Reformation in the Age of the Shock Wave

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Introduction

In the past, Britain as a nation averse to revolutions, relied on national emergencies as a spur to major constitutional change. Yet the 'age of the shock wave' has brought remarkably little reform. Over the last 15 years, contagions of extremism, greed and now covid-19, have brought us war, a financial crash, Brexit and a pandemic. We are not coping with these changes well. After a decade of lost growth, we now face another decade of lost opportunity. This may result in widening what are already some of the most pronounced regional inequalities in the world (Bounds, 2019).

A change in the way we are governed would help. After the current crisis, few want a restoration of the world before covid-19. A revolution is unlikely. So, therefore, the question is how we push for a reformation in which, once and for all, we radically devolve power from the capital and to the regions?

Contextualising Solutions

Whitehall cannot fix the problems we face today. Its ministerial leadership is too unstable. Its 'turf wars' are too fractious. Its centre too weak. This is therefore a moment when we need a decisive shift in the country's power and money towards our regions, our cities and our mayors. Globally, world cities account for 80% of the total economy. This is true in England. City leaders are therefore uniquely placed to push through the demand side shifts that's required. The re-shaping of the post-covid-19 world cannot be trusted to national governments acting alone. National governments working alone don't have the tools to address extant challenges.

Decisive changes are urgently needed. The first, in particular, is governance of Britain. Sidney and Beatrice Webb in their magnificent history of local government described the emerging patchwork of local administration in 19th century England as a "mish-mash" (Webb and Webb, 2020). Some order was rendered in the decades that followed, but in Britain, "mish-mash" tends to re-emerge, and between the centre and the locale, once again, relationships are muddled once more. Ideally, this is where a proper system of inter-governmental relations should have been created. A few key changes would make a significant difference.

First, in Parliament we should seek a far more formalised sense of place by the creation of a Regional Select Committees. This would bring together scrutiny of the executive around place. It's likely we'd soon hear calls for greater devolution and, indeed, howls for better Government coordination.

A second significant change is the creation of full-time regional ministers. This would offer a locus in the Whitehall power structures where cross-departmental decisions can be coordinated. Today, Cabinet Sub-Committees provide a formal means of cross-government integration; the proverbial 'joined-up government'. However, nothing beats a full-time minister dedicated on a daily basis to acting as regions' 'warrior-in-Whitehall'. They could get things done.

What powers should a full-time minister have? In 2010, the author sought to answer precisely this question in a review undertaken by civil servants under my control at the Treasury. We proposed a single regional office with a business-lead Board to drive delivery and maintain the Regional

Development Agencies' strong interface with the private sector. The single office would have brought together the Regional Development Agencies (RDAs), Homes and Communities Agency (HCA) and Government Offices (GOs) and taken lead responsibility for regional growth and inclusion. It would have been funded through a single pot, without a ring-fencing and channeled through a sponsoring Government department to provide oversight.

- *Physical regeneration.* In 2010 this was split between the Regional Development Agencies and the Homes & Community Agency. The model proposed brought regeneration activity together ensuring all funding want through one body. This was purposely intended to improve prioritisation of investment as well as removal of overlaps in responsibilities

- *Business Support*. Though the majority of business support is generic advice, which can be delivered nationally, there is benefit to retaining a regional role in providing specialised support targeted at regional priorities and sectors where high growth is possible

- *Skills strategy*. The Regional Development Agencies had been given a strengthened role in the 'Skills for Growth' White Paper (2009) to drive skills strategy in particular regions. This was intended to allow a those well-placed to make decisions as to the trade-off between different demands in labour markets as well as coordination of skills spending with other programmes

- *Housing, including planning powers*. The remit of the Homes and Community Agency was, and still is, to focus on delivering growth and increasing the supply of housing. Government Offices performed statutory planning functions on behalf of CLG.

- *Integrated regional strategy*. The ministers would retain responsibility for producing the integrated regional strategy, together with Leaders Boards. The region provides an appropriate level of scale and scope to consider strategy for across different functional economic areas.

- *An advocate for the region*. Providing a more structured and transparent way for the regions to engage with central government on relocation of Whitehall functions outside London.

