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Look before you LEP: English Cluster Policy from RDAs to LEPs

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The policy and academic debate on industrial clusters has developed in a context dominated by 'industry champions' which are not necessarily national. Despite the fact that *industrial districts* first emerged and indeed were first studied in England by Alfred Marshall over 100 years ago, the spatial dimension of economic activities has in fact been marginal to much of the economic and policy debate in the UK. The idea that industrial clusters could be engines of regional growth was only seriously taken on board in the late 1990s by the newly created Regional Development Agencies (RDAs) in England, and by development agencies in Scotland and Wales. Regional and cluster policies were subsequently used as a key part of UK regions' economic strategies over the late 1990s and 2000s; despite some successes, question marks now remain over their future in England at least given the abolition of RDAs there from 2012. Favouring a supposedly 'localist' rather than regional agenda, the coalition Government elected in 2010 has replaced RDAs with smaller-scale Local Enterprise Partnership (LEPs) at the sub-regional level. With more limited powers than RDAs and much less funding, time will tell how these LEPs will perform in economic development terms generally and in terms of cluster policies specifically.

Regional Development, Governance, Clusters, Cluster Policy, Regional Development Agencies, Local Enterprise Partnerships

1. Introduction

It is fair to say that clusters and cluster policy became integral to the economic development strategies of the Regional Development Agencies (RDAs) in the English Regions from around 2000 onwards. In so doing RDAs steered a decentralised regional development policy towards an understanding that sectors' dynamics have a spatial dimension. The paper discusses recent changes in the governance of UK regional policy and the implications for UK cluster policy. Before doing so, it is worth summarising the main shifts over time in UK regional policy. The Labour governments over 1997 to 2010 devolved certain powers and more control over some policies including regional economic policy, to Scotland especially but also Wales and (later) Northern Ireland. In addition, they set up Regional Development Agencies (RDA) in England. This meant that Scottish Enterprise (the development agency in Scotland) and the Welsh Assembly were at the same time national bodies, being longer established and having more experience in actually *doing* regional economic policy, while the English RDAs went through a process of institutional and policy learning (Bailey and De Propris, 2010). Post 2012, whilst Scotland, Wales and Northern Ireland (and London) are retaining control over their regional development policy with governance structures in place, the rest of England has embarked on the 'localism' experiment. The institutional capacity building that took place with the RDAs has been effectively lost, and instead a new form of governance creates a new institutional architecture

with a different geographical scale, reduced power, less funding and a whole new way of shaping economic development now at the local level.

The policy debate over industrial clusters has been fed by a flourishing of academic contributions looking at specific case studies such as, for instance, the biotechnology cluster in Cambridge (Cooke, 2001a); the Birmingham jewellery district (De Propris and Wei, 2009); the auto cluster in the West Midlands (Bailey, 2003 and 2007); garments in Leicester, publishing in Bath or software and computer games in Manchester (De Propris et al., 2009). By and large, the picture that emerged suggested that there is a range of different clusters across England. Some are historical clusters that date back to the industrial revolution and indeed Marshall's original work such as the ceramic tableware in Stoke, basic metal and metal processing in Dudley and Sandwell, and jewellery in Birmingham. Some of these are old and mature industrial and in relative decline. Other clusters are complex localised supply chains with strong global links such as the auto *filière* spreading across the West Midlands, while others still are growing clusters in emerging technologies such as the biotech cluster in Cambridge. As the UK economy has undergone a process of tertiarisation (De Propris, 2009), more recent work on clusters has looked at services, such as media, software or finance (see De Propris et al., 2009).

The paper is structured as follows: section 2 charts the development of cluster policies in the English regions under the Regional Development Agencies which operated until 2012; section 3 highlights the challenges of maintaining cluster policies with the abolition of RDAs thereafter and creation of Local Enterprise Partnerships (LEPs). Section 4 draws some conclusions.

