Local Government Association

LGA Executive
11 September 2014

Local Growth Deals

Purpose of report

For discussion.

Summary

In July, the Government announced that Local Growth Deals had been agreed with all 39 Local Enterprise Partnerships (LEPs). This report provides an update on new analysis that the LGA published ahead of the announcement and a review of the key features of the Growth Deals. It also sets out some brief reflections for members to debate on the path that Growth Deals have charted towards the scale of devolution we are ultimately seeking and how the LGA can keep up the pressure.

This report was considered by the last meeting of the Economy and Transport Board on 30 July and has been referred to the Executive for its consideration.

Recommendation

That the Executive discuss the issues raised and endorses the Environment, Economy, Housing and Transport Board to take this work forward.

Action

The Environment, Economy, Housing and Transport Board to progress the actions agreed by the Executive.

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Background

1. Last year, the Government responded to the Heseltine Review and the LGA's intensive lobbying by committing to negotiate Growth Deals with every Local Enterprise Partnership (LEP). The June Spending Round subsequently set out that a £2 billion Local Growth Fund (LGF) would be used to fund the Growth Deals annually from 2015/16, with allocations determined partly on a competitive basis on the strength of LEPs' Strategic Economic Plans (SEPs). The outcomes of the Local Growth Deal negotiations were announced on July 7, including the LGF allocation to each LEP.[1]

2. The LGA got out ahead of the Local Growth Deals announcement by publishing new research on the limitations of the current system for funding growth, following the steer from the Economy and Transport (E&T) Board that the LGA should challenge the level of devolution that has been delivered. The next section summarises the key findings of our analysis, which is followed by a review of the key features in the Local Growth Deals. The final section takes stock of what Growth Deals signal in terms of progress towards ambitious devolution, with brief reflections for members to debate on how the LGA can keep up the pressure.

New analysis of the current funding system

3. At the start of the year, members of the E&T Board sought to revive the Heseltine debate by demonstrating how heavily centralised and bureaucratic the system remains, illustrating that it generates unnecessary costs and discourages investors. To that end, we worked with Shared Intelligence to produce new analysis on the fragmentation of funding and Localis on the costs of bidding. Both of these pieces show that our current system holds back local growth.

4. Drawing on a report by Shared Intelligence on the number of Government funding streams for local growth and regeneration, our analysis shows that the funding landscape is even more fragmented and centralised than Lord Heseltine uncovered in 2012. We found that:

    4.1. There were over 124 funding streams for local growth and regeneration across about 20 Government Departments and agencies in 2013-14 alone. **Appendix A** is an infographic we have designed to show this fragmentation at a glance.

    4.2. Together, these funding streams amounted to more than £22 billion in one year. The Local Growth Fund, at £2 billion per year, is equivalent to less than 10 per cent of current central government spending on local growth.

    4.3. Over 75 per cent of total funding for local growth (£17+ billion) could not be accessed directly by local authorities or LEPs, nor do they appear to have any say over which projects would be funded to ensure that they support the priorities of local and sub-regional economies.

[1] See https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327542/LGF-funding-allocations.pdf for funding allocations and https://www.gov.uk/government/collections/local-growth-deals for the details of each Growth Deal.

4.4. About half of the funding streams were allocated through competitive bidding processes, which, taken with the research outlined in paragraph 5, implies that local partners (including councils, businesses and charities) must be having to spend an enormous amount just to bid for resources.

5. Our second piece of analysis with Localis is the first quantitative data on the costs of growth fund bidding. This will be particularly useful to counter the prevailing view within central government that competition is inherently the most effective way to allocate funding because competitive tension incentivises bidders to raise their game, whilst the process enables funders to target resources at the best projects. Using survey data on the costs for councils in competing for funding from specific funding streams, our analysis sheds light on the adverse effects of competitive processes. Our findings include:

5.1. The average cost of putting together funding bids for local authorities alone was about £30,000 per bid. This figure does not take into account the costs for other public or private sector partners, or for departments in judging the bids.

5.2. To illustrate what this means, the overall cost to the public sector of bidding for the Local Pinch Point fund alone may have been in the order of £6 million, based on the average cost of preparing a bid and the number of bids submitted. This equates to about 7 per cent of the annual value of that fund.

5.3. At a minimum, local authorities found that they had to devote an estimated 33 days in officer time per bid.

5.4. Only a small minority of applicants are receiving formal grant offers within six months. Most are waiting up to a year and many are waiting even longer.