If the objective is to genuinely devolve power to English regions the bullet points above are a checklist of the sort of power and responsibility required by metro-mayors in urban areas as well as unitary boroughs beyond. Furthermore, to better make the connection between local areas and the centre in which power is concentrated, we should create a Council of Regional Ministers and mayors in which we gave a proper voice for local government. This would create a clearly defined intersection between Whitehall and town halls.

If this was constituted as a Cabinet Sub-Committee, we would go a long way to providing some formal organisation and coordination of what is currently the worst of British adhocracy. Personally, I would go one step further and reorganise the House of Lords to create a more formalised Senate with representatives elected on proportionate basis from regional constituencies. Unfortunately, I acknowledge, I've been in Parliament too long to have much optimism that this will ever be achieved.

<u>The Importance of Local Taxation</u>

Constitutional change, however, is not enough. Fiscal freedom, especially the ability raise taxes is critical to success in the regions. A more logical approach to fiscal considerations must be developed and implemented, not least to weather the storms ahead. At the time of writing the IMF is forecasting that the world economy, is likely to shrink over 2020 and 2021 by $9 trillion. That's bigger than the Japanese and German economies combined. It is speculated that the world economy could take as long as five years to recover to its pre-covid-19 levels. Many economic commentators are predicting a very significant rise in the national rate of unemployment. Hutton, for instance, believes that it could be as high as six million “by early 2021” (2020). This is a rate that would not have been experienced since the 1930s and, of course, the rate of unemployment would vary significantly in different regions.

As such, once the immediate crisis in saving lives has passed, there will be a second significant challenge in saving livelihoods. As many believe is required, stimulus is urgently required to keep people within work and, for those who lose their jobs, alternative employment. During the last period of fiscal consolidation, the Conservative Chancellor, George Osborne, shifted the tax-spend mix in the plans that he inherited. He shifted what was contained in the consolidation plan and sought around 90% of the funds needed to close the fiscal deficit through spending cuts. This significantly slowed the economy and is widely accepted to have contributed to rising inequality. We must learn from that mistake.

The next stimulus, and subsequent consolidation, will need to be largely tax-financed, and we could strike a blow for localism if these new taxes on both wealth and carbon, were locally authored. If we can devise ways of allowing decisions concerning new taxes to be taken by *local* politicians, we’ll achieve fiscal decentralization. Allied to this would be the need to devise sub-national institutions able to securitise forecast tax flows and to increased borrowing against them to achieve growth enhancing investments.

The UK has one of the most centralised fiscal regimes in the world. As McLean believes, ‘[A]lthough all modern UK governments have talked about greater devolution within England […] none has done anything fiscally material’ (2019). This is not without some advantages. In particular, it underpins a very significant fiscal redistribution which entails, as Gallagher (2019) describes, the richest regions of Britain pooling and sharing up to 10% of their GDP with the rest of the country. This flow of funds is driven by different tax yield in different areas and by different spending levels, and so London, the south-east, and the east of England, which together comprise 47% of the UK’s economic activity contribute in absolute terms, £16 billion to the north-west, £12 billion to Wales, £10 billion each to Scotland and the East Midlands, and £8 billion to Northern Ireland.

These are very large flows. Because of this I’m not inclined to support tax freedoms that simply allow local areas to cut revenue taxes because it risks impairing this redistribution mechanism. But fiscal flows are partly a reflection of the significant economic inequalities as well as large differences in infrastructure investment and skill levels within the nation. Gallagher asserts that UK public expenditure allocation mechanisms provide “…little or no connection between expenditure allocations to a given region and the tax raised there […] spending decisions bear almost no relation to the tax yield in the relevant part of the country’ (*ibid*). As such, allowing local areas to raise more, and crucially raise funds for capital projects is absolutely vital.

Realistic Solutions for Real Change

Any freedoms to raise debt at the local level will have to sit within some sort of national control regime as ultimately the Treasury is the guarantor of last resort. Today’s fiscal freedoms are pretty limited; only 15% of the population live under a serious subnational government. The risks of contemporary fiscal federalism, such that it is, is therefore very manageable. So, further fiscal federalism would need some ‘brakes’ in the system such as balanced-budget rules which provide ‘bite’ on the local authority. This is common in the United States and many other OECD countries which have set rules to bolster the credibility of debt and deficit levels.