2. The cluster policy that 'never really was'?

The UK has always been a centralised country. Until 1998, regional policy coincided with initiatives to tackle regional imbalances through fiscal transfers from high income to low income regions, so called "assisted regions"; whilst at the national level an "industrial policy" aimed to support the global competitiveness of "national champions" (Bailey and Sugden, 1998; Pitelis, 2006). Regional development policy –and industrial policy– was effectively decentralised in the UK when the newly elected Labour government (in 1997) set up Regional Development Agencies and empowered them to design and implement regional development policy. English RDAs were set up as government funded umbrella organisations bringing together key public and private regional stakeholders (Webb and Collis, 2000) together with some already existing regional level activities and organisations. Scotland and Wales already had regional bodies in charge of regional economic development, and with the newly formed English counterparts, the national government had arguably finally allowed some form of bottom-up regional policy to surface. From 1998 to 2012, RDAs designed and implemented a broad range of policy initiatives that enabled regions to identify and pursue development objectives and strategies in line with the regions' aspirations.

The UK experiment with regionalism linked to an extensive academic and policy debate on bottom-up policy and multi-level governance in relation to regional competitiveness and local industrial clusters. Scholarly works on clusters and industrial districts were not only arguing that these were key engines of regional growth and competitiveness, but also that their emergence and development necessitated policy support. In the UK, the policy debate on clusters emerged later than in either the United States or other European economies and was initiated by the government publication of the mapping document *Business Clusters in the UK* (2001).

The suggestion that industrial clusters could trigger and sustain regional growth was quickly embraced by the RDAs in England and by the Scottish and Welsh development bodies. Indeed, without RDAs' commitment to their regions, their knowledge of the regional

economy, together with their close links with regional stakeholders, clusters would have never been vehicles to deliver regional economic development objectives. The UK (and England) thus witnessed the emergence of a cluster-based regional policy (Bailey and Driffield, 2007). It has been argued elsewhere that in most cases the latter maintained a clear sector-based approach, never fully exploiting the growth potentials of a fully fledged cluster policy (see De Propris, 2007). Nevertheless, the results in several (if not many) cases were positive and, we argue, their impact relevant for the regions' development needs. In particular, the concept of clusters offered regional policy makers a tool and a process to intervene in local sectors and/or local supply chains, and it suggested that new sectors for the region could be kick-started through processes of firm clustering thanks to policy interventions. Indeed, RDAs' policies became therefore mechanisms for selecting and targeting strategic clusters in manufacturing and service sectors. Targeted clusters typically included food; healthcare/biomedical; creative industries and digital; engineering; aerospace, finance, energy and environmental technology. The rationale for this targeted approach was that the growth of the targeted clusters would have triggered a multiplier effect with region-wide spillovers (Bailey and De Propris, 2010).

As well as engaging in forward looking development strategies, several RDAs also found themselves also having to intervene to respond to abrupt crisis situations such as plant closures and other shocks. In such cases, some RDAs at least were able to combine a clear cluster growth approach, as discussed above, with a form of strategic leadership that enabled them to activate 'path-breaking' economic change, in the sense that they were able to undertake *place-renewing leadership* (Bailey et al., 2010). Rapid technological change and globalisation caused severe shocks to certain local clusters, and some RDAs were able to design and implement collective initiatives that have supported local clusters through the proactive sectoral diversification of the regional economy (an element of 'smart specialisation') as well as a reactive "crisis support" mode that has helped firms and clusters through shocks (Bailey et al., 2010).

Having a region-wide view, RDAs were also able to identify opportunities for cluster-to-cluster initiatives and sector cross-fertilisation. Indeed, external shocks that hit a specific sector may induce radical economic change and trajectory jumping: both requiring the steer of a form of local/regional leadership that is capable of pushing a cluster to "leap" from situations of inertia and technology obsolescence onto path(s) of upgrading and renewal. Stimson et al. (2005) suggests that rapid and continuous change requires "regional re-engineering" which changes the learning infrastructure, processes and capabilities, while Bailey and MacNeill (2008) described processes of regional diversification in the West Midlands' case in an attempt to steer stagnating or declining localities towards more sustainable growth paths. This is one of the place renewing trajectories identified by Bailey et al. (2010) besides entering and securing high value-added market segments and international repositioning in global value chains.

