

Foreword

Although we have seen a period of sustained growth, significant differences in regional performance persist. There continue to be north-south and east-west divides. Regional disparities are seriously holding back this country from realizing its full economic potential.

The time is right, we believe, to take a fresh look at regional economic policy and delivery. The series of independent reviews on transport, skills, land use planning, and climate change, Sir Michael Lyons Inquiry into local government, and the Government's own review of sub-national economic development and regeneration are all leading up to the Comprehensive Spending Review 2007. This will provide a unique opportunity to set a new framework to enable us to make a step-change in our regional and national economic performance – one that unlocks the potential of all areas – city and shire, urban and rural.

There is a need for action at the national and regional level but research shows that below the national level, the key layer is the sub-region. We welcome the growing recognition of this but we are increasingly concerned at the Government's over-emphasis on the big 'core' cities and city regions.

City regions may be right for some areas, but for many they are inappropriate. We strongly believe that they should not be imposed in a 'one-size-fits-all', one-dimensional way. A more realistic approach is needed – one that recognises the significance of polycentricity, county regions, and others based on economic sectors and communication corridors. England's counties are an essential part of our economic life and it is clear that county regions are as significant as city regions as economic drivers and locations for the knowledge economy and business clustering.

The important thing is for Government and regional agencies to avoid being prescriptive and to pursue a bottom-up approach, devolving real responsibility to local and sub-regional partnerships that meet the particular needs and circumstances of their areas.

We believe that elected local authorities have a key role to play in bringing together, supporting and facilitating the leadership of sub-regional partnerships to achieve improved and sustainable economic performance. If local authorities are given real responsibility for economic place shaping in their areas and have the resources to do the job, Central Government, local government and the regional agencies can together unlock the economic potential of our nation and all its constituent areas.



Linda Edworthy
Chair, CEDOS



John Deegan
President, CSS

Making the Most of Our Economic Potential

Looking Beyond the Core Cities

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Regional economic performance

The Government's central economic objective is to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all. An essential part of this is to improve the economic performance of every part of the UK.

There are as yet few signs of significant progress in reducing regional disparities. There continue to be significant differences in regional performance; the north-south and east-west divides remain a reality; and there can be no doubt that this is holding back the competitiveness of UK plc. The time is right to take a fresh look at policy, including the spatial approach to regional economic development.

Recent research has demonstrated that below the national level, the key economic layer in England is sub-regional. If we are to release the economic potential in every region and in every area of Britain, a step-change is needed with a much stronger sub-regional focus – one that reflects the varied economic geography of this country.

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Core cities and city regions

Our major cities, including those referred to as the 'core cities', continue to be vitally important to the economic future of this country and its regions. So too, do all our cities – but there is concern at the over-emphasis in Government policy on the core cities and their 'city regions', which are increasingly being seen as *the* functional areas on which to focus economic development investment and activity.

This is despite criticisms raised by national organisations, local authorities and within academic circles, on the applicability of the city region concept to different areas of the country; its impact on more peripheral areas; and even more fundamentally – on its overall validity and relevance to promoting effective and sustainable national and regional economic development.

A city region approach may be appropriate for some areas but is clearly inappropriate for many. We strongly believe that it should not be followed in a prescriptive way. On its own it will be ineffective as a means of achieving the Government's stated aim of reducing regional disparities and risks adversely affecting substantial areas of the country that lie outside identified city regions as well as peripheral areas within them.

Essential components of sustainable economic growth

England's counties are vital to England's economic performance. Alongside the core cities and the other metropolitan areas, the county areas are key sub-regional components of every region in the country outside London. They are a major part of our national social and economic infrastructure. They account for 60% of England's population; are home to around a million VAT registered businesses, provide around 15 million jobs and account for a large and growing proportion of national output.

Too often, our smaller cities, towns and rural areas are typecast as playing a secondary, supporting role to the core cities. The statistics show this is far from being the case. The recent 'State of the Cities' report shows that outside London, the share of job growth is fairly evenly divided between the 'primary urban areas' and the 'towns and rural' areas. Indeed, the towns and rural areas have been showing a higher ratio of job growth compared to share of jobs.

This must not obscure the very real social and economic problems being faced in these areas. They may be less physically concentrated and therefore less visible than in the cities, but many county areas have problems of unemployment, low incomes, and multiple deprivation.

Sub-national economic development – one size doesn't fit all

Our analysis shows that all areas – London, core regional cities, smaller cities, towns and rural areas – have distinctive roles to play as part of the complex mosaic that forms the modern economic geography of this country. If our opportunities are to be grasped and problems tackled effectively; and if the Government's goals of sustainable economic growth that benefits all areas, and reduces regional economic disparities, are to be achieved, a more realistic approach is needed.

A key weakness of the city region approach is its over-simplification of complex spatial economics and its potential to increase intra-regional disparities. In reality, regions depend on the inter-relationships of a series of complementary and competing cities and towns, each with its own hinterland, with 'boundaries' varying and indeed overlapping according to the particular mix of definitional factors being used.

County regions, operating as large economies with a clear geographical focus and sense of identity, can be at least as significant as cities in driving economic growth, with a high degree of specialisation and knowledge intensive clustering. The reality is that counties, like the core cities, have a strong sense of identity as well as the social and economic cohesion and scale that provides an appropriate geography for sub-national economic development intervention and promotion.

Sometimes, it may also be advantageous for joint approaches that focus on other aspects of economic geography such as polycentricity, economic sector regions and communications corridors.

It is essential that we embrace and not suppress diversity. We must enable all areas to play their full part in the drive for sustainable economic development. The key is flexibility and recognising that one size really does not fit all.

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Making the most of our economic potential

The real key to achieving the Government's policy aims of sustainable economic growth, reducing regional disparities and providing for sustainable communities is to devolve power and responsibility to sub-regional partnerships in which local authorities with a track record of leadership and delivery on economic development have a pivotal role.

In the non-metropolitan areas of England, the strategic authorities – the County Councils and Unitary Councils – have a particularly important role both within local areas and across local authority boundaries in a sub-regional context. They have an established track record in building, leading and supporting partnerships within and beyond their boundaries for the effective promotion of economic development.

The existing power of economic well-being is sufficient to enable local authorities to undertake their place-shaping role for pursuing economic prosperity. The central issue is not about a need for additional powers but about Government placing a clear responsibility on local authorities for exercising the power of economic well-being. There needs to be a much stronger emphasis placed on this by Government, making promotion of the economy a *statutory* duty.

Local authorities need to have the resources to do the job. A step change is required to provide a sound basis for effective local authority economic prosperity place-shaping. The financial link between business growth and investment needs to be restored to enable local authorities to retain income derived from business rates linked to the introduction of the new duty. This would be backed by reference in Comprehensive Performance Assessments to joined up working on behalf of the local economy.

The way forward

The way forward for sub-national economic development and regeneration is to maximise the devolution of responsibility to sub-regional partnerships with:

- a flexible, locally-led approach to defining the spatial areas covered;
- partnerships led by democratically elected local authorities, with a statutory duty for economic promotion, backed by the resources to do the job;
- removal of the barriers faced by local authorities in promoting the economic development and regeneration of their areas;
- the links between action by Central Government, regional agencies and sub-regional partnerships being as direct and straightforward as possible, avoiding long chains of decision-making and unnecessary sieving processes and coordinating structures.

1. Introduction

1.1 The Government's central economic objective is to raise the rate of sustainable growth and achieve rising prosperity and a better quality of life, with economic and employment opportunities for all. An essential element of this is to improve the economic performance of every part of the UK: *"Unfulfilled economic potential in every nation, region, city and locality must be released to increase the long-term growth rate of the UK"*¹. The Government's commitment to the regional dimension of its economic policy is set out in the Public Service Agreement [PSA] target to *"make sustainable improvements in the economic performance of all English regions by 2008, and over the long term reduce the persistent gap in growth rates between the regions, demonstrating progress by 2006."*

Regional economic performance

1.2 In its Autumn 2006 performance report², the Treasury referred to encouraging signs in relation to the PSA target:

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- all English regions grew in 2003 and 2004;
- growth in Gross Value Added [GVA] per capita was higher in the worst performing regions than in the average of the top three [London, South East and East] for 2004. Average nominal GVA growth per head for the top three regions was 3.5% compared to 4.6% for the bottom six regions [North East, North West, Yorkshire & Humber, East Midlands, West Midlands and the South West].

