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**THE INFORMATION REQUIREMENTS FOR AN EFFECTIVE  
REGIONAL POLICY: A CRITIQUE OF THE ALLSOPP REPORT**

**BY**

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# The Information Requirements for an Effective Regional Policy:

## A Critique of the Allsopp Report \*

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## **Abstract**

This paper considers the recommendations of the report of the Allsopp Committee on the adequacy of UK statistics. We raise concerns over the philosophy underpinning the review but, more specifically, we question whether the Committee's recommendations are sufficient to operate effectively the present regional policy regime. In particular, the institutional arrangements that make up the "new localism" in regional policy have informational needs that are more extensive than simply monitoring performance on hitting targets. Many of these were simply not considered or given an inappropriately low weight in the Committee's deliberations.

## **1.Introduction**

Since its election in 1997, the Labour government has shown an increasing interest in regional policy as a means of increasing national growth and productivity, reducing economic disparities across space and improving democratic accountability at the local level. This is the “new localism”. It is supported by a set of institutional arrangements, known as “constrained discretion”, that together make up a decentralised policy delivery system (HM Treasury, 2001; HM Treasury *et al*, 2003, 2004; McVittie & Swales, 2004).<sup>1</sup>

In the regional policy context, constrained discretion involves the delegation of policy delivery within England to local Regional Development Agencies (RDAs). The overall control rests with a set of Whitehall Departments, so that we have a classic principal agent problem (Dixit, 1996; Laffont & Martimort, 2002; Tirole, 1994; Wilson, 1990). To deliver this policy, the government has put in place an institutional framework “... around targets, funding and central guidance, tied to stronger accountability and performance incentives” (HM Treasury *et al*, 2004, p. 2). A key element of this framework is the appraisal and evaluation rules given in the revised Green Book (HM Treasury, 2003). These changes have important implications for the operation of English regional policy.

Regional policy now applies to all geographical areas, rather than being targeted on poorly performing regions, and is part of a wider agenda to decentralise policy delivery. Important elements of policy-making have been

delegated to the RDAs, whose decisions are thought to better reflect local economic conditions. Also PSA targets have been introduced for regional policy as a whole and more specific second and third tier targets have been set for individual RDAs. Further Treasury guidance requires RDAs to adopt a more sophisticated project evaluation procedure than has been applied up to now. Finally, a key element of the new localism is an appeal to greater local accountability and democracy. These changes have very important implications not just for the operation of regional policy but also for informational requirements at a regionally-disaggregated level.

In 2003, the government set up an independent review, headed by Christopher Allsopp, to investigate, amongst other things, the data requirements for regional policy delivery within the framework of constrained discretion. In this paper we question whether the recommendations of this review (Allsopp, 2003; 2004) are adequate to run these new institutions and therefore sufficient to secure an effective regional policy. We are particularly critical of the narrow focus of this report and its use of an informal cost-benefit approach in deciding whether a given set of statistics should be provided.

The paper is organised in the following way. The next three sections discuss the newly instituted English Regional Development Agencies (Section 2), their targets, corporate plans and strategies (Section 3), and their funding arrangements (Section 4). Section 5 outlines the policy assessment procedures suggested in the new Green Book, and contrasts this with how regional policy evaluation has been carried out in the past. Section 6 considers the Allsopp

recommendations, and comments on the consistency of the approach taken by the Allsopp Report and the requirements of policy assessment. Section 7 is a short conclusion.

## **2. Regional Development Agencies**

The Regional Development Agencies Act, 1998, set up the English RDAs as executive non-departmental public bodies (ENDPBs). They were formally launched in eight English regions on 1 April 1999. A ninth, in London, was established in July 2000 following the formation of the Greater London Authority. The RDAs have statutory duties to encourage economic development and regeneration; promote business efficiency, investment and competitiveness; promote employment; enhance development and application of skills relevant to employment; and contribute to sustainable development in each of the English regions. To these statutory duties have since been added roles in the areas of tourism promotion, transportation, housing and planning. The Regional Development Agencies in England are joining Development Agencies in the Devolved Administrations of Northern Ireland, Scotland and Wales that generally have a much longer history. In the Devolved Authorities the Development Agencies are responsible to the corresponding local Parliament or Assembly.