In the West Midlands, for example, the RDA Advantage West Midlands (AWM) (2008, p. 10) decided that in relation to the aerospace cluster shared market opportunities in the control and efficient use of electrical energy and advanced materials should be explored with automotive, motorsport, rail and manufacturing clusters. There was an attempt to develop inter-cluster synergies in related technologies, supply chain improvement and systems and project engineering skills. The idea was that this would better equip clusters to exploit these market opportunities as well as broadening market opportunities in greener transport. In operational terms, each cluster manager operating at the regional level was charged with identifying not only opportunities for the cluster in terms of technological specificities but also in terms cross-sector synergies. Indeed, as clusters extend across multisectoral value chain, a co-located sector can become the buyer or the supplier of another sector in a cluster.

Such cross-sector synergies have more recently been studied by Boschma and Iammarino (2009) from the viewpoint of “related varieties”.

In early 2009 PriceWaterhouseCoopers published a two-volume independent assessment of the English RDAs for the Department for Business, Enterprise and Regulatory Reform (BERR) (BERR, 2009 and 2009a). Overall, the report found that there was credible evidence that all of the English RDAs had generated regional economic benefits which exceed their costs. This independent analysis suggested that across all of the RDAs’ interventions, the annual impact on Gross Value Added (GVA) resulting from jobs which had been created or safeguarded was broadly equal to the cost, but when allowance was made for the expected persistence of those benefits, then every £1 of RDA spend was expected to add some £4.50 to regional GVA. The report did note some variation: on business support, projects and programmes had already achieved regional benefits in excess of costs, while physical regeneration projects were less likely to have done so, although even here the majority of projects were seen as having the potential to do so if expected benefits subsequently arose. Other evaluation work on the English RDAs was published by the National Audit Office in 2010 (NAO, 2010), examining in detail RDA performance against three key areas: effectiveness of prioritisation, improvement planning, and performance monitoring and evaluation. While noting a varied performance across the RDAs, all but two RDAs were marked as ‘strong’ or ‘good’ across the three areas, with the remaining two RDAs marked as ‘adequate’ or ‘good’.

Overall, an understanding of –and some strategic thinking about– the role of clusters in the economies of British regions were just starting to be taken seriously in regional policy circles when it all effectively ground to a halt with the abolition of RDAs. The regional scale gave RDAs scope for utilising clusters as objectives and tools to deliver regional growth, however, even for RDAs that had operated for ten years, the process of learning and capacity building to effectively design and deliver growth-targeted cluster policies were really just beginning. The news that nine English RDAs were to be replaced by as many as 39 ‘bottom-up’ initiated Local Enterprise Partnerships (LEPs) effectively terminated much of the English cluster policy agenda, as we will explore next.

3. ‘Localism’ (or Centralism?) in regional economic development with the move to LEPs in England

Despite the generally positive evaluations of the RDAs’ work noted above –including the PWC report, in 2010 the new coalition government decided to abolish the English RDAs, and by implication, to change regional and cluster policy. While Scotland, Wales, Northern Ireland and London in effect kept a region-wide development bodies, the ‘other’ English RDAs were abolished from 2012. In their place came smaller “Local Enterprise Partnerships” (LEPs) which have begun to operate at the sub-regional scale. The latter are supposed to be accountable to local people, with local authorities working with local businesses to help the local economy develop. Despite this language of “localism”, however, it has quickly become clear that many of the powers of the former RDAs on industrial policy, inward investment, business support and other policy areas have been recentralised to London (Bentley et al., 2010; Hildreth and Bailey, 2012). The new LEPs have little in the way of real powers or indeed funding, having received just one-off direct funding of £4 million to set them up initially and a further £20 million of core funding in 2012. The (largely) budget-less LEPs have to bid in to a centralised “Regional Growth Fund” which distributes funds to approved projects in a top down manner, and which anyway has substantially reduced resources as compared with the old RDAs (initially some £1.4 billion over three years as compared with £1.8 billion a year under the RDAs). Furthermore, the LEPs have no direct role in policy

areas such as skills and training, but will merely have an influencing role. Responsibility for skills has been handed to the Skills Funding Agency (and colleges) rather than LEPs, with a resultant sense of a 'missed opportunity'. Indeed, more control over work and skills was an area where LEPs identified a key role (APPG, 2012; 9) and would have been in line with a 'place based' approach. The confusion surrounding the shift from RDAs and LEPs even led the Secretary of State for Business, Innovation and Skills, Vince Cable, to admit in 2010 that the plans were "Maoist" and "chaotic" (Financial Times, 2010).

