

North West Regional Assembly

North West Regional Review

# **Economic and Social Audit of the North West**

## **North West Regional Review**

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March 2005

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## **List of abbreviations**

CPA	Comprehensive Performance Assessment
BME	Black and Minority Ethnic
EU	European Union
FDI	Foreign Direct Investment
FRESA	Framework for Regional Employment and Skills Action
GDP	Gross Domestic Product
GVA	Gross Value Added
ICT	Information and Communications Technology
IMD	Indices of Multiple Deprivation
LADs	Local Authority Districts
NNI	Neighbourhood Nursery Initiative
NWDA	North West Development Agency
NWRA	North West Regional Assembly
NWRIU	North West Regional Intelligence Unit
NUTS	Nomenclature of Territorial Units for Statistics (EU)
PSA	Public Service Agreement
RES	Regional Economic Strategy
RDA	Regional Development Agency
SME	Small and Medium-sized Enterprise
SOA	Super Output Area
WTO	World Trade Organisation

## **Foreword**

The Economic and Social Audit of the North West not only marks the culmination of a three year scrutiny programme by the North West Regional Review but also points the way forward for challenges facing the region's economy over the coming period.

The North West Regional Review was established in 2001 to enable the North West Regional Assembly (NWRA) to provide oversight of the performance of the North West Development Agency (NWDA), in accordance with the Regional Development Agencies Act.

The North West Regional Review is led by the Economic and Social Partners of the NWRA and has also benefited from cross-party political support and the input of NWDA and Government Office throughout the past three years. It has undertaken to:-

- first, scrutinise the NWDA's activities and their performance against government targets for economic regeneration, development and investment in the regional economy;
- second, assess the effectiveness of key elements of the North West Regional Economic Strategy by a series of individual select committee style hearings, covering topics such as cluster development policy, employment and skills, tourism and housing, and the regional programmes being implemented by the NWDA and other bodies to help tackle regional economic disparity;
- third, promote the alignment of regional strategies dealing with such matters as jobs, housing, planning and transport, and collaboration between the NWRA, NWDA and, where appropriate, Government Office for the North West.

This Economic and Social Audit shows how our work over the past three years has not only covered regional scrutiny but has also been at the cutting edge of innovative action to support fundamental economic and social change. It is a timely assessment of the impact of regional economic development on our region's communities, and I believe points the way for the establishment of a new platform of critical activity designed to assess the impact of economic investment in England's regions.

In addition to reporting the key outcomes represented by this Audit, the North West Regional Review intends to continue to develop an integrated impact assessment approach to scrutiny to ensure that, in this era of considerable change, we do not lose sight of our ultimate aim – to secure continuous improvement in the quality of life of all the region's citizens.

Finally I would like to place on record my thanks to all members of the North West Regional Review who have participated in this oversight process, and our particular gratitude to Dexter Whitfield and his colleagues at the Centre for Public Services for compiling this report.

**Geoffrey Piper,**  
**Chief Executive, North West Business Leadership Team**  
**Chair, North West Regional Review**

# Executive Summary

The Economic and Social Audit of the North West not only marks the culmination of a three year scrutiny programme by the North West Regional Review but also points the way forward for challenges facing the region's economy. Through its Regional Review framework, the North West has been at the forefront in the field of regional scrutiny work and the Economic and Social Audit of the North West demonstrates the effectiveness with which the region can determine its own needs and priorities.

The North West has improved its economic performance, meeting, or is on course to meet, several of the regional targets set by the government. Whilst social and economic progress has been made, some targets have not been met and the disparities between regions and within the North West remain, particularly between areas of multiple deprivation and other parts of the region.

## **A summary of regional performance**

The report is the outcome of scrutiny by Regional Review of the Tier 2 target framework as required by the Office of the Deputy Prime Minister and the Department of Trade and Industry. Regional Review has discussed a series of reports on each of the 11 targets. This report is an update and assessment from a social justice perspective. Basically, the North West met five targets (sustainable economic performance, investment, employment, regeneration and physical development), it has not and is unlikely to meet five targets (skills, productivity, innovation, enterprise and urban) and there is uncertainty over meeting the rural target because it cannot be measured yet. There are some Tier 2 targets where the NWDA does not have the power or resources to significantly affect their achievement.

### **Sustainable economic performance**

Sustainable Economic Performance is based on an estimation of Gross Value Added (GVA) output divided by population producing a GVA per head target. The North West target was, that, by 2003, GVA should be 87% of UK average and 89% by 2006. Although the North West performance is better than for other northern regions it is significantly below London, the South East, East of England.

### **Investment**

The target to gain 68 new Foreign Direct Investment projects in the 2002-05 period is almost certain to be met – 45 new inward investment projects, with 2,356 new or safeguarded jobs, were approved in 2002/03 alone.

### **Employment**

The Tier 2 target of narrowing the gap between the North West and Great Britain employment rate to 1.5% by 2006 has already been achieved at regional level. The employment level in the North West increased by 80,000 between 2000/01 and 2003/04 (December to November) with the employment rate rising to 73.6%, only 1.3% below the Great Britain figure, the lowest gap for more a decade.

### **Skills**

Rates of qualification have risen markedly since 1997. It shows improvement across all categories in the North West. The improvements were national trends and the position of the North West in relation to other regions has not improved over that period and indeed at NVQ Level 3+ has declined markedly. Thus while skills levels may have improved, this has not effected the North West's competitiveness, judged against the other English regions.

### **Productivity**

Output per-head rose in all sub-regions during this period and the rise across the region was marginally above the UK average. However, there were significant sub-regional

variations. The rise in Cumbria, for instance, was only around a quarter of the UK average and the rise in Cheshire was also slightly below the UK average. The gap in output per head between Greater Manchester North (comprising Bolton, Bury, Oldham, Rochdale and Wigan local authorities) and Greater Manchester South (comprising Manchester, Salford, Stockport, Tameside and Trafford local authorities) has widened from 23 percentage points in 1995 to 46 percentage points in 2002. Greater Manchester South has had the highest output per-head in the region since 1999.

In Merseyside, output per head in Liverpool increased to just above the North West average with East Merseyside (Knowsley and St Helens) recording a small increase. However, Sefton and the Wirral showed no increase in output per head in the 1995-2002 period.

### **Innovation**

The North West has a low overall density of innovating businesses with the lowest rate of large business innovation among the English regions and the second lowest rate in terms of SME innovation. The Tier 2 target was to increase the proportion innovating businesses to 47% by 2005 but achieved 44% in the Department of Trade and Industry's tri-annual Community Innovation Survey. The target also included achieving the national average for the proportion of businesses using the science base – 31% of businesses in the North West reported using the science base compared to the UK average of 28%.

### **Enterprise**

There was a two-percentage point decline in the number of people reporting that they were going into business in the North West between 2001 and 2003. The North West figure was below the average for England in both years and only the North East and the East of England had worse and comparable levels respectively. Regional performance in new VAT registrations in deprived wards was negative in 2002, declining by just over 6% and thus failing to achieve the 1% target increase. The decline was just above the average for all wards in England and thus reflected a national trend.

### **Urban**

Average house prices surged ahead in the 2002-2004 period in the urban priority areas. Whereas, the 1999-2002 average price increase varied between 4.8% in Burnley to 38.3% in Ribble Valley, price increases for the entire 1999-2004 period ranged from 24.2% to 125.7% respectively. Average prices in Manchester, Liverpool, Allerdale, Copeland and Blackpool all exceeded 100% in the same period. However, a comparison of the average house price in each area, relative to the North West average in 1999 and 2004, shows that house prices in East Lancashire (with the exclusion of Ribble Valley and Rossendale) grew at a slower rate, relative to other areas. Average house prices in the other urban priority areas – Manchester, Liverpool, West Cumbria and Blackpool – increased relative to the North West average in the 1999-2004 period. The average price of a terrace house in the North West is now £85,030 (Oct/Dec 2004) which raises major issues of affordability.

### **Rural**

It was not possible to assess productivity in rural areas, because the redefinition of rural/urban areas was only completed in 2004 and because of a lack of data, which will be available later in 2005. Other key rural indicators show that the employment rate increased dramatically with the North West having the highest employment rate in Remote Rural districts by the end of 2003. Unemployment in North West rural areas was 4.6% in 2003, the highest of all regions and well above the England average of 3.3%. The North West was the only region in 2003, where average weekly earnings in rural areas were higher than in urban areas, a difference of 5.2%. It had the lowest regional ranking in the index of incomes against mortgage costs in rural areas between 2001-03, but the index reached 3.6 in 2003, indicating affordability difficulties for the average household.

### **Regeneration**

The three-part regeneration target was to reduce the number of adults in Income Support

households, receiving Job Seekers Allowance and the unemployed claimant count by 10% in the worst 20% of multiple deprivation wards in the North West.

Between 1999-2004 the number of Income Support claimants in the North West declined by 30,900, an 18.2% reduction, which was over three percentage points higher than the England average. However, there was an increase of 5,663 (1.5%) Income Supports claimants in the worst 20% IMD wards in the North West with a 0.5% increase in the 20 worst ranked wards in the North West.

The target of a 10% reduction in Job Seekers Allowance claimants was achieved with a 20.1% reduction in the worst 20% of IMD (2000) wards in the North West and a 19.0% reduction in the 20 worst ranked North West IMD wards. The 35.7% reduction in the region as a whole exceeded the English average of 32.5%.

The claimant count also declined significantly, between 36.5% and 40.6%, at a very consistent rate at all four levels – England, North West region, in the worst 20% of IMD (2000) wards in the North West and in the 20 worst ranked wards in the North West, primarily wards in Liverpool, Knowsley and Manchester.

The differential levels of performance in the regeneration targets, reflects improvement in the regional employment rate in the 1999-2004 period and could also reflect improved take-up of income support and/or more workers in low pay jobs claiming additional financial support.

### **Physical development**

The North West achieved its target for 70% of new housing to be provided on previously developed land and through the conversion of existing buildings by 2008 in the last three years, for which data is available (2001-03). North West performance is second only to London and its average for the 1999-2002 period was seven percentage points higher than the average for England.

### **Social justice in the North West**

The Audit is based on the concept of social justice, a wider concept than social inclusion, which embraces political rights, well-being, access, redistribution, environmental justice, and by necessity, intergenerational equity to ensure resources and well-being for future generations. It aspires to equality as well as reducing and eliminating unjust inequalities. Although not part of the Tier 2 target framework, it is essential that economic, urban, rural and regeneration targets are assessed in the context of multiple deprivation and broader policy initiatives to reduce inequalities.

**Distribution of opportunities in the region:** The significant investment and skills gaps remain between the North West and most other regions, between sub-regions and between Black and Ethnic Minority groups and the rest of the population.

**Redistribution and improving life chances:** The government has succeeded in reducing child and pensioner poverty, although there has been an increase in poverty among working age adults without children. The North West has the largest number of people, 2.2m, living in one of the most areas of deprivation. Deprivation is heavily concentrated in Liverpool, Knowsley and Manchester, the same areas that have high levels of Incapacity Benefit claimants – the North West has the largest number such claimants.



**Reducing inequalities:** Reducing health and education inequalities were part of the Public Service Agreement rather than Tier 2 targets. Whilst progress has been made towards achieving some targets, in others performance has been below the English average thus further increasing regional and sub-regional disparities. The attainment of 5 or more grades A-C (level 2) is only one measure of educational performance. However, it does demonstrate that there has been improved performance in all LEAs, some albeit marginal, but there are only two more LEAs in the North West, which are above the England average in 2004 than there were in 2000. Whilst some of the large increases in performance in the 2000-04 period were registered by LEAs in the most deprived areas of the region, there has been virtually no change in the overall pattern of performance between LEAs.

**Eliminating discrimination:** Racist incidents recorded by the Police increased 1% in the North West between 2002/03, compared with decline nationally. There were wide variations between areas with a 16% decline in Greater Manchester but a 37% increase in Merseyside. Racist incidents are increasing in rural areas, for example Cumbria and Cheshire, where there are fewer support networks.

**Improving quality of life and community well-being:** Community well-being also embraces the provision of childcare, crime and safety, access to services, enhancing learning opportunities and cultural development, improving the environment and the provision of affordable quality housing. Reducing child poverty and enhancing early child development have been key government priorities. Nationally there have been large increases in the provision of day nursery places (doubled since 1997) and after-school places have tripled. Although, nursery places increased by 63% in the 30 most deprived local authorities and across the country, they increased by 95% in the best-off thirty authorities. Just over half (56%) of children in a sample of 30 of 112 Neighbourhood Nursery Initiative nurseries open at the beginning of 2003 were from designated disadvantaged wards targeted by the nurseries. There have been improvements in community well-being in deprived areas but, as with the investment and skills gaps, the issue is whether the improvement is relative to community well-being in other areas and whether disparities been reduced.

**Participation, involvement and governance:** Community participation has been a requirement of government regeneration, Best Value and many other programmes. However, whilst these programmes have increased opportunities for participation, the terms of engagement and the agenda has often been determined by the government. There is a broad consensus on the principle of community involvement throughout the regeneration process, the design and planning of service delivery and public policy making process in general. A substantial gap remains between police and best practice.

### **Assessing performance and progress**

The Tier 2 target framework had a number of drawbacks, not least the lack of data for some targets, other lacked accurate, credible and defined datasets. Some had a long time-lag which led to qualified statements. Poorly designed targets also meant that the target could be met whilst the difference between deprived wards and less deprived or affluent wards increased.

Drawing from various governmental organisations such as the Audit Commission, National Audit Office and local authority performance management frameworks, the report proposes eight principles must underpin future performance frameworks. Targets must be challenging, relevant, measurable, consistent, accountable, transparent, legitimate and provide for common ownership.

A new tasking framework will be operation for the RDAs from April 2005. The NWDA has prepared its Corporate Plan for 2005/06 under the new tasking framework and its targets reflect that framework.

### **External impacts on regional performance**

The regional economy is forecast to continue growing for the next three years with business and public services expected to generate most of the new jobs. However, the North West faces both opportunities and challenges to improving regional performance. These arise from:

**European – Lisbon growth strategy and Internal Market for Services liberalisation** – whilst there is a substantial degree of synergy between the North West Regional Economic Strategy and the Lisbon strategy, the planned Internal Market for Services could result in large scale outsourcing, job losses and marketisation of public services.

**Public spending, efficiency, modernisation and procurement** – real term increases in health, education, housing and social services spending programmes will increase investment, improve services and create jobs in the region. However, whilst the North West will campaign for a substantial share of the 20,000 civil services jobs being relocated from London and the south east, about 14,680 jobs could be lost in the region through the government's efficiency programme. Increasing competition, procurement, outsourcing and transfer of public services and functions to arms length companies could also have an overall negative impact on employment.

**Northern Way and city regions** – Liverpool, Manchester and Central Lancashire are three of the eight city regions in the Northern Way strategy, an attempt to counter the concentration of growth, development and transport infrastructure in the south east.

**New equality commission and public duties** – the planned new Commission for Equality and Human Rights combined with new equality public duties provides an opportunity for the region to influence the legislation and ways in which it can be used to reduce inequalities in the North West.

**Regeneration and housing market** – the region has a number of major investment projects such as meeting the Decent Homes Standard by 2010, three Housing Market Renewal Pathfinder projects to tackle the problem of low demand housing, investment in specialist and supportive housing to meet the needs of demographic change and the Northern Way strategy which proposes a 400,000 clearance programme. They will provide an opportunity to maximise the regional impact of investment by extending community benefit with local training and employment schemes, establishing local and regional production and supply chains, enhancing the sustainability of new housing in terms of energy, materials and the quality of homes and spaces, and ensuring that the social infrastructure is planned, designed and built as an integral part of new housing development.

**Employment** – the quality of jobs (wages, conditions, pensions, training, family-friendly policies and trade union representation) will become increasingly important.

**Sustainable development** – conflicts between short-term budget gains and long-term investment and between individual organisational priorities verses community and regional benefits will have to be addressed in the mainstreaming of sustainable development.

## **The way forward for performance and impact assessment**

The Economic and Social Audit concludes by emphasizing the importance of the region maximising the 'freedom and flexibility' agenda, tackling poverty and inequality, mainstreaming sustainable service delivery, strengthening democratic accountability and political leadership. A dual strategy will be adopted of continuing to scrutinise past performance and assessing the potential impact of policies and projects. This will require assessing the potential social, economic, equality, health, environmental impact within the context of sustainable development in the design of plans, projects and programmes, so that they are more likely to be 'fit for purpose'. The region will be more able to maximise the community and regional impact of investment decisions. Regional Review will now consider and determine a detailed work programme to take this approach forward.

## Part 1

# Introduction

Regional Review has been monitoring and scrutinizing North West regional performance using the Tier 2 target framework as required by the Office of the Deputy Prime Minister and the Department of Trade and Industry. The eleven targets in the framework cover sustainable economic performance, investment, employment, skills, productivity, innovation and enterprise plus the urban/rural and regeneration/physical development dimensions to social and economic progress. Each target has a small number, between one and five, statistical indicators, which are intended to measure progress toward the overall aims. The Tier 2 targets were part of a three-tier framework in which Tier 1 targets were broad statements about the government's intent whilst Tier 3 targets were specifically designed to assess the outputs of the Regional Development Agencies (RDAs).

In April 2002 Regional Review commenced a three-year Economic and Social Audit with the following objectives:

1. To assist the North West Regional Assembly (NWRA), North West Development Agency (NWDA) and Government Office for the North West (GONW) with the delivery of Tier 2 targets and objectives;
2. To assess the impact of regional performance at the sub-regional and community level to identify benefits and/or adverse impact on particular social groups and sectors in the North West economy;
3. To contribute to the development of appropriate performance measures, data collection, monitoring and assessment;
4. To identify ways in which social and economic assessment can be integrated into the planning process to improve policy and decision-making;
5. To build capacity, understanding and support for regional targets at sub-regional and community level and to provide a mechanism for involvement in the assessment process;
6. To produce an Economic and Social Audit of the North West.

In the course of the project a number of performance assessment reports were submitted to Regional Review including:

- Regeneration, Urban and Physical Development (June 2002 and April 2003)
- Employment Indicator Report (June 2003)
- Skills Report (November 2003)
- Rural Theme Report (February 2004)
- Investment Theme Report (February 2004)
- Formal Consultation Report (April 2004)

- Sustainable Economic Performance, Productivity, Innovation and Enterprise, Theme Report (August 2004).

### The performance agenda

The government's Devolving Decision Making Review concluded in March 2004 that "... the best way to overcome regional disparities in productivity and employment is to allow each country, region and locality the freedom, flexibility and funding to exploit their indigenous sources of growth" (HM Treasury, ODPM and DTI, 2004a). It concluded that the current target regime, lines of accountability, the number of funding streams and central guidance were restricting the ability of regional and local organisations to improve regional economic performance. The principles adopted in the section of the Review devoted to *Defining Targets and Performance Management* required more flexible institutions, innovative and responsive policy design and a robust regional evidence base (HM Treasury, ODPM and DTI, 2004b).

The government has further proposed establishing regional transport funding allocations with regions expected to align their transport, housing and economic development priorities (HM Treasury, DT, ODPM and DTI, 2004c). It also plans to issue new guidance on longer-term planning assumptions at a regional level covering transport, housing and economic development. Regions have been promised a stronger input into the next Spending Review in 2006.