Wealth taxes, in particular, are likely to prove crucial in tackling inequality. Years of fiscal austerity but hyper-loose monetary policy have been good for owners of assets. These years seem set to continue. If you're lucky enough to own a house, shares, have a pension, you've done well since 2010. The stock market has risen considerably in the last decade, as has the value of property. Overall, the tax take in the economy has been remarkably stable over the last 17 years; just over 33% of GDP. Yet, despite the huge increases in wealth over that period, wealth taxes still account for remarkably little revenue.

The combination of inheritance tax, capital gains tax, stamp duty land taxes and stamp duty on shares, accounts for just 1.4% of GDP. This is the same level as in 2006/07 despite huge increases in the value of stocks and very large increases in the prices of houses. This increases slightly if council tax is included, but not by much.

Work on wealth tax has to be part of a new approach to tax strategy for the decade ahead in which the key objective is to re-balance the tax base. It is vital to reduce the burden on individual tax-payers who've borne the brunt of tax rises in the last 17 years. It is noted that low earners still pay out a bigger fraction of their income in tax than high earners due to the impact of indirect taxes.

Between 1999/2000 and 2015/16, the overall tax-take increased by £159 billion (in real terms). An extraordinary 80% of this increase has been paid by individual tax payers. Indeed, the 'big 5' personal taxes (PAYE, Self-Assessed Income Tax, Employee National Insurance, VAT, and Council Tax) have risen, in real terms, by 40% - or £126 billion. Most of this rise in tax receipts occurred over the ten year tax hike driven first by Gordon Brown's 2002 increase in National Insurance Contributions, designed to inject funds into the NHS, and George Osborne's 2010 VAT rise designed to help close the deficit.

Part of our reforms, therefore, should be to develop a package of wealth taxes intended to reduce 'leakage' from the tax system which currently allows, for example, 'high net worth' individuals to re-classify income from capital as a capital gain or corporate receipt in order to enjoy a lower rate of taxation.

Our strategy for business tax must also be conducted with care. Business contributed to the 2002 NIC's rise; employers' NIC's have risen by almost £20 billion since Gordon Brown's 2002 NIC's increase. And, business rates have crept up by £8 billion since the turn of the century. However, unlike individual tax-payers since the Global Financial Crisis, business has been able to enjoy significantly lower rates of Corporation Tax. As such, wealth tax, carbon and pollution tax must be considered.

Conclusion

It is often said we live in an era of change. But this now feels like a change of era. There is an opportunity to ensure that the UK post-covid-19 as well as Brexit, is greener and fairer. It should be one in which power is wielded closer to where business activity and the vast majority of employees live and work, the English regions. We should seize it with both hands.

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Reforming the Regional Tier

Executive Summary

As we achieve fiscal consolidation we need policies that not only maximise growth but promote social inclusion. Revitalising the economy and maximising productivity in all regions will be crucial to making the most of economic opportunities as the UK comes out of the recession. This paper considers the role that reform of the regional tier can play in meeting these objectives.

The proposal outlined in the paper centres on the creation of a single regional office under the leadership of a full time regional minister. With a business-lead Board to drive delivery and maintain the RDAs' strong interface with the private sector, the office would incorporate the Regional Development Agencies (RDAs), Homes and Communities Agency (HCA) and Government Offices (GOs) and have lead responsibility for regional growth and inclusion. It would be funded through a single, un-ringfenced, pot channelled through a sponsoring Government department.

The proposal also includes the creation of smarter, more strategic management of the public estate in each region to realise some of the most exciting opportunities emerging from Total Place and a complimentary devolution of growth powers to our core cities. Rationalisation of the GO oversight functions and a convening role for the regional minister in delivering multi-agency public service reform will help to ensure strong local buy-in to these proposals.

The paper details savings of around £790m that could be achieved through removal of duplication, and the devolution and rationalisation of programme spend where national or local government delivery has proved to be more effective. Section 1 sets out the rationale and benefits of change, section 2 proposes specific reforms to the regional tier and section 3 sets out some practicalities.