In delegating policy delivery to ENDPBs, the central or devolved governments face principal-agent problems, where the government is the principal, the ENDPB the agent (Laffont and Martimort, 2002; Learmonth, 2003). In the case of regional policy, the rationale for this delegation is that the

RDAs are thought to have greater local knowledge and flexibility of operation than central government departments. Additionally, they are not staffed by civil servants, have a more business-friendly approach and may be able more credibly to commit to the development of their own region. However, the asymmetric information situation sets up potential moral hazard problems, given that the agency's interests will not accord perfectly with the interests of the appropriate government department or departments (McVittie and Swales, 2003, 2004). In this sort of situation, it may be appropriate to take a "constitutional" approach (Buchanan, 1987; Dixit, 1996). This methodology argues that in assessing regional policy the government should concentrate on imposing appropriate constraints or rules on the operation of RDAs *ex ante*. In this paper we will consider the institutional arrangements associated with the new localism and consider whether, even with the full implementation of the Allsopp recommendations, we will have information sufficient for their operation.

### **3. Targets, Plans and Strategies**

HM Treasury (2002, p.1) published for the period 2003 to 2006 Public Sector Agreements (PSAs) that "... set out around 130 demanding targets covering key areas of Government". The aim is to increase accountability and thereby improve policy delivery. RAND Europe claim that the work of RDAs touches on 29 PSA targets across all departments (National Audit Office, 2003). PSA targets that relate very directly to regional policy or to the local delivery of national policy devolved or delegated to the appropriate Regional Development Agencies (RDAs) include those for:

- the Office of the Deputy Prime Minister (ODPM) on neighbourhood renewal and social inclusion
- the Department of Trade and Industry (DTI) on building an enterprise society and jointly between DTI and HM Treasury on raising the rate of UK productivity growth over the economic cycle
- the Department for Environment, Food and Rural Affairs (DEFRA) on improving the relative productivity performance of the lowest quartile rural areas
- the Department for Culture, Media and Sport (DCMS) on improving the productivity in the tourism, creative and leisure industries
- the Department of Work and Pensions (DWP) on increasing the employment rate and reducing the unemployment rate of the 30 local authority districts with the poorest initial labour market position and jointly between DWP and the Treasury on raising the UK employment rate, and reducing the unemployment rate, over the economic cycle.
- HM Treasury, together with ODPM and DTI on improving the economic performance of all English regions and reducing the persistent gap in growth rates between regions.

Note that the PSA targets cover a wide mixture of productivity, labour market and spatial equity goals. Where appropriate, these PSA targets have been translated into more specific (second and third tier) targets for individual

RDAs (McVittie and Swales, 2004) and these are incorporated into the 3-year Corporate Plan agreed with DTI. However, there has been criticism that the different tiers of targets fail to cohere and that some simplification is required (National Audit Office, 2003). Exactly how this target-setting regime will work over the long term is still unclear.

Plans for achieving these targets are set out within a Regional Economic Strategy for each of the regions. These are 10-year strategy documents agreed between the RDA and other relevant local organisations involved in regional regeneration policy (generally referred to as stakeholders) and are formulated through the Regional Assemblies or Chambers. The regional Economic Strategies are important in that they are a formal institutional element of the local democratic accountability agenda. The RDA will often work in partnership with other local private or public sector organisations and these are consulted in the formulation of the Regional Economic Strategy.

#### **4. Funding Arrangements**

The Department of Trade and Industry (DTI) brings together the funding for the English RDAs in a “Single Budget”, with five government departments making contributions. The total budget comes to £1,878 million for 2004-5, increasing to £2,000 million by 2005-6. This budget is distributed between the different RDAs by a “complex formula” (Allsopp, 2003, p. 33). An individual English RDA’s budget depends on its relative position on eight criteria. These

criteria and the corresponding weights that they are given in the allocation formula are shown in Exhibit 1.