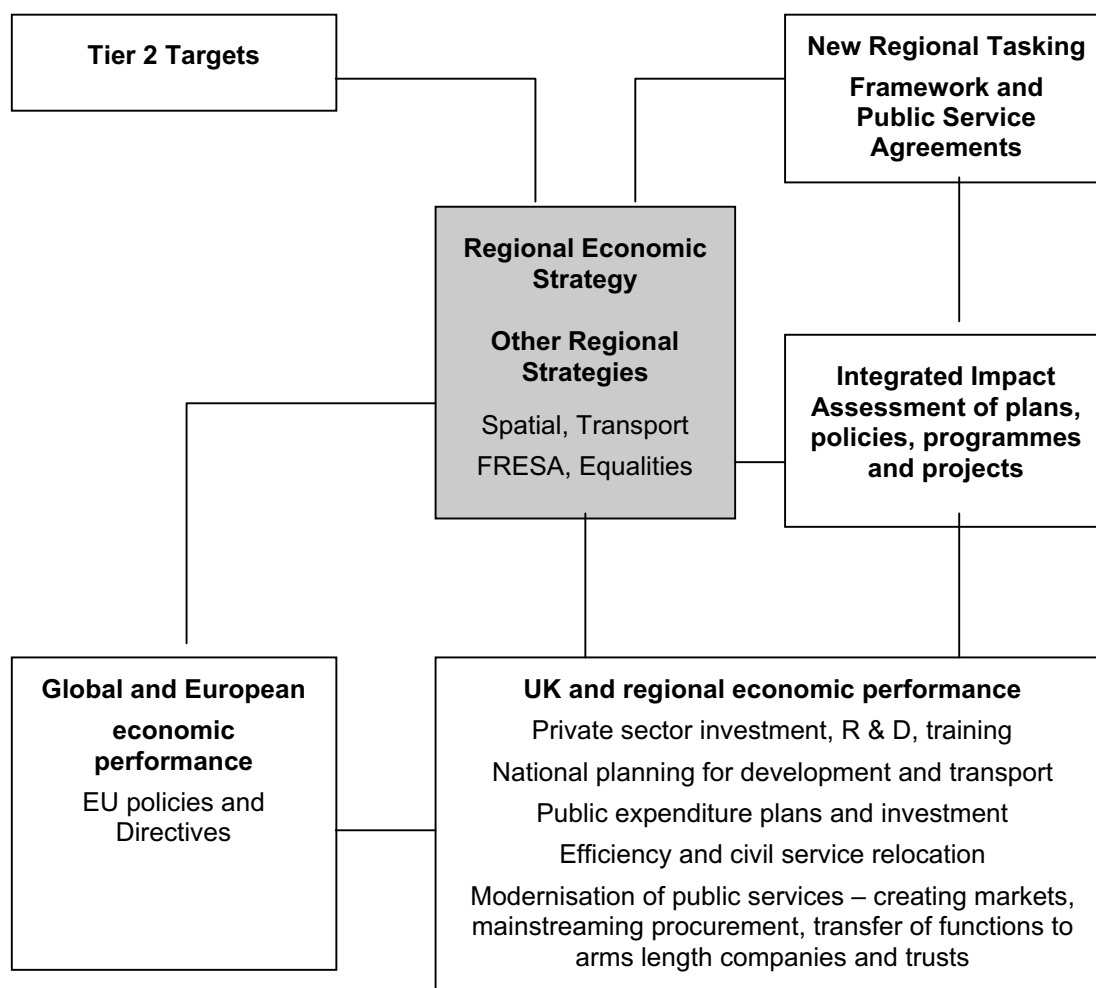
A new performance management 'tasking framework' for 2005/06 is intended to link RDA Corporate Plan outputs "...more closely to regional and national priorities". The new framework will help RDAs to "...work on regional priorities in a way that serves national interests more effectively" (ibid).

Proposals for devolving decision-making and increasing freedom and flexibility have their limitations. Regional economic performance in the North West and the north generally is heavily constrained by national strategies for transport infrastructure and development with growth concentrated in the south east. Furthermore, as this report demonstrates, there are national policies, which could have a negative effect on growth and employment in the North West, thus imposing a further constraint on regional economic performance.

Regional economic performance and social progress in the North West is heavily influenced by a number of factors external to the region, primarily the performance of the global, European and UK economies. The effectiveness of the Regional Economic Strategy and other regional strategies for innovation, transport, economic development, housing, and equalities also has a key influence. The EU and UK public policy frameworks also have a very influential impact. For example, the planned intensification of the marketisation of public services via the government's modernisation agenda and the proposed EU Internal Market for Services are likely to have a negative impact on North West regional performance based on past evidence of the effect of markets in core public services such as health and education (Whitfield, 2001, Pollock, 2004).

These external pressures are illustrated in Figure 1.

Figure 1: Context for regional performance assessment



This report also includes a ‘state of regional performance assessment’ as it identifies the problems and lessons learnt from the performance assessment of regional strategies. It also identifies the challenges, which could have a significant influence on regional performance over the next few years. It proposes the adoption of an integrated impact assessment and a programme of work by Regional Review and regional agencies, which should greatly enhance the effectiveness of policies and projects and could contribute to the alignment of regional spatial, housing, transport and equalities strategies.

The importance of adding an integrated impact assessment methodology to identify both the effects, costs and benefits of regional/local policies and projects in the interface between the RES and regional strategies, national policies and the new regional tasking framework is discussed in Parts 5, 6 and 7.

**Social justice perspective**

This report is based on the concept of social justice. Social justice is defined as a hierarchy of four ideas:

- The equal worth of all citizens expressed in political and civil liberties and equal rights;

- The right to be able to meet their basic needs for income, shelter and other necessities;
- The distribution of opportunity and redistribution to create opportunities and life chance;
- The reduction and elimination of unjust inequalities.

(Commission on Social Justice, 1994)

Crucially, it embraces political rights, well-being, access, redistribution, environmental justice, and by necessity, intergenerational equity to ensure resources and well-being for future generations. It aspires to equality as well as reducing and eliminating unjust inequalities.

Social justice is a wider concept than social inclusion. The terms social inclusion and social exclusion are used interchangeably - the latter is defined by the government as: "...a shorthand term for what can happen when people or areas suffer from a combination of linked problems such as unemployment, poor skills, low incomes, unfair discrimination, poor housing, high crime, bad health and family breakdown" (ODPM, 2004a). The government's approach has focused on child poverty and pensioner poverty rather than poverty in general. The causes of poverty are deemed by government to be mainly about employability and 'worklessness', which active labour market policies are designed to remedy. The latest Strategy Unit report on improving the prospects of people living in areas of multiple deprivation, states that deprivation is caused by low levels of economic activity; poor housing, poor local environments and unstable communities; and poor public services (Cabinet Office, 2005). But these are the impacts on people and communities, the causes are much deeper in economic and social relations.

### **Structure of the report**

Parts 2 and 3 of the report summarise the performance of the North West regional economy under the eleven targets of the Tier 2 regime established by the government to assess RDA performance. The next section, Part 4, subjects this performance to scrutiny in terms of the social justice framework and the extent to which regional and sub-regional performance has impacted on equality groups and communities. Part 5 sets out the principles, which should underpin a performance management framework and draws out the lessons learnt from the Tier 2 target regime.

Part 6 examines the opportunities and challenges facing the North West region over the next five years. It highlights the forecasted continuing regional growth, government plans for increased public expenditure up to 2007/08, the opportunity for civil service relocation to the North West and the potential contribution of the Northern Way strategy. There are also challenges such as the efficiency programme, the EU, WTO and government proposals for the marketisation of public services and increased outsourcing, which could have a negative impact on growth and employment in the region.

The final section maps out a potential way forward to enhance the ability and capacity of Regional Review to more fully assess the potential impact of future development within the context of sustainable development in addition to assessing the implications of past performance.

## Part 2

# The North West Economy

The government's model of economic growth is centred on productivity and jobs. It identified five drivers of regional productivity – skills, innovation, enterprise, investment and competition (HM Treasury, 2004b). There are important linkages between the drivers of productivity, for example, between skills and innovation where skills can raise firms' capacity to develop and use new technology. The government is also promoting a coordinated approach to maximise synergies to raise regional productivity and growth.

The model for sustainable economic growth is summarised below:

Figure 2: **The government's model of economic growth**

<b>Productivity</b>	<b>Jobs</b>
Skills Innovation Enterprise Investment Competition	Employment Unemployment (long and short term)

This chapter examines the performance of the North West region and sub-regions in meeting the Tier 2 targets for:

- Sustainable economic performance
- Investment
- Employment
- Skills
- Productivity
- Innovation
- Enterprise

It summarises, and where necessary updates, the reports submitted to Regional Review in the 2002-2004 period. Regional performance in the above targets is summarised in Table 1.



**Table 1: Summary of Tier 2 Performance**

<b>Current Tier 2 Performance</b>	
<b>Target</b>	<b>Current Performance</b>
<b>Sustainable Economic Performance</b>	
89% of UK average GVA per-head by 2006	Target met - 89.8% (2003)
<b>Investment</b>	
Gain 68 new Foreign Direct Investment projects in the 2002-05 period.	Almost certain to be met – 45 new inward investment projects, with 2,356 new or safeguarded jobs, were approved in 2002/03 alone.
<b>Employment</b>	
Reduce the gap between the North West and Great Britain employment rate to 1.5% by 2006.	Gap reduced to 1.3% (December 2004)
<b>Skills</b>	
Increase % of adults with NVQ Level 2 (or equivalent) from 68% to 70% between 2002-06.	Data not available
Increase % of adults with NVQ Level 3 (or equivalent) from 47% to 49% between 2002-06.	43.5% in 2004 compared to 40.1% in 2002
Increase % of adults with NVQ Level 4 (or equivalent) from 26% to 28% between 2002-06	23.7% in 2004 compared to 24.1% in 2002
Reduce % of adult population with poor/very poor level of literacy from 25.4% to 24% (same period)	North West slightly below national performance in literacy and numeracy
Reduce % of adult population with poor/very poor level of numeracy from 26.2% to 24% (same period)	
Increase % of employers improving organisational processes from 15% to 20% (same period)	Data not available
<b>Productivity</b>	
GVA per-hour worked to increase by 2% per annum relative to rest of UK.	NW productivity rose by 0.5% between 1999 and 2001, relative to UK average. Latest data (2001) show NW at 96.8% of UK average.
<b>Innovation</b>	
Increase the proportion of innovating businesses to 47% by 2005.	44% (1998-2000) Note: Only data currently available is baseline.
Achieve the national average for the proportion of businesses using the science base.	UK Average – 28%, England Average – 27%, North West average – 31% (1998-2000).
Increase by at least) 1% per annum VAT registrations in those wards in the bottom 20% of the national IMD.	A decline on this measure of 6.06% between 2001-2 makes achievement of the target on an annual basis look unlikely. However, the decline was repeated nationally and the gap between the North West and the rest of the country did not widen. New data may reveal progress, especially from the lowered annual baseline.
<b>Enterprise</b>	
Match the national average for the number of people considering going into business by 2005.	England average is 11%, North West is 9% (2003).
Achieve an average annual increase in GVA per total hours worked in SMEs by 2005.	Proxy shows a favourable baseline position relative to other regions. North West has highest turnover in SMEs. Comparing employment to turnover ratio North West comes out fourth behind London, East Midlands, Yorkshire and Humberside and West Midlands.
Increase by at least 1% per annum the number of VAT registrations in those wards within the IMD bottom 20%.	Failed to achieve – 6.25% decline (also national)

## Sustainable Economic Performance

The Tier 2 target for Sustainable Economic Performance is based on an estimation of Gross Value Added (GVA) output divided by population producing a GVA per head target. The North West target was, that, by 2003, GVA should be 87% of UK average and 89% by 2006. Table 2 shows that the 2006 target was being met even prior to the target being set in 2003. It also highlights a period of decline in relation to the UK average, before a period of catch-up over more recent years.

Headline comparison of productivity between government office regions shows that the North West has 90% of the UK average GVA per-head – see Table 2. This is significantly below that of London, the South East and East of England and also below the East Midlands, West Midlands and South West. However, it is higher than that for the other northern regions. GVA per head declined in the North West in the 1998-2002 period but increased to its mid-nineties level by 2003 whereas four regions – the North East, Yorkshire and Humber, East Midlands and West Midlands ended the 1996-2003 period with a lower GVA per head than they did at the start of the period.

Table 2: **Gross Added Value per head indices 1995-2003**

Region	1996	1997	1998	1999	2000	2001	2002	2003*
UK	100	100	100	100	100	100	100	100
<b>North West</b>	<b>90</b>	<b>90</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>90</b>
North East	82	81	80	79	79	79	79	80
Yorkshire & H	90	90	89	88	88	88	88	89
East Midlands	94	94	93	92	91	91	90	91
West Midlands	93	93	92	92	92	91	90	91
East of England	108	108	108	108	109	110	110	109
London	129	131	134	135	134	133	134	131
South East	112	113	114	115	115	116	115	115
South West	93	93	93	93	93	94	94	94
England	102	102	102	102	102	102	102	102

Office for National Statistics, Regional Gross Value Added, December 2004. \* Provisional

The latest data shows that the North West generated £97.6 billion GVA in 2003, equivalent to £14,346 per person (ONS, 2004a). The industrial or sector composition of GVA has changed over the last decade with manufacturing declining from 27.4% to 20.9% between 1996-2002 with real estate, renting and business services increasing to 20.4% by 2002. There were small increases in construction (5.9% of GVA in 2002), wholesale and retail trade (13.4%), transport, storage and communication (7.9%), education (7.0%), health and social work (7.4%), financial intermediation (4.8%) and a marginal decrease in public administration and defence (4.6%).

### Sub-regional performance

It is possible to analyse the output per-head at a sub-regional level, however, this must be qualified because the GVA figures at this level are very unreliable due to differences between place of work and place of residence.

In Cumbria, overall output per-head fell from being above the regional average, to some 15-percentage points below the regional average, between 1995-2002. A similar, if less dramatic, decline occurred in Lancashire. Output per-head in Merseyside increased marginally but remained sixteen percentage points below the regional average. Examination of the composition of these changes reveals some marked differences between the sub-regions - see Table 3.

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The gap in output per head between Greater Manchester North (comprising Bolton, Bury, Oldham, Rochdale and Wigan local authorities) and Greater Manchester South (comprising Manchester, Salford, Stockport, Tameside and Trafford local authorities) has doubled from 23 percentage points in 1995 to 46 percentage points in 2002. Greater Manchester South has had the highest output per-head in the region since 1999.

In Merseyside, output per head in Liverpool increased to just above the North West average with East Merseyside (Knowsley and St Helens) recording a small increase. However, Sefton and the Wirral showed no increase in output per head in the 1995-2002 period and are lagging behind the rest of Merseyside and the rest of the UK. Cumbria recorded a steep decline in output in both West and East Cumbria.

Table 3: **GVA per head indices by NUTS3 area**

	1995	1996	1997	1998	1999	2000	2001	2002
United Kingdom	102	102	102	102	102	103	102	102
UK less Extra-Regio (4)	100	100	100	100	100	100	100	100
England	102	102	102	102	102	102	102	102
<b>NORTH WEST</b>	<b>91</b>	<b>90</b>	<b>90</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>	<b>89</b>
<b>Cumbria</b>	<b>92</b>	<b>91</b>	<b>88</b>	<b>84</b>	<b>79</b>	<b>78</b>	<b>76</b>	<b>74</b>
West Cumbria	88	87	85	83	75	74	71	68
East Cumbria	97	94	90	86	81	81	80	79
<b>Cheshire</b>	<b>114</b>	<b>113</b>	<b>113</b>	<b>111</b>	<b>111</b>	<b>110</b>	<b>112</b>	<b>113</b>
Halton & Warrington	111	111	112	111	110	111	111	113
Cheshire CC	115	114	113	111	111	110	112	113
<b>Greater Manchester</b>	<b>93</b>	<b>93</b>	<b>93</b>	<b>93</b>	<b>95</b>	<b>94</b>	<b>95</b>	<b>95</b>
G. Manchester South	104	105	107	109	113	114	115	116
G. Manchester North	81	79	77	75	73	71	71	70
<b>Lancashire</b>	<b>90</b>	<b>88</b>	<b>86</b>	<b>84</b>	<b>85</b>	<b>84</b>	<b>84</b>	<b>83</b>
Blackburn & Darwen	96	94	90	87	86	82	81	80
Blackpool	77	76	74	73	73	71	72	72
Lancashire CC	91	89	87	85	86	86	86	85
<b>Merseyside</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>71</b>	<b>72</b>	<b>72</b>	<b>73</b>
East Merseyside	66	64	64	63	63	65	69	68
Liverpool	85	85	87	89	89	91	88	90
Sefton	66	66	64	64	62	64	66	66
Wirral	59	60	60	61	60	59	60	60

ONS, 2004. Notes: 1 The headline GVA series for this publication have been calculated using a five-period moving average. 2 Estimates of workplace based GVA allocate income to the region in which commuters work. 3 Components may not sum to totals as a result of rounding. 4 The GVA for Extra-Regio comprises compensation of employees and gross operating surplus which cannot be assigned to regions. 5 Including Financial Intermediation Services Indirectly Measured (FISIM).

More timely, better quality data on productivity produced to a lower level of analysis, was a key recommendation of the Allsopp Review and ONS is working to improve the quality of Regional Accounts data (Allsopp, 2004). GVA per-hour worked has the advantage over GVA per-job of avoiding assumptions of increases in productivity that may be the result of increased general working hours.

GVA per-head has the advantage of avoiding assumptions of increased productivity that arise from a reduction in employment and/or falling overall output. Regional differences in pay effect the calculation of GVA, as does profitability and different company structures

where higher value reporting functions are located in core locations and other functions, such as retail units or branch plant activities are decentralised.

## Investment

Department for Trade and Industry (DTI) guidance on the Tier 2 Investment target sets out that RDAs should:

*“Make the region an attractive place for investment and maintain the UK as the prime location in the EU for foreign direct investment, particularly by providing effective coordination of inward investment activities of regional and local partners”.*  
(Association of Regional Observatories, 2004).

Though the theme is investment generally, the NWDA’s Corporate Plan 2003 set out the Tier 2 performance target and indicators for investment as being solely related to Foreign Direct Investment (FDI) to “achieve a total of 68 FDI projects (new and expansions) (2002-05)” – see Table 4.

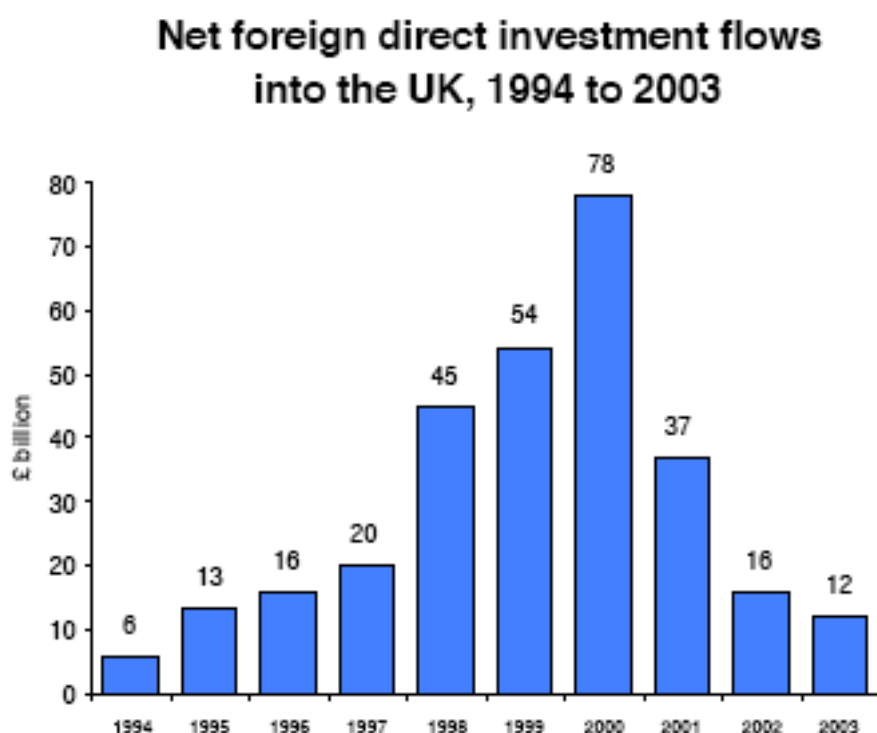
Table 4: NWDA Tier 2 Investment Targets

Year	No of projects	No of jobs (gross)
2002/03	10	1,200
2003/04	29	3,170
2004/05	29	2,846

NWDA, *Corporate Plan* (2003).

The net foreign direct investment flows from foreign companies into the UK were £12.4 billion in 2003, the lowest since 1994. Figure 3 highlights the rapid rise and decline of net foreign direct investment over the last decade culminating with peak inflows in 2000. The chart also reflects the global pattern of FDI flows which peaked in 2000 followed by a massive 41% decline in 2001 and followed by 17% and 18% declines in 2002 and 2003 respectively (UNCTAD, 2004). The UK is also a major source of FDI to the rest of the world and the UK ranked 5<sup>th</sup> in the world in FDI outflows. In terms of the total FDI stock the UK ranks second to the USA and accounts for about a third of all European Union outflows (ibid).

Figure 3: **Net Foreign Direct Investment Flows into the UK**



Europe remained the dominant source of FDI in 2003 (Germany, the Netherlands and Switzerland accounting for 76% of inflows) although total investment from Europe declined 41%. In contrast, investment from The Americas (30% of the total) and Australasia and Oceania increased.

There are wide fluctuations in the annual level of investment/disinvestment of FDI flows between the resources, manufacturing and services sectors. In 2003, financial services accounted for a third of total net FDI flows with significant inflows in electricity, gas and water; retail/wholesale trade and repairs and office; and IT and communications equipment, offset by large disinvestments in transport equipment and mining and quarrying (including oil and gas). FDI accounts for about 12% of total inward investment which also includes portfolio investment (28% of the total) and other investment (ONS, 2004b).

### **FDI in the North West compared to other English regions**

Information on Foreign Direct Investment in the region does not easily compare with that held in other national or international databases because it is recorded as the number of 'successful projects' rather than the value of the investment. The North West's share of the total number of successful FDI projects more than halved from ten percent in the late 1990s to less than five percent in 2001/02 but increased to 8.5% in 2002/03 (see Table 5). The data indicates that there has been a complete reversal in the share of projects between manufacturing and non-manufacturing with the former accounting for 64% of projects in 1998/99 but only 33% by 2002/03.

