

Item 4

Local Economic Growth – moving the agenda forward

Purpose of report

For discussion and direction.

Summary

This report recaps the priorities for future action agreed by the Board in July and summarises developments over the summer, including the publication of the guidance for Growth Deals (**Appendix A**). It sets out options for advancing the local growth and devolution agenda for the Board's consideration.

Following the Board's steer for the LGA to seek greater engagement with external stakeholders, particularly the business sector, Martin McTague, Chair of the Local Government Policy Unit at the Federation of Small Businesses (FSB), has been invited to set out the FSB's views on the Heseltine Review and how local authorities and businesses can work together to deliver growth.

Recommendation

Members are asked to discuss the issues raised and make recommendations for the 2013-14 work programme.

Action

Officers to take forward as directed by members.

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Local Economic Growth – moving the agenda forward

Background

1. When the Board last met in July, members took stock of the progress that has been made in securing greater devolution of growth-related funding and powers and agreed priorities for action in the coming year. Members noted a number of key lobbying successes for the LGA, especially the commitment to negotiate Growth Deals with every Local Enterprise Partnership (LEP) and the devolution of the lion's share of European Union Structural and Investment Funds (EU SIF). However, the Board also registered its disappointment that the implementation of the Heseltine Review has fallen well short of its full potential and agreed that the LGA would have an important role to play to keep the momentum towards devolution going.
2. Members agreed that future activity should fall under three broad themes:
 - 2.1. Support councils to work with their LEP partners to maximise the opportunities to localise funding and powers through the Growth Deal process.
 - 2.2. Develop the local treasury concept from *Rewiring Public Services* to illustrate what good devolution would look like and what it could deliver for UK Plc; and
 - 2.3. Seek the endorsement of external stakeholders for our proposals, particularly the business sector.
3. The remainder of this report provides an update on recent developments and options for delivering on the Board's priorities.

Recent developments

4. Over the summer, the Government published initial guidance for LEPs on the Growth Deals and developing their EU SIF strategies, confirming our concerns that departments would reassert their centralising tendencies. The LGA's briefing on the Growth Deals guidance is attached at **Appendix A**. The headline messages are as follows:
 - 4.1. The Single Local Growth fund announced by the Chancellor in the June Spending Round is now the "Local Growth Fund" (LGF), with different allocation processes for different streams of funding:
 - 4.1.1. About £1 billion will be allocated to LEPs on the basis of their Strategic Economic Plans.
 - 4.1.2. A portion of Local Transport Majors funding will be allocated by formula.
 - 4.1.3. A further unspecified portion of transport majors funding will be allocated on a scheme specific basis outside of the LGF process.

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- 4.1.4. The New Homes Bonus will continue to be allocated to councils on the basis of new homes delivered but about £400 million will be expected to be pooled to support LEP plans. The Department for Communities and Local Government (DCLG) is consulting on the mechanisms for pooling and our proposed response will be agreed at the LGA Executive on 12 September. Officers will provide an update at the meeting.
 - 4.1.5. The £170 million European Social Fund (ESF) skills-match cash, announced as part of the LGF, will be conditional on LEPs signing up their entire ESF skills allocation to match against a voluntary Skills Funding Agency (SFA) programme,
 - 4.1.6. The Government will be looking for evidence that all local authorities within a LEP have put in place formal arrangements for collective decision-making and coordination of growth functions across boundaries.
5. Government departments have held a series of workshops on various aspects of the July announcements to try to clarify how the Growth Deal process will work, but the general feedback is that the landscape is now messier and more complicated than ever. Key concerns include:
- 5.1. Of the funding streams identified in the Heseltine Review, only £500 million in Further Education capital funding has been devolved into the LGF. The lion's share of the funding that Lord Heseltine felt would be better invested if localised - £17 billion for skills, £21 billion for local infrastructure and housing, £5.5 billion for employment support, and almost £5 billion for business support and innovation - will stay under the control of different government departments.
 - 5.2. There are inconsistent messages coming from Government about the scope for the LGF to increase over time. Ministers have indicated that the £2 billion which has been allocated is a "starting point", but the Growth Deals guidance states that the funding streams which the Government considers appropriate for devolution have now been decentralised.
 - 5.3. Not only has the single pot idea given way to multiple funding streams, the sudden decision to change the rules about how transport majors and New Homes Bonus funding is allocated has cast uncertainty over existing investment plans and the future of the newly-set up Local Transport Boards.
 - 5.4. It is unclear how the City Deals and Growth Deals processes will align as some of the areas now negotiating City Deals are likely to be involved in developing the LEP Strategic Economic Plans that will be the basis of Growth Deals.
 - 5.5. There is a lack of clarity over how Strategic Economic Plans will be assessed, which is particularly important given that the Government has clearly stated that LEPs which are considered to have the strongest plans will get a bigger share of funding.