It is difficult to see how this shift will actually help, for example, manufacturing-related clusters compete in the high-skill and high-technology niches that increasingly they occupy. Part of the problem is that what remains of industrial policy is anyway now based in London, where civil servants are removed from events on the ground and generally have an anti-interventionist view. The key point here is that RDAs were often better positioned to make judgements about how best to offer support and to which clusters (and/or sectors) as they had a far superior information base than central governments. So, for example, the West Midlands RDA's support for a niche vehicles network organised on an open-innovation type approach (Bailey and MacNeill, 2010) is too fine-tuned a scale to make it onto the radar of Whitehall civil servants yet continues to offer much opportunity for the region's cluster in shifting from low-value volume work to niche high-value low-carbon activities, and comprises a network of actors which crosses LEPs' boundaries.

In a sense the opposite may also hold true, in that excessive decentralisation may now be witnessing an "all hands in the pork barrel" approach, with a fragmentation of RDAs into much smaller LEPs leading to limited public resources effectively being wasted on a myriad of microscale and uncoordinated projects. As Swinney, Larkin and Webber (2010) note, only a small number of (large) cities will actually be able to develop specialist clusters in sectors identified as "growth" industries, and they identify a serious "reality gap" in policy. The *Centre for Cities* (Swinney, Larkin and Webber, 2010) suggest that 70 per cent of cities in England believed that they have creative industries worth investing in, some 46 per cent of cities a green or low carbon sector, and 59 per cent of cities an advanced manufacturing cluster. Yet while over a quarter of England's cities planned to support the emergence of all three clusters, the danger is that many such projects are likely to fail as they will not actually be building on natural historical bases with genuine skill sets that can be re-orientated towards new growth or "phoenix" clusters (ibid.).

Previously the RDAs were well placed to make hard choices, based on local and regional intelligence, about where to get the best economic return on interventions, and from a vantage point where they could view clusters that cross local authority borders. This is now more difficult. A more limited pot of cluster policy funding (in so far as any such funding remains) may well be spent inefficiently, with Whitehall too remote to make good judgement calls, with the new LEPs competing for limited pots of money and unable to look at clusters that operate at a regional rather than a local scale. The danger is that what remains of English cluster policy has become a top-down centralised policy that fails to pick up regional cluster opportunities or which is excessively fragmented at a local level without effective regional coordination and funding. Interestingly, some post-RDA voluntary efforts at cluster support have continued, for example in the West Midlands, where the 'Business Clusters West Midlands Sectors Working Actively Together' (BCWM-SWAT) group have attempted to bring together cluster leads and Birmingham Science City have attempted to support bids for European Regional Development Funds. Yet at the same time industrial and cluster policy has effectively been centralised and the fear is that regional cluster perspectives and requirements will not be heard.

Indeed, despite the retrenchment of national-level industrial policy and the shift to the national scale, there remains a key role for regional level coordination of LEPs economic and

cluster strategies, most obviously via sort of intermediate tier infrastructure. This relates to Lovering’s (2001) point regarding the relevant scale of governance. The new administrative scale here is the LEP/local authority level, yet the relevant economic scale for the auto cluster, for instance, covers at least five English ‘regions’ (the East Midlands, North West, South East, South West and the West Midlands).

As Hildreth and Bailey (2012) highlight, a major criticism of the RDAs was that they were effectively imposed in a top-down manner and bore little relationship with functional economic geographies. In contrast, the creation of LEPs was a bottom-up driven process, with the result that there was no guarantee that the configuration of LEPs that emerged had the ‘right geography’ either. In fact, the new configuration of new LEPs may have just as severe problems over scale and boundaries as the old RDAs, albeit in a different form. A particular challenge which Hildreth and Bailey (2012) stress concerns how the ‘duty to cooperate’ can be made real. This has yet to be made clear in government policy. Yet Hildreth and Bailey (2012) note that this cross-border collaboration is essential if the positive elements of RDA experience are not to be lost and a place-based smart-specialisation approach can be developed. Earlier work by the Audit Commission (2009) showed that some 35% of local authorities failed to engage in partnership with other bodies, which does not bode well for LEP cooperation.