1.3 The Pre-Budget Report 2006³ added a note of caution, however, pointing out that measurement of the PSA target is only meaningful when taken over a complete economic cycle and stating that *"while this data suggests some evidence of positive progress in narrowing the gap in growth rates between regions, it would be premature to reach conclusions about the effectiveness of long-term interventions"*.

1.4 It is important to note that this interim assessment of progress is based on annual changes in GVA data for each region. Given the potential impact of the economic cycle, the 12-18 month time lag on publication of regional data and the long-term nature of this target and the policy measures, the Treasury makes it clear that a full assessment of progress against the target will not be possible until the current economic cycle is complete.

1 See for example in *Regional Economic Performance – Progress to date*. HM Treasury, DTI & DCLG December 2006

2 *Autumn Performance Report – Progress Report on HM Treasury Public Service Agreement Targets*. HM Treasury December 2006

3 *Pre-Budget Report*. HM Treasury December 2006

1.5 More detailed evidence of progress is available in a technical note accompanying the Pre-Budget Report⁴. Referring to the early indication of a narrowing of the gap in growth rates shown by GVA per head data for 2003–04, the paper states that it is too early to say whether this reflects a narrowing in underlying growth trend, pointing out that there is evidence that the top three regions [collectively referred to as the Greater South East], are ahead of others in their economic cycle and that this cyclical effect explains London's lower growth in 2003 and 2004. Additionally, GVA growth rates in London display more year on year volatility than in the other regions. These factors mean that *"year on year changes in GVA data, and in the regional growth rate gap, should be treated with some caution"*. Moreover, Cambridge Econometrics in the latest edition of its *Regional Economic Prospects* suggests that London and the South East are the only UK regions forecast to have rates of GVA growth above the national average in 2006 and 2007.

1.6 Although it may be too soon to make judgements on the extent to which regional disparities are being reduced, the reality is that there are few signs of significant progress. There continue to be significant differences in regional performance; the north–south and east–west divides remain a reality; and this is holding back the competitiveness of UK plc. There is no doubting the scale of the task. As the Government itself has emphasised, the UK has experienced long-standing economic disparities, which have persisted for more than 80 years. To address these will require significant and sustainable improvements in all the underlying drivers of growth.

Importance of sub-regional economies

1.7 These disparities cannot be viewed in solely regional terms. A more localised focus is needed. Recent research commissioned by the Local Government Association has demonstrated that below the national level, the key economic layer in England is the sub-regional level and that sub-regional markets for labour, goods and services coincide reasonably well with industrial clusters, economic performance, and commuter transport networks, with industrial clustering happening "at the level of the city, or around a transport hub, or in a shire"⁵.

1.8 CEDOS and CSS strongly share the view that sub-regional economies matter. If we in this country are to realize the ambition to release the economic potential in every region and in every area of Britain, a step-change is needed with a much stronger sub-regional focus to regional economic development in England. Equally important, this focus must reflect the varied socio-economic geography of this country, avoid 'one-size-fits-all' prescription, and unlock the economic potential of all areas – city and shire, urban and rural.

⁴ *Regional Economic Performance – Progress to date*. HM Treasury, DTI & DCLG December 2006

⁵ *Prosperous Communities II* Local Government Association. January 2007

1.9 In this context, there is increasing concern about the continuing one-sided emphasis on England's large urban areas and in particular the core cities. In many ways this has intensified, with the extra dimension of the city region re-emerging and increasingly being seen as *the* spatial panacea for economic growth. A series of reports published recently by Government demonstrates the growing city and city region focus of national policy⁶. This is being reinforced at sub-national level by the latest rounds of iterations of RDA Regional Economic Strategies and Regional Spatial Strategies and in the emerging thinking from the Lyons Inquiry and the Eddington Review in which the trend towards a city region focus is gathering momentum.

Need to re-appraise the spatial approach

1.10 With the continuing north-south and east-west divides, the persistent problems of regional economic disparities, and the concern that this is holding back UK competitiveness, CSS and CEDOS believe that the time is right to take a fresh look at policy approaches, including the spatial approach to regional economic development. The one-dimensional city region approach has far too rapidly become conventional wisdom despite its relevance and validity being unproven. A much more rigorous assessment is needed with other alternatives, particularly county regions, given equally serious consideration.

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There may be value in conceiving city regions as a suitable scale for inter-local co-ordination of services at the urban level, like Belgian 'inter-communal service providers'. But, there is little evidence, however, that they represent an effective mechanism for taking key national decisions, which can rebalance the national economic structure and help address the UK's £30 billion productivity gap between North and South.

*Centre for Urban and Regional Development Studies,
University of Newcastle upon Tyne⁷*

⁶ *Devolving Decision Making: 3 – Meeting the regional economic challenge: The importance of cities to regional growth.* HM Treasury, DTI, ODPM March 2006;
State of the English Cities – Urban Research Summary 21 ODPM March 2006;
A Framework for City Regions ODPM March 2006

⁷ *Is there a future for Regional Government? Written Evidence, HC 977 – 2.* Committee on the Office of the Deputy Prime Minister March 2006

2. Core Cities and City Regions

2.1 CEDOS and CSS strongly support the key message of the English Cities report that “we must sustain and expand the successful economic recovery of our cities”⁸. Our major cities, including those referred to as the ‘core cities’, continue to be vitally important to the economic future of this country and its regions. So too, do all our cities and we are pleased to see that the city/urban focus has been broadened to cover what are termed as ‘Primary Urban Areas’ [PUAs] – defined as having populations of over 125,000⁹. The report identifies 56 cities as PUAs. The economic role of our large towns and cities outside the core cities needs exploring. This is already happening in the East of England where Luton, Southend and Peterborough, are working alongside Norwich, Colchester and Ipswich as part of ‘Regional Cities East’.

2.2 However, whilst stating that the different cities need continued Government support, the report recommends, “The really largest urban areas – London and the eight Core Cities – have particular opportunities and challenges, which require particular Government attention. While not neglecting the rest of the urban system, policy needs to build upon the strengths of London as a successful global city and to maximise the contribution of Core Cities to their regional and national economies. Government should address them in a coherent, concerted fashion. A policy that was focused upon them would actually capture the needs of much of the wider urban system since their wider regions contain a very high percentage of the people and economic activity across urban England”.

2.3 Although the Government’s ‘Devolution Decision Making 3’ policy statement majors on city regions, it avoids specific reference to prioritising the promotion of the core cities. Nevertheless, there is concern that in practice this is the case. The Centre for Cities reports¹⁰ that Government priorities for using resources from the EU regional and social funds are all strongly biased towards the big urban areas and that the Regional Development Agencies are under pressure to focus their economic strategies more closely around city regions.

2.4 The focus on core cities is based on the belief that the large urban areas are the engines of economic growth, a proposition that stems in particular from the work of Jane Jacobs starting in the late 1960s. However, as Mario Polèse has shown¹¹, this is a proposition that itself needs much more rigorous assessment. In a wide-ranging reappraisal of the role of cities and national economic growth, Polèse found that the evidence that cities cause economic growth is inconclusive. He poses the question – are cities active agents in the economic growth process or are they an outcome of national economic growth, the result of an adjustment process similar to other structural shifts? He argues that the evidence suggests the latter is more likely.

8 *State of the English Cities – Urban Research Summary 21* ODPM March 2006

9 The report puts forward a typology of urban areas, under which ‘large cities’ have a population of over 275,000, small cities of 125–275,000, large towns of 50–125,000 and small towns of under 50,000.