**Table 5: Direct inward investment: North West project successes**

Sector	1998/99	1999/2000	2000/01	20001/02	2002/03
Manufacturing	42	41	11	8	20
Non-Manufacturing	24	39	28	25	40
Total	66	80	39	33	60
<b>% of UK total</b>	<b>9.9</b>	<b>10.0</b>	<b>4.5</b>	<b>4.3</b>	<b>8.5</b>

ONS, Regional Trends 38, London, 2004.

The trend towards non-manufacturing accounting for a higher proportion of the total number of projects was also evident in the other Northern and Midlands regions. Manufacturing projects accounted for 44% of the total number of direct inward investment projects over the five year period compared to 57% and 69% in the North East and Yorkshire and the Humber respectively and 52% and 47% in the East and West Midlands regions respectively.

The Tier 2 target suggests that during the period 2002-5 the region should gain 68 new FDI projects with 10 being the target for 2002/3. During 2002/3 a total of 45 inward investment projects were decided upon with 27 being new or expanded projects with 2,356 new or safeguarded jobs and a total investment of around £69.6m (NWDA, 2004a). Information from the NWDA indicates that the Tier 2 target has been achieved with ease (see Table 5).

**Table 5: North West Inward Investment Projects (New and Expanded) 2002/3**

Projects	No of Projects	No of Jobs (where known)	Total known value
Expanded Projects	17	1,510	£63.1m
New Projects	10	789	£7.1m
Mergers	1	22	£6.6m
Acquisitions	17	703	£94.5m

NWDA, North West PLC, (2004).

### **Sub-regional performance**

There are limits to the focus on FDI for investments targets. Firstly, it doesn't reflect the need to balance indigenous growth with inward investment, concentrating solely on FDI. Secondly, it doesn't reflect the complexity of FDI, treating all FDI as desirable when, in reality, sustainable growth over the longer-term suggests that specific types of FDI should be targeted. Finally, it doesn't effectively provide an assessment of outcomes by determining the type, quality and sustainability of employment generated, the contribution that this will make to promoting regeneration and tackling employment need and/or other social goals.

Private sector under-investment in the region is augmented by differential patterns of public sector investment. For instance, experimental data from the Office for National Statistics shows that central government output per-head in the North West is only around 80% of the England average (NWRA, 2003). Further, recently published data in the Public Expenditure Statistical Analysis series, suggests that public spending per-head in the North West in some key areas such as transport, lags behind the UK average and has done over the last five or six years (HM Treasury, 2004). Certainly, comparisons between public spending and GDP on a regional basis, show that public spending has not been sufficient to address regional differences in economic growth (McLean and McMillan, 2003).

# Employment

## Performance

The Tier 2 target of narrowing the gap between the North West and Great Britain employment rate to 1.5% by 2006 has already been achieved at regional level – see Table 6. The employment level in the North West increased by 80,000 between 2000/01 and 2003/04 (December to November) with the employment rate rising to 73.6%, only 1.3% below the Great Britain figure (NOMIS, Labour Force Survey Four Quarter Averages, December 2004). It is the lowest gap for more a decade and only Wales out-performed the North West in the past four years, although its employment rate is still below that for the North West.

Table 6: **Employment rate, Labour Force Survey, four quarterly averages** (December-November)

Region	2004	2003	2002	2001	Change 2001-2004 % points
<b>NORTH WEST</b>	<b>73.6</b>	<b>73.4</b>	<b>72.2</b>	<b>72.3</b>	<b>1.3</b>
North East	69.7	68.4	68.5	68.4	1.3
Yorkshire & Humber	74.4	74.1	73.3	73.5	0.9
East Midlands	76.2	75.7	76.4	76.0	0.2
West Midlands	74.3	73.7	74.1	74.0	0.3
Eastern	79.1	78.4	78.9	79.4	-0.3
London	69.7	69.9	70.5	70.9	-1.2
South East	78.7	79.1	79.8	80.0	-1.3
South West	78.7	78.7	79.0	78.9	-0.2
England	75.1	74.9	75.0	75.2	-0.1
Great Britain	74.9	74.7	74.6	74.7	0.2

Source: Labour Force Survey, NOMIS.

## Changes in sectors

Employment in manufacturing continued to decline to 15% of total employment in the region, with increases in construction and services. Employment in public administration increased from 27.7% of the total employment in the region to 28.9% in the 200/01 – 2003/04 (Dec-Nov) period and employs nearly 900,000 people. Employment in banking and finance, distribution and other services registered small increases, whilst employment in transport declined by 17,000 in the same period.

## Changes for women and men

The regional employment rate is much higher among men than women. The proportional difference between the male and the female employment rates, is the second smallest in the English regions at 7.5 percentage points (the North East has the smallest at 5.6 percentage points with London the highest at 13.4 percentage points). The England average was 9.7 percentage points.

Gender employment differences remain substantial:

- Around 40% of women in employment are employed on a part-time basis as opposed to less than 10% of men.

- Women are also more likely to be employed on a temporary basis than are men. In January to March 2003 6.4% of women employed in the NW were temporary, as opposed to 3.6% of men.
- Women are more likely to have a second job than men.

### Sub-regional performance

Local authorities with employment rates 2 percentage points or more below the regional average in 2004, are identified in Table 7.

Table 7: **Local authorities with employment rates 2 or more percentage points below the regional average in 2004**

Local authority	Employment rate	Local authority	Employment rate
Blackburn	67.1	Lancaster	71.5
Blackpool	68.6	Liverpool	60.6
Burnley	72.1	Manchester	60.8
Copeland	72.1	Preston	69.4
Halton	66.0	Salford	70.8
Knowsley	62.7	St Helens	68.8

Source: Labour Force Survey, NOMIS.

There were 22 local authorities where the employment rate was 2 or more percentage points above the regional average in 2004. It included the following authorities where the rate was over 80%; namely, Chester, Congleton, Hyndburn, Ribble Valley, Rossendale, South Lakeland, South Ribble, Stockport, Warrington, and Wyre.

### Vacancies

Vacancies at North West career offices rose from 1,700 in January 2004 to 4,200 in July and August and fell to 2,000 in December 2004 (not seasonally adjusted). Vacancies at job centres have not been published since April 2001 due to distortions in the data. The UK monthly estimate for vacancies ranged from 594,300 in January 2004 to 651,400 in December 2004 (seasonally adjusted), the highest level of vacancies since spring 2001 (ONS, 2005a).

### Pay and earnings

The North West, jointly with the East Midlands, had the second highest regional increase in average gross weekly earnings of full time employees between autumn 2000 and autumn 2004. Average gross weekly pay in the North West was £413 in autumn 2004, still significantly below the England average of £459. This placed the North West sixth amongst the English regions. The gap between the average gross weekly earnings for men (£460) and women (£336) in the North West, was only exceeded by London, the south east and eastern regions and was above the England average.

## Skills

Tier 2 targets on skills are largely defined by qualifications against National Vocational Qualification (NVQ) (or equivalent) Levels. The indicators and regional level performance are summarised in Table 1 at the beginning of this section.

Skills levels underpin other headline measures of performance at regional level such as productivity and growth. Given the increasing acceptance of the importance of regional



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disparities, it is necessary to compare North West performance against that of other regions. This comparison shows that:

- The North West Ranks 5<sup>th</sup> among the English regions in terms of performance at NVQ Level 3+ (43.5%) and 6<sup>th</sup> among the English regions at NVQ Level 4+ (23.7%), among the whole labour force – see Table 8.
- Relative performance among those in work is slightly better, ranking 4<sup>th</sup> for both level 3+ (49.2%) and 4+ (28.0%).
- The North West improved its ranking in three out of four targets compared to August 2003 performance, slipping only one ranking in the percentage of working age with NVQ Level 4 and above.

Qualification rates in the North West are significantly below the GB average across all categories.

Table 8: **Regional Performance Against Tier 2 Skills Targets** (December 2003-November 2004)

Region	All of Work Age with NVQ Level 3+ (rank)	All of Work Age in Employment with NVQ Level 3+ (rank)	All of Work Age with NVQ Level 4+ (rank)	All of Work Age in Employment with NVQ Level 4+ (rank)
<b>North West</b>	<b>43.5 (5)</b>	<b>49.2 (4)</b>	<b>23.7 (6)</b>	<b>28.0 (4)</b>
North East	39.5 (8)	46.2 (9)	20.8 (9)	25.4 (9)
Yorks & Humber	42.4 (7)	47.3 (6)	22.8 (7)	26.8 (7)
East Midlands	43.8 (4)	48.5 (5)	23.8 (5)	27.4 (5)
West Midlands	39.7 (9)	46.4 (7)	22.7 (8)	26.5 (8)
Eastern	43.0 (6)	46.2 (8)	24.6 (4)	27.1 (6)
London	46.8 (2)	54.5 (1)	31.3 (1)	38.6 (1)
South East	48.6 (1)	52.2 (2)	29.1 (2)	32.2 (2)
South West	46.4 (3)	49.6 (3)	25.7 (3)	28.5 (3)
<b>Great Britain Average</b>	<b>44.6</b>	<b>49.5</b>	<b>25.7</b>	<b>29.8</b>

Labour Force Survey - Quarterly: Four Quarter Averages, 2005.

The relative performance of the North West is underlined in Table 9 which shows the percentage point change in the region compared to the average for England in the 2002-04 period (ONS, 2005b). The North West demonstrated a significant improvement above the England average for all four indicators.

Table 9: **Relative performance of the North West in improving skills 2002-04**

Target	2002	2004	North West Change – percentage points	England Change – percentage points
Working age people with NVQ level 3	40.1	43.5	3.4	1.9
Working age people in employment with NVQ level 3	46.0	49.2	3.2	2.2
Working age people with NVQ level 4	20.8	23.7	2.9	1.9
Working age people in employment with NVQ level 4	25.0	28.0	3.0	2.2

Labour Force Survey – Quarterly: Four Quarter Averages Dec 2001-Nov 2002 to Dec 2003-Nov 2004.

### Other measures of skills

The Tier 2 targets refer almost exclusively to formal qualifications as proxies for skills levels. However, DfES research on the level of literacy and numeracy skills, using specialist tests, showed that:

- Nationally 44% of respondents or 14m adults nationwide achieved Level 2 in literacy or above meaning that 17.8m adults had literacy skills at Level 1 or below.
- Nationally, performance in numeracy was worse than for literacy with only 25% achieving Level 2 or above and 23.8m adults have numeracy skills at level 1 or below.
- 41% of adults in the North West achieved results of Level 2 or above in literacy, slightly less than the national average, and 18% were below level 1, again slightly worse than national performance.
- 23% of adults in the North West achieved results of Level 2 or above in numeracy levels, slightly less than the national average. The survey indicated that 49% of adults in the North West are below Level 1 in numeracy skills.

### Changing skill levels over time

Analysis of change shows that rates of qualification have risen markedly since 1997 and that the upward trend has continued over the last two years. It shows improvement across all categories in the North West. However, two caveats need to be made. **Firstly**, the improvements are so rapid as to suggest that there may be data quality issues in the datasets. **Secondly**, the improvements were national trends and the position of the North West in relation to other regions has not improved over that period and indeed at NVQ Level 3+ has declined markedly. Thus while skills levels may have improved, this has not effected the North West's competitiveness, judged against the other English regions.

### Sub-regional Performance

Analysis of change at sub-regional level shows that:

- The broad pattern of higher qualification rates for those in work is replicated at a sub-regional level.
- That the level of variation at sub-regional level is much larger than the disparities between regions.
- For NVQ Level 3+ equivalents, there are 10 authorities (Allerdale, Blackburn, Oldham, Rochdale, Tameside, Blackpool, Wyre, Halton, Liverpool and Knowsley), which are significantly below the regional average. There are a similar number of authorities significantly above the regional average (Macclesfield, Congleton, South Lakeland, Barrow, Rossendale, Ribble Valley, Trafford, Chorley, Vale Royal, Lancaster).
- For NVQ Level 4+ equivalents there are 13 authorities significantly below the regional average (the same group as above with the addition of Salford, Hyndburn and Carlisle). The group of authorities significantly above the regional average is the same as for NVQ Level 3 with the exception of Rossendale and the addition of Chester and Manchester.
- At Learning and Skills Council (LSC) level, analysis shows that Cheshire/Warrington and Cumbria, LSCs performed above the regional average, with Greater Manchester, Lancashire and Merseyside/Halton all performing below the regional average.

### **Skills needs and shortages**

Analysis of recent documents from a range of sources at national, regional and local level, shows that the North West faces many similar challenges as the rest of the UK. However, a number of these are particularly acute in the North West:

- The need to tailor skills strategies to address further decline in traditional industries in order to make the necessary restructuring of the labour market as painless as possible. Forecasts of skills needs against industrial change in the region, show a net increase of jobs overall but significant losses of male full-time employment in traditional industries, at the same time as increases in part-time work (and female) employment. There is no analysis of what action might be taken to prevent this.
- The need to address the issue of skills loss through labour migration, particularly of high skilled workers and graduates. Overall, 40% of students who study in the North West leave the area after graduation and nearly 60% of those that study elsewhere leave.
- While excess demand for skills (as measured by hard-to-fill vacancies and skill shortage vacancies) is comparatively low in the region, this may indicate a lack of dynamism in the economy, rather than an advantageous balance in the labour market.
- At sub-regional level, skills shortages appear to be more prevalent in Lancashire, Cumbria and Greater Merseyside than elsewhere in the region. All these areas also have also relatively low average pay rates.

### **Training in the North West**

The North West ranks low, in terms of the number of employers offering training, in relation to other regions. It also ranks low in terms of the number of days of training per employee and per employee trained. The North West ranked 8<sup>th</sup> in the English regions in 2004 on the percentage of working-age people receiving job-related training, an unchanged position for over five years.

## **Productivity**

The North West Tier 2 target was to increase productivity by 2% per annum by 2005, relative to the rest of the UK, based on Gross Valued Added (GVA) per hour worked.

The inter- and intra- regional GVA performance was discussed in the sustainable economic performance section above. Productivity in the North West should first be set in the context of international and UK comparisons.

### **International comparisons of productivity**

International comparisons of productivity are problematic because of the range of differences (currencies, purchasing power parities and so on) that have to be made equivalent for the purposes of comparison. UK productivity in comparison to a range of major competitors, including France, Germany, Japan, the US and the G7 average, has improved markedly over the last decade. However, the quality of the data means that analysis should be restricted to the general trends rather than attempting to rank the performance of individual countries against one another.

A comparison of GDP per-head in Purchasing Power Parities to offset price and exchange rate differences between countries shows that the UK compares relatively well with its main European competitors but less so with the USA and Canada (Eurostat Structural Indicators, 2004) – see Table 10.

**Table 10: International comparison of GDP per-employed person and per-hour worked in Purchasing Power Parities (EU 15 = 100) 2001**

	EU 25	Eurozone	Germany	France	UK	Canada	Japan	USA
GDP per employed person	92.5	101.4	95.0	115.4	94.1	110.5	90.0	119.0
GDP per hour worked (estimated)		103.1	103.9	121.9	87.1	97.9	78.8	112.9

Source: Structural Indicators (2004). Notes: Data for Canada and Japan is forecast.

The UK compares less well in terms of GDP per-employed person or per-hour worked. Taking these three measures together with a comparison of the employment rate suggests that the UK does better on the first measure of GDP per-head because of the higher than average rate of employment (labour utilisation). It does less well in terms of labour productivity, suggesting a greater proportion of low paid and lower value added employment in the UK than elsewhere. The UK also shows a decline in the ratio of wages (Compensation of Employees) in relation to output (GDP) in contrast to France where wages are rising in relation to output, the implication being that productivity growth is at the expense of wages/income.

### **Factors underlying regional productivity performance**

Following the government's model, various factors underlying growth and productivity are examined below for their impact on regional differences.

Labour utilisation is a key determinant of output and accounts for a large part of the differences in regional output per head. For instance, the regional productivity gap for output per filled job and per hour worked is not nearly so large as for output per head, particularly in relation to London. In 2002 the productivity gap between the lead regions and the North West as measured by output per head indices was nearly 40 percentage points with London, 30 percentage points with the South East and 20 percentage points with the East of England. For output per hour these figures reduce dramatically to 21.9; 10.8 and 6.1 percentage points respectively. The gap between the North West and the UK average on these measures remained below 5% (per hour) and 7% (per job) during the latter part of the 1990s and up to 2002.

### **Adjusting for the effects of the capital city**

If regional output per head indices are controlled to remove London and the South East, the North West exceeds the national average and has done since at least the end of the 1980s. Moreover, calculated in this way, regional differences in output per-head are much smaller and more stable over time. Further, if the East of England was also removed, regional differences would be even more marginal.

If the same control exercise (ie removing the effect of London and the South East) is repeated on regional estimates of *workplace* based output per-head, the North West has consistently seen output per-head of around 98 or 99% of the England and UK averages. Indeed in recent years, the output per-head index for the North West has risen above the UK average on this basis and is very close to the England average. Generally, the lower level of output per-head on a workplace basis when London and the South East are removed, may indicate the impact of commuting from the regions to the capital to work, especially for the East of England.

It is not surprising that regional differences in productivity growth will be more marginal, if the higher growth regions are removed from the analysis. However, such an analysis is

necessary to adjust for the effects of significant concentrations of higher capital stock industries which are reflected in the statistics. The presence of these industries in London, is partly related to historical factors and partly related to it being the capital city. In either case, regional interventions to improve the productivity of services and industry, will not easily improve performance on this measure. Further, this sort of analysis highlights policy implications in terms of tackling these persistent inequalities in regional growth and productivity, for example the need for a national spatial strategy.

### **Explaining local differences**

A number of factors might help to explain differential productivity performance in the sub-regions. In some cases, this is the result of a relatively high proportion of the population being of a non-working age, producing a statistical effect of reducing the level of output per-head, Blackpool being an example – see Table 11. Similar effects may also be relevant in parts of Lancashire, Cumbria, Sefton and on the Wirral. Equally, the reverse may be true, with a higher-than-average working age population, having the result of matching a relatively low level of labour utilisation with higher output per-head. This would appear to be the case for Liverpool; while having a low employment rate, it also has a high proportion of the population in the working age group. Nevertheless, differences would seem to be too large to be explained by this factor alone. A variety of other issues are pertinent and must be taken into account.

In the case of Blackpool, for instance, a relatively high employment rate disguises a slightly above average unemployment rate, but also higher-than-average labour demand co-existing with relatively high levels of short-term unemployment, part-time work and low pay.

In the case of Sefton, a high employment rate disguises a low working age population, high levels of long-term unemployed, marginally lower levels of labour demand (than the NW/GB average), high levels of part-time working and low pay (particularly for local jobs).

On the Wirral a high non-working age population mixes with low levels of labour demand, low (particularly male) employment rate, low pay and a high level of part-time working. In East Merseyside a lower than average employment rate (particularly in Knowsley), low pay, low labour demand and high levels of long-term unemployed combine in a negative fashion in terms of inputs to productivity growth. St Helens also has a high proportion of part-time working.

Liverpool has a relatively high output per-head in relation to the employment rate. The statistical effect of having a relatively large working age population is also compounded by low levels of self employment, low pay, high levels of people not wanting to work and high levels of long-term unemployment despite average levels of labour demand.

There are a number of factors in addition to employment, which make up the combined effects of labour utilisation on productivity. How labour is utilised (pay, full-time / part-time) and the characteristics of unutilised labour (short-term/long-term unemployed) is of crucial importance as an input to productivity growth. The implication is that policy interventions need to be tailored to localised demand-side variables.

**Table 11: Comparison of Output per-head & Labour Utilisation, NUTS3 sub-regions (2001)**

Area	Output per-head (UK=100) 2002	Economic activity rate - working age	Emp. rate - working age	% who are econ. inactive - working age	Unemp rate - working age
Gt Manchester South	116	74.8	70.8	25.2	5.4
Halton & Warrington	113	75.5	71.7	24.5	5.1
Cheshire CC	113	78.6	76.5	21.4	2.8
Liverpool	90	66.7	59.5	33.3	10.8
Blackburn with Darwen	80	70.3	65.3	29.7	7.2
E Cumbria	79	79.0	74.8	21.0	5.4
Lancs CC	83	76.3	73.3	23.7	4.0
W Cumbria	68	74.9	68.6	25.1	8.3
Gt Manchester North	70	76.8	73.3	23.2	4.6
Blackpool	72	76.9	74.2	23.1	3.5
Sefton	66	72.6	68.8	27.4	5.2
East Merseyside	68	71.5	66.3	28.5	7.2
Wirral	60	75.2	70.1	24.8	6.2

ONS, Regional Trends 38, (2004c); NOMIS, Labour Force Survey Local Area Data, (2004).