5.5. Three-quarters of respondents said that the system creates uncertainty for delivery partners.

6. Following the Board's steer, our press release on this new analysis took a challenging stance about the degree to which the government has delivered on the recommendations of the Heseltine Review (see **Appendix B**.) Members will observe that our analysis has been endorsed by the business sector, with the Federation of Small Businesses and the LEP Network both providing supportive lines for our release. The story was picked up by the Mail Online, Press Association and Municipal Journal, whilst our analysis was also cited by Clive Betts MP, Chairman of the Department for Communities and Local Government (DCLG) Select Committee, during a recent meeting of the All Party Urban Development Group.

Analysis of the Growth Deals

7. Any analysis of the Growth Deals based on currently-available information will invariably be imprecise because the figures presented by government contain a mixture of old and new announcements, as well as confirmed and provisional allocations. For instance, the Government headline was that £6 billion of local projects had been agreed through the first wave of Growth Deals, which is meant to include full allocation of the first year of the £2 billion Local Growth Fund in 2015-16, plus provisional funding allocations to some LEPs in subsequent years. However, the fine print of the government announcement also revealed that £267 million of European Social Fund skills match funding and Housing Revenue Account (HRA) borrowing next year is still to be assigned.

8. From our rough calculations, we believe that less than a third of the £300 million additional HRA headroom has been allocated so far, although our understanding is that this element was oversubscribed on the basis of expressions of interest from councils. At its last meeting, Environment & Housing Board members noted strong concerns from the sector about the tight timescales to submit HRA bids and the strings attached in the bidding criteria, which will have had an impact on funding allocations. LGA officers have followed up with DCLG officials about next steps and were advised that they were impressed by the quality of the expressions of interest that they received. DCLG are keen to follow up with individual councils and may open a second bidding round for HRA borrowing later this year.

9. Our analysis of the Growth Deals focuses on how genuinely devolutionary they can be considered, looking particularly at the degree to which funding has been allocated without strings attached, gives certainty to local partners over a longer-term funding horizon, provides other freedoms and flexibilities and responds to the key themes emerging from the SEPs. On the point about strings attached, we found that the majority of LEPs remain subject to central controls, albeit to different degrees:

   9.1. 20 LEPs have been told that their funding must be used to deliver the projects highlighted in the Deal, although they have some flexibility over the management of these projects and will be given their funding annually in advance. Any significant changes to the projects will need to be discussed with the Government in advance.

   9.2. 15 LEPs have been advised that funds will be disbursed to them quarterly to ensure that they are delivering all the projects in their Deal and will have to agree any changes to projects with Government each quarter.

10. However, there are some encouraging signs that departmental strings are starting to be loosened. If we separate out HRA borrowing (which as councils' money should not be considered "devolved" funding), about 70 per cent of the LGF is sourced from transport funds. However, more non-transport schemes have been supported than we would have expected prior to the Growth Deals process, which shows that the Government is starting to listen to local partners about their priorities. The consultancy firm Regeneris looked into the nature of the projects that have been funded and found about a hundred schemes in areas like innovation, regeneration, flood defences, digital connectivity and energy generation that are being supported.[2]

11. Progress is also starting to be made with respect to longer-term funding certainty for LEPs. All but 6 LEPs have been given provisional allocations of funding past 2015-16. Regeneration expert, David Marlow, has conducted analysis of the sums that shows that beyond the first year, £4.6 billion is allocated for 2016-21, of which £1.4 billion is 'provisional' and some of the rest has been previously committed. He cautions, however, that some LEPs have very high levels of provisional allocations, with over 50 per cent of their 2016-21 awards needing further discussion before they can be firmed up. David Marlow's calculation is that the new "definite" LGF allocations amount to 55 per cent of the Government's headline figure, which still leaves LEPs a lot to play for. Overall, it is positive that the Government has taken on board the LGA's strong message that we need to see a shift from one-time project funding to supporting a longer pipeline of local projects, which is vital to inspire investor confidence and the delivery of long-term

[2] http://regeneris.co.uk/latest/blog/entry/local-growth-fund-a-few-stones-turned-over

economic strategies. Nevertheless, the experience of a number of City Deals whose terms were altered by departments after agreements had been signed serves as a cautionary example here, so we will be keeping an eye on the longer-term funding commitments.

12. Given the feedback we had from councils that government departments were not particularly open to discussing freedoms and flexibilities, it is not surprising that the Growth Deals are pretty thin in this regard overall, although a number have promising elements:

    12.1. The London Deal provides a number of freedoms and flexibilities including trialling new approaches to incentivising businesses to take on apprentices; a payment by results pilot for learners aged 19 years and above and data sharing between central and local government.