Section 1

Rationale for change

Evidence suggests that people and places are excluded from growth by the quality of their labour markets, access to employment and barriers to mobility, often resulting from inadequate housing supply and local transport provision. Partly as a result of historical patterns of growth but also from the inevitable pressure towards agglomeration in the global economy there are increasing issues for people in regions and localities that cannot access the hubs of growth centred around our core cities.

The cost of exclusion is counted in reduced productivity and output, and by the loss of generations and places to a life on the margins of our economy and society. I believe that a revitalised and expanded role for our regional ministers in promoting growth and inclusion in our regions, combined with new powers for our core cities and reduced burdens for local authorities, can play a crucial role in the delivery of our economic and social objectives across England.

However, I don't believe that the existing separation of the RDAs and the HCA enables the right strategic choices to be made, and this lack of strategic oversight puts delivery of our objectives at risk. Nor do I believe that the Government Offices currently add sufficient value to either central or local government to maximise growth and drive through public sector reform.

There is therefore significant scope to streamline the administration of the regional tier, which is cluttered, fragmented and complicated. In addition to being poor value for money this has a knock on effect for the private sector and for national and local government who must contend with a number of different bodies and relationships.

What are the benefits?

There are a number of benefits that stand to be made from reform. These are discussed throughout the paper but to summarise:

- The national level will benefit from strategic oversight on investment to help ensure greater prioritisation of capital spend in a tight fiscal climate, and a strong voice in processes such as the regional funding allocation.
- The regional bodies will enjoy stronger legitimacy and direct ministerial support for integrated regional strategies.
- Core cities will get enhanced powers to develop their growth strategies.
- Localities will enjoy fewer burdens, a single growth partner, a convenor to ensure that their public service reform ambitions are not defeated by uncooperative local partners, and a full time regional champion.

- The private sector will retain its leadership of the Board and reduced number of interfaces with government agencies.
- All parties will enjoy better value for money in the running of the public sector estate.
- Public sector relocations could be delivered more rapidly through better oversight of available public space.

Savings in 2012/13: admin savings of £200m from removing duplication, careful devolution and stopping low value functions could realise £790m (including £250m capital), and local property companies delivering the regional property strategy could save a further £400m of reduced running costs.

Section 2

A reformed regional tier

As described above, the proposal is that we bring together the Regional Development Agencies, Homes and Communities Agency and the Government Offices into a streamlined strategic body focussed on growth, retaining a significantly reduced performance management role.

Functions would be run through separate directorates, which resemble the current functions of the HCA, RDAs and GOs, within the new regional body. Public sector reform would become a responsibility of one of these directorates, for example:

- A Homes and Communities Directorate
- A Growth and Inclusion Directorate
- A Public Sector Reform Directorate – including asset/estates management and managing the relationship between central and local government

In addition the proposal provides a means by which we can make more use of our core cities and get more out of public sector assets.

Over time there could be a case for bringing further bodies together, including the Skills Funding Agency, the Highways Agency and parts of the Environment Agency.

To make more use of our regional ministers the new regional body would be headed up by a regional minister who would have a range of powers to challenge, communicate, control, convene and coordinate the sub-national activities of central government.

In order to retain national oversight over these bodies and ensure that investment is made in a strategic way across England I propose that there is a small national body scrutinising investment and making significant funding decisions, particularly where the investment crosses regions. The regional bodies would report to this body (probably an executive agency of a Whitehall department). This is consistent with the principles for governance developed as part of the arms length body PVP.

Functions

Inline with the proposal that the new body is strategic and focussed on growth, functions would be:

- Physical regeneration – currently both the RDAs and the HCA deliver regeneration in the regions. This model brings regeneration activity together, channelling all funding through one body improving prioritisation of investment and removing overlaps in responsibilities.

- Business Support – the independent evaluation of RDAs suggests that they achieve greatest vfm through business-facing activity, such as business support. Although the majority of business support is generic advice, which can be delivered nationally, there is a benefit to retaining a regional role in providing specialised support targeted at regional priorities and sectors which are high growth within the region.

- Skills strategy - the RDAs have been given a strengthened role in the 'Skills for Growth' White Paper to drive skills strategy in their regions. The region offers a good level for strategising across and understanding the different demands of different labour markets and coordinating skills with other programmes.