One key issue should be highlighted here. The weighting that determines funding reflects very traditional regional policy concerns: over 70% of the total English RDA budget is distributed using the unemployment and social deprivation criteria; only 9.4% is distributed on the (inverse) productivity measure. Reducing unemployment rate differences across space has always been a major focus of regional policy, no matter what the formal justification given by the government in office (Armstrong and Taylor, 2000). Therefore whilst there is an emphasis on the productivity agenda in some government policy documents, this is not backed up by the funding decisions.

## **5. Policy Appraisal and Evaluation**

The policy of constrained discretion operates within the government's overall policy assessment framework. There are now evaluation guidance documents from a number of Ministries whose work relates to that of the RSAs. These include the Orange, White and Magenta Books from the Treasury, DCMS, and the Cabinet Office respectively. However, the root source is the revised Green Book, where the policy assessment process is represented in terms of the ROAMEF cycle, which is summarised in Exhibit 2 (HM Treasury, 2003, p. 3). The 3Rs report from ODPM (2003) gives details on how to assess the impacts of spatial policy in general and the DTI document "Single Programme Appraisal

Guidance” (SPAG) operationalises the Green Book’s recommendations for the English RDAs (DTI, 2003).<sup>2</sup>

Although it is referred to as “guidance”, SPAG is rather more prescriptive than the Green Book. Projects above a certain minimum size have to be appraised by the DTI whilst those above £20 million or which are “novel, contentious or repercussive” (DTI, 2003, p. 19) must go through a formal additional Treasury appraisal. RDAs are spending and distributing public money. At the minimum there is a clear public accountability issue.

In the Green Book guidelines, a policy action must first be justified in general terms (*Rationale*), then more specific *Objectives* should be set. This is followed by an *ex ante* option *Appraisal*. If the policy passes this test, its execution requires *Monitoring* and subsequent *ex post Evaluation*. An effective Evaluation provides *Feedback* to policymakers and the opportunity for reflecting on the policy’s rationale, thereby starting a further round of policy assessment. The Green Book takes it to be axiomatic that such a process of continual assessment and feedback improves policy effectiveness.<sup>3</sup>

In the past, both the *ex ante* appraisal of individual projects for the receipt of Regional Selective Assistance (RSA) and the *ex post* evaluations of regional policy instruments have been undertaken using common guidelines. These were laid down in Annex E of the second edition of the Green Book (HM Treasury, 1997), augmented with the recommendations from the EGRUP Review (HM Treasury, 1995). These assessments involved measuring expected or actual

behaviour against national efficiency, additionality, cost-effectiveness and project viability criteria.<sup>4</sup> However, Annex 1 of the new edition of the Green Book advocates a full cost benefit treatment for regional policy. These recommendations are reiterated in the SPAG and the 3Rs documents (DTI, 2003; ODPM 2003).

Further, in the revised Green Book, HM Treasury moves away from its previous position that regional policy is essentially redistributive. No longer is regional policy to be automatically assessed as if there were 100% crowding out at the national level. The new guidelines accept that there will be net additions to activity if there is a "...‘supply side’ or ‘structural’ impact, which operates by altering the productive capacity of the economy" (HM Treasury, 2003, p. 52).

In assessing (appraising or evaluating) policy there are two distinct steps: the identification of the outcomes, and their subsequent valuation.<sup>5</sup> We know that as far as valuation is concerned, the Green Book now recommends a cost benefit approach. However, it also gives advice on how to identify the policy outcomes. The impacts of regional policy are expressed in terms of additionality, which is now defined as the difference between the outcome with the policy and the counterfactual, the outcome without intervention.<sup>6</sup> Combining advice given in the Green Book, SPAG and the 3Rs, the additional impact on economic activity can be further broken down in as follows:

$$\text{Additionality} = \text{Gross Impact} - \text{Deadweight} - \text{Substitution} - \text{Displacement} - \\ \text{Leakage} - \text{Crowding Out} + \text{Multiplier Effects}$$

The gross impact is simply the activity directly associated with the aided project. Deadweight is here defined as elements of the aided activity that would have gone ahead anyway, without assistance. Substitution is where a firm substitutes an aided activity for an unaided activity. Displacement is any reduction in non-aided activities that is generated as a side effect of the policy, through its effect on local product or labour markets, for example. Leakage is the proportion of the outputs or outcomes that occur outside the targeted geographical area or population group. Crowding out is the UK-wide impacts, thought to be imposed through the government's budget constraint. It is this effect that underlies the judgement that only supply-side measures have a net effect on activity at the UK level. Multiplier effects are the indirect and induced effects generated by the change in intermediate and consumption demand that the policy has produced.