    12.2. Several areas including Greater Manchester, Lancashire and the North East will be trialling public service reform, e.g. with the establishment of mental health and employment trailblazers involving a range of local partners including councils, Jobcentre Plus, Clinical Commissioning Groups and Health and Wellbeing Boards.

    12.3. The Cumbria Deal includes a commitment for Government to look at how policy can better take into account hub towns that serve a rural hinterland.

    12.4. The Buckingham Thames Valley Deal commits the local DWP to exploring options for using existing flexibilities within the system to continue paying JSA during extended training / work experience.

13. Finally, we considered the degree to which the Growth Deals have delivered against the common asks emerging from the SEPs, which can broadly be characterised as proposals for greater customisation of programmes related to skills/employment, trade and business support, as well as more strategic use and disposal of public sector land and assets to support local priorities. In this regard, as well as the total amount of funding devolved, it has to be said that the exercise has fallen short. It is disappointing that most of the Deals contained stock commitments from government agencies that lack teeth and specificity and are so high-level that it is difficult to see what will change in practice:

    13.1. UK Trade and Investment (UKTI) will commit to effectively communicating its strategic priorities to LEPs and where possible help them access relevant opportunities.

    13.2. The Highways Agency will engage the Local Enterprise Partnership in better understanding the challenges and opportunities associated with the network and to develop evidence based long-term plans to bring about much needed local economic growth and development, and commits to providing each Local Enterprise Partnership with a named contact.

    13.3. The Homes and Communities Agency is supportive of closer working with the LEP to identify the potential for collaboration within the existing programmes.

    13.4. The Skills Funding Agency (SFA) will involve LEPs in the procurement of new provision; require providers through their funding agreements to explain to LEPs details of their provision and planning; and publish information during summer 2014 on how LEPs can influence the use of all skills budgets in their localities, and the steps they can take if they are dissatisfied with the pattern of delivery.

14. Insofar as these commitments represent modest improvements on the status quo, they may give us something to build on. The final section invites members to consider where the LGA should next take the debate.

Future considerations

15. The LGA's publication at conference, *Investing in our future: the first 100 days of the next government*[3], sets out solutions to the most difficult problems that will be in the inboxes of future Ministers and doorstep issues for all politicians, including:

    15.1. Helping everyone find homes at an affordable price;

    15.2. Helping everyone find a job by improving their skills and employment prospects;

    15.3. Making sure everyone has a share in rising national prosperity; and

    15.4. Offering an affordable long-term solution to fixing the nation's roads.

16. Our proposals are fully-costed and show that we can tackle these challenges without increasing public spending, and, in fact, could save the public purse £11 billion, the equivalent of £200 for every man, woman and child in England and Wales.

17. The next stage of our campaign will be to promote our proposals and deepen the evidence base for them, from party conferences in the autumn through to the next Comprehensive Spending Review (CSR). Recognising that the public policy arena is already crowded with voices seeking to influence manifestos and the next government, we are seeking to building alliances with external stakeholders such as the business sector, so that we are uniting behind common proposals and speaking with one voice as far as possible. Our work on Growth Deals already has the support of business (see paragraph 6).

18. Members are invited to consider the lessons from Growth Deals that the new Environment, Economy, Housing and Transport Board should feed into future lobbying and policy work. Notwithstanding the striking disparity between the scale of devolution between the various Deals, many of the principles we have promoted are starting to gain traction more widely:

    18.1. The value of a single investment fund to deliver local infrastructure;

    18.2. The creation of growth hubs to tailor support to the needs of local businesses;

    18.3. More effective use of all public sector land and assets in an area; and

    18.4. Recognition that the proceeds of local growth should be returned to a local area.

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[3] http://www.local.gov.uk/documents/10180/6341755/LGA+Campaign+2014+-+100+Days/8255560f-7c96-432f-bbfe-514d3734a204

19. One idea may be to revive the notion of an optional core package of flexibilities, drawing together the successful features of the individual (City and Growth) Deals.

20. LGA officers are meeting directors from the Departments for Business, Innovation and Skills, Communities and Local Government and the Cabinet Office in October to review the lessons from the first round of Growth Deals. The views for the E&T Board and the Executive will be relayed to officials at that meeting.

21. **Executive members are invited to give a steer to new Environment, Economy, Housing and Transport Board the legacy from the first Growth Deals and how we strengthen local economic levers in England.**