10 *Last Orders – What the new EU budget means for Britain’s cities. Discussion Paper No 6.* Adam Marshall & John Adams. Centre for Cities, Institute for Public Policy Research. April 2006

11 *Cities and National Economic Growth: A Reappraisal.* Mario Polèse. *Urban Studies* Vol. 42 No 8 July 2005

City Regions

2.5 The emphasis on the core cities has been given an added dimension with the revival of the city region idea. With so many reports, especially over the last two years, advancing the case for city regions as *the* functional area on which to focus economic development investment and activity, the notion of the city region has almost reached the status of unchallengeable conventional wisdom as the following quotes illustrate:

- *"Serious interest in city regions has grown as the 'reach' of core cities has expanded, making their formal boundaries increasingly outdated, and because of the recognition that the functional nature of city regions makes them increasingly appropriate for a range of strategic issues". - A Framework for City Regions ODPM February 2006*
- *"Now city regions have become a priority. Different things can be done differently at different levels. However, neighbourhoods and local authority areas are too small and regions are too big to deliver the urban economic competitiveness agenda. City regions are a more appropriate level at which to make economies operate" - State of the English Cities – Urban Research Summary 21 ODPM March 2006*
- *"Sustaining and building upon the economic resurgence of city regions will form an important part of lifting the growth rates of all regions and addressing regional disparities". - Devolving Decision-making 3: The importance of cities to regional growth. HM Treasury, DTI & ODPM March 2006.*

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2.6 Nor is the city region idea confined to broad policy statements. It has moved rapidly from being essentially an analytical tool of researchers in economic geography to being the favoured approach for implementing regional economic policy. As Devolving Decision Making 3 says *"Increasingly, the RDAs and the Northern Way have recognised the particular importance of enhancing the economic performance of cities and city regions for delivering on the Government's regional economic performance agenda"*. Delivery of the Northern Way growth strategy is focused on eight "city regions" – Liverpool-Merseyside, Central Lancashire, Manchester, Sheffield, Leeds, Hull and the Humber Ports, Tees Valley, Tyne and Wear, with city region development plans prepared for each.

2.7 The overall impact of the city region approach is shown, for example, in the North East where it is also central to the Regional Spatial Strategy. As a result: *"RDA investment priorities, and regional land use planning priorities, are being reconfigured from the perspective of strengthening the economic performance of city regions. It is therefore fair to say that the city region concept is already having a deterministic influence on the planning of regional development. However, this is in advance of anyone really having a clear sense of what city regions are"*¹².

12 *Is there a future for Regional Government?: Written Evidence, HC 977 – 2. Committee on the Office of the Deputy Prime Minister March 2006: Memorandum by Professor Neil Ward*

City region approach – critical views and concerns

City regions are being adopted as articles of faith by their exponents, both nationally and within the regions of England. There is an urgent need for a wider, more open and much more thorough discussion about the concept.

Professor Neil Ward, University of Newcastle upon Tyne¹³

2.8 Despite the growing conventional wisdom of the city regions approach, critical voices are being raised by national organisations, local authorities and within academic circles. These focus on the applicability of the city region concept to different areas of the country, its impact on more peripheral areas, and – even more fundamentally – on its overall validity and relevance to promoting effective and sustainable national and regional economic development.

City regions – validity and relevance

2.9 Although there is strong support for a city region approach, for example by Professors Michael Parkinson and Alan Harding, others are critical. Professor Neil Ward of the Centre for Rural Economy at the University of Newcastle upon Tyne is particularly scathing and argues that city regions are being promoted as articles of faith rather than on the basis of a clear and convincing rationale for their utility as a means of economic development or a unit of governance. In his view *“it establishes and reinforces out-of-date notions of geographical centrality and hierarchies and it actively marginalises places, consigning them to the periphery, dividing and polarising”*.

2.10 He points out that the city region idea has been around for almost a century and has periodically received heightened interest – in particular, the first two phases of interest in city regions were the product of profound changes in the economic and social geography of Britain. The first was a consequence of urban industrialisation and the development of the railways, and the second as a result of the growth of the motor car. The current context is also one of profound social and economic changes, this time as a result of globalisation and the ICT revolution, but here Professor Ward casts serious doubt on the present day relevance of the city region concept:

“The current preoccupation with city regions seems to be more about shoring up the settlement patterns of the past. The idea that city regions are at the cutting edge of a new age of urban economic competitiveness in a globalising world is open to question, not least because the technologies that are playing such a key role in current socio-economic changes can be seen as fundamentally decentering technologies. ICT allows people to live, work and run businesses in polymorphic urban forms”.

¹³ *Is there a future for Regional Government?: Written Evidence, HC 977 – 2. Committee on the Office of the Deputy Prime Minister March 2006*

2.11 The lack of rigorous research and analytical underpinning for city regions has been highlighted by the Centre for Urban and Regional Development Studies [CURDS] at the University of Newcastle upon Tyne:

“Recently, the concept has generated more commentary than research, much of which has been characterised by a confusion and misinterpretation and contradictory claims rather than clear analysis. For instance, commentary on city regions is often supported by claims about the city region governance arrangements in other EU Member States, which on closer inspection prove inaccurate. This field calls out for careful gathering of evidence and analysis.”¹⁴

City regions – applicability and impact on other areas

2.12 Specific concerns about the city region idea are:

- problems of definition
- applicability to and impact especially on peripheral areas outside, within and between city regions.

Problems of definition

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2.13 City regions are commonly referred to as the ‘footprints’ of cities. The difficulty is that the footprints vary according to the factors used to define them e.g. travel to work, shopping, and delivery of services. As a consequence, the geographical boundaries of city regions are blurred, which does not present a sound basis for policymaking and action. As the Framework for City Regions report says:

“Whilst it is useful to picture urban centres as having ‘footprints’ defined by their interaction with surrounding areas, the size and shape of these footprints inevitably differs depending upon the types of interaction involved. Thus the ‘reach’ of cities and towns in terms of travel-to-work patterns is not the same, for example, as that described by patterns of travel to entertainment venues or shopping centres, or the geography of business supply chains”.

2.14 Despite this, the Framework for City Regions report goes on to contend that the city regional scale represents the ‘geography of everyday life’. In reality, in the complex world of 21st century society, there are many different such geographies. This must be reflected in national and regional policy. The truth is that there is no simple spatial approach that can be universally applied. To impose the straitjacket of an ill-defined city region concept as the *primary* spatial instrument of regional economic policy is seriously misguided.

¹⁴ *Is there a future for Regional Government?: Written Evidence, HC 977 – 2.* Committee on the Office of the Deputy Prime Minister March 2006

Applicability and impact

2.15 CEDOS and CSS recognise that for some areas, the city regional scale may be an appropriate spatial approach for promoting and encouraging economic development but for many areas it will be inappropriate. We strongly believe that it should not be followed in a prescriptive 'one-size-fits-all' way.

2.16 In its report *City Regions and Beyond*¹⁵, the Local Government Association [LGA], whilst welcoming the thrust of the current debate surrounding devolution of powers and freedoms to cities, states that it is crucial that any new proposals should be seen to be addressing the needs of communities in all areas. The LGA fears that the city region concept does not reflect the reality of the many areas in England that do not have a readily identifiable 'core' city and that *"it would be more appropriate to talk about the devolution of powers to sub-regions, which would include city regions, but could also include areas that have different patterns of development"*.

Many, perhaps the majority, of places do not fit neatly into the classic concept of a city region with a large core city at its heart. Some sub-regions have no identifiable core city, but rather a cluster or network of smaller towns and cities. Some areas, for example the counties surrounding London, do not contain towns with more than 125,000 inhabitants within one council boundary [the government's definition of a 'principal urban area'], but have their own local economy. And in very rural and peripheral areas the city region concept may have little resonance, but these areas also have local economies that make an important contribution to the national and regional economy and would benefit from policies that better reflect the realities of local market forces.

Even in the areas with a readily identifiable city region there are some concerns that the promotion of the city regions concept will concentrate attention on the urban core and neglect the needs and aspirations of the wider region, including smaller towns and cities and suburban and rural areas.

Local Government Association – "City Regions & Beyond"

2.17 In the South West region, apart from the obvious examples of Bristol and Bournemouth/Poole, which benefit from closer proximity to London and the South East, there is very limited potential for the application of the city region growth model, without the injection of very significant amounts of public funding. This is partly because the remaining cities [Plymouth 245,000; Torbay 130,000; Exeter 110,000], and their travel to work areas lack critical population mass, but also because of issues arising from peripherality and distance from key markets in the 'far' South West. Even given the wide influence of the two largest cities, large parts of the South West have no functional relationship with them.