- Housing, including planning powers – the Homes and Communities Agency (HCA) is the national housing agency for England. The remit of the HCA is to focus on delivering growth, especially increasing housing supply - a central purpose for setting up the HCA and achieving better vfm. Government Offices perform statutory planning functions on behalf of CLG. There is a conflict of interests in having the same organisation making decisions about housing spend and advising national government on planning.

- Interface with business - the RDAs play a key role as a regional interface with business, which is enhanced by a private sector led board. The business community has expressed concern that removing this role would be detrimental to their ability to function effectively at a regional level. There is a strong case for the new body to retain a private sector led board in order to ensure this benefit is not lost.

- Integrated regional strategy – would retain responsibility for producing the integrated regional strategy, together with Leaders Boards. The region provides an appropriate level of scale and scope to consider strategy for across different functional economic areas.

- Link with national, city and local government – the Government Offices provide a support (e.g. briefing/visits) and intelligence function used by central departments. This could provide the support function required by a regional minister.

- A significantly reduced performance management function – e.g. negotiating targets (particularly LAAs), improvement support and targeted intervention (such as DCSF field forces). In line with Smarter Government, the performance management role of this body could be reduced – though this will be subject to wider decisions around the nature of Government's relationship with local public services

- An advocate for the region – e.g. provide a more structured and transparent way for the regions to engage with central government on the relocation process. This would help the region make a strong case for relocation which meets central government criteria i.e. not just about securing jobs but creating scale efficient clusters that build regional competitiveness.

- EU money - the regional body would also retain the role the RDAs play in administering European funding such as the Rural Development Programme and JEREMIE schemes to support SMEs. There is a case (in the next round of ERDF funding) for transferring responsibility for EU money currently administered at the regional level to the National Investment Corporation. [does this statement raise questions that we don't want to deal with here]

Alongside this some functions would be streamlined or removed from the regional tier. This is set out in greater detail in the 'savings' section below.

Other Regional Bodies

There are other bodies which operate at the regional level. Three in particular are worth considering folding into these new arrangements, although the viability of this rests upon there being a national body (as described above) to oversee investment, which is a key feature of these three bodies.

1. The Skills Funding Agency, which provides funding for further education colleges and other skills providers. The SFA is a national body but has a strong regional presence, indeed some SFA staff are located within the RDA.

2. Environment Agency, which exists to protect and improve the environment. The EA has a key role in encouraging growth through its role in key infrastructure decisions e.g. flood defences.

3. HE regional associations: promote the role of higher education institutions in their areas, fostering collaboration between HEIs, and building partnerships between higher education and other organisations within their regions.

Other bodies operate at the regional level, but do so for organisation reasons rather than because the regional tier is seen as a tool for delivering growth.

1. Highways Agency (HA): operates, maintains and improves the strategic road network i.e. motorways and major trunk roads. Other roads are managed by Local Authorities. The HA organises itself into 13 areas, rather than by region.

2. Strategic Health authorities (SHA): play an important role in trouble shooting/addressing poor performance in primary care trusts and providing specialist funding.

3. Higher education funding council for England (HEFCE): teaching and research funding. Regional input direct from HEFCE is split into three areas – London and the South East, the Midlands and the North. HEFCE contribute funding to HE regional associations (see above).

If the regional minister is to be responsible and held accountable for growth within their region then it may be necessary for them to have certain powers to convene and influence bodies which are not under their control but are nevertheless important for regional growth. Potential options include making the regional growth body a statutory consultee or allowing the regional minister to sit on their board. A set of recommended powers are set out in more detail in section 3.

Flexibility

A key feature of the new body would be its flexibility to organise itself and make funding decisions according to the priorities of the region. The rationale for this is threefold:

- Differences in regional economies - requiring governance structures that reflect regional and pan-regional labour markets. For example there is a case for pan-regional structure in North i.e. one structure for North East and North West (possibly YnH) could remove duplication across the regions which are subject to arbitrary borders.
- Differences in regional politics - a governance structure that relies on goodwill between the regional and local tier may not be feasible for the South but could be for the North.
- Differences in policy priorities – e.g. skills are a priority issue in the North so they may want to increase resource in this area.