A similar analysis can be conducted against skills performance. Again, there is some general correlation between output per head and skills levels, although there are also outliers. For instance, both Sefton and the Wirral have high proportions of the working population with level 4 skills (Degree and above). Analysis of investment shows a similar story, with higher levels of average Gross Fixed Capital Formation per-worker and per-head in the higher output sub-regions, principally Cheshire.

## **Innovation**

The North West has a low overall density of innovating businesses with the lowest rate of large business innovation among the English regions and the second lowest rate in terms of SME innovation – see Table 12.

The Tier 2 target was to increase the proportion innovating businesses to 47% by 2005 but achieved 44% in the Department of Trade and Industry’s tri-annual Community Innovation Survey - the 2004 survey will be published in 2005 (DTI, 2001). The target also included achieving the national average for the proportion of businesses using the science base – 31% of businesses in the North West reported using the science base compared to the UK average of 28%.

Evidence regarding novel innovation, or the manufacturing of new products that are not only new to the company but are new to the market shows that the North West has some of the lowest levels of novel innovation across all sectors and in both large and SME businesses. North West businesses also perform comparatively badly in terms of the proportion turnover derived from innovation, product innovation and e-commerce. On the other hand business investment in Research and Development in the North West, compares well with other regions (DTI, 2001; ONS, 2004).

Evidence on performance at Tier 2 level shows that The North West has a low overall density of innovating businesses with the lowest rate of large business innovation among the English regions and the second lowest rate in terms of SME innovation.

Table 12: Novel innovation by business type in North West and UK (1998-2001)

Business type	North West	UK
<b>Small &amp; Medium-Sized Enterprises</b>		
Production and construction	44	47
Distribution and services	43	44
Total	43	46
<b>Large businesses</b>		
Production and construction	65	75
Distribution and services	55	55
Total	62	67
<b>All</b>		
Production and construction	45	48
Distribution and services	43	45
<b>Total</b>	<b>44</b>	<b>47</b>

Community Innovation Survey, 2001, DTI.

Expenditure on research and development contributes to patent applications and the production of innovative products. North West businesses had a 13.1% share of business R&D expenditure in England in 2001 or 1.7% of total regional GVA – only the East of England and the South East had a higher percentage and the same as the East Midlands (ONS, 2004). However, the North West had only a 4.3% share of government expenditure on R&D in 2001, the bulk of this taking place in the four southern regions. R&D in higher education institutions accounted for 9.8% of the England total and 0.4%, just below the average, of regional GVA.

### Sub-regional performance

Innovation is difficult to map at a sub-regional level. Statistics are available for the number of firms classified as research-based in sub-regions, and these have been used by the Treasury as an indicator of innovation at a local level. However, such statistics are misleading, because they do not take account of the whole range of firms, whose main function is the manufacture of goods or production of services, but who also undertake research and development, as they will be classified in the Standard Industrial Classification under a different category. In addition, the sample size is unreliable and data is often not published, because of the small sample size. It is reasonable to assume that the core of innovative activity will take place in major business clusters and in the regions major research centres and universities, and that innovation will generally correlate with existing growth patterns.

Very little is known about the spatial patterns of such innovation and its commercial dissemination, so that, even where innovative products or processes are generated in a locality, they may be commercially exploited elsewhere. Indeed the largest group of businesses reporting a cooperation agreement in the North West, reported that their 'partner' was located at national level, rather than locally or regionally (DTI, 2001: Table 22).

## Enterprise

Three indicators were used to assess the number of people going into business, an improvement in the overall productivity of small firms and more enterprise in disadvantaged communities.

There was a two percentage point decline in the number of people reporting that they were going into business in the North West between 2001 and 2003 – see Table 13. The North

West figure was below the average for England in both years and only the North East and the East of England had worse and comparable levels respectively. However, given the ambiguous nature of the questions and the small sample size, the validity of such results must be highly questionable. Moreover, the fact that less people said they were thinking of going into business, may simply indicate more people in stable paid employment.

**Table 13: Tier 2 Performance, Enterprise Indicator 1 (2001-2003)**

Region	% of all respondents reporting that they are considering going into business	
	2001	2003
England	12	11
<b>North West</b>	<b>11</b>	<b>9</b>
London	15	15
South East	13	11
West Midlands	12	10
South West	11	11
East Midlands	10	10
Yorks & Humber	10	11
East of England	9	9
North East	8	7

IFF Research, Household Survey of Entrepreneurship 2001, (2002); NOP, SBS Household Survey of Entrepreneurship 2003, (2004)

The North West performs well, using the proxy of Small and Medium-Sized Enterprises (SME) share of employment and turnover – see Table 14. The proportion of regional turnover generated by SMEs, is larger than that in any other region. More pertinent is the difference between the SME share of employment and that of turnover. In this too, however, the North West performs well with a 3.5 percentage point gap. Only London has a higher proportion of turnover to employment and only East Midlands, Yorkshire and Humber and West Midlands have a smaller gap between the two indicators.

**Table 14: SME Share of Employment and Turnover by Region (2001)**

Region	SME Share of Employment	SME Share of Turnover
<b>England</b>	<b>54.2</b>	<b>50.4</b>
<b>North West</b>	<b>59.4</b>	<b>55.7</b>
South West	64.8	55.5
East Midlands	56.8	54.2
Yorkshire and Humber	54.3	53.1
West Midlands	54.2	50.7
South East	58.4	49.3
London	43.0	48.9
East of England	55.6	45.7
North East	54.0	45.2

Small Business Service, Small and Medium Sized Enterprise Statistics for the Regions 2001, (2003).

Regional performance in new VAT registrations in deprived wards, was negative in 2002, declining by just over 6% and thus failing to achieve the 1% target increase – see Table 15. The decline was just above the average for all wards in England and thus reflected a national trend. The 20% most deprived wards in the South East, East Midlands and the West Midlands also suffered similar decreases in VAT registrations. VAT registrations also declined across the board including the 20% least deprived wards.



**Table 15: Tier 2 Performance, Enterprise Indicator 3: % Change in VAT Registrations per 10,000 of the Population in Deprived Wards (2002)**

<b>Region</b>	<b>All wards* (%)</b>	<b>20% most deprived (%)</b>	<b>20% most deprived** (%)</b>
England	-5.13	-5.71	-3.33
<b>North West</b>	<b>-6.25</b>	<b>-6.06</b>	<b>-7.41</b>
East of England	-5.00	0.00	-3.13
North East	-5.26	0.00	0.00
South West	-5.41	-3.13	-6.67
Yorks & Humber	-3.45	-3.57	0.00
South East	-4.65	-5.88	-6.67
East Midlands	-2.86	-6.45	0.00
West Midlands	0.00	-6.45	-7.14
London	-9.84	-7.41	-2.22

Department for Trade and Industry, Small and Medium Sized Enterprise Statistics for the UK, 2002, (2003).

Notes: \* Only those wards which match across 1998 (IMD), 2000 (VAT) and 2001 (VAT) are included in the analysis.

\*\* Excluding 30 city centre wards.

However, in deprived wards outside city centres, decline in the North West was more pronounced than the national average and also exceeded the trend in the North West more generally, indicating a larger gap in business start-ups.

## Part 3

# Urban, Regeneration and Rural Progress

North West regional performance in the remaining four Tier 2 targets, is examined in this section, beginning with a summary of the targets, their associated indicators and a summary of achievements to-date. The four targets are:

- Urban
- Rural
- Regeneration
- Physical development

A summary of regional performance for these targets is in Table 17 on the following page.

## Urban

### House prices

The Tier 2 target was to reduce the disparity in house/land prices in the North West relative to regional/national averages and to reduce the disparity of average house prices between East Manchester (£22,164) and the city (£67,573) and in East Lancashire to reduce by 2.5% ie % of house sales less than 20K (Baseline 1998 – 19.1%).

All categories of house prices increased faster in the North West than in England and Wales in the 1999-2004 (Oct/Dec) period. In fact average North West prices of semi-detached houses and flats/maisonettes increased by 18 percentage and 30 percentage points respectively above the England and Wales average in these categories (see Table 16).

Table 16: **Changes in house prices in the North West and England and Wales 1999-2004**

Dwelling type	North West			England and Wales
	Oct-Dec 1999 (£)	Oct-Dec 2004 (£)	% Change	% Change
Detached	121,231	249,284	105.6	96.8
Semi-detached	62,275	137,675	121.1	102.7
Terraced	41,182	85,030	106.5	87.8
Flat/ Maisonette	61,880	125,388	102.6	72.2
Overall	67,871	130,128	91.7	86.3

Source: Land Registry, February 2005

Although average house prices increased faster in the North West than in England and Wales, house prices in East Lancashire declined relative to the North West average (Land Registry database accessed February, 2005). Terrace house prices in Burnley, Hyndburn and Pendle were virtually static in the 1999-2002 period with semi-detached prices increasing by only 2.4%, 7.6% and 10.9% in these authorities. Flats/maisonettes suffered a 17.5% decline in the same period. In West Cumbria terrace house prices declined by just over five percent in Copeland in the same period and there were even larger decreases for flats/maisonettes in Allerdale, Barrow and Copeland. In contrast detached house prices increased by between 33% and 56% in these authorities.

**Table 17: Summary of Tier 2 performance**

<b>Current Tier 2 Performance</b>	
<b>Target</b>	<b>Current Performance</b>
<b>Urban</b>	
<p>1. Achieve stabilisation or net increase (as appropriate) in population. East Manchester: Stabilise at 2002 figures (29,883 by 2006: Furness: Stabilisation at 2002 figures (70,000) by 2006: East Lancashire: By 2007 restore to 1991 level (513,200).</p> <p>2. Reduce the disparity in house/land prices relative to regional/national averages: East Manchester: Reduce disparity of average house prices between East Manchester (£22,164) and the city (£67,573): East Lancashire: By 2007 reduce by 2.5% ie % of house sales less than 20K (Baseline 1998 – 19.1%).</p> <p>3. Increase city/town centre population: Liverpool City Centre: By 2007/08 increase by 11,000.</p> <p>4. Increase the volume of retail trade. Liverpool City Centre: An additional 1m sq.ft floor space by 2007/08. West Cumbria: 235,000 sq.ft new and refurbished space available by 2006.</p> <p>5. Increase the value of commercial property rentals. Furness: Increase modern industrial rentals by 10% by 2007 (baseline: £3.40 sq.ft): West Cumbria: Increase modern industrial rentals by 10% by 2007 (baseline £2.30 sq.ft): East Lancashire: Modern industrial premises rentals increase to £5 sq.ft. Average office rental increase to £10.00 sq.ft.</p> <p>6. Increase the number of visitors. Liverpool City Centre: by 2006/07 increase by 16,500: Furness: 5% increase in staying visitors by 2007 (baseline 0.1m, STEAM 2001: West Cumbria: 5% increase in staying visitors by 2007 (baseline 0.9m, STEAM 2001).</p>	<p>Data not yet available</p> <p>All categories of house prices increased faster in North West than England and Wales in 1999-2004 period. House prices in East Lancashire (with exception of Ribble Valley and Rossendale) grew at a slower rate relative to other areas.</p> <p>Data not yet available</p> <p>No regional data but evidence of strong growth in major retail centres in North West.</p> <p>The capital value of industrial performed relatively well in the North West compared to many other regions.</p> <p>Office rental costs in the North West staged significant recovery.</p> <p>Data not yet available</p>
<b>Rural</b>	
<p>Reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006.</p> <p>Improve the accessibility of services for rural people.</p> <p>Regenerate 20 vulnerable market towns as healthy and attractive centres servicing their own population and that of their rural hinterlands – as measured by employment, skill levels and business formation rates.</p>	<p>Redefinition of rural/areas in 2004 and data not available.</p> <p>9 targets but data not available until April 2005.</p> <p>Data not yet available.</p>
<b>Regeneration</b>	
<p>Reduce the number of adults in income support households by 10% (37,408) in worst 20% IMD wards.</p> <p>Reduce the number of adults in income based Job Seekers Allowance households by 10% (8,604) in worst 20% IMD wards.</p> <p>Reduce the number of unemployment claimant count by 10% (10,892).</p>	<p>Target not achieved – 1.5% increase in claimants between 1999-2003.</p> <p>Target met: reduction of 20.1%</p> <p>Target met: reduction of 36.5%</p>
<b>Physical development</b>	
<p>70% of new housing to be built on previously developed land and through the conversion of existing buildings by 2008.</p>	<p>Target achieved in 2001 and subsequent results of 73% and 72% in 2002 and 2003 respectively.</p>

Average house prices surged ahead in the 2002-2004 period in the urban priority areas. Whereas, the 1999-2002 average price increase varied between 4.8% in Burnley to 38.3% in Ribble Valley, price increases for the entire 1999-2004 period ranged from 24.2% to 125.7% respectively (see Table 18). Average prices in Manchester, Liverpool, Allerdale, Copeland and Blackpool all exceeded 100% in the same period.

However, a comparison of the average house price in each area, relative to the North West average in 1999 and 2004, shows that house prices in East Lancashire (with the exclusion of Ribble Valley and Rossendale) grew at a slower rate, relative to other areas. Average house prices in the other urban priority areas – Manchester, Liverpool, West Cumbria and Blackpool – increased relative to the North West average in the 1999-2004 period.

The average price of a terrace house in the North West is now £85,030 (Oct/Dec 2004) which raises major issues of affordability and therefore availability.

**Table 18: Percentage changes in house prices in Urban Priority Areas between Oct/Dec 1999 and Oct/Dec 2004**

Local Authority	Detached	Semi-detached	Terraced	Flat/Maisonette	Over-all	% of NW average 1999	% of NW average 2004
Manchester	137.0	125.7	104.2	83.8	103.0	84.9	89.9
Liverpool	114.2	123.7	125.9	116.7	101.8	77.9	82.0
<b>East Lancs</b>							
Blackburn	104.6	104.0	94.9	165.7	82.0	73.6	69.9
Burnley	121.0	107.6	26.6	176.4	24.2	71.8	46.5
Hyndburn	104.9	123.1	86.9	33.5	72.0	65.4	58.7
Pendle	127.9	109.9	56.1	N/a	55.3	73.4	59.5
Ribble Valley	122.4	113.2	127.4	148.3	125.7	127.9	150.6
Rossendale	98.8	96.9	88.0	91.6	93.4	83.7	84.4
<b>West Cumbria</b>							
Allerdale	106.0	103.1	116.5	100.0	104.8	93.5	99.9
Barrow	126.9	107.7	99.3	119.4	97.3	63.9	65.8
Copeland	114.4	110.5	145.0	137.6	109.9	75.9	83.1
<b>Priority Coastal Resorts</b>							
Blackpool	104.5	127.9	132.5	111.9	113.0	75.7	84.1

Source: Land Registry, February 2005

Average terraced house prices in the East Manchester postal codes also declined in the 1999-2002 period, but similarly increased rapidly in the 2002-2004 period to show substantial increases, particularly in terraced house prices (see Table 19).

**Table 19: Change in house prices in East Manchester 1999-2004 (Oct/Dec)**

Post codes	Detached	Semi-detached	Terraced	Flat/Maisonette	Overall
M11	N/a	N/a	114.9	N/a	133.7
M12	N/a	139.7	227.5	N/a	206.3
M40	N/a	118.5	120.0	N/a	103.2
M1	N/a	N/a	N/a	66.1	66.1

Source: Land Registry, February 2005

**Rental value of commercial property**

The Tier 2 target was to increase the value of commercial property rentals, which is measured by the capital value of industrial property and the rental costs of office accommodation, based on Inland Revenue sample valuations in each region. The capital value of industrial property in the North West performed relatively well, compared to many other regions, which suffered a significant decline, notably the North East, Yorkshire and Humber, East Midlands, West Midlands (ONS, 2004d) - see Table 20.

**Table 20: Capital value of commercial property and office rental costs in the North West**

UK = 100	North West	North East	Yorks & Humb	East Midlands	West Midlands	Eastern	London	South East	South West
<b>Capital value of industrial property</b>									
1999 April	<b>84</b>	75	93	88	95	111	151	145	100
2004 Jan	<b>83</b>	68	81	77	86	111	183	162	99
<b>Rental cost of office accommodation</b>									
1999 April	<b>86</b>	77	87	75	94	95	199	121	84
2004 Jan	<b>86</b>	84	87	82	93	96	195	124	83

Regional Competitiveness and State of the Regions, ONS, 2004.

The rental cost of office accommodation staged a significant recovery in the 1999-2004 period, having declined to 77 on the index, before increasing to 86 in 2004 – see Table 21. Whilst the Tier 2 target was not achieved, the capital value of industrial property and rental costs of office accommodation both recovered from earlier declines.

**Table 21: Change in Capital Value and Rental Value of Commercial property North West and England**

Index (UK = 100)	Capital value of type 3 industrial property		Rental cost index of type 1 office accommodation	
	North West	Average England	North West	Average England
1999 April	84	105	86	102
October	83	105	86	103
2000 April	80	105	85	102
October	79	105	81	103
2001 April	81	106	78	103
October	80	106	77	102
2002 April	83	107	77	105
October	83	107	79	104
2003 April	83	106	81	105
2004 January	83	106	86	103

Regional Competitiveness and State of the Regions, ONS, 2004.

**Increase the volume of retail trade**

National Statistics adopted a new methodology for the Retail Sales Index in September 2003, however, regional data is not available making it impossible to compare the performance of the North West with other regions. The percentage change in the value of retail sales (seasonally adjusted), taking the latest month on the same period a year earlier, increased by 3.7%, 3.5%, 6.9%, 3.7% and 3.6% from June 1999 to June 2003. The volume of trade was marginally higher except in 2001.

The North West is reported to be experiencing a ‘retail boom’, according to the latest analysis of 32 leading retail centres in the UK and Ireland. Manchester and Liverpool are ranked 5<sup>th</sup> and 10<sup>th</sup> respectively (Prime Retail, 2005). “Manchester has experienced the most improved trading conditions over the past three years of all the top 32 retail centres” and in Liverpool more “...than 80 per cent of retailers surveyed expected trade to improve over the next three years, while only 2 per cent thought it would get worse” (Financial Times, 18 February 2005).

## Rural

The Rural Tier 2 target had three elements relating to productivity, access to services and employment, skill levels and business formation in market towns, which are summarised in Table 22:

**Table 22: Tier 2 Targets**

Target	Indicator (RES)	Deadline
Productivity in worst performing rural areas	Narrow gap with English median (interim target). NWDA Corporate Plan 2003/04 suggested Lancaster and Copeland as “worst performing rural areas”	2006
Access to services in rural areas	Increase	2006
Employment, skill levels and business formation rates in 20 market towns	Increase	2006

NWDA (2003), NWRIU (2002).

However, it was not possible to assess productivity in rural areas, because the redefinition of rural/urban areas was only completed in 2004 and because of a lack of data.

The new definition of rural applies to settlements with less than 10,000 population in 2001. Rural Output Areas are classified as ‘sparse’ or ‘less sparse’ (Countryside Agency, 2004a). Where the majority of the population of an Output Area lives in settlement with a population of more than 10,000 people, it is classified as urban.

Public Service Agreement 4 for Rural Productivity/Services has been revised – “Reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2008, demonstrating progress by 2006”. In addition, the rural areas with poor economic performance now includes ten districts in the North West – see Table 23.

**Table 23: Poor economic performance in North West rural areas**

Rural Districts with consistently poor rural economic performance	Other urban or rural districts containing significant poor rural economic performance	Overlap with Neighbourhood Renewal Districts
Copeland	Lancaster	Allerdale
Allerdale	Carlisle	Pendle
Eden	Pendle	
West Lancashire	Crewe & Nantwich	
	South Lakeland	
	Ribble Valley	

Source: DEFRA Public Service Agreement Technical Note, Annex B, 2004.

Productivity, as measured using valued added by the workforce, or Gross Value Added, is only available for the NUTS3 level, which is too large to identify differences in rural productivity. An alternative methodology, using aggregate earnings of working age taxpayers and the number of people of working age who are economically active or economically inactive and not in education, has been delayed, because the Inland Revenue withdrew the earnings data due to errors.

### **Access to services**

PSA 4 – Access to services is now based on the following 9 service areas:

- Mental Health
- Drug rehabilitation and treatment
- Children's services
- Not in Education, Employment or Training (NEET)
- Employment rates of disadvantaged groups
- Pensions
- Accessibility
- Road traffic accidents
- Affordable housing

However, the data for most of these criteria will not be available until April 2005, and in some cases later (DEFRA, 2004).

### **Other rural performance**

Other key indicators demonstrate rural economic performance in the North West:

- The employment rate in Accessible Rural districts was the lowest of any region in 2002/02 and second lowest for Remote Rural districts. However, it increased dramatically with the North West having the highest employment rate in Remote Rural districts by the end of 2003.
- Unemployment in North West rural areas was 4.6% in 2003, the highest of all regions and well above the England average of 3.3% (Countryside Agency, 2004b).
- The region had the lowest percentage (12.6%) of all regions for the percentage of self-employed in rural areas, although the Remote Rural percentage was high, the percentage in Accessible Rural areas was low (ibid).
- The North West was the only region in 2003, where average weekly earnings in rural areas were higher than in urban areas, a difference of 5.2%.
- The North West had the lowest ranking in the index of incomes against mortgage costs in rural areas between 2001-03, but the index reached 3.6 in 2003, indicating affordability difficulties for the average household (ibid).