2.18 The counties around London provide further evidence of areas where a city region approach is not appropriate but which include some of the key areas of economic growth in the country. A prime example is the Thames Valley sub-region stretching westwards from the capital with key communications centres/routes – Heathrow airport, M4, M40, and the Great Western main line. It is one of the most vibrant economic areas of the UK with over 100,000 businesses including 10 of the top 50 global organisations. It is one of the prime knowledge-based sub-regional economies in the UK with high technology clusters in towns such as Basingstoke, Reading, Newbury, Bracknell, Slough, Maidenhead and High Wycombe. Collectively, the area provides 18% of employment in the South East with productivity per capita over 20% above the national average.

2.19 The Institute of Local Government Studies¹⁶ sees the argument for city regions as a current fashion that is ultimately a distraction: *"They are being promoted wherever it suits local interests. Thus the Northern Way includes the large cities of Northern England, but excludes the rural areas, where some of the greatest pressure on housing, and rapid population growth, are likely to occur. In the West Midlands the term is being used for the conurbation: the seven metropolitan districts that comprised the former West Midlands County Council. City regions are being promoted in Essex and Cambridgeshire. There is every prospect, if we go down this road, of another type of patchwork quilt, of different sizes and types of city region, and long-term uncertainty as to their freedoms and flexibilities, and terms of reference"*¹⁷.

2.20 There are serious concerns not only that the city region focus is inappropriate for many areas of the country but also that it is likely to have an adverse impact on areas of the country that lie outside defined city regions – not only peripheral counties like Cornwall, Cumbria and Northumberland but others such as Somerset that are considered to be deprived of achieving their full economic potential by an investment focus on city regions. There is also concern about the impact on areas within city regions that are outside the urban core or lie between defined city regions and, as a consequence, the adverse effect on regional development as, for example, in the North East.

16 The Institute of Local Government Studies [INLOGOV] is a department of the University of Birmingham and is a leading centre for the applied study of local and community governance.

17 *Is there a future for Regional Government?: Written Evidence, HC 977 – 2.* Committee on the Office of the Deputy Prime Minister March 2006

Impact of the city region focus in the North East

Taking into account the polynuclear nature of city regions in the North East, and the high level of interdependence between the city regions and their surrounding areas, re-direction of focus solely onto the city regions may have an adverse affect on major towns and rural areas.

Current arrangements, and the direction of travel of the Regional Spatial Strategy, provides some balance between the thrust of economic development activity and sustainability, with attention given to the opportunities and needs of the towns and rural areas in both of these respects, but with the bulk of funding and resources directed to the urban core areas.

Focusing attention on the core urban areas, with a view to making these a more desirable place to live and work, runs counter to the aspiration of the general population. Assuming that the change can be achieved, carrying it forward will have a very long time horizon; in fact the change may not be achievable. In either case, the impact of loss of attention and resources to the non-core major towns and rural areas will have a damaging effect. The region would move from interdependence to separateness.

If the region is to drive up its economic performance and reduce regional disparities it must retain variety in its tourism, housing and business offer.

Durham County Council

Impact in the West Midlands

The Birmingham, Coventry, Black Country [BCBC] city region is predominantly based on the administrative areas of the old West Midlands metropolitan county, and therefore fails effectively to address urban-rural interdependencies and the real functioning economic geographies that exist on the ground. The view that large cities are the only, or at least principal, drivers of economic growth is overly simplistic and, in many respects, is incorrect. Recent evidence collected for the revision to the West Midlands Economic Strategy has highlighted that the majority of recent economic growth in region has not occurred in the major urban areas – rather it has happened in a belt that encircles the BCBC city region. It is clear that decisions and activities on economic development should, wherever possible, occur at the level where they will make the most difference, rather than through artificial constructs.

Warwickshire County Council

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2.21 This chapter has highlighted the increasing focus of regional policy on the 'core cities' and their city regions; and concerns that the city region approach is one dimensional and:

- on its own will be ineffective as a means of achieving the Government's stated aim of reducing regional disparities;
- risks adversely affecting substantial areas of the country that lie outside identified city regions as well as peripheral areas within city regions, and thus running counter to the Government's national and regional economic development aims.

2.22 The next two chapters take a broader look at the economic geography of England, revealing a complex and multi-faceted economic landscape.

3. Essential Components of Sustainable Economic Growth

3.1 The CSS/CEDOS report 'England's County Sub-regions – Cornerstones of Economic Growth' published in 2004 revealed that the county areas¹⁸:

- account for 62% of England's population, with the figure rising to 73% when London is excluded;
- are home to a significant proportion of England's businesses. At the end of 2001, approaching one million VAT registered businesses were in county areas – 64% of England's total, a figure which rises to 79% if London is excluded;
- account for a large and growing proportion of national output. In 2001, the total Gross Value Added¹⁹ in the County sub-regions in 2001 was around £424 million – 58% of England's total, a figure that rises to 75% if London is excluded;
- had GVA growth of just over £50 billion in 1998 – 2001, 55% of the England total, and 77% if London is excluded. GVA growth in this period in the county areas was 13.4% – higher than England excluding London [13.0%] and the core cities/metropolitan areas [12.14%]. For GVA per capita – a key measure of productivity – the county sub-regions at £13,802 are higher than England excluding London [£13,447];
- provided just over 15 million jobs in 2001, around 68% of the English total, a figure which rises to 83% if London is excluded;
- contained 58% of people in England qualified to NVQ 4 and above, a figure that rises to 76% if London is excluded;
- provide nearly 70% of England's university institutes outside London, including some of the most prestigious seats of learning in the country and indeed the world.

¹⁸ The county areas refer to the areas outside London and the 8 identified regional core cities and the metropolitan authority areas.

¹⁹ GVA measures the contribution to the national/regional/local economy of each individual producer, individual or sector.

CASE STUDY: CHESHIRE & WARRINGTON SUB-REGION**Strong performer in the North West**

Cheshire & Warrington is one of the five recognised sub-regions in the North West²⁰. The strength of its economic performance is shown by:

- economic output 24% higher than the average for the North West and 9% above the UK average;
- 17% share of regional GVA with only 12% of the region's population;
- high rates of employment and productivity with manufacturing productivity 49% above the English average;
- knowledge economy strength in chemicals, pharmaceuticals, biotechnology, digital/creative industries and financial services;
- research & development expenditure per adult [2003] is £756 – well above the regional [£273] and UK [£302] figures;
- 34% of economically active working-age residents qualified to degree level – well above the North West [27%] and England [28%];
- business stock growth of 1.5% a year since 2000 – significantly higher than England [1.1%] and North West [0.9%].

Despite this undoubted success story, under the Northern Way initiative almost all of Cheshire has been divided into the Manchester and Liverpool city regions. If, as is likely, the core cities are the dominant focus for investment from now on, not only will the Cheshire and Warrington sub-region be the economic loser – so too will the North West region.

3.2 England's counties embrace both urban and rural areas. They include county towns and cities from Worcester and Warwick to Durham and Devizes – as well as large rural areas with their networks of market towns and smaller communities. Their very diversity is one of their strengths. The CSS/CEDOS report highlighted the fact that individually and collectively, they are vital to regional economic performance. Alongside the core cities and the other metropolitan areas, the county areas are key sub-regional components of every region in the country outside London. They are a major part of our national social and economic infrastructure.

The economic importance of towns and rural areas

3.3 The 'State of the Cities' report looked beyond the core cities and metropolitan areas to cover a wider definition of cities to provide its evidence base for assessing the state of English cities. It defined cities in terms of their physical extent and not in terms of local authority areas or administrative boundaries. It put forward a set of 56 Primary Urban Areas [PUAs] with populations over 125,000. Many of the defined PUAs contain several local authorities.

