regions in their purpose of eliminating the North-South divide just because only a modest option was taken instead of facing bravely the reality. Politics matters.

III. On the limits of English Regional Development Agencies

The Lack of Democratic Accountability.

The cost of the provision of public goods for large political jurisdictions is a loss of 'specificity' (Alesina, Perotti and Spolaore, 1995). In their study about the formation and

break-up of nations, Alesina and Spolaore (1994) assume that “geographical distance and preference distance are perfectly correlated” and therefore, the further from the political centre in which public goods are designed and supplied, the lesser those public goods will satisfy local preferences. This assumption seems to be a reasonable one to represent the English scenario. Even if we assume there is a benevolent social planner who will try to maximise the trade-off between economies of scale in the provision of public goods and diverse preferences across the country, this may not be enough to ensure an adequate provision. Full decentralisation would thus be an appropriate answer in these circumstances and elections to select regional authorities would be the way by which local preferences can be best expressed.

At this point, we should remember that the RDAs' Boards have been directly appointed from Whitehall and that they are business-led (7 members out of 13). There is a fear that an institutional balance in which social preferences are prioritised to business objectives may not be achieved. Further, even the significance of the business representatives can be argued. If they are to hold a significant stake of the region's economy, only in the Southeast that objective seems to have been achieved. In the rest of the RDAs, the members selected do not seem to be considerably influential even in their own regional economies, let alone the national one.

This could be the principal constraint for regional development agencies to become effective instruments of regional economic development. In its White Paper "*Building Partnerships for Prosperity*" (1997) the government acknowledges that "the distinct economic and social regions of modern England demand new forms of governance to serve their needs for now and for the future". Nevertheless, all these facts have not determined the government to constitute directly elected bodies in which regional preferences can be represented. If citizens are not given participatory schemes, RDAs may well become another alienating governmental bodyⁱⁱ, not very different from any other quango. The incentive for efficiency that voting provides will not be present.

In its consultation paper "*A choice for England*" (1995), the Labour Party anticipated that this democratic element would be developed in time by the creation of elected regional assemblies “where public demand existed” (House of Commons, Regional Government in England Research paper). The author notices a contradiction in Government's arguments and the options finally taken. Regardless of the proliferation of regional chambers across the country and a multitude of different institutions spontaneously created to increase social

participation in regional governance, Whitehall does not consider there being enough demand for regional assemblies.

Finally, RDAs have been attributed the function “to lead the development and implementation of regional economic strategies”. How can an agency effectively lead a region if there are no mechanisms developed by which citizens can control and influence the decision making and implementation process? If we are to follow Hirschman (1970) reasoning, there is no chance to exercise the “voice” option and hence, the development of “loyalty” to the region –a regional sentiment- is tightly constrained. RDAs are not accountable but to Ministers in Whitehall and no proposed evolution of this accountability has been specified in the government plans.

The RDAs' deficient financial structure.

"...the success of each RDA will be judged on the following: Does it increase flexibility in the use of Government funds in ways which are most appropriate to the needs of the region and to differing needs within the region?"

British Chambers of Commerce, quoted in *'Building Partnerships for Prosperity'* (1997).

Not very much. The highest estimations about RDAs collective budget is around 800 million pounds, but no funding mechanisms are provided. The Bill (Bill 100 of 1997/98) does provide for them to borrow money but there is a collective borrowing limit of 200 million pounds. It will also be the Secretary of the State, with the approval of the Treasury, who will determine the financial arrangements for the RDAs. Obviously, Ministers are keeping RDAs tight. On the other hand, they will not increase overall public expenditure as their funds come from existing programmes.