The new structures would need to take into account London’s unique governance arrangements. Here, there would be the strongest argument for separating the economic growth / inclusion functions - which would sit with the Mayor - from the performance management functions. Given the interface role between Government and localities, this function would logically have direct accountability to ministers. This might be through a small regional office led by the regional minister, or sitting as part of central Government (CLG). The Mayor would therefore retain leadership of the economic role performed by the London Development Agency alongside Homes and Communities Agency functions.

New Roles

In addition to retention of these roles I would give the region two new roles. Firstly, in developing a regional estates strategy, as announced in Smarter Government. Total Place pilots in Kent and Worcestershire have suggested that more joined-up management of the local public sector estate could lead to significant savings and improved public services, with local property companies established to help deliver regional estates strategies. This could give the regional body greater power over the local public sector estate, alongside national property companies to manage the national strategic estate. Significant benefits could be possible including managing income from capital receipts, reducing the ongoing cost of asset management and to a degree recycling proceeds. This idea will be developed further in the next stage of Total Place.

Linked to this an important role for the regional minister could be to act as a champion for public sector reform in the regions, driving rationalisation of the civil estate and wider public sector property assets in keeping with Total Place and Civil service relocation. This role could be underpinned by a VFM target for each region.

Secondly, I would enhance the regional role in advising funding from the centre by giving the new body lead responsibility for the regional funding allocation process. Through this process DfT, BIS and CLG gather regional intelligence and priorities in order to advise their decision about how money should be allocated in the regions. This process is centrally coordinated and has had limited traction in the past. Devolving this to the region could help increase regional and local engagement with the process and enable better targeting of limited capital resource. DFT make particular use of this process, indeed funding decisions are subject to regional advice and the regional role in bringing together the views of Local Authorities is key.

Greater use of our core cities

Our core city regions are key drivers of growth and we must avoid any sense that we are turning our back on the role that they play nationally or locally.

Based on current economic and policy trends, Oxford Economics analysis of the future economy predicts that cities will be important sources of GVA growth in the medium to longer term. London, Manchester, Leeds, Liverpool and Birmingham City Regions generate 40% of employment in England.

We also expect cities to be vital places in which to adapt to the knowledge intensive economy and address the unemployment challenges. Knowledge intensive sectors that will drive future job growth tend to locate in cities – 37% of GB knowledge-intensive businesses were clustered in London and just three other major cities, Manchester, Birmingham and Bristol in 2008.

Finally, cities are where acute structural problems in the economy manifest and hence where they can be addressed e.g. in Burnley and Stoke have a particularly low level of qualifications – 23% of people have low skills compared to a national average of 12%.

Given the importance of supporting city-regions' future prospects, we propose to introduce a new borrowing flexibility for core city regions, including London

The proposal is that a proportion of the capital savings made from restructuring the regional bodies is used to fund an Accelerated Development Zone scheme for our core city regions. This money would be used to support projects brought forward by the core cities that would deliver a net increase in the value of their business rates base. This uplift in value would be the basis for ongoing repayment of the investment, enabling future projects to be brought forward as the need for central support diminished. A potential model for delivering this would involve central government making a grant determination at the outset of the project equivalent to the amount of investment needed. The grant would then be paid out on an annual basis, the amount varying each year according to how much business rates have risen. This would be a central plank in a narrative that some functions are best led by cities and some require regional oversight.

In order to ensure that maximum value is got out of these investments this money would be allocated through a bidding process. Under this process interested cities would put forward a proposal to a central department, which would then decide which cities would be allocated funding. The Department for Communities and Local Government would seem the natural choice here. There is a question here as to who we would open the bidding process up to – restricting it to core cities could seem arbitrary and upset a number of local authorities, whereas opening up to all could lead to a cumbersome and inefficient process. Further exploration is needed, alongside assessment of the impact that extra borrowing would have on the public sector balance sheet and discussions with DCLG on who would bear the burden of risk.

This proposal would provide an opportunity to simulate Tax Increment Financing and road test the viability of the concept.

Greater flexibilities for core cities would provide an opportunity to promote the role of city regions as growth hubs and pave the way for further devolution of carefully selected functions to city regions in the future. The regional body and regional minister could play a role in negotiating these new freedoms and flexibilities with city regions and other sub-regional partnership son behalf of government, and performance management those agreements.