3.4 The report stated that these PUAs contain 58% of England's population and 63% of its jobs. Inevitably statistics will vary according to the area definitions used but even using the PUA approach, 42% of the population and 37% of jobs – significant proportions of the national total – are in areas outside PUAs. Indeed, if London is separated from the other 55 PUAs, the following statistics are revealed:

²⁰ The others are Cumbria, Lancashire, Greater Manchester and Merseyside

Table 1: England – Distribution of Population & Job Growth

	Share of 2003 population [%]	Share of population growth 1997–2003 [%]	Share of 2003 jobs [%]	Share of job growth 1998–2003 [%]
England	100	100	100	100
London	17.3	33.9	20.0	13.7
Other PUAs	40.8	8.1	42.6	44.3
Towns & rural	41.9	58.0	37.4	42.0

3.5 The cities outside London that are classified as Primary Urban Areas are clearly playing a major role in the economy of the nation and their regions with 43% of England's jobs and 44% of job growth 1998 – 2003. At the same time, the towns and rural areas are also making a very significant contribution. In 2003, other PUAs accounted for 42.6% of jobs and 44.3% of employment growth over the previous 5 years [a ratio of 1:1.04]. Towns and rural areas, on the other hand, accounted for 37.4% of jobs but 42% of employment growth [a ratio of 1:1.12].

3.6 In this context, it is noteworthy that, of all the regions, the South West had the highest rate of growth in employment, both private sector and overall, during the period 1998–2004²¹. The South West region includes some of England's most peripheral areas and apart from Bristol, is a region that is characterised by the absence of large cities, a significant reliance on small and intermediate sized towns, and large rural areas.

3.7 Too often, our smaller cities, towns and rural areas are typecast as playing a secondary, supporting role to the core cities and other larger cities. The statistics show this is far from being the case. Whilst no detailed information is available for the areas collectively classified as 'towns and rural' in the ODPM report, research on rural areas by the Commission for Rural Communities²² casts some light on the reality, as the following facts illustrate:

- rural areas host at least 30% of the country's businesses;
- their owners and 4.5 million employees work in all sectors and occupations;
- over 25% of rural employees work in manufacturing;
- rates of employment and economic activity are often higher and growing faster in rural England than in our urban areas;
- rural areas host international names as well as micro-firms serving local markets;
- the number of businesses in rural England grew twice as strongly as in urban areas in 1998 – 2003, with higher rates of growth in all employee size bands, including large firms with 300+ employees [see table 2];
- the number of employees in firms in rural local authorities grew at more than twice the increase generated by urban businesses between 1998–2003.

²¹ *Employment Growth Barometer*. Local Futures February 2006

²² See, for example, *Rural Economies – Stepping Stones to Healthier Futures*. Countryside Agency March 2003 [updated]; *Rural Enterprise – Dynamos of the UK Economy*. CRC October 2005; *Choice of Jobs in Rural England – Rural Economies Bulletin 1*. CRC February 2006

Table 2: Urban and Rural England: % change in numbers of firms by size band, 1998–2003²³

Firms by employee size bands	Urban	Mixed	Rural
1 – 10	5.4	7.9	12.2
11–49	2.7	4.3	7.0
50–299	9.2	8.9	9.3
300+	6.0	1.3	7.5
ALL	5.2	7.4	11.5

3.8 More than one in nine economically active residents of rural England [11.8%] work mainly from home. This is indicative of the significance and increasing importance of homeworking in rural areas and indeed nationally²⁴. In England as a whole the 2001 Census showed that over 2 million people [9.16% of the economically active] work from home, with the proportion being the highest in rural areas, where 638,000 people work from home. The Labour Force Survey shows that home-based working in the UK as a whole has been rising over the last five years. Studies have shown that one of the key factors in this is the increasing use and lower cost of information technology and broadband.

3.9 The significance of home-based working and ITC developments as drivers in rural areas should not be underestimated. Research in rural West Sussex²⁵ revealed the highest proportion [30%] to be in financial and business services. Although more research is needed, the trend towards home-based working, particularly in rural areas may be indicative of the fundamentally de-centering effects of modern technology developments referred to by Professor Ward [see paragraph 2.10].

Problems as well as opportunities

3.10 The evidence of the contribution of towns and rural areas to national and regional economic development must not obscure the very real social and economic problems being faced in these areas. They may be less physically concentrated and therefore less visible than in the cities, but many county areas have problems of unemployment, low incomes, and multiple deprivation both in individual areas and groups within the population. The Index of Multiple Deprivation [IMD] 2004 shows that there are a significant number of areas²⁶ in counties across the country that are amongst the 10% most deprived areas in England. County areas have problems as well as opportunities, which need investment nationally and regionally if they are to be tackled effectively.

²³ Source: Inter Departmental Business Register [IDBR] analysed by the Commission for Rural Communities

²⁴ *Under the RADAR – Tracking and supporting rural home based business.* Tim Dwelly with Kath Naguire & Frances Truscott. Published by CRC July 2005

²⁵ *Home-based businesses in the south east of England.* Step Ahead Research for West Sussex Enterprise Centre, SEERA & SEEDA 2005

²⁶ In IMD 2004, the indices of deprivation are provided at the level of new 'Super Output Areas', which are below ward level, allowing more detailed pockets of deprivation to be identified.

3.11 A key issue for national and regional policy is what impact will the focus on city regions and core cities in particular, have on the large areas of the country that are characterised as towns and rural, and especially on those areas that are remote from city regions, lie between city regions, or are defined as being within but are peripheral to the core of city regions. Will the supposed 'trickle-down effect' from the focus on the urban core really occur? At the very least, this remains unproven. Indeed figures in the State of the Cities report²⁷ show that the contribution of the towns and rural areas to England's total job growth has fallen from 48.2% in 1991-98 to 42% in 1998 – 2003.

3.12 A recent report²⁸ on the economic performance of rural areas inside and outside city regions was commissioned by Defra. Although this found, for example, that productivity and residents' earnings are higher in rural areas within city regions than those outside, the report's conclusions included the following:

- *"the policy emphasis on city regions is having – in absolute terms – negative effects on the performance of rural areas. Defra therefore should argue against it as a mechanism to effect improvements in regional economic performance";*
- *"there must be major concerns with regard to the sustainability of the city region model, particularly as it relates to rural areas".*

Cumbria: will the trickle-down effect occur?

The city regions growth strategy advocated through the Northern Way and endorsed by the Regional Economic Strategy and Regional Spatial Strategy fails to fully recognise the sub regional differences and distinctive needs of the rural areas. There is a danger that an over emphasis on the cities, without a complementary rural programme, will exacerbate sub regional inequalities. Cumbria is one of only four sub-regions in the EU25 showing absolute decline in GDP, [EU Third Cohesion Report 2004] comprising 48% of the North West but only 7% of its population. It does not have a city hinterland and given the poor connectivity, sparsity and distance from the rest of the region, it is difficult to see how the Cumbrian economy and, in particular the Furness and West Cumbria regeneration priority areas, will benefit from the supposed trickle-down effect from the conurbations.

Cumbria County Council

²⁷ *State of the English Cities – Urban Research Summary 21*. ODPM March 2006

²⁸ *Economic performance of rural areas inside and outside of city regions – Final report to Defra*. Segal Quince Wicksteed & Cambridge Econometrics. September 2006

4. Sub-National Economic Development: One Size Doesn't Fit All

4.1 Our analysis shows that all areas – London, core regional cities, smaller cities, towns and rural areas – have distinctive roles to play as part of the complex mosaic that forms the modern economic geography of this country. The sub-national economic landscape of England is varied. If our opportunities are to be grasped and problems tackled effectively; and if the Government's goals of sustainable economic growth that benefits all areas and a reduction in regional economic disparities, are to be achieved, a more sophisticated approach is needed – one that acknowledges that one size does not fit all, avoids nationally prescribed spatial solutions and recognises and seeks to harness the opportunities of diversity.

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Flexible spatial arrangements

4.2 The need for flexibility is recognised clearly in the Government's five year Sustainable Communities Plan: *"We believe that the best way to overcome regional disparities in productivity and employment – promoting growth in every region – is to allow each region and locality the freedoms and flexibilities to exploit their indigenous sources of growth"*²⁹. Despite this, as the earlier chapters of this report have shown, in practice there has been an increasing core city focus to the Government's approach. Moreover, in a spatial context, flexibility appears to be being discarded and replaced by a city region straitjacket.