## **Regeneration**

### **Income support**

Between 1999-2004 the number of Income Support claimants in the North West declined by 30,900, a 18.2% reduction, which was just over three percentage points higher than the England average (NOMIS, 2005). However, there was an increase of 5,663 (1.5%) Income Support claimants in the worst 20% IMD wards in the North West with a slightly smaller increase of 0.5% in the 20 worst ranked wards in the North West.

### **Job Seekers allowance**

The target of a 10% reduction in Job Seekers Allowance claimants was achieved with a 20.1% reduction in the worst 20% of IMD (2000) wards in the North West and a 19.0%

reduction in the 20 worst ranked North West IMD wards (NOMIS, 2005). The 35.7% reduction in the region as a whole exceeded the English average of 32.5%.

**Unemployment**

The 40.6% reduction in the claimant count in the North West in the 1998-2005 period bettered the reduction in England (36,6%) although the North East, Yorkshire and the Humber and the South West regions had larger percentage reductions (NOMIS, 2005).

The claimant count also declined significantly, between 36.5% and 40.6%, at a very consistent rate at all four levels – England, North West region, in the worst 20% of IMD (2000) wards in the North West and in the 20 worst ranked wards in the North West, primarily wards in Liverpool, Knowsley and Manchester. North West performance of the Tier 2 regeneration targets is summarised in Table 24.

**Table 24: Summary of North West performance**

	1999	2003	2004	2005	Change	% change
<b>Income support</b>						
England	1,219,900		1,038,400		-181,500	-14.9
North West	170,000		139,100		-30,900	-18.2
Worst 20% wards IMD North West	374,085	379,748			+5,663	+1.5
20 worst ranked North West IMD wards	41,385	41,595			+210	+0.5
<b>Job Seekers Allowance</b>						
England	1,282,200		864,000		-416,200	-32.5
North West	163,000		105,000		-58,200	-35.7
Worst 20% wards IMD North West	85,730			68,496*	-17,234	-20.1
20 worst ranked North West IMD wards	9,520	7,710			-1,810	-19.0
<b>Unemployment</b>						
England	1,110,628			704,232	-406,396	-36.6
North West	170,152			101,028	-69,124	-40.6
Worst 20% wards IMD (2000) in North West	111,157			69,010	-42,147	-37.9
20 worst ranked North West IMD wards	11,964			7,590	-4,374	-36.5

Claimant count based on January data. Benefit claimants counts are rounded to the nearest 100 and are subject to sampling variation. \* Based on 2001 Census wards and not strictly comparable to 1999 data, also data for 25 wards not available.

The very different levels of performance in the regeneration targets, both the employment related targets have been achieved but the Income Support target has not, reflects improvement in the regional employment rate in the 1999-2004 period. It could also reflect improved take-up of income support and/or more workers in low pay jobs claiming additional support.

The 25-34 age group had the largest numerical reduction in Income Support claimants at regional level with a 14,700 reduction in claimants in the 1999-2004 period with 10.5% and 7.9% reductions in the aged 24 and under and 35-44 age group respectively. The 60-64 age group had the largest percentage decline at 29.5% but this was a relatively small group. Blackburn, Crewe and Macclesfield registered no reduction and Manchester had only a



4.8% reduction in the same period. The male claimant count in the North West reduced by 42,600 or 27.3% in the 1999-2005 (January) period, nearly four percentage points ahead of the reduction in the female claimant count (see Table 25).

**Table 25: Change in North West Claimant Count**

Year	Count			Rate		
	All	Male	Female	All	Male	Female
1999	170,152	133,476	36,676	4.2	6.3	1.9
2000	156,090	122,380	33,710	3.8	5.8	1.7
2001	137,217	107,741	29,476	3.3	5.1	1.5
2002	130,576	102,149	28,427	3.2	4.8	1.4
2003	124,209	96,704	27,505	3.0	4.5	1.4
2004	112,003	86,617	25,386	2.7	4.0	1.3
2005	101,028	77,280	23,748	2.4	3.6	1.2
<b>Change</b>	<b>-42,600</b>	<b>-34,500</b>	<b>-8,100</b>			
<b>% change</b>	<b>-27.3</b>	<b>-28.3</b>	<b>23.7</b>			

Source: Labour Market Trends, February 2005, Table FI, not seasonally adjusted. Figures for January each year. Proportions for dates from 2004 onwards are calculated using the 2003 resident working age population.

The claimant count - the number of people out of work and claiming unemployment related benefits – is only one measure of unemployment. Entitlement to Job Seekers Allowance requires claimants to demonstrate that they are available to work and are looking for work and must ‘sign-on’ every two weeks. Incapacity Benefit is paid to non-employed working age adults who have health problems and/or disabilities. Some 2.7m people of working age in Britain were claiming sickness related benefits in August 2003 (1.6 men and 1.1m women).

Incapacity Benefit claimants in the North West region increased by 42,477 (10.7%) to 440,287 in the 1999-2003 period. Liverpool and Manchester account for nearly one fifth of the regional total and had regional average increases. However, two significant changes occurred:

- The three counties – Cumbria, Cheshire and Lancashire - each had increases about five percentage points above the regional average.
- The bulk of the increase were of claimants in the 30-49 years age group – a 20% average increase in the region but the three county areas had increases of 25%, 34% and 27% in this age group. In general the rate of increase in this age group was between 50% and 100% higher than the average increase for all claimants in all the Metropolitan and County authorities in the region.

It is estimated that 1,130,00 people have been directed from unemployment to sickness benefits (Beatty and Fothergill, 2004). The authors point out that the government’s approach to Incapacity Benefit assumes that it is a labour supply problem. However, they argue that “...the marked concentration in Britain’s older industrial areas....suggests that it is a labour demand issue. Very large numbers have been diverted from unemployment to sickness benefits in these areas because there have not been enough suitable jobs in these places. Indeed, the rising numbers on incapacity benefit in these areas represents the principal labour market response to job destruction in the 1980s and 1990s” (ibid).

The North West has the largest estimated diversion, 231,000 people, from unemployment to sickness benefits of all regions, representing 5.6% of the total North West working age population. An indication of the scale of the estimated diversion in the North West is

illustrated in Table 26, which shows that Liverpool has 29,000 and Manchester 20,600 people of working age diverted from the claimant count into Incapacity Benefit.

**Table 26: Estimated diversion of unemployed to Incapacity Benefit in selected local authorities in the North West**

Local authority	Number	As a % of the total working age population
Knowsley	9,900	10.8
Liverpool	29,000	10.4
Barrow in Furness	4,300	10.1
Manchester	20,600	7.5

Source: Beatty and Fothergill, 2004.

The government plans to focus on reducing the number of people of working age on Incapacity Benefit who are able and willing to work (HM Treasury, 2004). The above analysis indicates where additional employment must be generated and the location of training and support mechanisms, which will be needed to implement the reduction of Incapacity Benefit claimants in the North West.

## Physical development

The North West achieved its target for 70%, of new housing to be provided on previously developed land and through the conversion of existing buildings by 2008 in the last three years, for which data is available (2001-03) – see Table 27. North West performance is second only to London and its average for the 1999-2002 period was seven percentage points higher than the average for England. The data up to 2002 did not include most conversions and the Land Use Change Statistics (ODPM, 2004b) estimate that three percentage points should be added to the data up to and including 2002 and means, that the North West target would also have been achieved in 2000.

**Table 27: New dwellings built on previously-developed land (1)**

Region (2)	1997	1998	1999	2000	2001	2002	2003P	Average 1999-2002
<b>North West</b>	<b>58</b>	<b>62</b>	<b>60</b>	<b>67</b>	<b>70</b>	<b>73</b>	<b>72</b>	<b>68</b>
North East	46	50	40	47	45	57	54	49
Yorkshire & Humber	49	51	50	57	55	62	64	58
East Midlands	37	35	37	42	47	53	53	47
West Midlands	56	54	54	55	60	67	72	62
East of England	53	54	58	53	58	58	59	57
London	89	92	89	89	90	90	93	90
South East	54	56	61	62	65	66	62	63
South West	34	37	39	44	48	49	56	48
England excl conversions	53	55	56	58	60	64	65	61
England inc Conversions (3)	56	58	59	61	63	67	67	64

Land Use Change Statistics, ODPM, October 2004

Note 1. Information relates to map changes recorded by Ordnance Survey as at the end of June 2004 where the year of change has been estimated by surveyors from available information. 2. Conversions of existing buildings are **excluded** regionally from figures achieved. 3. Conversion of existing buildings estimated to add 3 percentage points up to 2002. The process of estimation has been elaborated from P. 2003 figures provisional, subject to revision as retrospective changes are continually being detected.

**Sub-regional performance**

Not surprisingly, sub-regional performance mirrored urban and rural differences and capacity, to contribute to the target. Greater Manchester and Merseyside substantially exceeded the regional target, with Cumbria achieving an average 39% in the 1999-2002 period (see Table 28).

**Table 28: Percentage of dwellings built on previously-developed land by County**

<b>County</b>	1997	1998	1999	2000	2001	2002	Average 1999-2002
Cheshire	51	50	50	51	58	59	55
Cumbria	20	30	43	35	39	36	39
Lancashire	46	50	50	50	51	63	54
Greater Manchester	60	72	65	78	84	85	78
Merseyside	83	87	79	88	89	95	87

Land Use Change Statistics, ODPM, October 2004

The average performance of four local authorities – Manchester, Salford, Tameside and Sefton – reduced in the 1999-2002 period compared to the previous four year period (1995-98), however, their performance remained well above the regional target of 70%. There was also a decline in the performance of seven authorities in Lancashire – Hyndburn, Lancaster, South Ribble, Rossendale, Wyre, Blackburn and Blackpool – with an average 20 percentage point decline in the performance of the latter four authorities. None of these authorities achieved the regional target. Congleton and Crewe and Nantwich in Cheshire had a similar lower level of performance level in the 1999-2002 period as did Allerdale, Cumbria but the decline was less marked.

## Part 4

# Social justice in the North West

### Introduction

In broad economic terms, the North West has maintained a sustainable economic performance. It achieved the investment target and increased the employment rate from 72.3 to 73.6 between 2001-04. Performance on productivity (GVA) remains significantly below the England average and its performance in innovation and enterprise declined, making it unlikely to meet the targets.

The regeneration targets were met, but it has been difficult to determine performance of the other urban targets due to a lack of data. The physical development target on the use of previously developed land, has been achieved but determining performance of the rural targets has been delayed because of the redefinition of urban/rural areas and accessibility data only becoming available later in 2005.

The Regional Economic Strategy is a long-term project requiring systematic and continuous investment by all the regional partners. Social and economic transformation does not happen overnight. In addition, it is often very difficult to separate the cause and effect of regional and national policies, particularly those relating to the benefits system.

This part of the report examines regional performance in the context of the:

- Distribution of opportunities in the region
- Redistribution and improving life chances
- Reducing inequalities
- Eliminating discrimination
- Improving quality of life and community well-being
- Participation, involvement and governance

### Distribution of opportunities in the region

The sub-regional variations in economic performance are stark. GVA per head in the North West varies from a high of 116 in Greater Manchester South to a low of 60 in Wirral (5th lowest in England). Growth in GVA per head has been relatively strong since 1999 in the North West (Regional Economic Forecasting Panel, 2004), but the NUTS3 area analysis of GVA between 1995-2002, highlights three patterns to this growth:

- Increased GVA per head in a few areas, such as Greater Manchester South and Liverpool;
- GVA per head is at a standstill in several areas such as Halton and Warrington, Cheshire, East Merseyside and Sefton;
- A substantial decline in GVA per head in many areas, such as West and East Cumbria, Greater Manchester North, Blackburn, Blackpool and Lancashire.

Research shows that lower labour productivity of those in work and low labour market participation are the cause of the gap in GVA per head performance compared with the UK average (Regional Economic Forecasting Panel, 2004).

### **The skills gap**

Sub-regional skills performance was discussed in Part 2, with disparities within the North West being much larger than those between regions. Those areas, which are below the regional average for each level of NVQ attainment, also tend to be areas of multiple deprivation in the older industrial areas of Greater Manchester, Merseyside, Lancashire and West Cumbria. Targeting these areas will help to increase activity rates, increase earnings and alleviate deprivation. The skills/income relationship is important, with those with no qualifications having average gross weekly earnings of just over £200 in 2003, with significant increases in earnings through the NQF level 2, NQF level 3 rising to over £500 per week for those with NQF level 4 and above (LFS, Spring 2003 quoted in DfES, 2005).

Only 27% of Black and Ethnic Minority groups have level 1 or 2 qualifications in the North West compared to 37% of White people. Interestingly, the proportion who are qualified to above level 3, is higher (32%) than for White people (25%). At NVQ levels 4 and 5, there are proportionally more people from BME communities (23%) with higher level of qualifications than in the North West (17%).

Job-related training in the region has been low, relative to other regions, for several years. A more detailed analysis of the sub-regional and sector weaknesses in job-related training, has not been possible but the LSC and employers need to address this urgently.

### **Investment gap**

Part 2 discussed the limited Tier 2 investment target, focused on Foreign Direct Investment and the region's relative significant share of SME employment and turnover, although it has yet to achieve the target of matching the national average of those considering going into business. The government's target of increasing employment opportunities for the one million people on Incapacity Benefit who want to work, will require investment, training and enterprises to be targeted in the travel-to-work areas where people live – primarily in Merseyside, Greater Manchester and Barrow.

The NWDA and NWRA have taken a number of important steps in recognising and developing public sector investment in the region, for example, through the RES – “Maximising the impact of the public sector on the Region's Economy, Skills and Employment Opportunities” (NWDA, 2003) and the health and social care economy (NWRA, 2003 and NWDA 2003). The Public Sector Scoping Study further developed this work – “... public expenditure represents a serious growth opportunity for the region” (NWDA/SQW, 2004). The study focused on local authorities, the NHS, the police and fire services and housing associations with an emphasis on procurement from the private sector, workforce development and capital spend on construction projects. It recommended a strategic high level implementation group to drive the public sector opportunities agenda to enhance procurement capability, skills development thematic expert groups.

The government's public spending programme will significantly increase investment in the region (see Part 4). Each investment programme is substantial in its own right, for example, in education, health and housing. Harnessing this investment, in order to improve local/regional employment and training opportunities, maximise production and supply chains, target investment to the greatest need, linking innovation and enterprise initiatives, in effect, to inject greater co-ordination and collaboration at regional level, is fundamentally important.

## **Redistribution and improving life chances**

The government's tax and social security changes since 1996/97, have been redistributive, and have slowed the increase in inequality - by 2002/03, there had been a slight rise in income inequality in Great Britain since 1996/97. In 1996/97 the mean average income (before housing costs) was £333, in real terms, increasing to £396 by 2002/03 – a real increase of 19%. The reason for this increase in inequality is primarily the continuing growth in incomes of the top 1% of incomes, which has cancelled out income growth in the poorest and second quintile groups in the population.

“While the *increase* in inequality since 1996/96 is not historically large (for example, between 1979 and 1990, the Gini coefficient (widely used to measure income inequality that condenses the entire income distribution into a single number between zero and one, the higher the number the greater the degree of income inequality) increased from 0.25 to 0.34), the *level* certainly is. Indeed since 1998/99, inequality as measured by the Gini coefficient has been at its highest level since at least 1961” (IFS, 2004). Britain's position in Europe, in income inequality terms, worsened between 1996 and 2001, moving from sixth-worst to fourth-worst behind Spain, Greece and Portugal. This shift was based on total income of the richest 20% of individuals, expressed as a multiple of the total income of the poorest 20% in each country. Meanwhile, the richest one per cent of the population have increased their share of income, from 6.7% in 1981 to 13% in 1999 (IPPR, 2004).

In the North West, there are wide variations in gross weekly earnings, ranging from £583.70 in Macclesfield to £285.48 in Blackpool (August 2003). Gross average weekly earnings in the North West were 8.7% below the average for England - £367.62 compared to £402.69. Average weekly earnings vary between ethnic groups, with Indian males earning only marginally below average earnings of Whites but other average earnings of other BME groups were significantly lower. “...people from BME communities face discrimination and disadvantage in the labour market and enjoy lower life chances. Key issues include concentration in a narrower band of sectors and jobs, in lower tier jobs and lower average pay, than White people, even when qualifications levels are taken into account” (BME, NWRA, 2004).

The gender pay gap remains large, with women in the North West earning an average 76.15% of male gross weekly earnings (New Earnings Survey, April 2003). At regional level, 27.9% of women earned less than £250 per week, compared to just 13.1% of men. However, there are wide variations in the sub-regions. In Cumbria, 36.1% of women earned less than £250 per week, partly accounted for by having the highest percentage (52%) of part-time workers. Across the region, 43% of women worked part-time compared to 9.6% of male workers.

Child poverty has also been reduced in the 1996/97 – 2002/03 period, with the government on course to meet its target to reduce the number of children in relative poverty by 25%, between 1998/99 and 2004/05, based on a poverty line of 60% of median income. The number has fallen from 3.1m to 2.3m (before housing costs taken into account). Other initiatives, such as the child tax credit from 2003/04, have yet to be reflected in the figures (IFS, 2004). Yet child poverty remains high by European standards, “...a shameful record” (IPPR, 2004).

### **Pensioner poverty**

The government does not have a specific target for reducing/eliminating pensioner poverty. Using a 60% of median income threshold, pensioner poverty fell from 27% to 21%, based on the after-housing costs measure, but there was no change when the before-housing costs measure is used (DWP, 2004). Pensioner poverty is highest for women over 75, (both

living alone or with a partner) and lowest for single men. The ageing of the population will widen overall inequality and gender inequality in particular.

The threat to local authority, civil service pensions a key issue for the North West given the relatively high level of public sector employment coupled with the continued switch to money purchase pension schemes by the private sector. Several large manufacturing companies operate in the North West, with substantial shortfalls in their company pension schemes. However, the percentage of working-age people who have contributed to a private/works pension, in at least three of the last four years, remained virtually static between for both men and women 1996 and 2002 (DWP, 2004).

**Working-age adults**

The focus on poverty within two specific groups - children and pensioners - has masked a 500,000 rise in the number of working age adults without children – they have increased from 3.3m in 1994/95 to 3.8m in 2002/03 (IPPR, 2004).

**Multiple deprivation in the North West**

The Indices of Multiple Deprivation (IMD) 2004 is based on seven weighted criteria:

- \* Income (22.5%)
- \* Employment (22.5%)
- \* Health Deprivation and Disability (13.5%)
- \* Education, Skills and Training (13.5%)
- \* Barriers to Housing and Services (9.3%)
- \* Crime and Disorder (9.3%)
- \* Living Environment (9.3%)

The North West has the largest number of people (2,222,000) living in one of the 20% most deprived Super Output Areas (SOAs) (ODPM, 2004c). Of those who live in the most 20% deprived SOAs in England, nearly a quarter (22.6%) live in the North West – see Table 29.

**Table 29: The geography of multiple deprivation**

Region	Population in most deprived 20% of SOAs in England (000)	Regional population (000)	% of regional population living in most deprived 20% of SOAs in England	% of England population living in most deprived 20% of SOAs in England	Proportion of people living in most deprived 20% of SOAs in England by region
<b>North West</b>	<b>2,222</b>	<b>6,760</b>	<b>32.9</b>	<b>4.5</b>	<b>22.6</b>
North East	952	2,515	37.8	1.9	9.7
Yorkshire & Humber	1,467	4,965	29.6	3.0	14.9
East Midlands	727	4,176	17.4	1.5	7.4
West Midlands	1,398	5,279	26.5	2.8	14.2
Eastern	333	5,397	6.2	0.7	3.4
London	1,934	7,305	26.5	3.9	19.6
South East	409	8,013	5.1	0.8	4.2
South West	420	4,933	8.5	0.9	4.3
Total	9,853	49,345	-	20	100

English Indices of Deprivation, ODPM, 2004

The geography of deprivation is further analysed in Table 30, which shows the ranking of the North West, relative to other regions, on a number of deprivation criteria. With a ranking of 1 being the worst, the North West is ranked between 1-3 except in the % of older people living in income-deprived households (4<sup>th</sup>), education, skills and training deprivation (5<sup>th</sup>) and barriers to housing and services where it is 9<sup>th</sup>.