But even more decisive than the lack of own funding sources, is the lack of flexibility of RDAs to allocate funds. The claims for the so much required block funding system (the way in which Scotland and Wales are funded) have been rejected by government. Budgets will therefore be ring-fenced for areas: rural development, urban regeneration, etc. Only 10 % of the funds can be shifted from one objective to another (The Economist, March 1999). The very recently appointed Chairmen for the RDAs have been asking for some more flexibility to vire funds, a key instrument to address the regional “imbalance of the last 20 years”ⁱⁱⁱ. The Select Committee on Environment, Transport and Regional Affairs recommended, regarding these financial issues, to strengthen RDAs by:

- 1) Giving them a unified budget with the power to vire funds.
- 2) Giving them the control of the training budgets for their regions.
- 3) Giving them powers to raise private sector funds, such as Regional Development Funds. (Select Committee on Environment, Transport and Regional Affairs, First Report on Regional Development Agencies, 12 January 1998)

If all the funds have labels on them, the lack of flexibility needed to undertake development strategies would be the main operational constraint of RDAs. In terms of territorial competition, they will always be in disadvantage with the Scottish and Welsh Agencies, which do have the power to vire funds. Territorial competition should be targeted and RDAs could hardly prioritise or adapt to external shocks with close budgets. If regions are to compete co-operatively in order to provide more effectively the economic public goods required for their development, block funding is needed.

Regional Development Agencies and the institutional network.

One of the key features of the creation of RDAs is that they should lead to a greater degree of integration between different policy areas and also a greater degree of co-ordination between central government and the various local partners (Regional Development Agencies Bill, 1998). However, it does not seem that the complexity of the institutional system of regional policy is going to be reduced significantly.

Regional Development Agencies will take over the Rural Development Commission (RDC). The abolition of the RDC has caused some concern about the future of national institutions that advise on rural issues. There may be a lack of capacity in RDAs to manage small rural projects and RDAs may also present urban bias. Moreover, RDC's budget of £45 million will only be 6% of the total RDAs budget.^{iv} Little by little, RDAs will also take over the role of the Urban Regeneration Agency (URA). URA's capabilities and expertise will be retained for the time being to allow the continuation of certain national projects, but the retention of URA regeneration professionals will be crucial to the success of the RDAs. Finally, from the Government Offices in the regions, RDAs will take over the Single Regeneration Budget Challenge Fund. (See graph in Appendix 1)

The Select Committee on Environment, Transport and Regional Affairs (January 1998) stressed the need for clarification in the relationships between the RDAs and other institutions, especially the Government Offices for the regions and Training and Enterprise

Chambers (TECs). Especially important was the reference to the lack of clarity about how the RDAs would be accountable to the regional, voluntary chambers. The response from the Government was that the work of RDAs would be complementary and carried out in a way that provided synergy and added value. The Government was to develop detailed proposals for establishing these relationships.

What we see is a very intricate net of institutions in which a new one is inserted. Without a designed evolution of this network by the government, it would not be surprising if every agency stuck to its own agenda to justify itself. Co-ordination would be difficult and the development of red-tape a very likely phenomena both from the government and from the agencies. From the government in an attempt to monitor the work of an overpopulated institutional setting, and from the agencies to justify the relevance of their functions and the role of their civil servants.

The author, assuming the enormous difficulty of the task, would propose a simplification of this institutional setting and would also ask the government to make explicit its future plans for the agencies, in order to anticipate their future evolution. There seem to be compelling incentives for a more integrated approach to regional policy in which regional assemblies would play the central role in policy formulation and allocation of funds to different objectives.

On the functions of Regional Development Agencies.

The fourth important criticism to the government's plans for RDAs is related to the capacity of the agencies to effectively develop all the functions allocated to them. If we just take a look to the Appendix II of the Bill we find a list of 12 core functions attributed and 9 policy areas in which RDAs are expected to "contribute".

The list is extremely vague in the definition of functions and it shows the huge mismatch between the competencies attributed to RDAs and their real powers. Let us mention only three significant examples:

- 1) RDAs are encommended the purpose of promoting business efficiency, investment and competitiveness. However, "the most important form of financial assistance to industry, Regional Selective Assistance, will remain responsibility of the Department of Trade and Industry" (Regional Development Agencies Bill, 1998). RDAs will just have an advisory role. RDAs have not been enable to

contract with Business Links to provide business support and, instead, they are supposed to *monitor* their work.