4.3 CEDOS and CSS strongly support sustainable economic development for all our cities, towns and rural areas with, at sub-national level, democratically elected local authorities having a pivotal role. Often, this requires working across boundaries, something local authorities, working with Regional Development Agencies and others, have a track record of doing. In this context, we believe the spatial approach taken should arise from decisions taken locally in the light of local circumstances and not be imposed centrally or via regional agencies.

29 *Sustainable Communities: People, Places and Prosperity*. ODPM January 2005

4.4 For some areas, a city region approach may be the most appropriate. However, CEDOS and CSS are very concerned that it is being imposed in many areas without proper debate and in advance of a sufficiently rigorous analysis of the validity of the concept and of its present-day relevance. Chapter 2 has shown that far from there being unanimity of support, a number of academics and organisations have serious misgivings. There are differences of view and, at the very least, 'the jury is still out'. The concerns about the arbitrary imposition of city regions are shared by the Local Government Association who, whilst welcoming the debate surrounding the devolution of powers and freedoms to cities, believes that any new proposals should be seen to be addressing the needs of communities in all areas.

We recognise the value of the 'city regions' concept but fear that it can appear quite exclusive and does not reflect the reality of the many areas in England that do not have a readily identifiable 'core' city. It would be more appropriate to talk about the devolution of powers to sub-regions, which would include city regions, but could also include areas that have different patterns of development.

Local Government Association³⁰

The significance of 'Polycentricity'

4.5 A key weakness of the city region approach is its over-simplification of complex spatial economics. In reality, regions depend on the inter-relationships of a series of complementary and competing cities and towns, each with its own hinterland, with 'boundaries' varying and indeed overlapping according to the particular mix of factors being used to define them. A case in point is Cheshire, which under the Northern Way initiative falls in both Manchester and Liverpool city regions. In reality, the county includes a series of separate and dynamic economic centres, around Chester, around Crewe and in East Cheshire, all of which are inter-dependent with the two larger city regions but which also act as their own 'city region' – and which are net importers of labour. Current national research has shown that Chester with its hinterland in Wales and in West Cheshire appears to perform as much a city region as Liverpool. The 2001 Census travel-to-work data provides an indication of the volume and direction of the employment flows which dictate jobs density. This suggests that, although there is a large net outflow of workers from Cheshire & Warrington to Greater Manchester, there are significant net inflows from Merseyside, North Wales and North Staffordshire.

4.6 Another example is in the North East, where the two identified city regions, Tyne & Wear and Tees Valley, are both at the smaller end of the scale, and set within the smallest of England's standard regions. They are essentially polycentric in nature with several significant centres with over-lapping areas of influence. A regional economic policy that fails to recognise this is likely to be counter-productive.

30 *City Regions and Beyond*. Local Government Association February 2006

Durham

The small scale and polynuclear nature of city regions in the North East is typified by the fact that County Durham forms a bridge between the two, with both city region development programmes featuring the North East Technology Park [NetPark] and Durham University as opportunities to carry forward improved productivity. An approach based upon competing and semi-autonomous city regions is unlikely to assist the North East region in achieving its economic aims. Rather, a favoured approach would be to focus upon collaboration and maximising capacity through developing the potential of all areas of the region; be they rural or urban. There should also be some acknowledgement of the particular settlement pattern evident in areas such as County Durham, which is distinguished by a number of homogenous urban settlements located in a broadly rural County. The Durham model demonstrates a subtlety that does not fit with the basic urban/rural definition evident in the city region model, containing as it does some of the characteristics of both.

Durham County Council

4.7 The West Midlands provides a further example of a region where polycentricity is the key to economic growth. The region is more than just the conurbation of Birmingham, the Black Country and Solihull. It has a distinctive economic geography related to local specialisms. As well as the major conurbation, it contains two others – North Staffordshire and the City of Coventry – each with its own economic linkages and dependent commuters. It also has other significant, though smaller centres of economic activity, for example, Shrewsbury, Telford, Hereford, Rugby, Worcester and Bromsgrove. This polycentric economy presents a challenge to the way in which the city region concept is applied. Part of the challenge will be to ensure that the polycentric economy is supported by a flexible and joined-up policy framework that spans intra-regional administrative boundaries³¹.

31 *The Functioning Economic Geography of the West Midlands Region*. University of Birmingham. West Midlands Regional Observatory. September 2006

County Regions – drivers of economic growth

When compared with the core city regions, county regions make an impressive and, in many cases, larger contribution to national output, productivity and economic growth.

Essex County Council Strategic Policy Unit³²

4.8 The City Regions Commission of the New Local Government Network, whilst supportive of city regions, has acknowledged that they will not be the answer in all parts of the UK and that in some areas other approaches will need to be considered, which may involve the formation of county regions in areas lacking a large urban centre:

"Whilst there are obvious areas where city regions would be very appropriate, there are equally many areas where they would not. In the absence of a single, dominant city or a cluster of cities around which activity can be based, a holistic sub-regional or county approach may be the best route to strategic governance. The key is that city regions should not be the only route to achieving supra-local arrangements that fit within a regional framework".³³

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4.9 The Essex Strategic Policy Unit research suggests that county regions can be regarded as areas covered by:

- county council areas;
- groups of unitary authorities without a single central urban core; or
- county council areas and adjoining unitary authority areas – for example, the Oxfordshire county region consists of the Oxfordshire County Council area; the Hampshire county region consists of Hampshire County Council, Southampton, Portsmouth and the Isle of Wight; the unitaries of Bracknell Forest, Reading, Slough, West Berkshire, Wokingham and Windsor, and Maidenhead might be grouped into a Berkshire county region.

³² *City Limits – Why extended economic development opportunities aren't just needed in core cities.* Essex County Council June 2006

³³ *Seeing the Light – Next Steps for City Regions.* New Local Government Network City Regions Commission December 2005

4.10 There is evidence that county regions, operating as large economies with a clear geographical focus and sense of identity, can be at least as significant as cities in driving economic growth. The Essex County Council Strategic Policy Unit research focused on a sample of counties outside the orbit of city regions showed that many county region economies contribute more than core city regions to the national economy. For example, Oxfordshire, Cambridgeshire, Hampshire and Essex have all been drivers of national growth while Leeds, Sheffield, Manchester, Tyne and Wear, Merseyside, Nottingham and Birmingham have fallen behind. Between 1997 and 2003, average annual real growth in GVA across the core city regions group was 2.6%. Across the sampled county regions it reached 3.1% and across non-metropolitan areas of England as a whole it was 2.9%.

4.11 The research also shows that the sampled county regions exhibit a comparable if not greater degree of business clustering to the city regions. For example, Cambridgeshire, Hampshire and Oxfordshire appear far more specialised than any of the city regions considered. Essex exhibits a comparable degree of specialisation. This is as much a feature of large county regional economies as it is of city economies. Moreover, the business sectors that cluster in the sample of county regions tend to be more knowledge-intensive. There is evidence of intense clustering in research and development, specialist and advanced manufacturing, and in services such as advertising. These are among the sectors in which the benefits of knowledge spillover are most valuable, and most likely to be realized.

4.12 A county region approach is favoured in many areas of England, with a number of authorities expressing serious concern on the negative impact that the city region focus is having.

Somerset

In line with the city region approach, the South West region has seen a strong bias of support and investment in its main city regions [Bristol, Exeter and Plymouth]. Being located well outside these city regions, Somerset has struggled to attract major investments and has seen limited benefit from the growth of the South West's main cities. Within the city region approach, counties such as Somerset are unlikely to achieve their full economic growth potential. This questions the appropriateness of the city region approach and highlights the need to provide further support to county regions such as Somerset.

Somerset County Council

4.13 The spatial approaches taken within county regions depend on the particular circumstances of each county. The following case study illustrates the approach followed in one of our most peripheral counties – Cornwall.

CASE STUDY: CORNWALL Sustainable Distributed Growth Model

In its evidence to the ODPM Parliamentary Committee's Inquiry 'Is there a future for Regional Government?'³⁴, Cornwall County Council advanced the case for a unified geographical structure for the governance of the county bringing together key local, regional and central government functions.