**Table 30: Ranking of the North West in deprivation criteria**

Criteria	Percentage, number or mean rank	Rank of region (1 is worst of 9 regions)
% of children living in income deprived households	23.44%	3
Number of children living in income deprived households	351,277	2
% of older people living in income deprived households	18.51%	4
Number of older people living in income deprived households	250,640	1
Range of employment deprivation – mean SOA rank	11,185	2
Range of health deprivation and disability rank by SOA	9,062	2
Range of education, skills and training deprivation rank by SOA	14,985	5
Range of living environment deprivation rank by SOA	12,915	3
Range of barriers to housing and services rank by SOA	21,592	9
Range of crime rank by SOA	14,606	3
Range of IMD 2004 – SOAs with the highest levels of multiple deprivation	12,830	2

English Indices of Deprivation, ODPM, 2004

There are 15 districts in the North West in the 50 most deprived districts in England (based on average score) – see Table 31.

**Table 31: Districts in the North West which are in the top most deprived 50 districts (average score)**

Rank	District	Rank	District
1	Liverpool	34	Blackburn with Darwen
2	Manchester	36	St Helens
3	Knowsley	37	Burnley
12	Salford	43	Oldham
21	Halton	48	Wirral
24	Blackpool	49	Tameside
29	Rochdale	50	Bolton
29	Barrow in Furness		

English Indices of Deprivation, ODPM, 2004.

The regeneration targets, of reducing the number of Income Support and Job Seekers Allowance by 10% in the worst 20% IMD wards in the North West, were achieved, as noted in Part 3. However, the percentage fall was greater in less deprived areas. The decline in Income Support was only 3.8% (1999-2003) in the 20 worst ranked IMD wards, primarily



Liverpool, Knowsley and Manchester, in contrast to 18.2% (1999-2004 period) decline in the North West generally. The variance in the periods would not be significant to eliminate the significantly different rates.

The pattern of decline in the Job Seekers Allowance was similar, a 19% decline in the same IMD wards, compared to a 35.7% decline in the North West for the same periods. The claimant count showed only a small variation between the England, North West, worst 20% of IMD wards, and the 20 worst ranked wards in the North West. However, the role of Incapacity Benefit was significant in this case (see Part 3). This pattern was not unique to the North West. Benefit claimants fell 32% in the least deprived wards nationally compared to 22% in the percent most deprived wards (Evans et al quoted in IPPR, 2004).

Government progress in the national deprivation targets is summarised in Table 32.

**Table 32: Summary of progress against national deprivation targets**

Target	Evidence of improvement in most deprived areas	Evidence of convergence	On target?
Employment rates	Yes	Yes	Yes
Secondary school performance	Yes	Yes	No
Primary school performance	Yes	Yes	No
Crime	Yes, for burglary and vehicle crime, No for robbery	No for burglary and vehicle crime, Yes for robbery	No
Health	Yes	No for life expectancy, Yes for teenage pregnancy	No for life expectancy, Yes for teenage pregnancy
Social housing	Yes	N/A	Yes

Hills and Stewart, A More Equal Society, 2004

**Spatial planning**

More conflicts and contradictions are likely to arise in terms of reconciling the social and economic needs of the North West and market forces. The more attractive areas in the region could gain further advantage over the deprived areas, fuelled by asset-based welfare policies. This would increase rather than reduce sub-regional and community inequalities.

**Reduction of inequalities**

**Equalities groups or strands**

A social justice perspective requires full awareness and recognition of all the different equalities dimensions.

In Northern Ireland, for example, the Northern Ireland Constitution Act 1973 (Part III) created protection against religious and political discrimination, the Fair Employment (NI) Act 1989 provided protection against employment discrimination, the Disability Discrimination Act 1995 afforded protection against disability discrimination, the Sex Discrimination (Northern Ireland) order 1976, and the Race Relations (Northern Ireland) order 1997 provided protection against gender, marital status and race discrimination. The Northern Ireland Act 1998 extended protection to persons of different sexual orientation, different ages, and with or without dependants. The Act also requires public authorities to promote good relations between persons of different religious belief, political opinion and racial groups.

The Act requires public authorities to subject new and existing policies to a systematic screening process, and those identified as having significant implications for equality of opportunity must be subject to a full impact assessment for all nine equality groups (religious belief, political opinion, racial group, age, marital status, sexual orientation, gender, disability, dependents).

This is a broader concept of equality than is proposed by the new CEHR (gender, race, disability, sexual orientation, age and religious beliefs) and it is recommended that the spirit, if not the letter of the law, should be adopted by regional partners in the North West. Selectivity between equality groups, with different legal rights and public duties, can only lead to further inequality.

### **The approach to reducing inequalities**

A strategy to "...create equality through public services" (Hodge, 2000), is questioned by Hills et al, in the context of huge income and wealth inequalities. They quote Lister (2001), who concluded that "...equality of opportunity in the context of economic and social structures that remain profoundly unequal is likely to remain a contradiction in terms". Public services are a vital mechanism for reducing inequalities and creating new opportunities, but are only one of many mechanisms.

The Prime Minister's Strategy Unit has a different view. It sees poor and 'failing' public services as one of the key problems. It states "...health, education and transport services appear to be falling short of meeting the, sometimes, complex needs of people living in deprived areas". It concludes "...more needs to be done to ensure public service reform empowers people in deprived areas, to access high quality services through, for example, greater choice." (Cabinet Office, 2005).

### **Labour market**

The unemployment rate for young (16-24 years) Black or Black British people, is nearly three times the rate for young white people. The over-25 years age group also has an unemployment rate of 7.4%, compared to 5.1% for Asian and Asian British people and 2.9% for white people in this age group (NWRA, 2004a).

### **Health inequalities**

The region's 'Investment for Health' (DH, 2004) plan highlighted the inequalities in health between the North West and the other parts of England, between social groups, between men and woman, between the population as a whole and Black and ethnic minority groups. The region has higher mortality rates than the national average with Manchester and Liverpool having the lowest female life expectancy in the country at 76.3 and 77.3 years respectively. Infant mortality is also higher in the region than the national average – 6.5 per 1000 live births compared to 5.8 in the UK. Between 11% and 18% of the population in most parts of Merseyside, Greater Manchester, Lancashire towns and Barrow-in-Furness reported that their health was not good in the 2001 Census.

The government's local health targets focused on increased life expectancy and reducing teenage pregnancy. Although life expectancy has increased nationally, the lowest performing authorities failed to catch up with the rising national average (Hills and Stewart, 2004). The national teenage pregnancy reduced by 11% between 1998-2001 with the target likely to be met.

**Educational inequalities**

The attainment of 5 or more grades A-C (level 2) is only one measure of educational performance. However, it does demonstrate that there has been improved performance in all LEAs, some albeit marginal, but there are only two more LEAs in the North West, which are above the England average in 2004 than there were in 2000 - see Table 33. Whilst some of the large increases in performance were registered by LEAs in the most deprived areas of the region, there has been virtually no change in the overall pattern of performance between LEAs. (those on bold were below the England average in 2000 and 2004). Six LEAs (St Helens, Oldham, Tameside, Blackpool, Blackburn and Salford) which were below the England average in 2000 had performance increases below the England average for the 2000-04 period and therefore fell further behind in the period. The gap between some North West LEAs and the England average is between 14 and 17 percentage points in Blackpool, Salford, Manchester and Knowsley.

**Table 33: Comparison of Local Education Authority performance on attainment in the North West**

Local authority	% in age group obtaining the equivalent of level 2 (5 or more grades A-C)		Change (percentage point between 2000 – 2004)	Gap between LEA and average English performance
	2000	2004		
<b>England average</b>	<b>49.2</b>	<b>53.7</b>	<b>4.5</b>	<b>4.5</b>
Cheshire	57.0	60.0	3.0	6.3
Trafford	56.4	63.8	7.4	10.1
Bury	53.0	53.9	0.9	0.2
Stockport	51.7	53.0	1.3	-0.7
Cumbria	50.6	55.3	4.7	1.6
Warrington	50.5	58.6	8.1	4.9
Lancashire	49.6	53.8	4.2	0.1
<b>Wirral</b>	<b>48.7</b>	54.0	5.3	0.3
<b>Sefton</b>	<b>48.4</b>	55.3	6.9	1.6
<b>St Helens</b>	<b>47.4</b>	<b>47.7</b>	<b>0.3</b>	<b>-6.0</b>
<b>Wigan</b>	<b>46.7</b>	<b>51.2</b>	<b>4.5</b>	<b>-2.5</b>
<b>Oldham</b>	<b>42.4</b>	<b>45.3</b>	<b>2.9</b>	<b>-8.4</b>
<b>Tameside</b>	<b>42.1</b>	<b>44.7</b>	<b>2.6</b>	<b>-9.0</b>
<b>Bolton</b>	<b>41.3</b>	<b>45.9</b>	<b>4.6</b>	<b>-7.8</b>
<b>Blackburn</b>	<b>40.0</b>	<b>43.1</b>	<b>3.1</b>	<b>-10.6</b>
<b>Rochdale</b>	<b>37.9</b>	<b>46.7</b>	<b>8.8</b>	<b>-7.0</b>
<b>Halton</b>	<b>37.7</b>	<b>43.9</b>	<b>6.2</b>	<b>-9.8</b>
<b>Blackpool</b>	<b>36.1</b>	<b>36.8</b>	<b>0.7</b>	<b>-16.9</b>
<b>Salford</b>	<b>35.5</b>	<b>38.3</b>	<b>2.8</b>	<b>-15.4</b>
<b>Liverpool</b>	<b>35.3</b>	<b>44.6</b>	<b>9.3</b>	<b>-9.1</b>
<b>Manchester</b>	<b>30.3</b>	<b>39.5</b>	<b>9.2</b>	<b>-14.2</b>
<b>Knowsley</b>	<b>25.0</b>	<b>38.1</b>	<b>13.1</b>	<b>-15.6</b>

DfES Performance Tables, 2000 and 2004

The overall effect of government policies has been to reduce inequalities in several sectors but in education, employment and policing government policies “*have had little discernible impact on reducing differences between ethnic groups, even if overall, all ethnic groups have experienced some positive change*” (Phillips, 2004). There is also “*emerging evidence*

*of a tension between New Labour's public management policies, quasi-market reforms and the 'targets culture' on the one hand, and equal opportunities and cultural diversity initiatives on the other." There is evidence "of 'racially informed' choosing of schools by white parents using basic league tables may a further example of the ways in which elements of quasi-market reforms have adverse consequences for minority ethnic groups" (ibid).*

Targets to reduce health or educational inequalities are part of the Public Service Agreement framework and are not part of the Tier 2 target framework. However, they demonstrate the scale and scope of the problem and the need for an integrated approach for regional strategies and performance assessment.

### **Eliminating discrimination**

Racist incidents recorded by the Police increased 1% in the North West between 2002/03, compared with decline nationally. There were wide variations between areas with a 16% decline in Greater Manchester but a 37% increase in Merseyside. Racist incidents are increasing in rural areas, for example Cumbria and Cheshire where there are fewer support networks (NWRA, 2004a).

North West Police forces recorded 4,222 racially or religiously aggravated offences in 2002/03 (harassment accounted for 46% of incidents, criminal damage 26%, other wounding 16% and common assault 7%). 69% of offenders of racially aggravated offences were not tried or were acquitted (ibid).

### **Improving quality of life and community well-being**

There is a danger of over-emphasis on the procurement and economic impact of capital expenditure, important as they are, to the detriment of the provision and quality of the social infrastructure of schools, hospitals and other community services. The production process – design, planning, construction, supply and operation stages – must address a number of important issues:

- The degree of community involvement in the design process – whose needs are being met? Are all equality groups needs and interests are taken into account?
- The project concept, or overall provision, including public/private provision and ownership and whether all the opportunities for integrated service provision are being developed.
- The scale and quality of local employment and training at the various stages of the process and the longer-term contribution to creating sustainable communities.
- The governance of the social infrastructure and its operational democratic accountability and relationship to other community structures.

Community well-being also embraces the provision of childcare, crime and safety, access to services, enhancing learning opportunities and cultural development, improving the environment and the provision of affordable quality housing (see Part 6). Reducing child poverty and enhancing early child development are key government priorities. There have been large increases in the provision of day nursery places (doubled since 1997) and after-school places have tripled. The Neighbourhood Nurseries Initiative (NNI) was launched in 2000 to expand childcare provision in the 20% most deprived areas in England and the government improved the Child Tax Credit. However, although lower-income families should have benefited more than proportionately from the initiative, there is evidence which demonstrates otherwise.

*“Overall, the childcare gap between the 20% of local authorities (LAs) with the highest and lowest levels of child poverty narrowed slightly between 1999 and 2003, but this turns out to be entirely due to childminder places, which rose slightly in the poorer areas, while falling elsewhere. Nursery places increased by 63% in the 30 most deprived LAs and across the country, and by 95% in the best-off 30” (Stewart, 2004).*

Just over half (56%) of children in a sample of 30 of 112 NNI nurseries open at the beginning of 2003 were from designated disadvantaged wards targeted by the nurseries (DfES, 2005). The North had the second highest level of average weekly nursery fees, just under £120 per week, after London and in sharp contrast to the average weekly fee in the South of England of just over £60 per week. There have been a range of improvements in community well-being in deprived areas but, as with the investment and skills gaps, the issue is whether the improvement is relative to community well-being in other areas and whether disparities have been reduced.

### **Participation, involvement and governance**

Various studies identify an upward trend in active participation in civil society activities (ONS, 2004e, Hills and Stewart, 2004) which runs counter to the recent decline in voter turnout in local and general elections. Evidence of formal participation ranged from raising or handling money (56% of volunteers) and organising or helping to run an activity or event (54%) to representing (16%) and campaigning (12%) (ONS, 2004e).

Community participation has been a requirement of government regeneration, best value and many other programmes – there is not the scope for a full assessment here. However, whilst these programmes have increased opportunities for participation, the terms of engagement and the agenda has often been determined by the government. Community capacity building, often essential because of the decline of community development resources over the last two decades, has often been very narrowly proscribed with the outcomes linked to funding regimes. Some community involvement programmes have been little more than a smokescreen to impose central government policy, for example, tenant involvement in the options appraisal of Decent Homes strategies. Local authority engagement of community organisations in Best Value Services Reviews has varied very widely. In addition, the degree of grass roots involvement in Local Strategic Partnerships and other partnerships also varies from area to area.

There is a broad consensus on the principle of community involvement throughout the regeneration process, the design and planning of service delivery and public policy making process in general. However, there is a substantial gap between policy and best practice. The fragmentation of public service provision and the erosion of democratic accountability through the transfer of services and functions to arms length companies and trusts are discussed in Part 6.

### **Conclusion**

The government is committed to reducing regional disparities which is embedded in the Public Service Agreement targets for 2008. Reducing disparity is not simply about difference, but about reducing inequalities between and within regions. The regional partners alone are unlikely to achieve the required levels of investment in the region's human, physical and financial capital to achieve the required level of change. The performance evidence to date indicates that inequalities will only be reduced by a significant margin at both inter- and intra- levels, by a combination of regional and national strategies, each of which need to be considered for their implications in the context of sustainable development:

- Mainstreaming of a social justice perspective in all policies and projects.
- Effective regional economic strategy with the focus on key growth targets.
- Increased freedom and flexibility for the North West region to intervene, coordinate and use resources and powers, to maximise the impact of planned investment.
- Increased public and private investment in the North West.
- Successful implementation of the Northern Way strategy.
- A revised national spatial and development strategy.

It is clear that "...policies need to address the dynamic factors that make people poor and keep them poor, not simply the conditions of overall groups" if there is to be substantial improvement in areas of multiple deprivation (Hirsch, 2004).

## Part 5

# Assessing performance and progress

Performance management frameworks have become a core part of public policy and the government's modernisation agenda in recent years. While the rigour of these frameworks is often called into question, they can play an important role in driving both strategic and operational priorities. The technical and political process of establishing performance management frameworks is crucial in ensuring that they appropriately reflect and augment the priorities and purpose of the organisation to which they are attached.

Ideally, performance management helps to identify progress towards achieving key priorities and objectives. Targets, both output and outcome based, are a means of measuring the degree of success achieved.

The House of Commons Select Committee on Public Administration, the Audit Commission and other public agencies have critically examined the role of targets in the performance management framework (Audit Commission, 2003). The Select Committee report five government aspirations for its targets: namely that targets should provide

*“a clear statement of what the government is trying to achieve” (ie its priorities).*

*“a clear sense of direction and ambition”*

*“a focus on delivering results”*

*“a basis for monitoring what is and isn't working”*

*“better public accountability”*

(House of Commons Select Committee on Public Administration, 2003).

In practice, targets are more complex. The Select Committee identified five failings in the target regime. Firstly, it identified a lack of clarity, about what the government is trying to achieve, coupled with a failure to produce equity – national, regional and even local targets can contribute to improving overall performance, but this could mask increased inequalities in certain areas. Secondly, it identified a failure to provide a clear sense of direction and ambition and to help plan resources, and that targets were not a substitute for business planning or effective management. Thirdly, it identified a failure to focus on delivering results. Fourthly, it identified a failure in reporting and monitoring. Finally, it identified confused accountability with centrally imposed targets and a lack of local ownership.

## Principles and lessons learnt from the Tier 2 target regime

The remainder of this chapter identifies eight key principles, which should underpin any set of targets for regional development. The problems encountered in the assessment of the Tier 2 target framework have been summarised under these principles. This helps to provide a perspective on the limitations under which Regional Review, the NWDA, the NWRA and regional partners have been operating with respect to the assessment of RDA performance in the North West.

It is clear that many of the elementary rules of target design were broken when the government imposed the Tier 2 Target framework on the RDAs. The chapter concludes with a brief note about the new RDA target framework to take effect from April 2005, which is still being designed.

### **Principles for designing targets**

The eight principles for targets are drawn from a review of various governmental, Audit Commission, National Audit Office, RDA and local authority documents on performance management frameworks. Best practice target design promotes the SMART concept – Specific, Measurable, Achievable, Realistic and Time-related, which have been included in the following extended set of principles:

Table 34: **Principles for designing targets**

<b>Principles for Targets</b>
<b>Challenging</b>
<b>Relevant</b>
<b>Measurable</b>
<b>Consistent</b>
<b>Accountable</b>
<b>Transparent</b>
<b>Legitimate</b>
<b>Common Ownership</b>

The principles are discussed in more detail below, together with commentary on the lessons learnt from the Tier Target 2 performance evaluation process between 2002-05 in the North West:

**Challenging** – targets should be achievable within a specific time-frame with the resources and powers available and should reflect the capacity of the organisation, to which they are applied.

**Relevant** – targets should be relevant to regional priorities and to the common perceptions of the people of the North West. This means addressing issues of equality between and within regions, as well as economic competitiveness, which, left unqualified, can easily entrench existing divisions.

**Measurable** – the data and information to measure targets must be readily available. Long time-lags between target dates and the availability of information, makes performance assessment very difficult. If a target regime is to have validity, it must be technically possible to measure progress against agreed goals and objectives, in a robust way. A lack of quality data with which to judge the achievement or otherwise of a particular target, questions the validity and purpose of that target. It also leaves considerable scope for targets to be redefined over a period of time, for short-term, or narrowly defined, political purposes. If the data is not available, then a different target should be set.

- The Tier 2 target regime included some targets, which had no accurate, credible or defined dataset. Others had poor quality, or out-of-date datasets. Specific examples include: skills (some targets not measured by the named datasets, no dataset defined or other relevant datasets discontinued); urban (locally defined targets with opaque geographical definitions) and rural (no way of measuring productivity at ward or district level and no specific target set for access to services) targets.



- The data for some targets were only available with a long time-lag, for example, regeneration and land use which leads to heavily qualified statements on performance.

**Consistent** – the selection of targets should take account of the continuing availability of data and the longer term relevance of the target, so that performance can be assessed over different target periods. Even small changes in the definition of targets can invalidate comparison over a long period. It also reduces public confidence in the targets and can lead to unhelpful claims, that changes were designed to massage the results.

**Accountable** – a performance management framework will need to enhance the accountability of agencies and partners, public spending and policy initiatives in the region. Specific performance management targets are only useful, where they have a clear relationship to the policy and resource capacities of the organisation accountable for their achievement.

