Growth spending round submission

April 2013

1. Summary of key proposals

The ability of local partners to drive growth and create new jobs has been recognised in recent government policy through City Deals, LEPs and its response to the Heseltine Review. The spending round offers the opportunity to drive local growth further by creating a single pot for local regeneration, rationalising expensive governance arrangements, extending the success of City Deals and increasing the value of skills and transport budgets.

Heseltine 'plus' – we support the ambition of Lord Heseltine's for devolution to localities and the alignment of EU funding. There is a strong case for further skills related funding to be added to the pot, but there is also a strong case against a re-centralisation of funding already devolved to LEPs and councils. We believe that there is the opportunity for councils to play an even greater role in economic development and growth.

Mainstreaming new innovation to drive growth – we call for an ambitious package which offers local areas the chance to retain a greater share of investment returns (for example through earn-back deals or a share of VAT receipts).

Geography, alignment and governance - local areas need to be given the opportunity, through local deals, to rationalise the call for departmental plans and offer streamlined governance.

Jobs and skills – we propose devolving the majority of 16–19-year-old and post 19-year-old skills and apprenticeship budgets to localities and giving local authorities the levers to directly link skills training to employment support in their area.

Regulation - we need a new regulation and licensing regime that can respond to the unique business environment in each local area.

Planning – we call for more local flexibility to set planning fees to reflect the full cost of delivering the service.

2. Context

Growth continues to be the number one priority for central and local government. The devolution of powers to councils, businesses and other local partners is already a key component of government policy.

The original eight City Deals are expected to create 175,000 jobs and 37,000 new apprenticeships over the next 20 years.

We need to build on these successes and follow the clear direction of travel set by the Heseltine Review. Building on the Local Growth Deals offered to all local partnerships by 2015, our proposals seek the most cost-effective journey in driving local growth.

3. A single pot (Heseltine "plus")

The Government has promised to consider delivering the Single Local Growth Fund through the spending round. **We would support the ambition of Lord Heseltine for devolution from Whitehall and the alignment of EU funding to localities, but suggest that there is also a strong case for further skills related funding, such as that set aside for 16-19 year-old skills programmes, to be added to the pot – as set out in Appendix A.**

As many local economies are in transition with private sector jobs not replacing the loss in public service employment, a rethink of skills and employment policy is needed. As a first step we would advocate that a robust single funding pot with a clear focus on skills and employment could help to promote a clear alignment of growth and employment policies and provide a better lever in tackling worklessness, supporting private sector investment and rebalancing growth across the country.

The City Deal negotiations have shown that competition between councils is not required for innovative proposals to be developed. We would argue that business wants long-term stability in public investment so the case for allocation and negotiation of the single pot is stronger than the case for competition.

We support the alignment of EU funds to LEP areas after 2014. The European Social Fund (ESF) has huge potential to support local growth by equipping people with skills so they can compete in the labour market. However its rigid national design and commissioning process does not enable LEPs to provide the required skills for job creation nor enable ESF to tackle deep seated pockets of worklessness in local areas. The design of the three-year, £200 million ESF families with complex needs provision continues to encounter challenges to get to a steady state, and runs alongside the Troubled Families initiative, which councils warned would risk duplication.

To make more effective use of future limited ESF during 2014-2020, councils and Local Enterprise Partnerships must be afforded maximum flexibility to target need and tailor provision, which will both stimulate growth in local areas and contribute to the national economy.

Lord Heseltine has proposed that some budgets already delegated to local partners (for example, capital spend and major transport projects) should be allocated to the single pot. This would be seen as centralism rather than localism by LEPs and business partners. These budgets should remain at a local level.

4. Mainstreaming new innovation to drive growth

Since 2010 numerous government initiatives to help drive local growth have helped to develop successful, devolved local levers for growth. Many were exemplified in the first round of City

Deals. These initiatives provide the opportunity for an ambitious menu of options for future Local Growth Deals.

Most importantly, we need to consider the incentives that businesses and local partners need to drive local growth. **An ambitious package which offered the chance to retain a greater share of investment returns (for example through earn-back deals or a share of VAT receipts) would increase incentives for local public and private partners to match such resources locally.** The most ambitious local growth programmes have been routed in such incentives (rather than competition between areas). We must grasp this learning.

