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Chair of Chairs: South West Regional Development Agency
April to September 2010

Philippa Lloyd
Department for Business Innovation and Skills
1 Victoria Street
London
SW1H 0ET

8th June 2010

Dear Philippa,

Regional Development Agency Budgets 2010/11 – In Year Cuts

I enclose Excel spreadsheets illustrating how the eight RDAs outside London expect to implement the in-year budget cuts that were announced on May 24th - £270m to programme budgets and £19m to administration budgets. London will make additional savings on administration to bring the latter figure up to the £23m announced.

For completeness' sake I draw your attention to the separate letter from Advantage West Midlands that accompanies their submission (enclosed). North West Development Agency (NWDA) and Yorkshire Forward have also written directly to BIS about their submissions.

The Secretary of State's letter of 2 June, which confirmed that there will be an asymmetric approach to the cuts across the regions, was received after this exercise was commissioned. As yet we have no clarity on the criteria that will be used to apply the policy in practice, and hence the extent of the tilt from "South and East" to the North and West Midlands. In the absence of any other agreed starting point, and as agreed by Chief Executives at their meeting on 27th May, we have therefore stuck to exemplifying the cuts in accordance with the usual formula distribution. However, all RDAs are anxious to get early clarity about how the Secretary of State's policy on rebalancing between regions will be applied.

To put this exercise in context, it is important to note that:

- Earlier budget raids in 2008/9 and 2009/10 have substantially reduced RDA programme budgets and largely removed the RDAs' flexibility to deliver further cuts, making the latest exercise both difficult and challenging.
- All RDAs are heavily committed to fund projects under existing legal agreements. This is clearly shown by the March 2010 Commitments return and the position has tightened since then.
- All RDAs are already delivering the third year of challenging cuts in administration budgets, as agreed in CSR07.
- Uncertainty about future priorities makes it challenging to know which projects are important for the future delivery of government policy.

Some important caveats and cautions to the data:

- a) The cuts proposed must be regarded as illustrative - the best forecast that could be prepared in the time available. Our Boards will expect to approve the approach to cuts in their regions and while some RDAs have been able to involve their Boards in the exercise (Yorkshire Forward, for example), this has not been possible for others - including SWRDA, where we have called an

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- b) emergency board meeting for 21 June. Other opportunities to make reductions may arise in-year and the budget reductions will therefore be delivered, in the end, in a different way.
- c) The information must be treated as 'Commercial in confidence' to avoid affecting future negotiations and premature and unnecessary adverse publicity.
- d) The information addresses the request for in-year (10-11) savings and has been done at short notice. For avoidance of doubt, every region will have on its books other projects which, if subsequently cut, would have repercussions in 2011-12 and beyond.
- e) RDAs need time to discuss their plans with stakeholders, to ensure fairness to all counterparties and to ensure that all relevant information is taken into account. RDAs will be mindful of the NAO's recent comments in the context of ISR about the need for appropriate stakeholder consultation in discussions about cuts.
- f) Breaking or renegotiating existing contracts is an unpalatable option. Success is not guaranteed, additional costs are hard to forecast and cannot be estimated with any degree of confidence until negotiations have taken place. Renegotiations may also derail the plans of other public sector bodies, sparking off a chain reaction. (RDA Finance Directors have suggested that costs could be mitigated if Government instructed Local Authorities not to resort to legal action.)
- g) In order to identify appropriate re-prioritisation, stakeholder feedback needs to be sought; potential for deferring or reducing individual contracts assessed; and economic and other impacts of individual project reductions given due weighting. This process will take weeks, not days.

Some observations on the consolidated return:

- The programme cuts offered total £270m, as required.
- The split of cuts between Capital and Near Cash does not match the profile advised by BIS on Friday, 4th June. Further work may be needed on this.
- Many RDAs are now indicating that a large number of legal commitments will need to be broken or renegotiated. There is a risk that this undermines confidence in the BIS and CLG agendas and a risk of adverse publicity, locally and nationally.
- Meeting the current savings target by deferring spend from 2010/11 into later years may simply delay hard decisions.
- RDAs have not had time to consider consistent approaches across the network. For example, the proposals include, variously, cuts to Business Links, tourism bodies, and observatories, but it is clear that different RDAs have applied different criteria. This underlines the need for greater clarity about government policy on business support going forward.

Administration/Running cost cuts.

The cuts to Administration budgets will be particularly challenging to deliver, even with the flexibilities that have been offered. Staff costs comprise the largest element and it will be very difficult to reduce staff costs and deliver the associated savings in 2010/11. Under the Cabinet Office protocol, which we will be obliged to follow, the process to make staff compulsorily redundant takes nine months and cannot therefore produce significant in year savings. In any case we are not in a position to make staff compulsorily redundant without instructions from government on the terms under which this can be processed. Furthermore, as there is no government voluntary redundancy scheme in place either, it is impossible to offer voluntary redundancy which might otherwise have provided in year savings. This must be seen as a significant risk.

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On the other side of the coin, RDAs will want to retain key staff for continuing functions, but we do not yet have clarity about which functions will continue, which may be transferred to other bodies and which will cease.

Next steps

It is clear that further work will be required to implement a decision by Ministers that the cuts should be allocated other than according to the RDA funding formula.

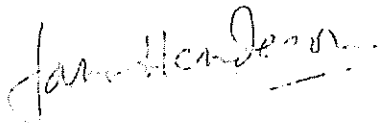
Subject to that major uncertainty, our strong recommendation is that the Department (and Ministers) do not attempt to impose project level decisions but rather give guidance and advice to RDAs to allow local implementation. RDAs have an excellent track record in financial management and dealing with budget uncertainties. Provided the cuts are within the range of the possible for each RDA, this is most effectively done with local knowledge, local communication and local handling of the fall out with partners.

Nick Lewis, Catherine Pollard and David Luckhurst stand ready to discuss how to take this work forward and David Luckhurst will be able to respond to any detailed questions about the returns that you may have. We are particularly keen to understand how Dr Vince Cable's letter of 2nd June will impact on the exercise

The RDA Chief Executives will be writing to Simon Fraser separately about the Accounting Officer issues raised by this exercise and other current uncertainties.

I am copying this letter to Mike Noakes and to RDA colleagues, for information.

Yours sincerely



Jane Henderson
South West RDA
Lead Chief Executive for the Network

RDAS: Illustrative In Year Cuts in 2010/11

Summary position – as at 7th June 2010

	Programme		Administration		Notes		
	Allocation of cuts £000	Cuts Offered £000	Difference £000	Allocation of cuts £000		Cuts Offered £000	Difference £000
AWM	41,204	41,204	0	2,365	2,131	234	Cuts allocated against programme first, with balance to administration.
EEDA	19,418	19,456	-38	1,623	1,623	0	
EMDA	23,563	23,563	0	1,847	539	1,308	Cuts allocated against programme first, with balance to administration.
LDA	0	0	0	3,973	0	3,973	
NWDA	57,821	25,010	32,811	3,666	0	3,666	Detail of administration cuts not yet provided.
ONE	36,590	36,590	0	2,687	2,687	0	
SEEDA	23,519	23,644	-125	2,100	2,100	0	Detail of administration cuts not yet provided.
SWRDA	23,140	23,215	-75	2,324	2,350	-26	
YF	44,745	44,745	0	2,415	0	2,415	Detail of administration cuts not yet provided.
Total	270,000	237,427	32,573	23,000	11,431	11,569	