- There is also an important technical issue, with regard to matching performance management to organisational capacity. The way in which these targets are set and defined, the precise dataset, which is applied to them and the period, over which they are to be measured, are all also crucially important.
- For example, whilst RDAs have a power in relation to economic development, they do not have a great deal of influence over the employment rate (which is a Tier 2 target) in a region. Central government policy (for example fiscal policy, trade policy, financial and competition regulations), central banks (monetary policy decisions), the European Union (competition policy, competing monetary policy), individual and corporate investors and indeed the overall investment and business environment, all have potentially greater influence than the RDA. In fact, the NWDA responded by adjusting the Tier 2 target to relate to the gap between the employment rate in the region and the UK average.
- It is not only important that targets correspond to the powers and responsibilities of the RDA, but that they are drawn up in such a way, as to accurately reflect the capacity for that organisation to achieve them. This is important, not only for technical reasons but for reasons of accountability, legitimacy and trust of the regional public.
- The current Tier 2 regime applies several targets to RDAs, where it is arguable that they do not have either the power or the resources to significantly affect their achievement. While it can be argued that Tier 2 targets are the responsibility of all regional partners, the RDA is accountable for them. A good example of this is skills.
- The Select Committee on Public Administration concluded, that there are “... *fundamental problems with the accountability of any target that is set centrally without proper reference to those on the front line*” (House of Commons, 2003)

**Transparent** – performance management, including targets and indicators, should be clear to partners and agencies, understandable to the public and easy to verify independently. This means, that there needs to be transparency over the purpose and role, as well as the process of performance management. It also requires the collection and presentation of all the relevant information in one place, rather than having to collect it from a range of statistical publications and datasets, all of which requires specific skills and undermines transparency. Such transparency is essential, if communities are to know that they are being treated fairly

**Legitimate** – targets should address issues of real social need, rather than organisational or departmental agendas. They should be technically robust, to ensure that they actually measure performance. Poorly defined targets may lead to policies, which are contrary to the purpose of their establishment in the first place.

- Regeneration targets in the Tier 2 framework are mostly targets related to various benefit claimant rates. The technical note provided by ODPM on these targets states that:

*“Work with Local Strategic Partnerships (LSPs) and other stakeholders to achieve neighbourhood renewal through promoting economic development and investment in the most deprived areas. In doing so, to reduce deprivation by 10% in those wards in the region that are currently in the bottom 20% of the Indices of Multiple Deprivation, thereby contributing to a narrowing of the gap between these wards and the mean of all wards.” (ODPM, 2002).*

- However, the targets themselves were set in such a way as it is perfectly possible for the target to be met, while the difference between deprived wards (as set out in the Indices of Multiple Deprivation) and various categories of less deprived or affluent wards would increase. Indeed, between 1998 and 2000, this is precisely what happened (Centre for Public Services, 2003). It is, therefore, vitally important that the process of establishing targets is of sufficient technical rigour to ensure, that these will not constrain or undermine legitimate regional policy objective.
- In a similar way, poorly or narrowly defined targets can lead policy in a way that is unhelpful, for example the Tier 2 Investment target was solely related to inward investment, as if indigenous investment should be rejected in favour of investment by foreign firms.

**Common Ownership** – performance targets and indicators need to be shared across a wide range of partners and need stakeholders to promote strategic coherence and joined-up partnership working.

- One commonly cited problem about performance targets is, that there is little shared ownership of individual and groups of targets. For example, the NHS is the largest employer in the country, yet it has no regeneration, employment or economic targets attached to it. While many would argue that the NHS already faces too many targets, there is clearly a great deal of potential for health and social care managers to take a more strategic view of their roles as employers, purchasers, planners and managers, in order to aid regeneration, local economic development and in doing so to improve health equalities and in the long-term reduce demand for responsive health care services.

It is clear, that these principles were not always evident in the design of the Tier 2 Targets. In addition to the design of individual targets, it is also vitally important that the range or package of targets is comprehensive and that it reflects the regional agenda and the interests and aspirations of regional partners. Hence the package of targets should be able to report performance within the context of sustainable development on:

- Economic progress
- Social progress
- Environmental protection and enhancement

- Sustainable development
- Address inequalities
- Public health

**Public Service Agreements for 2007/08**

The Spending Review 2004 announced a new Public Service Agreement (PSA) target to reduce regional disparities: "...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" (HM Treasury, 2004). This is a joint HM Treasury and ODPM target.

**The NWDA Performance Management Framework**

Under the national 'Tasking the RDAs Framework' a new series of NWDA output indicators has been developed and presented complete with targets for the Agency's Corporate Plan 2005/6. A full series of definitions are now in place to implement these new indicators. Replacing the existing Tier Three indicators, the new outputs are grouped under the following headings:

Table 35: **NWDA Output Indicators**

<b>Tier 3 indicators</b>
Job Creation
Employment Support
Business Creation
Regeneration
Skills
Marketing

NWDA Corporate Plan, 2005

In addition, a new set of Regional Outcome Indicators will replace the existing Tier Two Framework to measure regional performance – see Table 36.

Table 36: **NWDA Regional Outcome Indicators**

<b>Regional Outcome Targets</b>	
Economic Performance	ICT
Productivity	Growth companies
Innovation	Employment
Enterprise	Social Inclusion
Investment	Environmental Sustainability
Skills	Image
Trade	

There are few social targets in the draft NWDA Corporate Plan for 2007/08. Three targets are included in the social inclusion section, although they are essentially economic targets - average gross weekly household income, income support claimants as a % of the working population, and the number of (Local Authority Districts (LADs) where house prices are substantially lower than national average house prices.

The regeneration targets are mainly business orientated, with a vague reference to 'renaissance programmes' including the public realm. There no targets relating to the social infrastructure, health, equalities, governance, environmental protection and enhancement or public sector capacity building.

### **Conclusions**

The overall quality of the three-tier performance framework, ultimately, proved inadequate and was clearly not 'fit for purpose'. It had fundamental design flaws, the most basic of which is ensuring there are data sources before targets are included in a framework.

## Part 6

# External impacts on regional performance

### Introduction

This section examines the issues, which could have a significant impact on the performance of the North West regional economy. These issues are important for the North West because of the social and economic profile of the region and because they affect the extent to which regional strategies and priorities will succeed in improving economic performance and the extent to which inequalities are reduced.

It is vitally important that the design of performance frameworks takes account of future challenges to the implementation of strategies. Performance assessment should not simply be looking backwards at past performance, but should identify opportunities and also anticipate challenges, obstacles and contradictions or conflicts between policies and strategies. They could potentially impact on overall regional and/or sub-regional performance and the distribution of costs and benefits between social groups and sectors.

### Regional context

Growth of the North West economy is forecast to fall slightly in 2005, compared to growth of 3.1% in 2004. It is expected to decline to 2.5% in 2006 and 2% in 2007, according to the Regional Economic Forecasting Panel (NWRU, 2004). The construction, financial and business services and distribution, hotels and catering continued to grow strongly in 2004 supported by growth in manufacturing, public services and in transport and communications. Although manufacturing growth is forecast to be sustained in 2005, there are indicators which suggest that lower overall growth in the regional economy is as a result of:

- Recent business surveys have indicated a slow-down in orders in the North West.
- Fewer new developments in construction.
- Government spending plans are likely to create fewer jobs because they are predicated on achieving efficiency savings and job losses. “Nevertheless, growth in public services in the North West will continue to outpace that in the economy as a whole over the next here years, and this will help cushion the region from a quite marked cyclical slow-down in the UK economy towards the end of this period” (NWRU, 2004).
- The regional economy has benefited from strong growth in the sectors noted above “rather than any marked improvement in underlying influences such as skills, enterprise or innovation” (ibid).

Employment in the region increased by about 1.5% per annum between 2000-03, and is forecast to grow by 1% in 2004. It is expected to slow to about 0.6% per annum between 2005-07. Business and public services are expected to generate most of the new jobs. Growth in household incomes is expected to “maintain a reasonable growth in household spending and some recovery in savings rates” (ibid). The North West is projected to have a relatively slow population growth of 4.4% up to 2028 compared to double figure increases in Eastern region, London, South East, East Midlands and the South West (ONS, 2004f).

The 2004 Pre-Budget Report forecasts that UK GDP will grow by 3.25% in 2004, compared to 2.2% in 2003. "Growth is forecast to remain within the 3 to 3.5 per cent range for 2005 as a whole. By early 2006, the output gap is forecast to have closed and GDP is expected to be back to trend rates" (HM Treasury, 2004d). The accompanying Long-Term Public Finance Report states that the UK's long-term fiscal position remains sustainable, on the basis of current policies. Under the sustainable investment rule, public sector net debt is expected to stabilise at around 37% of GDP in 2009/10, well below the 40% sustainable investment rule ceiling (HM Treasury, 2004e).

Corporate profits as a percentage of GDP have risen to their highest ever level in the G7 economies, however the "...flip side is that labour's share of the cake has never been lower. So are current profit margins (and hence equity values) sustainable? Are they fair?" asked a recent Economist editorial (10 February, 2005). There are a number of qualifying factors, which underpin the profit growth – firms may be using spare capacity to raise output at little extra cost; recent large profit increases, particularly in banks and oil transnationals may not be reflected in SMEs; whether the continued outsourcing of manufacturing and services jobs to China and India is sustainable, the threat has the effect of dampening wage demands; and higher profits are a consequence of slow growth in business investment" (Financial Times, 5 October 2004).

This chapter examines several policy themes within the context of sustainable development, some of which may assist the performance of the North West economy, whilst others may have an adverse impact.

- European – Lisbon growth strategy and Internal Market for Services liberalisation
- Public spending, efficiency, modernisation and procurement
- Northern Way and city regions
- New equality commission and public duties
- Regeneration and housing market
- Employment

### **European – Lisbon growth strategy and Internal Market for Services liberalisation**

The Lisbon strategy was launched in March 2000 to make the European Union by 2010 "... the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment." However, progress has been slow or 'mixed'. The strategy was described as "...a comprehensive, interdependent and self-reinforcing series of reforms" which required EU and nation state implementation. In March 2004 the European Commission established a High Level group, chaired by Wim Kok, the ex-Prime Minister of the Netherlands, to contribute to a mid-term review of the strategy. Their report called for urgent action in five policy areas:

**"the knowledge society:** increasing Europe's attractiveness for researchers and scientists, making R & D a top priority and promoting the use of information and communication technologies (ICTs);

**the internal market:** completion of the internal market for the free movement of goods and capital, and urgent action to create a single market for services;

**the business climate:** reducing the total administrative burden; improving the quality of legislation; facilitating the rapid start-up of new enterprises; and creating an environment more supportive to businesses;

**the labour market:** rapid delivery on the recommendations of the European Employment Taskforce; developing strategies for life-long learning and active ageing; and underpinning partnerships for growth and employment;

**environmental sustainability:** spreading eco-innovations and building leadership in eco-industry; pursuing policies which lead to long-term and sustained improvements in productivity through eco-efficiency” (European Communities, 2004).

**Lisbon Strategy Targets / Objectives**

The Lisbon objectives in terms of employment, as expressed in the European Employment Strategy, cover the three over-arching objectives of full employment, improving quality and productivity at work, and strengthening social cohesion. This means in particular :

- An overall employment rate of 70% in 2010 (67% in 2005)
- A female employment rate of 60% in 2010 (57% in 2005)
- An employment rate for older workers (aged 55-64) in 2010 of 50%
- An increase by 2010 of five years in the average age at which people leave the labour market
- Availability of childcare by 2010 for 90% of children between 3 years and compulsory school age, and 33% of children under 3 years

EU President Barroso is proposing a ‘new start’ for the Lisbon strategy at the March 2005 European Council, focusing on a three-part Lisbon Action Programme:

***Making Europe a more attractive place to invest and work***

- Extend and deepen the internal market
- Improve European and national regulation
- Ensuring open and competitive markets inside and outside Europe
- Expand and improve European infrastructure

***Knowledge and innovation for growth***

- Increase and improve investment in Research and Development
- Facilitate innovation, the uptake of ICT and the sustainable use of resources
- Contribute to a strong European industrial base

***Creating more and better jobs***

- Attract more people into employment and modernise social protection systems
- Improve the adaptability of workers and enterprises and the flexibility of labour markets.
- Investing more in human capital through better education and skills.

{Com (2005)24}

The Lisbon strategy, the High Level Group report and the Barroso proposals, all call for action to complete the Single Market, particularly in services, regulated professions, energy, transport, public procurement and financial services.

The Action Programme raises two important questions for the North West. Firstly, to what extent does the Lisbon strategy advance the strategies adopted in the North West Regional Economic Strategy and other regional strategies? Secondly, are there elements of the Lisbon strategy, which could have a negative impact on the North West economy?

## **Synergy between the North West and Lisbon strategies**

There is a substantial degree of synergy between the North West RES and the Lisbon strategy, which will benefit the North West position and its contribution to European growth and employment. This is particularly the case for the knowledge economy and increasing investment in ICT, strengthening the European industrial base, and increasing employment, education and skills. However, the proposed liberalisation of the Internal Market for Services and further changes in the public procurement market could have significant negative effects on the North West.

## **Potential negative impacts of the Lisbon strategy on the North West**

The Lisbon strategy includes completing the Single Market legislation with a Financial Services Action Plan, the REACH Directive (protection of human health and environment), agreement on a common consolidated corporate tax base (leaving Member States free to set the corporate tax rate) and a Directive to liberalise the services market. Services account for 70% of European GDP and virtually all the new jobs created in the EU between 1997-2002, yet only 5% of activity in services is cross border. The EU estimates that 600,000 jobs could be created, by creating an internal market in services (COM(2005)24).

A draft Services Directive was published in January 2004 and is intended to facilitate cross border provision of services by administrative simplification and cooperation and to strengthen the rights of service users. There are a number of fundamental draw-backs with the Directive, which is opposed by the German and French governments, with mounting opposition from trade unions across Europe.

**Scope of the Directive:** the provisions only apply to activities, which are already open to competition and, to this extent, do not require member States to privatise public services or to abolish existing monopolies. However, most public services in Britain are already open to various degrees of competition, either through procurement or transfer to arms length companies and trusts and would therefore be within scope of the Directive. It will cover “any economic activity normally provided for remuneration” regardless of the purpose of the activity and who pays for it. The Directive is designed to cover business services (facilities management, management consultancy), services provided both to businesses and consumers (construction, legal financial advice, security services) and consumer services (such as health care services, sport and leisure services). EU legal explanations of the activities covered by the definition of services (Articles 43, 49 and 50 of the EC), indicate that most health and social care services will be covered by the Directive. Non-economic services such as education are excluded – if not already open to competition – and transport and financial services, are covered by other Directives. The EU Commissioner for the Internal Market has indicated that he is willing to ‘water down’ the country of origin proposals (Financial Times, 3 March 2005).

**Country of origin principle:** The Directive proposes, that, where a provider wants to provide services into another Member State, without establishing a permanent presence there, the provider only has to comply with the administrative and legal requirements of the country of origin. For example, a contractor from Eastern Europe could supply a service for the NHS in the North West, but if the provider avoids having a fixed infrastructure in the North West, they would operate according to the administrative and regulatory framework applicable in Eastern Europe. Working conditions, and collective agreements are excluded from the country of origin principle and are protected by the Posting of Workers Directive (96/71/EC).

In addition to the proposals for a EU Internal Market for services, the World Trade Organisation is continuing to promote the General Agreement for Trade in Services (GATS), which is, essentially, adopting the same principles to create a global market in services. The



EU and the British government are supporting the WTO proposals. However, negotiations have been stalled since the breakdown of the Cancun Ministerial Conference in 2003.

### **New controls on state aid**

The European Competition Commissioner, Neelie Kroes, has signalled tough enforcement of EU competition rules, new guidelines on state aid to regional airports, no changes to merger rules to favour 'national champions', and is likely to closely monitor proposed tax breaks to combat de-industrialisation planned in France.

### **Public spending, efficiency, modernisation and procurement**

In addition to the EU and WTO proposals for the creation of services markets, the public sector is also confronted with major challenges arising from government policy and spending programmes. They are outlined below:

- The public sector investment programme outlined in the Spending Review and Pre-Budget Report.
- The efficiency programme and civil service relocation.
- The modernisation agenda – in particular choice and increased competition, the creation of markets in services, mainstreaming procurement, and the increasing transfer of public functions and assets to arms length companies and trusts.

### **Public sector investment programme**

Public expenditure on health is planned to continue rising by 7.2%, in real terms, per annum, up to 2007/08, with lower annual increases in other services such as transport (4.7%), housing (3.3%), social services (2.7%) and trade and industry (3.0%) (HM Treasury, 2004f). Spending will embrace investment in the infrastructure, expansion of services and increased staffing levels. The spending levels are partly dependent on achieving various departmental efficiency targets.

The government has recently launched a number of new initiatives, including a ten-year investment framework for science and innovation with £365m additional science funding by 2007/08, to encourage collaborative research and development between business and universities and knowledge transfer networks; 10,000 new social housing dwellings by 2007/08 and a ten-year child care strategy to provide affordable, high-quality childcare for all parents who need it with increased support for child care costs (estimated to benefit 48,600 families in the North West) and 3,500 children's centres nationally by 2010 (HM Treasury, 2004). Departmental five-year plans also contain a series of proposals for investment and modernisation in public services. For example, the DfES plan includes proposals for all secondary schools to become foundation schools, to own their land and buildings, manage their assets, employ their staff, improve their governing bodies, and establish or join charitable foundations to engage with outside partners, together with 200 academies by 2010 (DfES, 2004).

### **Efficiency and productivity drive**

The government launched an independent Efficiency Review in August 2003, which was published in July 2004 (HM Treasury, 2004g) with its proposals incorporated into the Spending Review 2004. The proposals include: Departmental annual efficiencies of £21.5 billion by 2007/08 including Local government (£6.5bn): 40% from schools, 10% police reforms, 35% from procurement in other services and 15% rationalisation of back office functions. Health (£6.5bn): 50% from new technology to improve productive use of staff time, 10% from 'better commissioning of social care'. Home Office (£2.0bn): 3% annual efficiency gains in police service to increase frontline policing. Plus savings of £6.5bn in

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DfES and £2.8bn in the MoD (figures exceed £21.5bn because of overlap) – see Table 37. In addition a gross reduction of 84,000 civil service posts from London and the South East.

The efficiency savings are divided between cashable (60%) from administrative and procurement cost savings and non-cashable (40%), by increasing the productive time of front-line staff. The nine Regional Centres of Excellence for procurement (Tameside in the North West) have been expanded to become key gateways to efficiency in each region. In addition, the DfES is establishing a Centre for Procurement Performance (CPP) to “...work with its delivery partners across the education, skills and children and families system” (ODPM, 2004d)

Table 37: Impact of the Efficiency Review by 2007-2008

Government Department	Efficiency savings (£m)	Job cuts	Job relocations**
Department for Work and Pensions	960	40,000 (10,000 redeployed to front-line roles)	4,000
Ministry of Defence	2,800	15,000	3,900
Chancellor's Departments	550	16,350 (3,500 redeployed to front-line activities)	5,050
Department of Health	6,500	720 civil service posts 5,000 arm-length body posts	1,110
Home Office	2,000	2,700	2,200
Department for Environment, Food and Rural Affairs	610	2,400	390
Department for Education and Skills	4,300	1,960	800
Northern Ireland Office	90	130 civil service posts (plus 1,446 public sector posts)	8
Department of Trade and Industry	380	1,280 200 at UK Trade & Investment	685
Department of Constitutional Affairs	290	1,100	200
Department of Transport	785	200 departmental posts 500 at DVLA	60
Office of the Deputy Prime Minister	620	400	240
Foreign and Commonwealth Office	120	310	450
Department for International Development	310	170	85
Cabinet Office	25	150	250
Law Officers' Departments	40	50	-
Department for Culture, Media and Sport	260	30	600
Smaller Departments	20m	-	-
		<b>Gross 84,150 (Net 70,600)</b>	<b>20,028</b>
Local Government	6,450	20,000 (inc devolved administrations)	-
Devolved administrations*	-	-	-
<b>Total</b>	<b>£21.5 billion</b>		

Source: Tables 2.1 and 2.2, Spending Review 2004, HM Treasury.

- Assumes 2.5 per cent savings in line with rest of public sector. \*\*Relocations to 2010.

Government Departments were required to produce Efficiency Technical Notes, detailing their efficiency and relocation measures (financial and employment) and plans for monitoring the process. None of these documents identified the regional impact of the proposals, in terms of potential job losses and the impact on regional economies. Departments were not in a position, apart from the Ministry of Defence, to identify which functions are to be relocated and in which region. However, the potential job gains are dwarfed by the planned job losses.

An assessment of the Department evidence and Efficiency Technical Notes indicates the potential impact of the efficiency proposals in the North West (DEFRA, 2004; ODPM, 2004). The analysis is based on the North West share of current expenditure on services for 2002/03 (HM Treasury, 2004h). The calculations assume an even distribution of functions across England, which will not be the case where job cuts are concentrated in arms length bodies, for example, in the NHS – see Table 38. The analysis covered the main departments, which account for 99% of the potential job cuts.

There could potentially be 14,682 job losses in the North West region up to 2007/08, as a result of the planned efficiency savings. The North West could expect to receive a maximum of about 5,000 civil service jobs, as a result of the Lyons Review, merely a third of the potential public sector job losses. The impact would be much greater, if the quality (type and grade) of jobs relocated was lower than the jobs cut, as a result of efficiency savings. Thus, there could be a net job loss of about 10,000 public sector jobs in the North West region.