- 2) RDAs are encouraged to take a leading role on European Union Structural Funds, but “the Government Offices for the Regions will retain their responsibility for administering the Funds”. RDAs’ role in negotiations is not made explicit in the Bill.
- 3) RDAs must enhance the development and application of skills relevant to employment. However, they will not assume the role of “contracting with Training and Enterprise Councils for management of Government-funded training programmes and of business development and human resources programmes” (Select Committee on Education and Employment, Fourth Report: Relationship between TECs and the proposed Regional Development Agencies). Responsibility over skills training has also been kept by Department for Education and Employment.

These functions may be far too ambitious for such a weak organization as the Regional Development Agency.

IV. Conclusions

None of the arguments put forward by Labour Party in its consultation paper 'A choice for England' (1995) for a more decentralised British political system seem to have been covered on its plans for Regional Development Agencies. If Labour regretted the inefficiency of a highly centralised system under Conservative governments, RDAs have not gone further than attributing to the regions a vague role in economic policy making. Whitehall will still be the centralised decision making centre it has been so far. Moreover, the deficient financial structure of RDAs will unable them to become the innovative political institutions Labour intended them to be. Funds are labelled and little discretionary capacity has been allocated to RDAs.

The second set of arguments for political devolution, related all of them with the importance of regional institutions to play a key role in the bidding and allocation of European Structural Funds is not likely to be accomplished. Negotiations on Agenda 2000 have come to an end before RDAs were formally vested. This is probably a positive outcome because, as for yet, no mechanisms for RDAs role in that process have been defined.

The intricate institutional system, in which RDAs will be inserted, with many of the quangos of the Conservative era remaining, will not allow for a greater level of co-ordination. RDAs will 'monitor' or 'give advise' to many different institutions. We miss in the Regional Development Agencies Bill statements like "RDAs will administer" or "RDAs will contract", signs of a strong institution and not a mere consultative organisation. The Agencies' relationship with the Government Offices for the Regions is an unsolved mystery, its solution left to regional deals between the institutions. We could agree with Keating (1998) in that a certain degree of asymmetry is beneficial, but this looks much more like an incomplete and confusing policy programme.

An economic leadership over the region is not likely to come true due to a lack of democratic accountability, which will prevent regional preferences to be represented appropriately. RDAs are supposed to be the building blocks of this process but it is unpredictable what sort of regional demand for devolution RDAs will be able to draw. They may be rejected as useless especially if the expected downturn of the British economy come true and they are unable to meet people's hopes. Further, regional government "is about more than a narrowly defined regeneration agenda. It also concerns the social, cultural and civic development of provincial England." (Tomaney 1999)

The author considers deeper decentralisation in the form of regional assemblies a more accurate strategy to correct regional imbalances. As it has been said, the South-East already has one: Westminster. Devolution allows for higher autonomy in the policy and decision making processes. It concedes authorities the capacity to vire funds and use regional budget as an effective policy instrument and it will clarify the net of institutions with some responsibility in regional development by taking over the functions of the different quangos scattered in the regions. On March 27th of 1999 The Economist published the results of a survey in which the English seemed to support firmly the idea of elected regional assemblies by an average of 45% (The Economist, March 1999). As the leading example, the North-East Constitutional Convention has already secured the support of the business community and other social cleavages for their home rule campaign. Labour might regret having taken such a mild step in English devolution: Regions are awake.

