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Local Economic Growth – Prioritising future work of the Board

Purpose of report

For discussion and direction.

Summary

This paper sets out the post-Spending Round national policy environment and the resulting demands on councils. It also reflects on how the ethos of the Heseltine Report can be maintained and headlines from the LGA Conference’s “Rewiring Public Services” debate.

Recommendation

The Board is asked to make any recommendations for future priorities for the Board.

Action

As directed by members.

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Local Economic Growth – Prioritising future work of the Board

Background

1. Over the last two years, the Board has promoted an ambitious agenda for the devolution of economic powers to the local level. Through the Local Growth Campaign, Board members have set out the case for devolution from Whitehall, the strengthening of local economic partnerships and national economic return from greater devolution. The campaign has yielded a rich body of evidence that shows the range of ways that councils are acting as champions of growth in their areas. Recent Government announcements demonstrate that their recognition of the council role in promoting growth is increasing and progress is being made on our call. However, it is also clear that there is still much work to be done to prise the range of powers and funding that would enable local partnerships to realise their full potential from the grip of Whitehall.
2. This paper is informed by three key developments, which are discussed in more detail in the following sections:
 - 2.1 On 26 June, the Chancellor of the Exchequer reported on the outcomes of the 2015-16 Spending Round.
 - 2.2 The following day, the Chief Secretary to the Treasury, Danny Alexander MP, set out the implementation plans from the Heseltine Review and a series of other infrastructure announcements.
 - 2.3 On the first day of the LGA annual conference on 2 July, we published [Rewiring Public Services](#)¹, our call to arms on the fundamental changes needed at both a local and national level so that public services can help communities to meet people's future needs and aspirations.
3. We anticipate a number of opportunities to shape the national debate on growth in the coming year. The recent announcements by Government set out the broad parameters of change up to the first year of the next parliament in 2015-16 but not much beyond that. With all parties now beginning to draft proposals for 2015 manifestoes, now is the time to influence future policy on local growth. The LGA has already been feeding into policy reviews being conducted by the political parties and we are looking ahead to seek to influence the discussions at the party conferences in the autumn.
4. There are also a number of more immediate influencing opportunities. The Deputy Prime Minister Nick Clegg wrote to the LGA Chairman on 24 June to advise him of the creation of a new Cabinet Committee to bring all relevant departments together for joined up decision making and strategic oversight and leadership of local growth policy development and implementation. On 16 July, the Deputy Prime Minister announced a review of employment and training options for 16 to 24-year-olds with the aim of simplifying the array of schemes designed to support young people. We propose that the

¹ http://www.local.gov.uk/c/document_library/get_file?uuid=bb5e05ab-1418-41e1-bac6-85ecd79da61f&groupId=10171

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Chair of the Board write to Nick Clegg to offer to arrange for a delegation from local government to address the Local Growth Committee and assist with the employment and training review, drawing on the work of our Hidden Talents campaign.

5. This paper provides an update on the post-Spending Round national policy environment and the resulting demands on councils and local partners. It also sets out reflections in how the ethos of the Heseltine Report can be maintained and the headlines from the LGA Conference debate on *Rewiring Public Services*. The Board is asked to discuss the current position, English localism and economic policy and to make any recommendations for future priorities for the Board.

Spending Round announcements

6. The Government announced the results of the Spending Round over two days. The Chancellor set out the results of the departmental plans on 26 June and the next day, the Chief Secretary announced investment in growth and infrastructure. The LGA produced on the day briefings to cover both announcements, which are available [here](#).² We also published a number of press notices and LGA leaders gave a number of interviews to the TV, press and radio. The key funding announcements affecting councils were:
 - 6.1. Local authority core funding is reduced by 10 per cent in 2015-16 in real terms.
 - 6.2. A transfer of £2 billion from the NHS to councils for social care.
 - 6.3. Further support to freeze council tax for 2014-15 and 2015-16.
 - 6.4. Council tax referendum limits of 2 per cent in 2014-15 and 2015-16.
7. Our response to these announcements signalled the strong risk that some councils will simply not have enough money to meet their statutory responsibilities for other services, despite the positive steps taken to target NHS funding at social care. It is also clear that budgets for discretionary services such as economic development will face an even more acute squeeze in the future, which we have warned Government is a counter-productive move since local government is one of the few parts of the public sector which actively promotes economic growth.
8. The Chief Secretary's statement the following day recognised that "local authorities have a crucial role to play in supporting housing and wider economic growth." The announcement confirmed that the Heseltine single pot recommendation would be implemented through the creation of a Single Local Growth Fund (SLGF) amounting to at least £2 billion annually from 2015-16 to 2020-21. The pot is comprised of:

² http://www.local.gov.uk/web/guest/media-releases/-/journal_content/56/10171/4044082/NEWS-TEMPLATE

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- 8.1. Local Authority Transport Majors - £819 million
 - 8.2. Local Sustainable Transport Fund - £100 million
 - 8.3. Integrated Transport Block - £200 million
 - 8.4. Further Education capital - £330 million
 - 8.5. ESF skills match funding - £170 million
 - 8.6. New Homes Bonus - £400 million
9. Other significant announcements included:
- 9.1. A commitment to negotiate a Growth Deal with every Local Enterprise Partnership (LEP).
 - 9.2. £6 billion for local road maintenance between 2015-16 and 2020-21 – an increase of £300 million per year.
 - 9.3. A total of £4.9 billion for the Local Major Transport Scheme over that same period - a huge increase from the 2010 Spending Review total of £1.5 billion.
 - 9.4. The majority of spending decisions for England's £5.3 billion European Union Structural and Investment Funds (EU SIF) for 2014-2020 have been devolved to LEPs as notional allocations.
 - 9.5. £300 million in 2015-16 and 2016-17 for the Regional Growth Fund.
10. We characterised the Government's response to the Heseltine Review as a missed opportunity, although we recognise that it represents an important first step. The majority of the funds in the single pot are either already earned directly by councils (e.g. New Homes Bonus) or have already been devolved (e.g. Local Transport Majors), which shows that Whitehall is still very reluctant to let go of centrally-controlled funds. Moreover, we have real concerns that the proposal to scoop about a third of the total funding for New Homes Bonus into the single pot for growth purposes could have an impact on local services as these funds were previously unringfenced and many councils' medium term financial strategies already set out plans for spending these funds.
11. Nevertheless, there were some positive signs that the Government has listened to the LGA. The channelling of the lion's share of European Regional Development Fund and European Social Fund through the LEP model represents a real success as we have long called for locally-responsive EU spending. We have also repeatedly emphasised the importance of investment in local transport infrastructure so the increased funding for both local road maintenance and transport majors is very welcome. The inclusion of Further Education funding in the SLGF, although modest in comparison to the total spend on skills, is significant as the Department of Business, Innovation and Skills (BIS) are one of the only departments to put their own funding into the pot, which indicates that our intensive lobbying of BIS Ministers and officials is paying off and opens the door to further localisation of skills funding.

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Implementing Heseltine

12. The Spending Round announcements confirm that LEPs are to play a central role in making investment decisions for local growth and will have a considerable amount of work to do between now and 2015, including:
 - 12.1. developing a multi-year strategic plan for growth.
 - 12.2. setting a local investment strategy for EU funds for 2014-2020, which will involve a plan for spending their allocation; identifying projects; finding match funding; and indicating plans for monitoring expenditure and delivery.
 - 12.3. setting a skills strategy consistent with national objectives, although we have had no further detail on what this will entail.
 - 12.4. preparing bids for the Single Local Growth Fund and Regional Growth Funds.
 - 12.5. negotiating Growth Deals.
13. There is an unfortunate lack of clarity about how all of these elements will interact, rendering an already complex policy landscape even more confusing. For example, LEPs are being asked to set out multi-year spending plans against what may be an initial one-year SLGF allocation. Moreover, it is not yet clear how much of the SLGF will be allocated through competition, as a share of Transport Majors funding has already been committed to specific projects and the New Homes Bonus is directly earned by individual councils as a reward for supporting housing development. Our understanding is that we may see a hybrid system with different rules for different funding streams, which means that the Heseltine single pot would in reality operate as a “Multiple Local Growth Fund”.
14. It is nevertheless clear there are significant financial stakes for every area in the strength of their LEP’s capacity. The share of the SLGF that will be allocated through a competitive process will be done on the basis of the LEP strategic plans. Those LEPs that are considered to have the strongest plans that demonstrate their ability to deliver growth are expected to receive a higher share of funding. As both Lord Heseltine and Ministers have strongly favoured a competitive element, it seems highly likely that any additional funds that may be added to the pot in the future will also be subject to a bidding process tied to LEP capacity. More detail on how the SLGF will be allocated and guidance on the Growth Deals is expected to be published before summer recess. Officers will provide an update at the Board.
15. The Government’s response to the Heseltine Review clearly falls well short of both councils’ ambitions and Lord Heseltine’s vision. At the LGA Annual Conference, Lord Heseltine shared his view that local government is best-placed to hold Whitehall to account on this agenda and advised local government to fight and resist the “political nimbyism” of Whitehall departments determined to keep hold of their budgets.
16. There is a strong risk that Whitehall will now focus on the logistics of the SLGF bidding processes and guidance for LEP strategies at the expense of progressing towards more ambitious devolution. There already appears to be a retrenchment on the part of

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Whitehall when it comes to the second wave of City Deals, with departments unwilling to devolve power on the same scale as the Wave 1 Deals. The launch of our Rewiring Public Services campaign is thus timely as a platform for keeping an eye on the big prize.