Cornwall and the Isles of Scilly are distinctive. Their geography, peripherality, environment and culture contribute to a strong sense of place and identity. This distinctiveness is reinforced by differences in the economic circumstances and settlement pattern with the rest of the South West. The economy in terms of GVA and wage levels is clearly poorer than other parts of the South West and the UK. These circumstances have led to the whole of Cornwall and the Isles of Scilly being identified as an Objective 1 area for European funding. After 2006, it will become a Convergence Region for European structural funds, and has been identified in the UK National Strategic Reference Framework. Population and employment is widely dispersed across a range of settlements and Cornwall has a close relationship with the Isles of Scilly providing the vital transport links. The largest neighbouring city, Plymouth, has an influence relatively confined to a part of South East Cornwall.

Cornwall has demonstrated its relevance to the "city region" debate; not by seeking to create an artificial city, but by recognising the networked nature of its towns to provide sustainable distributed growth. Such a model, based on more dispersed peripheral areas, beyond the significant influence of cities is also required. The approach set out for Cornwall could act as a model for similar areas or regions.

Cornwall County Council

4.14 The reality is that counties, like the core cities, have a strong sense of identity as well as the social and economic cohesion and scale that provides an appropriate geography for sub-national economic development intervention and promotion and the delivery of services. Sometimes, it may be also advantageous for joint approaches that focus on other aspects of economic geography, for example:

- economic sector regions;
- growth corridors.

34 *Is there a future for Regional Government?: Written Evidence, HC 977 – 2.* Committee on the Office of the Deputy Prime Minister March 2006

Economic Sector Regions

4.15 The definition of regions or sub-regions can also be made by reference to economic sectors using the geography that makes the most sense for economic development action. Two examples relate to tourism and Britain's highly successful motorsport industry, both of which illustrate the need for a flexible approach to regional development.

Motorsport Valley

4.16 The UK is widely acknowledged as the world leader in the motorsport engineering industry. 'Motorsport Valley' is the area identified as covering the motorsport and performance engineering cluster that stretches from Norfolk through the Midlands and southwards as far as Hampshire and covers four of England's standard economic regions: East and West Midlands, South East and East of England.

4.17 The focus of Motorsport Valley is on high value-added, niche performance engineering with a business community of over 2,000 small to medium enterprises that include Formula One racing teams, international and national rally and racing teams, specialist manufacturers, circuit owners and promoters and associated services. The 'region' is a global centre for the production of performance cars, chassis, engines, brakes, suspension and transmission systems, telemetry and a wide range of other world-class products together with a complete range of services and facilities.

4.18 Professor Porter of Harvard University has described the Motorsport Valley performance engineering cluster as one of the rare global jewels in our industrial crown. It is a unique resource that has the potential to be further developed to promote the motorsport industry and motorsport tourism, and to transfer its competitive advantages in technology and best practice across all UK regions and across other high technology sectors. Motorsport Valley is a success story that transcends conventional boundaries requiring strategic alliances and action for which a city region approach is clearly irrelevant.

Tourism

4.19 Tourism is one of this country's largest industries worth approximately £74 billion in 2003 and supporting around 2.1 million jobs. In terms of the promotion of economic development, it is a prime example of a sector that is relevant to both cities and counties but does not relate well to a city region approach. In spatial terms, effective tourism promotion relies on focusing on areas with a well understood identity, which in many areas requires a county approach. Counties from Devon to Durham; from Cumbria to Kent, have the necessary sense of identity. To fail to capitalise on this runs a real risk of undermining regional and indeed national economic performance.

Northumberland Tourism

Northumberland is an example of a county with a clear identity for promoting tourism. A new partnership company has been created to develop the tourism economy of Northumberland as a whole. It is one of four Area Tourism Partnerships in the Tourism Network North East. It aims to spread the benefits of the visitor economy to all parts of the county, and build upon the strengths of Northumberland's tourism assets to establish the county as one of the top rural destinations in the UK.

Northumberland County Council

Growth Corridors

4.20 Growth corridors focus on exploiting the economic opportunities that major communications routes can offer. The best known is probably the M4 corridor. Other examples are an M5 corridor of growth in the South West and an A19/A49 corridor in South East Northumberland and North Tyneside, which is being used as a spatial approach to regenerating an area of economic under performance.

M5 Corridor in the South West

In the South West, there is an M5 corridor, with above average employment growth southwards from North Somerset, through Taunton/ Yeovil down through the whole Exeter sub region [e.g. Exeter, East Devon, Mid Devon, Teignbridge] to South Hams and West Devon. South Hams, for example, is a relatively rural district, which has significant economic potential. It is already demonstrating significant GVA and employment growth, with a 31% increase in employment in recent years.

A19/A189 South East Northumberland / North Tyneside Corridor

The South East Northumberland/North Tyneside Regeneration Initiative [SENTRI] was established in 2000 as a response to economic underperformance in South East Northumberland and a number of high profile job losses. It is a mechanism for linking economies along the A19/A189 Corridor in Northumberland and into Tyneside to improve access to job opportunities for those living in the most deprived areas and boost investment in property 'cold spots'. A joint task force works with a dedicated delivery team to focus on key projects including the comprehensive regeneration of the Blyth estuary area.

5. The Way Forward

5.1 This report has shown that the effective promotion of economic development at sub-national level will not be achieved through the artificial imposition of city region or any other economic geography constructs. The real key to achieving the Government's policy aims of sustainable economic growth, reducing regional disparities and providing for sustainable communities, is to focus on devolving power and responsibility to sub-regional partnerships in which local authorities with a track record of leadership and delivery on economic development have a pivotal role.

5.2 In the non-metropolitan areas of England, the strategic authorities – the County Councils and Unitary Councils – have a particularly important role both within local areas and across local authority boundaries in a sub-regional context:

- they have a mandate to promote economic development as a key part of their community leadership in promoting economic, social and environmental well-being;
- the linkages between their economic promotion activities and their other service functions, in particular land-use planning, transportation and education, mean they can take a wide ranging, joined up approach to economic development;
- they have the scope and the specialist skills to tackle and take forward the big agendas;
- they have the strategic and corporate capacity to provide leadership and bring together and sustain the partnerships that are the prerequisites of achieving and delivering successful economic development;
- as big players and good joiners, they have the influence to get other key players to the table and to use their resources to lever in match funding to maximise the ability to drive forward economic growth.

5.3 The strategic local authorities have an established track record in building, leading and supporting partnerships within and beyond their boundaries for the effective promotion of economic development. Many successful examples are shown in a series of papers produced by CEDOS and submitted to Sir Michael Lyons' Inquiry into local government and the Government's review of sub-national economic development and regeneration³⁵.

³⁵ *Review of sub-national economic development & regeneration – input by CEDOS. July 2006. Cross-boundary partnership working. CEDOS October 2006*

5.4 In this context, it should be left primarily to the local areas themselves to develop the partnerships and strategic alliances that in area terms best meet the local and sub-regional circumstances. In some cases, the area approach could be a city region one. In many areas a county approach will be the best. Sometimes, there may be a case for a focus on a core urban area, in others the solution may be polycentric, or in others one of sustainable distributed growth. Nor need there be a single area-based solution. Alongside a county or city region approach, there may also be other approaches to meet the needs of and exploit the opportunities of particular economic sectors or growth corridors.

5.5 In spatial terms, it is essential that we embrace and not suppress diversity. We must enable all areas to play their full part in the drive for sustainable economic development. The key is flexibility and recognising that one size really does not fit all.

Devolving real responsibility to sub-regional/local areas

5.6 Unlocking England's full economic potential and making real progress on reducing regional disparities requires a genuine devolution of responsibility for economic development based on the principles of democracy and subsidiarity. Government rightly has the responsibility for economic affairs at national level. At the sub-national level, this should rest primarily with sub-regional/local partnerships, with local authorities being given clear responsibility for taking a pivotal role so as to provide the necessary accountability, accompanied by the necessary freedoms, flexibilities and resources.

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5.7 Local authorities, as democratically accountable bodies, are uniquely placed to bring together both the services they run and other agency interventions often funded by Government, and apply resources in a locally responsive and connected way. Because of the variety and complexity of local economic circumstances, local authorities have experience of setting up and leading joint working and partnership arrangements at a range of spatial levels, which can often overlap the boundaries of individual authorities [e.g. Local Area and Multi Area Agreements].