## **6. The Allsopp Review**

The First Report of the independent *Review of Statistics for Economic Policymaking*, led by Christopher Allsopp, previously a member of the Monetary Policy Committee, focuses on the data required to support regional economic policy. Allsopp (2003, p.23) states that "...we ask the wider and longer-term questions about what kind of statistical system would be required to underpin the more general process of *economic policy* devolution involving constrained discretion".<sup>7</sup> The review of regional statistics was required because both the accuracy and scope of the existing data provision was thought inadequate for the

new policy needs. This view was reinforced in the First Report (Allsopp, 2003; Nolan, 2003) .

In practice Allsopp (2003, p. 91) makes recommendations “... with only the present regional policy agenda in mind”. He principally focuses on those statistics required to measure accurately and timeously the agreed key policy targets that are part of the constrained discretion framework. In particular, a large proportion of the First Report discusses the preparation of Regional Accounts using more securely based regional-specific data. Allsopp recommends deriving a regional Gross Value Added (GVA) measure at current prices using the production and income-based approach and a (chained) volume measure. In making recommendations, Allsopp (2003, p. 19) adopts “... an implicit cost-benefit framework.... We ask whether the potential pay-off in terms of better economic policy is justifies the cost”. On these grounds, for example, he argues against generating an expenditure-based measure of regional GVA because it would require “... a matrix of inter-regional trade flows, for which no data exist at present and could only be obtained at significant cost” (Allsopp, 2003, p. 93).

Allsopp carried out an in depth exercise, consulting many of the existing users of regional statistics. The report makes a large number of recommendations, many of which, if adopted, should improve the accuracy of UK regional statistics. However, in earlier sections of this paper we have described the new or revised institutions that now determine regional policy decision making and delivery, the institutions that together make up the constrained

discretion framework. After the Allsopp Review, do we have the appropriate data to support these institutions? We fear that the answer remains no.

A number of characteristics of the Allsopp Review are problematic. The first is that Allsopp (2003, p. 91) interprets the remit very narrowly. His decision to focus only on the present regional policy agenda raises questions as to whether the resulting information base will be sufficient fully to support policy assessment. Policy appraisal necessarily involves consideration of potential alternative means for achieving desired objectives. The Green Book procedures explicitly apply to broad policies, as well as to individual programmes and projects. If official statistics are restricted to those required within a given policy context, it is unlikely that appropriate information will be available to evaluate that policy against alternatives.

This causes particular difficulties for the new localism, because democratic accountability is an explicit element of this policy. In some parts of the UK regeneration policy is fully devolved. In those parts where it is not, it is the aim of the government to strengthen local democratic scrutiny over the delivery of this policy. But if this aim is to be more than empty rhetoric, information must be available to challenge the existing policies. Allsopp has not interpreted his brief in this manner.

However, even if it were appropriate to focus solely on the operation of the present constrained discretion policy framework, Allsopp concentrates almost exclusively on the monitoring aspects of that policy. He puts great emphasis on

the data requirements for tracking the government's PSA targets. This is partly pragmatic:

The demand for Regional Accounts data ... is a demand for data now. The RDAs and devolved administrations are in place and are already involved in local policymaking; and while the regional PSA target has a fairly long time horizon, it is clearly important that systems need to be in place to assess performance accurately (Allsopp, 2003, p.102).

However, as we make clear in Sections 4 and 5, the funding formula for RDAs and the appraisal and evaluation procedures that have been put in place are also key elements in the constrained discretion policy framework too. Allsopp (2003) gives the actual funding figures for the English RDAs, but the data requirements for the funding formula are not discussed. More surprisingly, there is no mention of the informational needs flowing from the revised Green Book recommendations, the SPAG document or the 3Rs guidance.