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- 5.6. The decision to make access to the ESF skills-match cash conditional on LEPs signing up to the SFA opt-in programme came as a surprise. We have been told that this was a last-minute ministerial decision and our call for the two to be disaggregated has been rejected.
6. Since the publication of EU funding guidance to LEPs, and details of national opt-in programmes, LEPs and councils have arranged local consultative meetings before drafting their local EU SIF strategies, which must include pipeline projects and match funding. First drafts will be submitted on 7 October and finalised by January, with live running of funds expected in mid-2014. A shadow National Growth Board has been established to oversee major arrangements on the design and delivery of EU funds. Local areas are represented on it through the LGA (three places) and the LEP Network (four places). The first meeting took place on 13 September. LGA representatives are Cllr Sir Merrick Cockell (Cons), Cllr Sir Albert Bore (Lab) and Cllr Ian Stewart (Lib Dem). An oral update on any issues arising can be provided at the Board meeting.

Next steps

7. The coming year will be a crunch time in British politics, with party election manifestos expected to be firmed up. There is a risk of complacency on the part of national politicians who may take the view that the degree of devolution that has already been delivered is sufficient, especially now that the Office for National Statistics has indicated that economic growth during the second quarter of the year reached 0.7%. By contrast, local civic and business leaders generally agree that far more radical steps still need to be taken. The challenge for the champions of a localist agenda will be to demonstrate that the case for ambitious devolution is stronger than ever and to find fresh ways to expose the limitations of the current system and how it is holding the UK economy back.
8. Members' steer in July was for Board work to focus on continuing to push for a more ambitious implementation of the recommendations of the Heseltine Review; fleshing out the economic growth proposals in *Rewiring Public Services* with a view to influencing election manifestos, and seeking endorsement of our proposals from external parties, particularly the business sector. Members' views are sought on the following options to deliver on these objectives:
- 8.1. Reviving the debate: With the Government taking the view that substantial devolution has now been delivered and local leaders understandably focused on their individual plans and Growth Deals, we believe that it will be vital for the LGA to lead the charge in refreshing and reviving the debate about what ambitious devolution looks like and what it can achieve. Lord Heseltine's advice to the LGA at the annual conference was that we are best-placed to "hold the Government's feet to the fire". We suggest that we shift gears in pushing for decentralisation by exposing how centralised and bureaucratic the system remains and illustrating how it provides poor value for money, discourages investors and generates unnecessary bureaucracy and cost. We would then contrast this to show how the decentralisation provides a more effective approach to growth, drawing on the early lessons from the City Deals to show what greater devolution can deliver.

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- 8.2. Rewiring for economic growth: We propose to model how a local treasury might operate, testing how it might function and what it could deliver on the ground with sector and other partners. Strands of this work could include modelling a local investment fund created from devolving and pooling public budgets and testing how it could operate and what it could deliver with sector and business partners; identifying the economic policy levers that could be devolved from central government to a local treasury; making proposals for harnessing the potential for universities to act as talent and investment magnets for local economies; drawing on lessons from more decentralised economies such as Germany; and commissioning new academic research to demonstrate the links between decentralisation and economic competitiveness.
- 8.3. Engagement with external stakeholders: The LGA took significant steps in deepening our relationships and identifying common cause with groups like the Federation of Small Businesses, British Property Federation, the British Chambers of Commerce and the Confederation of British Industry last year. We propose to build on this engagement to seek endorsement of our core proposals for devolution and undertake joint lobbying activities where possible. In particular, the business community could help us to illustrate how the current system is holding back business growth to bolster the case for the Heseltine recommendations
9. As agreed by the Board in July, we will also continue to provide on-going support to member councils to help them deliver their growth aspirations and maximise the opportunities from the City Deals and Growth Deals processes. For example, LGA officials are currently working with organisations such as the LEP Network to develop a programme of events to support leaders and key LEP areas' staff to identify and share solutions to common issues; learn from leading areas; and be better prepared for new responsibilities, such as skills and EU funding. We are also supporting regional roadshows with council Leaders in November as they will have a significant focus on growth.

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Appendix A

Guidance on Growth Deals for LEPs
August 2013

As part of the 2015/16 Spending Round publication on 26th June, the Chancellor committed to negotiating a Growth Deal with every Local Enterprise Partnership (LEP) and announced the creation of a £2 billion annual Single Local Growth Fund to be spent under the direction of LEPs. It also confirmed that the majority of spending decisions for England's £5.3 billion European Union Structural and Investment Funds (EU SIF) for 2014-2020 would be devolved to LEPs.

In July 2013, the Government published guidance for LEPs on the Growth Deal negotiations (including more detail on how the Local Growth Fund will be allocated).¹ This briefing summarises the key points in the guidance.