**Table 38: Estimated public sector job losses from efficiency savings in the North West region by 2007/08**

Department or sector proposals	Basis of calculation 2002/03	Potential Employment in the North West (No of Jobs)
Local Government	NW share of local government expenditure 14.83%	-2,965
Department of Work and Pensions	NW share of social protection spending 15.92%	-4,775
Chancellors Departments (Inland Revenue, Customs & Excise, HM Treasury)	NW share not identifiable – assume 14.0%	-1,800
Department of Health	NW share of health spending 14.97%	-855
Home Office	NW of public order and safety spending 15.67%	-425
Department for Environment, Food and Rural Affairs	NW share assumed to be 14.5%	-350
Department for Education and Skills	NW share of education and training spending 14.43	-280
Department of Trade and Industry	NW share of enterprise, economic development, science and technology spending – 9.22%	-135
Department of Constitutional Affairs	NW of public order and safety spending 15.67%	-170
ODPM	NW share of housing, community, recreation spending 13.30%	-55
Ministry of Defence	NW share not identifiable – assume 14.0%	-2,870
<b>Total</b>		<b>-14,680</b>

Source: Department Efficiency Technical Notes, Spending Review 2004,

Note: Increase in MoD job losses from 15,000 to 20,500 since the Spending Review 2004. Number of jobs rounded to nearest 5.

### **Public sector relocation and regional strategies**

The Lyons Review, and the Spending Review 2004, proposed the transfer of 20,000 civil service jobs from London and the South East, to the seven other regions by 2007/08 (HM Treasury, 2004i). The planned relocations for each government department are included in Table 37, in the section on efficiency. Precise details of which units, types and grades of jobs and their geographic relocation, have largely yet to be determined.

The North West could reasonably expect to gain a maximum of about 5,000 relocated jobs, although this figure could be lower if the government adopts a more even distribution of jobs between the seven remaining regions. The requirements and views of transferring sections/units and their staff must also be taken into account.

Strategic partnerships proposals, for example Walsall and Swansea, are already incorporating assumptions about the relocation of civil service transfers in the development of regional business centres or hubs.

Impact on North West performance of the relocation of between 3,500 and 5,000 civil service jobs, could be significant by reducing unemployment, mobilising under-employed factors of production and boosting consumer spending, with a multiplier effect of between 1.2 and 1.4 in the local economy. However, the scale of the economic impact depends on several factors, not simply the number of jobs:

- The types of activities and functions transferred
- The transfer of senior management or responsibilities, which would ensure that policy and procurement decisions are also transferred to the region, in order to maximise opportunities of establishing regional production and supply chains.
- The type and grade of jobs.
- The proportion of staff transferred and the level of local staff recruitment
- The sub-regional location of these activities and functions.
- The sustainability of the functions transferred.

It is not simply about the number of jobs relocated to the North West, rather the type of functions, the production and supply chains connected to these functions, the degree of control devolved to these regionalised units (for example procurement decisions), the occupations and grade of staff, and which part of the region benefits from this relocation. Also of relevance is the availability of required skills in the local labour market.

### **The modernisation agenda**

The government's modernisation agenda is likely to have an increasingly significant impact on the performance of the regional economy. Increased choice and personalisation in public services, such as health and education, will result in more competition between service providers, the development of new markets alongside the expansion of existing markets and the mainstreaming of procurement to underpin these markets. An example would be, the merger of the probation and prison services into the National Offender Management Service (NOMS) and market testing of services. We noted earlier the government's commitment to the EU and WTO proposals for the liberalisation of services. The principles of choice are not in question, but the means by which it will be achieved, ie market forces, rather than planned public provision.

The mainstreaming of procurement in the public sector has implications for the North West economy. There are clear tensions between national/global sourcing to maximize volume purchasing and savings (Audit Commission, 2002) against regional/local sourcing, which develops supply chains to maximize regional/local economy, employment and community benefits (NWRA, 2003b and NWDA, 2003c). National sourcing may result in the North West gaining some business from other regions, however, the opportunity to align the provision of goods, services and equipment to the public sector with North West clusters and innovation strategies could be lost.

### **Transfer of functions and assets to arms length companies and trusts**

The co-ordination and implementation of regional policies, at the local level, is becoming more complex and difficult, as a plethora of new organisations are established to run services or take-over functions. More particularly, the structure of democratic accountability and governance, tends to be more complex in areas of multiple deprivation. This is a result of a combination of Area Based Initiatives (ABIs), in which the government requires new organisational structures to be established and the transfer of public services and functions from local authorities and NHS Trusts to arms length companies and trusts. These same areas of multiple deprivation have a concentration of new organisations, formed to undertake regeneration and economic development and organisations established for the sale of public assets, for example, stock transfer housing associations.

The vast majority of these new organisations are not established as a result of local preference and initiative, but are centrally imposed as a condition of funding and/or inducements, for those authorities who compete in the first rounds of competition for each programme. The link to decentralisation or genuine 'localism' is rather tenuous. A Democratic Audit of the UK noted the limits of using modernisation as a theme, on the basis that change is not necessarily driven by democratic principles or a coherent democratising agenda (Beetham et al, 2002).

The range of new organisations is significant:

*Arms Length Management Organisations* (take-over of council housing management functions): Rochdale, Wigan, Bolton, Warrington, Oldham, Bury, Salford, Manchester, West Lancashire and South Lakeland.

*Stock Transfer Registered Social Landlords* (RSLs): Liverpool, Blackburn, Burnley, Knowsley, St Helens, Tameside.

*Leisure Trusts*: Tameside, Pendle, Stockport, Chester.

*Urban Regeneration Companies* (URCs): East Manchester, Liverpool Vision and West Lakes

*Foundation Hospitals*: Wigan and Leigh NHS Trust, Lancashire Teaching Hospital and Morecambe Bay.

*Academies*: Manchester and Liverpool.

*Building Schools for the Future*: Knowsley, Lancashire, Liverpool, Salford, Tameside.

*Foundation schools*: The DfES five year plan proposes to allow all secondary schools to become foundation schools owning their own land and building, directly employing staff, administering admissions and engaging in partnerships with other foundation schools for school improvement, provision for excluded pupils and special educational needs.

*Joint Venture Companies or Partnership Boards in Strategic Service-Delivery Partnerships:* Liverpool, Blackburn, Cumbria.

*Housing Market Renewal Pathfinders:* Manchester/Salford, New Heartlands (Merseyside), Elevate (East Lancashire) and Oldham/Rochdale.

*New Deal for Communities:* Manchester, Oldham, Rochdale, Salford, Knowsley, Liverpool.

The process of creating new organisational structures beyond traditional democratic accountability and governance, is increasing. There have been reports of the government considering Public Service Boards to take-over services in 'failing' local authorities. Building Schools for the Future is not simply an investment programme to renew the secondary school infrastructure - the new Local Education Partnership, 80% controlled by private consortia, could ultimately replace LEAs as the LEP delivers services to schools whilst the government recasts LEAs as commissioners.

A full regional mapping of the transfer of services and functions to arms length companies and trusts, would highlight their concentration in areas of multiple deprivation. The implications for regional performance could be significant because:

- The formation of new organisations, often unelected, outside of democratic structures will further fragment local government and reduce its capacity and leadership to implement regional and local strategies.
- Community consultation is likely to become more fragmented as each organisation tends to have its own consultation mechanisms, often resulting in a wide variety of processes and duplication, which run the risk of increasing rather reducing alienation.
- Equality groups are faced with an increasing plethora of organisations, with which they have to negotiate, yet with limited resources to commit to such activity.
- Outsourcing of public services and a fracturing of existing regional supply chains (or reducing opportunities to establish them) as each organisation has its own procurement policy, efficiency agenda and corporate priorities.

### **Northern Way and city regions**

The Northern Way project emerged in response to the concentration of growth in the south of England, in particular Thames Gateway, the Milton Keynes-South Midlands and the London-Stansted-Cambridge corridor, with the construction of up to 1m new homes and several hundred thousand jobs by 2031. If London wins the bid for the 2012 Olympic Games, this will further concentrate growth and investment in the south east.

The Northern Way could create a new dynamic, providing the three northern regions with substantial additional investment and employment over and above the singular achievements of the three regions. It could be a force to challenge the government's national growth strategy and become a key European growth area. However, it is now commonplace for regions and cities in Europe and beyond, to aspire to becoming 'a world class economy' and it is unclear whether the Northern Way alone can attract additional investment on the scale required. This will largely depend on having sufficient freedom and flexibility to develop its own policies and strategies. It may also become complicated and even more competitive by other regions launching similar initiatives such as a 'Midland Way' and a 'South-West Way'.

The Northern Way's first growth strategy highlights the scale of the growing disparities between regions with a "...growth difference between the best performing and worst performing regions is more pronounced than in almost all other European counties." It

forecasts a widening of UK regional disparities in the next five years, which could become “more extreme than in any other Western European country” (Northern Way, 2004).

Growth will be focused on the eight ‘city regions’ – Liverpool, Manchester, Sheffield, Leeds, Central Lancashire, Hull and the Humber Ports, Tees Valley and Tyne and Wear. However, in practice the focus will be on Manchester and Leeds, because they “...appear to have the momentum and capacity to develop most quickly into European-level competitive cities” (ibid).

It is not within the scope of this audit to have a full debate about the Northern Way, but it is important to recognise it as one of the key challenges affecting regional performance. The North West will want to ensure that rural areas and all the sub-regions benefit from investment generated by the Northern Way strategy, even if this is concentrated in ‘city regions’. The democratic governance of city regions and the continued fragmentation of local government are key issues. They provide further evidence of the need for impact assessment, to provide evidence to support locational decisions and to understand the added value contribution of projects and investment to the North West economy and to communities.

### **New equality commission and public duties**

The government is committed to establishing a new Commission for Equality and Human Rights (CEHR), combining the existing Equal Opportunities Commission, Commission for Racial Equality and the Disability Rights Commission. It is also proposing to introduce legislation, which will create a new public duty on gender, race and disability. Equalities organisations are campaigning for a much wider remit including a public duty. Even if all these proposals are implemented, it would leave the rest of Britain weaker than the statutory duties under the Northern Ireland Act 1998, which covers all nine equality strands.

The proposed equality legislation will require a much more rigorous assessment of the implications of regional policies and plans, although the precise nature and scope of this assessment has yet to be determined. It will almost certainly require public bodies to identify potential adverse impact and to take mitigating action. The implications are threefold. Firstly, regional partners will have to adopt new processes and assessment or appraisal techniques. Secondly, equality issues will have a higher priority than they do now, as legislation will require all public bodies to undertake impact assessment. It is also almost certain to empower equality groups, through statutory participation and consultation, thus enhancing their ability to challenge public policies and performance. Thirdly, it will almost certainly require regional partners to consider the potential impacts of policies and projects more rigorously than in the past, with the potential impact of policies having equal status with the assessment of past performance.

### **Regeneration and housing market**

Substantial investment in the renewal of the North West housing stock is planned via several key initiatives including:

- Meeting the Decent Homes Standard by 2010.
- Three Housing Market Renewal Pathfinder projects in the region to tackle the problem of low demand housing.
- Investment in specialist and supportive housing to meet the needs of demographic change – by 2021, 19% the region’s population will be aged 65 and over compared to 15.6% in 1996, with 2.2% being over 85.

- The Northern Way strategy proposes a 400,000 clearance programme.

These initiatives, as well as private and housing association investment, provide the opportunity to maximise the regional impact of investment by:

- Extending community benefit with local training and employment schemes being an integral part of each construction programme.
- Establishing local and regional production and supply chains which strengthen building product manufacturers and materials suppliers.
- Enhancing the sustainability of new housing in terms of energy, materials and the quality of homes and spaces.
- Ensuring that the social infrastructure is planned, designed and built as an integral part of new housing development.

The issue of affordability, both in terms of home ownership and the convergence of council housing and RSL rents, will also be an important factor.

### **Employment**

Creating new employment opportunities is a core element of the Regional Economic Strategy. Increased outsourcing, procurement and marketisation of public services will generate a downward pressure on jobs and wages. Increasing the employment rate via a low wage, non-trade union organised employment in areas of multiple deprivation, will do little to sustain the North West regional economy. The quality of jobs (wages, conditions, equalities, training, pensions and family-friendly policies) will become increasingly important.

### **Sustainable development**

Many of the policies outlined above, such as the efficiency drive, civil service relocation, the marketisation of public services and increased outsourcing, all pose a challenge to mainstreaming sustainability in the North West economy, for example, the conflict between short-term budget gains and long-term investment, individual organisational priorities versus community and regional benefits. Sustainability appraisal, which assesses the sustainable development content of policies, plans and projects, will need to be developed to be successful and integrated into the impact assessment methodology, to ensure sustainability is assessed alongside economic, social, health, environmental and other criteria.

### **Conclusion**

The North West faces a series of opportunities and challenges to maintain medium and longer-term growth prospects and to maximise the benefits of planned investment in the region up 2007/08. Some could benefit the North West region, but others could have a significant negative effect on regional performance. The opportunities and challenges could affect regional performance in a number of ways outlined below:

- Job creation from planned investment and civil service relocation could be substantially reduced, or even cancelled out, by job losses from the efficiency drive and further marketisation of public services. This leads to service provision, employment levels and conditions being determined by market forces. It will have a knock-on effect on the regional employment rate.
- The efficiency and competition agenda could also mean that national and international production and supply chains override local/regional chains, thus



reducing regional GVA and employment to lower levels than might otherwise have been achieved. A reduction in the quality of jobs, combined with forcibly reduced trade union organisation, could have a negative impact on wage levels in the region (IDeA, 2000).

- An expansion of social enterprises in the North West may be achieved, in line with national objectives, but this would not represent economic growth or added value if enterprises are merely transfers from the public sector.
- More Area Based Initiatives, such as arm length companies, trusts and quangos, are likely to be proposed, particularly in areas of multiple deprivation. However, they are likely to increase the governance differential between areas and sub-regions, fragment and weaken local government and reduce democratic accountability. In effect, they create a democratic deficit between poor and non-poor areas and between localities and sub-regions. This ultimately makes the identification of social and community needs, the coordination and implementation of regional strategies and the involvement of community and civil society organisations in the public policy making process, more complex and difficult.
- Increased choice, through competition and market mechanisms in public services, particularly in health and education, increases the potential for market failure, which could have an adverse and differential impact in urban and rural areas and between equality groups.
- The combined effect of the challenges outlined above, could further fragment the public sector, with a subsequent loss of capacity and leadership to intervene and carry forward the local, sub-regional and regional agenda (Beecham, 2005).
- Stronger and more rigorous mechanisms are required to ensure that the benefits of planned investment and efficiency gains are maximised and retained within the region. This will require regional partners to develop techniques and practices to assess the potential impact of plans, policies, programmes and projects in the planning stage, in order to maximise performance and minimise adverse impact.
- The Regional Economic Forecasting Panel identify the importance of the public sector in the North West economy. The NWRA has long argued this case (NWRA, 1999). However, the EU Internal Market for Services and government policies to extend the marketisation of public services, could have a significant impact on the regional economy, communities, service users and public sector workers. Regional partners will need to consider how to develop strategies to mitigate the implementation and impact of these policies in the North West.
- The scope and nature of these challenges will require regional partners to adopt a more proactive and rigorous approach to assessing the implications of policies, plans, programmes and projects, both generated from within the region and those imposed externally. There are distinct advantages of integrating impact assessment, combining economic, social, equality, health, environmental and sustainable development assessments in one methodology. Impact assessment will also need to ensure that competition and efficiency do not dominate other regional values and priorities. Historically such a focus has resulted in the marginalisation of equality and sustainability agendas.

The next chapter examines a way forward for assessing regional performance and impact assessment.

## Part 7

# The way forward for performance and impact assessment

### Introduction

How should the region develop its approach to scrutiny and performance assessment, to ensure it takes account of the challenges outlined in Part 6?

There is a continuum between the process of assessing past performance, identifying current challenges, and having a methodology to forecast the potential impact of plans, policies, programmes and projects, which are at the design and pre-implementation stage. A time lag is always going to exist in the availability of detailed data at local level, which is necessary to examine the micro-economic and social effects of policies and projects. The ability to identify the potential positive and negative effects of policies and projects with the ability to take mitigating action to reduce or eliminate adverse impact, is essential best practice.

Public Service Agreements, the new tasking framework and the NWDA's Corporate Plan targets, provide a framework. However, this is limited for three reasons. Firstly, it is focused on past performance. Secondly, the social justice/equalities content is very limited and inadequate, given the socio-economic structure of the North West. Thirdly, the focus on outcome targets tends to marginalise improving our understanding of cause and effect, because achieving the targets tends to override the quality of inputs and processes.

### Freedom and flexibility

Increased freedom and flexibility is vitally important for regional performance and scrutiny for the following reasons, and could have an important role in the region's ability to tackle the challenges outlined in Part 6 and its effectiveness in implementing the Regional Economic Strategy:

- To target resources to meet regional investment, training and related priorities in order to maximise regional and sub-regional impact in reducing inequalities. The regional single pot is a step forward, but increased freedom and flexibility will be needed to respond effectively to the outcomes of integrated impact assessments and maximise the effectiveness of regional strategies.
- To develop a regional approach to the modernisation agenda, in particular how the region addresses the efficiency, competition and procurement policy implementation.
- To intervene where market failures occur in order to minimise adverse impact and to promote a mixed economy provision, emphasising quality of employment.

### Tackling poverty and inequality

It is very important for the next phase of the scrutiny of regional performance to ensure that strategies for tackling poverty and inequalities are a core part of the agenda. The abolition of the Tier 2 framework will support this process.

The region should be developing strategies with regard to how it can influence the regional dimension of the planned Commission for Equality and Human Rights. In particular, it must

seek to influence the scope and powers of the public duties as well as the role of a comprehensive and democratic impact assessment.

### **Sustainable service delivery**

Sustainable service delivery requires local authorities, the NHS and other public bodies, having the intellectual, financial and human capital to implement regional strategies. Local authorities have a key role, not just as service providers, but must have the ability and capacity to carry out a range of functions of the local state, for example, economic development, local planning, needs assessment. The assessment and inspection regimes, such as Comprehensive Performance Assessment, should ensure that sustainability is a core theme.

### **Subsidiarity and democratic accountability of regional institutions**

The capacity (ability, authority, intellectual capital) of public sector organisations will be increasingly important in order to take advantage of the opportunities created by a genuine 'freedom and flexibility' approach. Capacity is also important to maximise the economic gains from public sector investment, regenerating communities, addressing market failures and maintaining and improving the public domain in the North West. Further fragmentation of local government and public bodies will inevitably erode and weaken the public sector's ability to undertake these important tasks. The region needs to enhance its political leadership which can most effectively be achieved by having a network of representative democratic structures and organisations which have the legitimacy and support of communities. Any reorganisation of local government in the North West should seek to strengthen local authorities and not seek to weaken and disempower them in the name of 'localism'.

### **Performance scrutiny and assessing impact**

Regional Review has focused on the assessment of regional performance under the Tier 2 target regime and will continue to do so under both the new ODPM/DTI 'tasking framework' and the targets in the new NWDA Corporate Plan.

The lessons learned from the assessment of Tier 2 targets, and from performance management frameworks in other parts of the public sector, underpins the need for a dual strategy of continuing to scrutinise past performance and assessing the future potential impact of policies and projects. This will also contribute to improving the alignment of regional policies. It will also help to minimise any potential adverse impact of plans, projects and programmes and ensure that they are more likely to be 'fit for purpose'. This approach will also help to maximise the community and regional impact of investment decisions.

The advantages of this approach are:

- It will create a more holistic assessment framework, by examining past performance together with assessing the potential impact of current or planned policies and projects. Regional partners currently use impact assessments as and when required, but it is recommended that this approach now be mainstreamed by Regional Review and, eventually, by all regional partners.
- It should combine social, economic, equality, health, environment impact assessment, within the context of sustainable development, to provide an integrated and comprehensive approach, further developing the integrated appraisal approach already developed by NWRA into a more robust, quantitative and qualitative methodology. This would identify the nature of impacts, costs and benefits, who

benefits and who loses, how and why, social and civil society impacts and how any adverse impacts could be mitigated or eliminated.

- It would increase the effectiveness of regional strategies and help to improve the alignment between regional strategies and mainstream sustainable development.
- It would make a significant contribution of mainstreaming the equalities agenda in regional policies and strategies. The NWRA Equality Strategy recommends developing tools to measure equality impact assessment. This would be significantly more effective, if it is part of a more comprehensive approach.
- Integrated impact assessments would also be a means by which Regional Review could assess progress in maximising the regional added value to be gained from the planned public investment programme up to and beyond 2007/08.

We intend to continue our groundbreaking scrutiny work over the period 2005/08 and to focus our activities on the development and implementation of an integrated impact assessment methodology dedicated to not only assessing the performance of the North West Regional Development Agency on the North West Regional Economic Strategy but also to ensure that we pay equal attention to oversight of the Regional Spatial, Transport, Housing and implementation strategies.

Regional Review will now consider and determine a detailed work programme to take this approach forward.

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