Overall, whilst the recentralisation of industrial policy through the abolition of RDAs and the passing of many powers back to Whitehall will bring disadvantages on the inability to develop and tailor policies to suit regional needs, it also brings possible dangers in the form of competing and overlapping local level initiatives that are insufficiently coordinated when the cluster in question extends across local and regional borders (see Bentley et al., 2010).

A very initial survey of the strategies that the 39 LEPs have published shows already how well-founded concerns are over duplication, *aspirational sector targeting* and a lack of a systemic understanding of sector dynamics in clusters and value chains. We find that some LEPs have not yet agreed on a local strategy with objectives and tools, while others only have indicative information about their priorities on their website, whereas others have well developed strategy documents (in some cases still going through a consultation process). As shown in Table 1 below, we find that those LEPs which have so far identified priorities have chosen specific sectors to target as deemed important for the broader scope of pursuing growth and create jobs. The latter are ultimate aims most LEPs clearly declare they aspire to achieve. Only a few LEPs specifically claim to target clusters: these include the Cambridge, Oxford, Solent and Greater Birmingham and Solihull LEPs.

Table 1. LEPs’ Priority Sectors (where available)

Black Country	Advanced Manufacturing; Building Technologies; Transport Technologies including Aerospace; Business Services and Environmental Technologies
Buckinghamshire Thames Valley	
Cheshire and Warrington	
Coast to Capital	Digital
Cornwall and Isles of Scilly	Food, farming, tourism, maritime industries, renewable energy, healthcare, aerospace, digital and creative industries
Coventry and Warwickshire	Advanced engineering and high value manufacturing, automotive and low carbon mobility, low carbon technology, sustainable construction, business and professional services, computing and gaming, creative and cultural industries and tourism
Cumbria	Nuclear and diversification, specialist manufacturing, low carbon and renewable energy, visitor economy, food and drink and agriculture, and seabased.
D2N2 Derby Derbyshire Nottingham and Nottinghamshire	Transport and equipment manufacturing, medical and biosciences, food and drink, construction and visitor economy
Dorset	Food & drink, Health & social care, Creative industries, Environmental goods & services, Advanced engineering & manufacturing, Tourism, Financial & business services
Enterprise M3 Gloucestershire	Banking, Business and Professional Services, Construction, Creative Industries, Manufacturing, Environmental Technologies, ICT, Logistics, Retail and Tourism and Leisure.