These are extremely important topics. As the revised Green Book states, regeneration policies (which include regional policy) now "... have a rationale defined both in terms of their impact on efficiency and equity" (HM Treasury, 2003, p. 54). Whereas previously the impact of regional policy focussed almost exclusively on the recipient region, now we need to be able to identify both the national impacts of regional policy and also their distribution across different geographic areas. "The geographical focus of regeneration projects means that it is particularly important to assess displacement effects at both the local and national levels, particularly if the programme or project is substantial" (HM

Treasury, 2003, p. 55). Exactly the same sort of argument can be made for leakage, crowding out and multiplier effects too. But how are these spatial impacts to be measured? It seems to us inconceivable that this can be done properly without identifying the inter-regional trade and financial flows within the UK. However, as we have seen earlier in this section, Allsopp argues against the provision of these data.<sup>8</sup>

Problems will also accompany any attempt to apply cost benefit assessment techniques to regional policy. A major advantage of the cost benefit approach is that shadow prices can be used to replace market prices where there is market failure. Ideally we require UK-wide, regionally-disaggregated, models to calculate these shadow prices. At present the government is silent on this.

Even if we are to focus on the requirement for the operation of targets, the Allsopp Review is unbalanced. One would think, from the Allsopp Review and also from some Treasury documents (Balls, 2002; HM Treasury, 2001; HM Treasury *et al*, 2003), that the primary concern of regional policy were the government's productivity agenda and that the critical PSA target were the requirement to reduce the variation in regional growth rates. However, as we have seen in Sections 3 and 5, RDAs have a very wide policy remit and are subject to a range of PSA targets. Further, their funding is primarily determined by unemployment and social deprivation needs, rather than any productivity shortfall.

Further, for Allsopp the role for regional statistics lies almost wholly in the monitoring of targets. But what about target setting? Allsopp (2003, p.15) is fully aware that in the recent past there have been problems with target setting and specifically recommends involving ONS or GSS statisticians to “... advise on any associated measurement difficulties”. However, he does not discuss the informational needs for setting good (SMART) targets.<sup>9</sup>

In assessing which regional statistics should be provided, Allsopp adopts a very loose cost-benefit approach. He attempts to identify the costs of providing or improving specific elements of regional data and then makes an informal judgement as to whether the improved informational scope or precision represents value for money. “This would, therefore, give low priority to information that was felt to be ‘nice to know’ or that was expensive to collect” (Allsopp, 2003, p. 135). However, our view is that the heavy focus on the monitoring of existing policy targets results in a lot of information that would be essential for appraisal and evaluation getting allocated to the “nice to know” category.

At the heart of our concerns with the Allsopp Review is that even if one is only interested in effective policy making, an appropriate understanding of how individual regional economies operate and how the regions of the UK interact as a spatial system is required (McVittie & Swales, 2003). Such an understanding is central to the optimal operation of the financial allocation, incentive generation and monitoring and evaluation systems at present in place as elements of the

policy of constrained discretion. However, the statistical needs for such an understanding are given low priority in the Allsopp approach.

Consider, for example, the Allsopp (2003, p. 111) discussion on regionally disaggregated price indices, where the report states that "... the clearest policy demands are for deflators of regional GVA for the regional PSA targets and for relative price levels to aid public sector pay negotiations". No mention is made that data on the regional consumer price index (cpi) is required for statistically testing and parameterising regional wage-setting and migration functions. The nature of these relationships has a major impact on the effectiveness of regional policy (Gillespie *et al*, 2002).

## **7. Conclusions**

We are critical of the Allsopp Review for two main reasons. The first concerns the fact that in a democracy, the government of the day must allow for its own demise. It must permit, and to a certain extent facilitate, criticism of its own policies. Allsopp explicitly focuses solely on the cost and accuracy of the informational needs of the existing government's policies. As such, it is fundamentally undemocratic. This is part of a wider set of concerns presently being voiced as to the independence of the UK Civil Service.