www.ceidir.org

References

- [1] Alesina A., Perotti R., and Spolaore E. (1995); *"Together or separately? Issues on the cost and benefits of political and fiscal unions."*, European Economic Review 39, 751-758.
- [2] Alesina A. and Spolaore E. (1994); *"On the number and size of nations"*. Mimeo. Harvard University, Cambridge, MA.
- [3] Armstrong, H.W. (1997); *"Regional-level jurisdictions and economic regeneration initiatives."* In Danson, M. et al, *Regional Governance and Economic Development*. European Research in Regional Science. London: Pion Limited.
- [4] Capellin, R. (1997); "Federalism and the network paradigm: guidelines for a new approach in national regional policy." In Danson, M. et al, *Regional Governance and Economic Development*. London: Pion Limited.
- [5] Department of Environment, Transport and the Regions (1997); *"Building Partnerships for Prosperity."* The Stationery Office.
- [6] Department of Environment, Transport and the Regions (1997); *"Regional Development Agencies Bill."* The Stationery Office.
- [7] Halkier, H.; Danson, M. (1998); "Regional Development Agencies in Western Europe. A survey of key characteristics and trends". In Halkier, H.; Danson, M. and Damborg, C. (Eds.) *Regional Development Agencies in Europe*. Regional Studies Association. London: Jessica Kingsley.
- [8] Halkier, H.; Danson, M. and Damborg, C. (1998); "Regional Development Agencies in Europe. An Introduction and Framework for analysis". In Halkier, H.; Danson, M. and Damborg, C. (Eds.) *Regional Development Agencies in Europe*. Regional Studies Association. London: Jessica Kingsley.
- [9] Heald, D.; Geaughan, N. and Robb, C. (1998); "Financial arrangements for UK Devolution". In Elcock, H. and Keating, M. (eds.), *Remaking the Union. Devolution and British Politics in the 1990s*. The Cass Series in Regional and Federal Studies. London: Frank Cass.
- [10] Hirschman, A.O. (1970); *"Exit, Voice and Loyalty: Responses to decline in firms, organisations and States."* Cambridge, Mass.; London: Harvard University Press.
- [11] House of Commons. Select Committee on Environment, Transport and the Regions (1998). *"Regional Development Agencies"*. First Report. London: The Stationery Office.
- [12] House of Commons. Select Committee on Education and Employment. *"The relationship between TECs and the proposed Regional Development Agencies."* London: The Stationery Office.
- [13] Keating, M. (1998); "What's wrong with asymmetrical government?" In Elcock H. and Keating M. (eds.), *Remaking the Union. Devolution and British Politics in the 1990s*. The Cass Series in Regional and Federal Studies. London: Frank Cass.
- [14] Labour Party (1995); *"A choice for England"*; London: Labour Party
- [15] Newlands, D. (1997); "The economic powers and potential of a devolved Scottish Parliament: lessons from economic theory and European experience." In Danson, M. et al, *Regional Governance and Economic Development*. European Research in Regional Science. London: Pion Limited.

- [16] Sheila Jones (August 14th, 1998); *"Development Agencies ability to allocate cash as a precondition for effective economic strategies"*. Financial Times.
- [17] The Economist (March 27th 1999); *"An England of Regions"*. Pages 25-6.
- [18] Tomaney, J. (1999); "New Labour and the English Question", *The Political Quarterly*, 70 (1), January-March. Oxford: Blackwell Publishers.

Notes

- ⁱ The nine RDAs have identical boundaries to the Government Offices for the Regions (GORs), with the exception of the North West, which also includes both the North West and Merseyside GORs. They are, consequently, North East; North West; Yorkshire and Humber; West Midlands; East Midlands; Eastern; South West; South East and London.
- ⁱⁱ "Creatures of Whitehall, unaccountable to the public", as they were defined by the Conservative Party. (Regional Development Agencies Bill, 1998.
- ⁱⁱⁱ John Bridge, Chairman of the north-east RDA. (Financial Times, August 14th 1998)
- ^{iv} The government's response to this criticism was that the promotion of rural areas could be best done by addressing their particular needs within an overall framework for economic development and regeneration of a region as a whole. (Regional Development Agencies. Report of the Select Committee of Environment, Transport and the Regions. Appendix. 1998)

Ceidir 2000-2020

Prohibida su reproducción total o parcial sin permiso escrito del autor. Referencias al artículo deben ser acompañadas del nombre del autor y los datos de esta publicación