Greater Birmingham and Solihull	Business and professional services, Financial services, Advanced engineering, Auto supply chain, Food and drink, ICT, Logistics, Meditech, Digital media and creative industries, Low carbon technologies and bio-pharma research.
Greater Cambridge and Greater Peterborough	Environmental goods and services, ICT, High-value engineering, Biotech and life sciences, and agri-business
Greater Lincolnshire	
Greater Manchester	ICT/Digital, Creative and new media, Finance, Retail and Higher education.
Heart of the South West	Innovation, Manufacturing, Green Economy, Rural Productivity, Tourism, Nuclear and Marine
Hertfordshire	Life sciences, Film & media, Advanced manufacturing/aerospace, Business services (financial & ICT)
Humber	Ports & logistics, Renewable energy and chemicals, Healthcare, Food, Digital, Engineering and manufacturing
Lancashire	Advanced Manufacturing , Aerospace and Aviation, Automotive Manufacturing, Creative, Digital, ICT and New Media, Energy and Environmental Technology, Business and Professional Services
Leeds City Region	Life sciences, Low carbon industries (environmental technologies and bio-renewables), Digital, Financial and Businesses Services, Manufacturing, Creative and Cultural Industries, and Tourism/Leisure Industry
Leicester and Leicestershire	Distribution and logistics, food and drink, tourism and knowledge-based business, high-tech
Liverpool City Region	Manufacturing, business and financial services, creative industries, aerospace and environment technologies
London	Knowledge Economy, Low Carbon Economy, SuperPort, Visitor Economy
The Marches – Herefordshire, Shropshire and Telford & Wrekin	Business services, ICT, accountancy, creative industries, legal and consulting services and recruitment
New Anglia	Defence and Security, Agriculture, Food and Drink, Environmental Technologies & Services, Advanced Manufacturing, Social Enterprise, Tourism
Northamptonshire	Energy, Tourism, Advanced Manufacturing and Engineering, Food, Drink and Agriculture, Creative and cultural industries, ICT, Financial Services, Ports and Logistics, Life Sciences and Construction
North Eastern	Visitors economy, High Performance Technologies, Logistics, Food & Drink, Creative and Cultural Industries
Oxfordshire	Automotive, Offshore Renewables, Creative And Digital, Life Sciences, Printable Electronics, Business, and Professional and Financial Services
Sheffield City Region	Advanced engineering, Medicine and life sciences, Information technology and publishing, Education and knowledge, Professional and Business Services, Tourism, and, Energy and the Environment
Solent	Advanced Manufacturing and Materials, Creative and Digital Industries, Low Carbon, Property and Construction, Retail, Sport, Leisure and Tourism, Healthcare Technologies
South East	Marine, Aero and Defence, Advanced Manufacturing, Engineering, Transport and Logistics Businesses.
South East Midlands	Advanced Manufacturing, Environmental Technologies, Offshore Wind and Renewable Energy, Agriculture and Food Processing, Logistics, Financial and Business Services, Tourism and Creative Industry
Stoke-on-Trent and Staffordshire	Advanced Manufacturing & Technology, Creative Industries, Green Economy, High Performance Technology, Logistics and Visitor Economy
Swindon and Wiltshire	Advanced Manufacturing and The Automotive Sector, Medical and Healthcare Technologies, Professional services, Ceramics, Logistics and Distribution.
Tees Valley	Manufacturing and Engineering, Electrical Equipment and Apparatus, Food Products, Furniture, Rubber, and Pharmaceuticals
Thames Valley Berkshire	Advanced Manufacturing, Digital, Healthcare and Logistics
West of England	
Worcestershire	Creative and Media, Advanced Engineering, Aerospace and Defence, Micro-Electronics and Silicon Design, Environmental Technologies and Marine Renewable, Tourism
York and North Yorkshire	Manufacturing, Food Production, Tourism, Defence & Cyber Security, Environmental Technology
	Agro-food, Visitors economy, Financial and Business Services. Manufacturing

Many of these criticisms of current ‘regional’ policy have been echoed by a number of recent reports and publications. See for example the CBI (2012) on the lack of powers and resources of LEPs, and the end for LEPs to collaborate, as well as the Heseltine Report (2012) on the need for a large ‘single pot’ of funds for LEPs to bid into, but for the configuration of LEPs to be looked at again and for collaboration across LEPs. Similarly The Work Foundation (2012) highlights the frustrations of employers on the boards of LEPs which privately voiced “acute frustration” over the slow progress in influencing their local economies, reflecting concerns over the lack of powers and resources of LEPs.

4. Conclusions

This paper traces the evolution of debates over clusters and cluster policy in the case of England. The concept of industrial clusters as a framework to pursue regional growth was adopted by RDAs and regional development bodies across England, Scotland and Wales. We

would argue that during their operation this overarching regional and cross-sectoral concern enabled regional policy making not only to nurture and support local industries to weather endogenous changes, but more importantly, they have provided crucial leadership at times of path-breaking crisis.

While regional bodies have continued under the devolved administrations of Scotland, Wales and Northern Ireland, in England (outside of London at least) the regional tier has been abolished. This we argue poses particular problems for the maintenance of effective cluster policies in the absence of any regional scale. While some cluster policies may be maintained centrally (and informally in some regions), the effective recentralisation of industrial and cluster policy through the scrapping of RDAs and the passing of many powers back to Whitehall combined under a supposed “localism” agenda brings with it a number of challenges. In particular, the recentralisation brings dangers in terms of the possible inability to develop and tailor policies to suit regional needs. At the opposite extreme the fragmentation of RDAs into many smaller LEPS brings possible dangers in the form of competing and overlapping local level initiatives that are insufficiently coordinated when the cluster in question extends across local and regional borders. The danger is that England has “thrown the baby out with the bathwater” when it comes to RDAs and their cluster policies.

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