The second is that even if we take its remit as stated, the Allsopp Review does an extremely uneven job. The government has devolved responsibility for a wide range of policies in England to Regional Development Agencies. For effective decision making, these agencies need to understand the way in which

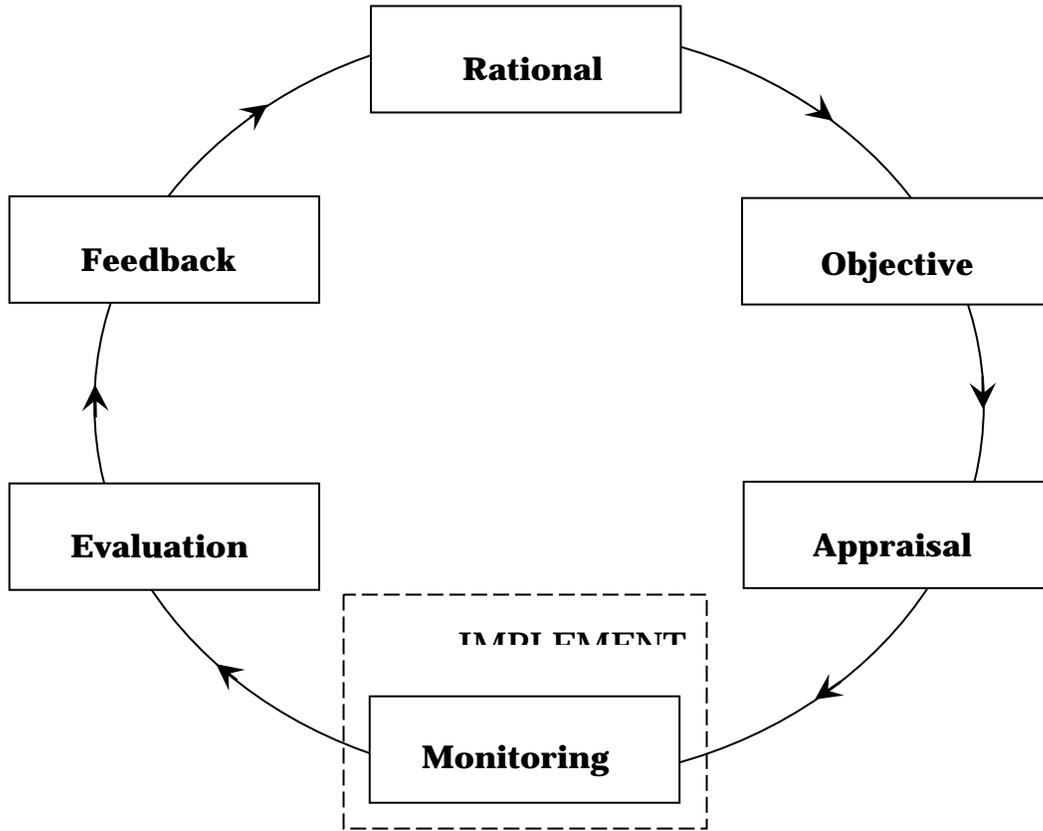
the economy of their own region works. For efficient target and budget setting, and for the appropriate operation of the cost-benefit appraisal and evaluation system that HM Treasury now recommends, the government needs to know how the UK regional economies interact. It needs to know the nature, extent and geography of the positive and negative spillovers generated by policy delivered in a particular region. The Allsopp Report concentrates heavily on the provision of appropriate information in order to monitor the RDAs performance in hitting targets. This is only a small part of the statistical needs of the new localism.

Allsopp undertook an independent review. It is unfortunate that he did not take a more wide-ranging approach, less focused on short-run, albeit pressing, problems. However, the Allsopp Report might be more than just a missed opportunity. The existence of its recommendations might hinder arguments for better regional data in the future.