Rewiring public services

17. In his speech to the LGA Annual Conference, the LGA Chairman, Sir Merrick Cockell, set out ten big ideas for rewiring public services to improve services, save money and get Britain's economy growing again (see **Appendix A**). These proposals are fleshed out in our *Rewiring Public Services* report, which shows how a radical rewiring of the public sector, based around giving local areas greater control of public money would allow local areas to make decisions on how that money is spent and design services that work for their communities and reduce demand for higher cost national services. It will also ensure that funding for key growth drivers, such as spending on infrastructure and skills training, is targeted in a way that supports businesses and helps them to deliver economic recovery. It is hoped that these ideas will stimulate a debate in the sector and the wider political community about the future of English local democracy and the role that local partners can play in national economic recovery.
18. The main publication was accompanied by a supplementary report on economic growth. Our central argument is that autonomous local government could unleash new local economic growth for our businesses and help create new jobs for residents. We set out a series of proposals to lead future debates, also set out in **Appendix A**.

Issues for consideration

19. Members are asked to consider the future role for the LGA on this agenda. Our discussions with councils have confirmed that, despite disappointment that the Government's willingness to localise the levers of growth does not yet match local partners' appetite to do more to spur economic recovery, it is vital not to lose the momentum that we have started to build. Certainly, Lord Heseltine's clear message to us at Conference was that no one would be better able to hold central government's feet to the fire than the LGA and member councils.
20. There are three primary issues to work through:
 - 20.1. In the next year, councils and their LEP partners will need to submit bids for the SLGF and scope out Growth Deals. In light of the proposals in the paper on the LGA's Growth offer, what support should the LGA provide to councils in this process?
 - 20.2. Current government policy falls well short of the ambitious devolution that we have called for. There is an opportunity for the LGA to keep the original spirit of the Heseltine Review and first wave of City Deals alive by fleshing out the proposals in Rewiring Public Services such as the concept of a local treasury and what it could deliver on the growth agenda. How would members recommend for the LGA to move the agenda forward?
 - 20.3. Lord Heseltine told conference delegates candidly that one of the biggest barriers to devolution is that local government's role in growth is still not

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recognised throughout Whitehall and local partners are not entirely trusted to deliver. How can we get on the record what councils are doing and can do, particularly when it comes to taking risks and building local capacity to support growth?

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APPENDIX A

PROPOSALS IN REWIRING PUBLIC SERVICES

10 Big Ideas

1. Give people a meaningful vote on local tax and spending issues: a local treasury in every place.
2. Cut red tape: bring local services and decisions together in one place.
3. Reduce bureaucracy and Whitehall silos: merge six Government departments and create an England Office. The six departments that could be merged to form the English Office include the Department for Communities and Local Government, Department for Transport, Department for Environment, Food and Rural Affairs, Department of Energy and Climate Change, Department for Culture, Media and Sport and relevant parts of the Home Office.
4. Share money fairly across the UK by replacing the Barnett formula with a new needs-based funding model.
5. Take financial distribution out of ministers hands and replace it with agreement across English local government.
6. Strengthen local say by reducing ministers' powers to intervene in local decisions.
7. End flawed, tick box inspections by bureaucrats: create local service user champions.
8. Boost investment in infrastructure: create a thriving market in municipal bonds.
9. A multi-year funding settlement tied to the life of a Parliament.
10. Protect local democracy: give the local government settlement formal constitutional protection.

Proposals to unlock economic growth

11. The development of a local treasury and a local pact on growth. This idea assumes that more income for services will be raised locally, with the accompanying responsibility for prioritisation of choices and joining up of services. With a local treasury, City/Local Deals would no longer be a negotiation between central and local government, but a pact with local businesses and residents on the level of services and local incentives for growth. Whilst this is futuristic in England, it is part of the norm of local democracy in most parts of the developed world.
12. A changed relationship between universities and cities and counties to link education more strongly to local economies.
13. Development of clearer employer involvement in schools' work on education outcomes, and as an introduction to the world of work.
14. Local leadership of skills and jobs initiatives through coherent employer-led programmes that are linked to the needs of the local economic sub-region and orchestrated through local government.
15. A place-based public service budget for infrastructure.
16. Localised and simplified regulation linked to a clearly defined vision for the community and place.