Savings

In order to streamline activity and realise savings this proposal also involves stripping out the low value functions of these agencies i.e. cutting spend where it has the least impact. More detail on cuts and transfer of functions is set out in Annex A – to summarise:

- Reduced regeneration budget – the RDA regeneration budget would be completely cut. The independent evaluation of RDA showed that RDA regeneration interventions offered relatively poor value for money. Saving - £250m (£400m cut at regional level but £150m used to fund core city ADZ scheme)

- Job matching – stop job matching. No clear rationale why the RDAs should deliver job matching in addition to JCP. Saving - £40m.

- Reduced skills function – restricting function to skills strategy. The independent evaluation of RDA showed that RDA skills interventions offered relatively poor value for money. Saving - £90m.

- Reduced business link function – restricting regional role to specialist face-to-face services. There is limited rationale for delivering general advice on a regional basis; most of which can be delivered online and via call centres. Saving - £140m.

- Reduced tourism and culture spend – limiting the regional role to bringing together local tourist boards to formulate a “regional offer” for tourism. The independent evaluation of RDA showed that RDA regeneration interventions offered relatively poor value for money. Saving - £65m.

- Inward Investment – stop RDAs carrying out inward investment. Saving - £35m

- Remove duplicated/redundant coordination activity within GOs. This might also include savings through a reduced ‘local public service performance’ role. Further work is needed on this option, as part of wider consideration through Smarter Government on the relationship between central and local areas. Saving - £60m or more depending on decisions around the central/local relationship, perhaps up to £80m (we have currently scored this within the admin savings as the GOs do not have a programme budget).

By changing roles and responsibilities in the way described above and cutting programme spend where it adds least value savings of around £605m. Merging the RDAs, HCA and the GOs would lead to administration savings of around £170m. This gives total savings of around £790m. Annex A sets these figures out in greater detail.

Section 3

How would it work?

Undertaking reform of this kind will require a number of changes, both to the formal powers that are currently held by regional ministers and to the nature of the relationship between the regional tier and Whitehall e.g. funding and governance arrangements. There are also certain practical considerations regarding the machinery of government and primary legislation.

Regional ministerial powers

As touched on above, if the regional minister is to be held accountable for growth within their region and for driving public sector reform then they will need clearly defined responsibilities supported by a set of formal powers.

It is recommended that the regional minister is given a clear mandate to:

- maximise growth and increase social inclusion within their region
- drive public sector reform within their region, perhaps aiming to meet a VFM target
- ensure regional, sub-regional and local bodies work together effectively.

To enable them to achieve this provide them with powers to:

- sign-off appointment of key public appointments to the new regional growth body and other key bodies within the region.
- either author or approve key regional plans and frameworks
- allocate resources between functions within defined flexibilities
- convene/be a statutory consultee of public service delivery bodies, including JCP, and to act as lead representative with local authority leadership boards.

The power to make/confirm senior appointments to key bodies in particular is an important part of the regional ministers role in ensuring collaboration, delivery and value for money.

Funding arrangements

There are various options as to how the new regional growth body could be funded and where certain funding decisions could be made. In order to provide the regional body with flexibility but retain national oversight of strategic capital spend the following system could be used:

- The regional body is provided with a single, un-ringfenced, pot of money, which it is able to spend according to regional priorities. The regional minister plays a role in allocating this funding.

- All funding is channelled through the national body (described in section 2), which is passed money by HMT through a Whitehall department. This body is responsible for overseeing regional spending. In particular, ensuring that capital investment achieves vfm for England as a whole.

As the regional body/regional minister has power over funding it would be necessary to have an Accounting Officer. The AO would be responsible for accounting to Parliament for the resources it uses and ensuring that the resources it spends are used for the purposes approved by Parliament and that performance targets are met.

Machinery of government/governance with Whitehall

Creating new regional ministers has significant implications for the machinery of government. It is also necessary to consider how the regional minister would be accountable to Whitehall. There are two main considerations:

1. Statutory limits on the number of Ministers: having 9 full time regional Ministers would only be possible if reductions in middle and junior ranking Ministers were made elsewhere as the size of the Government is already very close to the statutory limits. An alternative would be for joint appointments, as is the case now, to be made. For example, the Minister would be a Regional Minister (reporting to – for example – SoS CLG in regards to his regional responsibilities) and a Minister in, for example, DH (reporting to the SoS Health in regards to his health responsibilities).