LGA Key Messages

- The Government's objective of unleashing the ambition and creativity of local leaders by devolving more resources and responsibilities to them through Growth Deals is important recognition of the role that local partners up and down the country are playing to support economic recovery.
- We particularly welcome the Government's move to give LEPs a lead role in shaping and targeting England's allocation of EU funds to drive local growth. Councils have a long tradition of working with EU funds and their expertise will be crucial to helping LEPs plan how to use these funds to maximise value for money and boost economic growth, employment, and support to the most vulnerable.
- It is right that the guidance does not seek to impose a "one size fits all" formula for the development of local economic strategies and we urge the Government to maintain this flexible approach as Growth Deals are being negotiated.
- Nevertheless, there are worrying signs that the promise of the Heseltine Review may be giving way to business as usual in Whitehall. The dropping of the word "single" from the Local Growth Fund, which will now operate as multiple streams of funding governed by different rules imposed by the centre, shows that government departments are still failing to join up and let go.
- The constant chopping and changing of government policy - from changing the rules for the New Homes Bonus two years in to creating separate Local Transport Bodies that now need to integrate into new structures – illustrates precisely why the current system needs reform. Civic and business leaders want to focus on action on the ground, not the shifting demands of a central bureaucracy.

¹ <https://www.gov.uk/government/publications/growth-deals-initial-guidance-for-local-enterprise-partnerships>.

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- Councils and their LEP partners are undaunted in their commitment to act as champions of growth in their areas. It is vital that Whitehall departments follow through on the spirit of the Heseltine Review in the Growth Deals negotiations and deliver the ambitious devolution that is needed to turn our fragile economic recovery into prosperity.

Allocation of Local Growth Fund (LGF)

There will be different allocation processes for different streams of funding considered to be part of the LGF:

- About £1 billion will be allocated through the Growth Deal process on the basis of LEP Strategic Economic Plans. Areas that are deemed to have the strongest Plans are expected to get a greater share of the funding.
- A portion of Local Transport Majors funding will be allocated by formula and the Department for Transport confirmed in July that most Local Transport Boards will receive a third less than the indicative allocation announced in January 2013.²
- A further unspecified portion of Local Major Transport Funding will be allocated on a scheme specific basis outside of the LGF process.
- The £170m ESF skills match will be conditional on LEPs committing their entire ESF skills allocation to an optional Skills Funding Agency opt-in model. It is unclear what happens to this allocation if LEPs do not sign up to the wider Skills Funding Agency programme.³
- The New Homes Bonus will continue to be allocated to councils on the basis of new homes delivered but about £400 million will be expected to be pooled to support LEP plans. In July, DCLG launched a technical consultation on the mechanisms for pooling.⁴
- Although the Strategic Economic Plans will be multi-year, LGF resources for 2015-16 are expected to be spent within that financial year.

Growth Deals

- Growth Deals will be negotiated with all LEPs on the basis of their Strategic Economic Plans.
- The Government envisages that Growth Deals will include:
 - Influence over growth-related levers as well as some freedoms and flexibilities
 - A share of the LGF

² <https://www.gov.uk/government/speeches/local-transport-body-funding-allocations>

³ <https://www.gov.uk/government/publications/european-structural-and-investment-funds-strategies-supplementary-guidance-to-local-enterprise-partnerships>

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225369/New_Homes_Bonus_and_the_Local_Growth_Fund_technical_consultation.pdf

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- Commitments from local authorities within LEPs regarding the use of the proceeds of asset disposals; reforms such as a coordinated approach to the development of local plans by local planning authorities and collective decision-making by all local authorities within a LEP
- The Government has signalled that requests for resources outside the LGF are expected to be agreed only on an exceptional basis.
- LEPs wishing to change their boundaries should write to Ministers as soon as possible, and proposals for changed boundaries should address the same criteria that were in the original invitation of June 2010 to business and civic leaders.⁵

Strategic Economic Plans

- There will be no set format for the Plans, but they will be assessed against three core themes:
 - ambition and rationale for intervention for the local area;
 - value for money; and
 - delivery and risk.
- The Plans are expected to provide a reasonable level of detail about the individual interventions which make up the overall programme.
- There are specific expectations of local authority partners within LEPs that will be assessed against the Plans, including commitments from local authorities to:
 - align or pool their spending on growth,
 - set up arrangements for collective decision-making,
 - demonstrate effective collaboration on economic development activities

Key Milestones

- **October 2013:** LEPs to submit first draft of EU SIF strategies to Government
- **December 2013:** LEPs to share the first draft of their Strategic Economic Plans with Government
- **January 2014:** Final drafts of EU SIF strategies to Government
- **March 2014:** Final drafts of Strategic Economic Plans to be submitted
- **June 2014:** Government completes assessment of Strategic Economic Plans
- **July 2014:** Local Growth Fund offer made to LEPs and Growth Deal negotiations completed; spending of EU SIF Funds 2014-20 begins (subject to European Commission approval)
- **April 2015:** Growth Deals to be implemented.

⁵https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/5649/1626854.pdf