5. Geography, alignment and governance

The devolution of economic powers to "functional economic areas" is supported by councils. We need to ensure that the local landscape is fit for purpose. There is already overlapping governance, multiple LEP plans being called for by different parts of government and a patchwork of funding initiatives.

Local areas need to be given the opportunity, through local deals, to rationalise the call for departmental plans and offer streamlined governance arrangements (for example, merging LEP and Local Transport governance) whilst promoting greater public accountability. This also offers a real incentive for councils to consider their own contributions within a rationalised structure. Councils have already developed innovative new governance structures, such as combined authorities, in response to devolution.

6. Jobs and skills

As we drive growth locally we also need the tools to ensure that local growth results in employment opportunities for local residents. In many areas the fall in public service jobs has not been balanced by a rise in private sector employment. Therefore, an alignment of skills/employment policy and growth drivers is needed urgently.

Building on the Heseltine report there is the opportunity to align skills and growth policy through the single pot. This should include the majority of skills and apprenticeship budgets for 16 – 19 year-olds and post 19 year-old age groups. Responsibility for reducing youth unemployment would shift to local partners.

Public investment in skills and employment provision must begin to deliver better returns. In 2010/11 total FE college income was more than £7.5 billion, flowing to the courses students wanted and which colleges fill, and not sufficiently meeting local employer demand or helping individuals to progress in work. This has led to systemic skills mismatches, delivering poor value [See Appendix B].

Lord Heseltine sets out a strong case for devolution to address immediate employer demand, which is welcome, focusing on helping people into jobs that exist by devolving post-19 skills and funding to reduce youth disengagement. Local Growth Deals should go further, enabling local partners to bring together skills and employment services in local economies to deliver better outcomes for residents and employers, and to unlock significant public service savings.

We propose devolving the majority of 16 – 19- year-old and post 19-year-old skills and apprenticeship budgets to localities, enabling them to adapt skills provision to meet short term employer demand as well as to help drive longer-term local economic productivity. Local authorities should also be given the levers to directly link skills training to employment support in their area, increasing sustainable job outcomes delivered by Jobcentre Plus and Work Programme.

This approach is proven; Community Budget Pilots forecast annual public savings of up to £1.7 billion a year, and there are numerous examples of councils successfully improving outcomes for young people in particular, who, through the devolved model, would aim to reduce overall youth unemployment by 20 per cent in three years.

7. Heseltine plus recognising the role of councils

Whilst the Government's response to the Heseltine report was encouraging and set out a good direction of travel, we believe that there is the opportunity for councils to play an even greater role in economic development and growth.

Despite the recent pressure on local government finances, councils have been remarkably effective in maintaining their services for growth – although these are discretionary services.

A review of local growth, by Professor Tony Travers in December 2012, demonstrated where councils collectively had risen to the challenge of a new economic era. Calderdale had freed up funds to support new small and medium sized enterprises, leading to 150 new businesses which in turn created 500 new jobs and private sector investment exceeding the initial seed money.

This is one of many examples where prudent risk taking by a local council has ensured that developers and the private sector were able to thrive and increase local investment.

There are many examples of such prudent risk taking by local government:

- The prudential borrowing by South Staffordshire, Wolverhampton and Staffordshire councils which secured the Tata investment in the Jaguar Land Rover low emissions engine plant in South Staffordshire. The councils leveraged a £400 million private sector investment.

- Eastleigh Council enabled a new housing development to go ahead by promising to purchase houses not sold. This allowed for the investors to come into the project. The council took on more risk to the benefit of the community through the provision of new housing stock and construction jobs during the build.

The Travers report commended the role that councils can play in taking managed financial risks to secure investment. The author noted that councils have maintained remarkable budget stability for the whole period since 1990/91 and have been effective and cautious in controlling indebtedness. He promoted greater financial and other autonomy which would allow councils to do more to encourage economic development and infrastructure improvement.