5.8 A defined local authority role to facilitate the leadership of partnerships could reduce the conflicts inherent in a range of partners coming together to tackle problems at the local level. Sometimes there is an unwillingness of partners to bend funding and priorities to meet local needs. Certainly, looking up to the regional level, it is local organisations that have to convince regionally or nationally funded and targeted organisations to commit to their areas rather than the other way round. A change to prioritising from a "local up" perspective, requiring key agencies at national and regional level to respond, could be a powerful influence on the place shaping agenda advocated by Sir Michael Lyons.

Powers and responsibilities

5.9 The Local Government Act 2000 created a new power for principal local authorities in England and Wales to promote or improve the economic wellbeing of their areas. In an overall sense, this provides sufficient power to enable local authorities to undertake their place-shaping role as regards pursuing economic prosperity. The central issue is not about a need for additional powers but about Government placing a clear responsibility on local authorities for exercising the power of economic well-being. There needs to be a much stronger emphasis placed on this by Government. This could be achieved by:

- making promotion of the economy a *statutory* duty [as originally proposed in the Bill preceding the 2000 Act];
- strengthening the Comprehensive Performance Assessment criteria to reflect more assessment of the economic promotion activities of Councils;
- giving local authorities a defined role to facilitate the leadership of local/sub-regional economic partnerships.

5.10 The Department for Communities and Local Government's own research³⁶ indicates that the wellbeing power is "*widely considered to be relatively weak and contains an uncertain message. It is therefore not given a high priority at corporate or service levels*". A statutory, monitored duty to engage in activities for the economic wellbeing of residents will have more effect, especially if it is tied in to the Local Area Agreement [LAA] Block 4 process, the core mandatory outcomes for LAA's, the pooling of LABGI funding awarded to areas, and CPA assessment. As the Financial Secretary to the Treasury, John Healey MP, said in February 2007: "*LABGI ensures every local authority has a direct financial incentive and reward to do more to promote enterprise, employment and the growth of local businesses.*"³⁷

5.11 Along with the power of, and responsibility for, economic well-being, local authorities need to have enhanced ability to promote economic development. This requires:

- the availability of resources to implement the power of well-being;
- the removal of barriers that impede local authority economic place-shaping.

Resources

5.12 To be effective, economic development needs proper resourcing. This may be challenging as local authorities will have other priorities and pressures. While the function remains non-statutory there is also potential for it to fall down their agendas. And the final threat is the loss of funding from sources such as the EU. The introduction of LEGI and LABGI has made a start but we need to go further. LEGI funding needs to be made much more widely available. At the very least, LABGI needs further developing to provide greater certainty of funding and a stronger prescription for its use for economic development and regeneration, perhaps focusing on its use as a resource to support the implementation of Block 4 of LAAs.

36 *Formative Evaluation of the Take-Up and Implementation of the Well Being Power – Annual Report 2006* DCLG July 2006

37 Department for Communities and Local Government News Release 2007/0030, 27th February 2007

5.13 CEDOS believes that there is a need to do more than this. A step change is needed to provide a sound basis for effective local authority economic prosperity place-shaping. The financial link between business growth and investment needs to be restored to enable local authorities to retain income derived from business rates linked to the introduction of the new duty and backed by reference in Comprehensive Performance Assessment to joined up working on behalf of the local economy.

5.14 Government needs to give local authorities the leadership role for setting the agenda for the economic development and regeneration of their areas as well as the ability to ensure Government money works with the locally set priorities:

- as far as possible funding for Government schemes should be channelled through local authorities. For example, local authorities provide significant levels of support to rural communities and it would seem more sensible to channel funds such as the 'Access to Services' programme through them rather than Regional Development Agencies, an approach that would be consistent with Lord Haskins' proposed reforms to rural delivery³⁸;
- other funding opportunities should also be explored. Whilst there were lots of faults with the system, Single Regeneration Budget [SRB] type programmes gave an up-front financial reward for transforming specific areas. Good examples of successful SRB programmes exist – and the lessons from these could be developed further;
- key Government and regional agencies [e.g. DWP, DfT, DFES, LSCs, Business Links, JobCentre Plus, Regional Development Agencies etc] should be required to have a development plan, which aligns and eventually pools resources through Local Area Agreements.

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5.15 For Government funding, there is a need to:

- provide the scope for long-term funding for economic development and regeneration to enable continuity and a move away from short term delivery and focus on investment quality and provide confidence in commitment;
- provide for investment rather than spending programmes, with scope for commissioning projects rather than receiving project bids – too many regeneration programmes rely on creating funds to which potential developers of projects 'bid', while often projects that are really needed simply do not arrive;
- provide flexibility to allow for additional and innovative actions that would otherwise be missed.

³⁸ *Rural Delivery Review – A report on the delivery of Government policies in rural England.* Christopher Haskins. October 2003

Barriers

5.16 In a previous paper³⁹, CEDOS has referred in some detail, with examples, to barriers faced by local authorities in promoting the economic development and regeneration of their areas that need removing. In addition to resource constraints, these include:

- the way resources are managed and spent by the Regional Development Agencies, often channelled through the equally unaccountable sub-regional partnerships that many RDAs have set up to deliver their agendas, are governed by over-complex bureaucracies and decision making which handicap progress;
- too much filtering of funding through too many layers of bureaucracy that inhibits the 'local solutions for local problems' approach and runs counter to the principles of localism and Local Area Agreements – something that surely needs investigation by the National Audit Office/Audit Commission;
- changes in planning legislation and the creation of Regional Spatial Strategies and Local Development Frameworks [LDFs] have the potential to militate against economic development at the sub-national level. With the focus now on LDFs, there is very real potential for a lack of strategic planning in relation to employment and business land allocations in particular, as there may be, inevitably, a reluctance on the part of one authority to plan within its LDF for the requirements to accommodate the needs of another LDF authority;
- too many partnership requirements imposed upon local authorities, leading to an over-complex partnership landscape and, frequently, partnership overload and fatigue;
- too many staff resources taken up by time consuming and uncertain competitive and other bidding processes;
- having to 'jump through too many different hoops' to gain access to different funding streams with different application processes, criteria and performance monitoring arrangements;
- too often, RDA and other externally funded programmes are output driven to match the funder's own targets at the expense of other outcomes that could be more worthwhile;
- decision-making on many strategic issues is too remote and may not take into account the special circumstances that apply to a locality;
- the potential for too much emphasis on meeting national priorities and targets in Local Area Agreements and not enough progress on securing real freedoms and flexibilities.

39 *Barriers to the effective delivery of sub-national economic development and regeneration* – Paper submitted to the Lyons Inquiry and the team leading the review of sub-national economic development & regeneration. CEDOS October 2006

Action at the broad regional level

5.17 Alongside the devolution of responsibility for promoting economic development to local authority led sub-regional partnerships, there continues to be a case for action at the broad regional level. However CEDOS and CSS are concerned at the trend towards a greater concentration at the regional level, exemplified by the regionalisation of Business Links, to be followed by the regionalisation of Learning and Skills Councils. Whilst promoting regional economic wellbeing remains an option rather than an obligation, the withdrawal of local authorities from this arena could be a consequence of the regionalisation of decision-making.

5.18 CEDOS and CSS support the role of the Regional Development Agencies in setting regional economic strategies and taking forward projects of strategic regional significance. However, it is essential that there is greater transparency in their decision making, communication with stakeholders is improved, and that their actions are made more accountable within their regions, with a stronger scrutiny role for Regional Assemblies.

The Way Forward

5.19 The way forward for sub-national economic development and regeneration is, we believe, to maximise the devolution of responsibility to sub-regional partnerships with:

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- a flexible, locally-led approach to defining the spatial areas covered;
- partnerships facilitated by democratically elected local authorities, with a statutory duty for economic promotion, backed by the resources to do the job;
- removal of the barriers faced by local authorities in promoting the economic development and regeneration of their areas;
- the links between action by Central Government, regional agencies and sub-regional partnerships being as direct and straightforward as possible, avoiding long chains of decision-making, unnecessary sieving processes and unnecessary coordinating structures.