**Exhibit 1: The division of the total English RDA budget, broken down by the headings under which these have been calculated, 2004/5, source DTI**

Regional Development Agency	Headings under which funding is determined									Final %
	Flat rate for all RDAs	Population	GD P	R & D Spend	Lagging Rural areas	Deprived wards	Unemployment	Derelict Land	Skills	
Advantage West Midlands	0.28%	0.27%	1.29%	0.29%	0.33%	3.96%	5.52%	0.44%	0.38%	<b>12.74%</b>
East of England	0.28%	0.27%	0.69%	0.00%	0.60%	0.78%	1.62%	0.39%	0.34%	<b>4.96%</b>
East Midlands	0.28%	0.21%	0.84%	0.12%	0.51%	1.95%	1.88%	0.34%	0.31%	<b>6.45%</b>
London	0.28%	0.36%	0.00%	0.28%	0.00%	5.06%	12.39%	0.34%	0.35%	<b>19.07%</b>
North West	0.28%	0.35%	2.03%	0.26%	0.51%	7.47%	7.05%	0.53%	0.45%	<b>18.91%</b>
ONE North East	0.28%	0.13%	1.29%	0.71%	0.23%	3.21%	6.00%	0.26%	0.20%	<b>12.31%</b>
South East	0.28%	0.40%	0.56%	0.00%	0.66%	0.66%	2.28%	0.18%	0.43%	<b>5.44%</b>
South West of England	0.28%	0.25%	1.17%	0.08%	1.21%	0.87%	1.53%	0.28%	0.32%	<b>5.99%</b>
Yorkshire Forward	0.28%	0.26%	1.52%	1.39%	0.33%	4.15%	5.47%	0.37%	0.36%	<b>14.14%</b>
Totals	<b>2.50%</b>	<b>2.50%</b>	<b>9.38%</b>	<b>3.13%</b>	<b>4.38%</b>	<b>28.13%</b>	<b>43.75%</b>	<b>3.13%</b>	<b>3.13%</b>	<b>100.00%</b>

**Exhibit 2: The government's ROAMEF appraisal cycle**



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## FOOTNOTES

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<sup>1</sup> The term “constrained discretion comes initially from the monetary policy literature (Bernanke & Mishkin, 1997) but has been extended by the present Labour government to cover other areas of policy and specifically the delivery of regional policy (Balls, 2002; McVittie & Swales, 2004).

<sup>2</sup> A summary of the appraisal guidance applicable to the English RDAs and some details of how assessment processes have been progressing in practice are given in National Audit Office (2003).

<sup>3</sup> The key stages of the SPAG procedure are slightly different: Project Proposal, Appraisal, Investment Decision, Contract, Delivery, Closure, and Evaluation.

<sup>4</sup> In this context, additionality simply measures whether the project would have gone ahead without the aid. The revised Green Book gives a more extended meaning to the term “additionality”. See the text and footnote 6.

<sup>5</sup> Outcomes can be thought of as ultimate variables that enter the government’s Social Welfare Function, such as employment, GDP or population. Outputs are the intermediate steps: for example investment, innovation or skill acquisition.

<sup>6</sup> The terms “additionality” and “deadweight” have been given slightly different meanings in the new Green Book than in previous official regeneration

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policy evaluations. Additionality was previously the proportion of aided projects that would not have gone ahead without government assistance. Deadweight was the proportion of aid expenditure over and above the minimum needed for the aided projects to go ahead. In this terminology, all aid to non-additional projects is deadweight, but some of the aid to additional projects would be also be included in deadweight where this was greater than the minimum required for the project's viability.

<sup>7</sup> The Final Report (Allsopp, 2004) concentrates on the statistical needs that accompany the changing structure of the economy. However, it also reports the feedback on, and adjustments to, the recommendations made concerning regional statistics in the First Report. The basic approach and central conclusions are unchanged.

<sup>8</sup> Detailed government guidance for the RDAs on the calculation of additionality is promised in the 3Rs report. However, at present, (April 2004) it is not yet available.

<sup>9</sup> SMART is an acronym for Specific, Measurable, Achievable, Relevant and Timed. The need for greater care is so that the government does not again find itself with targets relating to rural areas where it has no agreed definition of what a rural area is or with targets for regional GVA growth with no statistical measure of this variable.

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