However, there was a clear warning in Professor Travers' report. **Local government is one of the few parts of the public sector that promotes economic growth. If local government's funding base declines further, the pro-growth services of councils (which are vital to the success of LEPs and Local Growth Deals) will be threatened.**

8. Regulation

The LGA wants to ensure that councils have all the necessary freedom and flexibility to free businesses from red tape, whilst still ensuring we have the right tools to tackle high risk business activity that poses the greatest threat to residents and the local business environment. We want to reposition regulation and licensing at heart of the local growth agenda, leading to the establishment of a flexible system built on a solid understanding of what local businesses want, rather than a framework of central control and restriction.

In order to deliver this we need a new regulation and licensing regime that can respond to the unique business environment in each local area. A more targeted approach to licensing, locally designed, will ensure councils can focus their efforts on the small minority of problem businesses (less than 5 per cent), whilst rewarding responsible businesses with new freedoms and flexibilities.

9. Planning

Ensuring planning services are properly resourced will support economic growth. However, significant reductions in funding mean that planning services have been cut hard. Planning fees are centrally set and the current system does not properly reflect costs, meaning local authority planning services operate at a loss of around 40 per cent. This equates to a public subsidy of around £110 million each year. It also means that some applicants are heavily subsidised and others pay more than necessary, with council tax payers picking up the difference. Providing local authorities with the flexibility to set their own planning fees to reflect the full cost of delivering the service would adequately resource planning services, ensure that fees were set transparently and fairly and see fees go down for many commercial applications.

Appendix A

Heseltine Plus – Skills and employment Single Funding Pot

	Current Funding Stream	Department
Skills budgets proposed by Lord Heseltine	Adult Skills Budget (includes 19+ apprenticeships)	BIS
	Offender Learning and Skills Service	BIS
	Community Learning	BIS
	Learner Support	BIS
	Information, Advice and Guidance	BIS
	Skills infrastructure	BIS
	Capital Grants	BIS
	Apprenticeships (to 18 years old)	BIS
Heseltine Plus	16 – 19 Skills Funding	DfE
	16 – 19 Bursary Fund	DfE
	Foundation Learning	DfE
	Traineeships Programme	DfE / BIS
Employment support budgets proposed by Lord Heseltine	Work Programme	DWP
	Remploy Work Choice	DWP
	Specialist and Flexible Programmes	DWP
	Youth Contract	DWP / DfE
	European Social Fund (aligned)	DWP
Heseltine Plus	Jobcentre Plus (local priority setting)	DWP
	Jobcentre Plus Flexible Support Fund	DWP

Appendix B

Hidden Talents – Skills mismatch

Further Education and skills achievements by occupation / sector (disaggregated by all ages and 16 to 18-year-olds) compared to vacancies, England, 2010 /11.

		All ages		16 to 18-year-olds	
Occupation / sector	Vacancies	FE and skills achievements	Vacancies per skills achievement	FE and skills achievements	Vacancies per skills achievement
Automotive industries	89,017	36,800	2.4	24,200	3.7
Building services engineering (electrotechnical, plumbing etc)	71,789	39,740	1.8	10,510	6.8
Construction	273,969	123,370	2.2	43,980	6.2
Creative and cultural industries	65,672	82,950	0.8	62,080	1.1
Fashion and textiles	39,112	3,780	10.3	730	53.6
Hair and beauty	18,016	94,420	0.2	57,280	0.3
Health and safety	2,053	10,010	0.2	130	15.8
Hospitality, leisure, travel and tourism	43,174	97,910	0.4	51,830	0.8
Land-based and environmental industries	89,601	48,020	1.9	27,260	3.3
Marketing and sales	289,601	2,040	142.0	280	1034.3
Security industries	69,358	11,760	5.9	1,220	56.9
Supporting teaching and learning in schools	29,612	24,130	1.2	480	61.7
Total	**3,475,937**	**1,826,580**	**1.9**	**755,840**	**4.6**

Sources: Individualised Learner Record, The Data Service; Jobcentre Plus Vacancies, ONS; Labour Force Survey, ONS; *Inclusion* calculations.

For more information please contact:
Ian Hughes
Head of Programmes
Local Government Association

Local Government House
Smith Square
London SW1P 3HZ

Email: ian.hughes@local.gov.uk
Telephone: 020 7664 3101

Contact the Local Government Association
Telephone: 020 7664 3000
Email: info@lga.gov.uk
Website: www.local.gov.uk

For a copy in Braille, larger print or audio, please contact us on 020 7664 3000.
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