2. Where the Regional Ministers would sit and where they would get their powers: Ministers can exercise powers held by a Secretary of State in his/her name under the *Carltona Principle. This is usually straightforward provided that the Minister exercising the powers is in the same department as the SoS who holds the powers*. Given that the HCA, GOs and RDAs sit in different departments the simplest solution would be to bring all three bodies into one department. This would require a machinery of government change between BIS and CLG: RDAs would need to transfer to the SoS for CLG or responsibilities for the HCA and GOs would need to transfer from CLG to BIS. An alternative (although the legality of this would need to be confirmed with lawyers) would be for Regional Ministers to report jointly to CLG and BIS and any other department in which they had a role. This would create a complex reporting picture.

However, it is worth noting that although there would be significant difficulties at the outset, once in place this would significantly increase the accountability of the regional tier. To take this further greater use could be made of regional select committees.

Primary legislation

There are extensive legal consequences from any radical restructuring of the regional tier.

Given that RDAs and the HCA are statutory bodies, primary legislation would be needed to bring the RDAs and the HCA into one body and re-distribute any functions that were transferred to another body. Regional Government Offices are not statutory creations, but are "offices" without separate legal identity from the central government departments whose interests they serve and so can be restructured without legislation. Legislation would also to be needed to give the new regional growth body powers and governance structures and to provide for channels of funding and accountability.

Further, if the intention is that the RMs should be able to exercise statutory powers of the Secretary of State in their regions in ways that are different to how those powers are being exercised in other regions, primary legislation may be necessary to ensure that those powers can be exercised in that way. This would need to be a priority in the 1st Session Legislative Programme. It may be possible to use the arms length body PVP "tidy-up bill" to achieve this.

Annex A: Savings and Functions

Measure/ Function	Currently sits?	Where will it sit?	Saving	Maths
Administration Savings				
Permanent staff cuts	N/a	N/a	£40m	10% of HCA/GOs/RDA staff (currently 6,400 staff in total)
Temp staff	N/a	N/a	£10m	Cut all RDA temp staff numbers (e.g. all consultancy spend)
Equalise pay	N/a	N/a	£75m	Based on average cost to the organisation per member of staff across all ALBs (e.g. total staff costs/staff numbers)
Estates	N/a	N/a	£45m	Cut 50% of current HCA/GOs/RDA accommodation costs
Shared services	N/a	N/a	£30m	Based on Government Office shared service analysis: Sharing services between HCA/RDA/GOs (7% admin cut)
Programme savings				
Business support/ Business Link	RDAs and HMRC	New regional growth body (specialist, regional face to face only) and HMRC (all general and non-contact support)	£140m	£105m through streamlining and moving online; £30m from halving GBI funding
Regeneration	RDAs and HCA	New regional growth body, core cities	£250m	Cut RDA regeneration budget – RDAs rarely 'own' regeneration projects but contribute through brokering between different agencies. Propose that

				£400m is cut from the RDA budget but £150m of this is used to fund Advanced Development Zones.
Tourism and culture	RDAs, regional and local tourist boards	New regional growth body (**strategic role only**), regional and local tourist boards	£65m	Significantly reduce RDA spend on tourism - savings achieved by rationalising roles of RDAs, regional tourist boards and GOs
Skills	RDAs, SFA, HEFCE and the Sector Skills Councils.	New regional growth body (**strategic role only**), SFA, HEFCE and the Sector Skills Councils.	£90m	Rationalise skills delivery in line with Skills White Paper. Streamlining skills delivery currently done by the RDAs, SFA, HEFCE and the Sector Skills Councils and stopping regional involvement in educational infrastructure projects
Job matching	RDAs, JCP	JCP	£40m	Cut £40m of RDA job matching (no clear rationale why RDAs do this)
Inward Investment	RDAs, UKTI, LAs	UKTI, LAs	£35m	Cut all RDA inward investment (UKTI) £35m
Total - £790m (net of £30m to cover cost of breaking contracts and redundancies)				