



## **Evidence on the evolution of LEPs**

This paper summarises verbal evidence given by SOLACE director Graeme McDonald and Policy Support Officer Richard Bell at an inquiry held by the All Party Parliamentary Group (APPG) on Local Growth, Local Enterprise Partnerships and Enterprise Zones on the topic 'The evolution of LEPs' at Portcullis House on Wednesday July 10<sup>th</sup> 2013. It seeks to provide full and clear answers to the key lines of enquiry suggested by the APPG prior to this session.

### **Lord Heseltine suggested Local Enterprise Partnerships (LEPs) become strategic bodies with a greater role in promoting local economic growth. Should LEPs focus on rebalancing (tackling local deprivation) or growth (competitiveness)?**

Following the recent recession it is of course of the utmost importance that public spending should be directed towards generating growth, but LEPs must balance this priority with the need to build a sustainable and productive economy in which all local areas are able to play a part, necessitating some focus on rebalancing. SOLACE would note, moreover, that these two objectives should not necessarily be viewed as conflicting in all circumstances. A recent report from the Work Foundation attests that LEP initiatives succeed where partnerships are able to draw on diverse business networks incorporating large numbers of SMEs. It follows that LEPs should seek to involve local businesses from all sections of their LEP area in their activities both in order to promote a balanced economy and to generate growth.

SOLACE would additionally note that the Coalition's local government financing reforms, instituted through programmes such as the New Homes Bonus and the Business Rate Retention Scheme, heavily incentivise greater levels of local authority self-sufficiency. It would seem somewhat incongruous, then, for the Government to adopt an approach to LEP financing which does not correspondingly promote the construction of the durable local economic foundations through which financial self-sufficiency might be achieved in all parts of the UK. It is extremely important, in any case, that the Government offers clear guidance regarding the criteria on which bids for single pot funding will be judged- conscientious LEPs Boards and staff aiming to generate growth in currently underperforming or underutilised economic areas should not receive less funding for virtue of this ambition.

### **How far should LEPs be able to focus on key local priorities (i.e. skills, export, local infrastructure, business support, housing) and how far should they be required to address all of these issues within their strategies?**

Our members believe that spending decisions produce more growth where they are made by local people who know how their economy works, have a stake in its success and understand residents' priorities. We would therefore submit that the impetus should not be on LEPs to prove that they have addressed priorities set by civil servants remotely from Whitehall. Instead, the burden of evidence should, consistent with the principle of subsidiarity, be on Ministers to demonstrate why national government is better equipped than local leaders to direct spending impacting principally on a local area. Furthermore, Lord Heseltine himself commented in the run-up to the Spending Review that to apportion funding for LEPs in

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the low billions would be to squander the enthusiasm built up for those bodies throughout the country, and our members have warned of waning zeal amongst the business community. Attaching restrictive requirement to Growth Deals such as those referred to in the above question would result directly in significantly curtailed private sector involvement in future LEP activities. SOLACE would also suggest, however, that this point is rendered somewhat moot by the specific dimensions of the single pot allocated to LEPs at the Spending Review.

The limited size and scope of the single pot outlined in the Treasury's Spending Review infrastructure strategy document, *Investing in Britain's Future*, will in all likelihood have the effect of leading LEPs to address each and all of the priorities set out above in their strategies as a matter of course. Whereas Lord Heseltine, in his *No Stone Unturned* report on economic growth, contends that as much as £70 billion should be transferred to partnerships, comparatively little 'new' funding has in fact been devolved to the local level. Our principal concern in this instance is not, however, merely that local authorities are better placed than Whitehall to administer public spending programmes with appropriate efficiency and efficacy—that councils should be given *more money*. Rather, our dissatisfaction with the Government's approach stems from the view that the greater the proportion of infrastructure spending commitments a council is empowered to shape, the more opportunities will be identified for cost-saving joint working and integrated service provision, and to generate policies reflecting the specific characteristics and needs of local areas.

The meagre size of the pot offered by the Government will lead LEPs, then, to make siloed and service-based rather than holistic and place-based spending commitments. This problem will be compounded by the fact that those bodies have not been granted responsibility for some of the funding streams which Heseltine proposed should be devolved to the local level and which are ripe for integration—most notably those for skills and employment support. Indeed, the system risks mimicking the splintered approach that so cripples Whitehall. As the possibility of formulating radically refigured public spending strategies has largely been negated, then – and as local authority representatives on LEP Boards in addition to economic development officers will, in many instances, seek to promote pre-existing spending strategies and schemes which have, after all, been moulded to fit the pot's component parts – it is made considerably less likely that LEPs will deviate from previously-devised or well-tested approaches to this expenditure. (Approximately 51% of the £2 billion central government fund apportioned to LEPs comes in the form of transport spending previously administered by councils, and it therefore seems particularly probably that authorities will insist that a substantial proportion of it should be spent on transport projects.) It follows that some focus will be afforded to each of these priorities, but that this represents an opportunity missed to establish a more cost-effective and smartly targeted public spending regime.

Moreover, as SOLACE has argued previously, the competitive bidding process through which the Government aims to ensure that locally devised policies will reflect its political and policy priorities – and, presumably, address each of the criteria set out in the above question – will further reduce the efficacy of single pot spending. This method of apportioning funds to LEPs will: lead to a sub-optimal allocation of resources as applicants are encouraged to underestimate risk and overestimate the potential benefits of investment; produce unnecessary costs as LEPs are led to invest significantly in bid preparation; and fail to

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deliver the investment confidence necessary to generate maximum growth as investors will worry that policy changes at Westminster could result in the financial rug being pulled out from under them.

**What support do LEPs need from Government to build their capacity as per the Government's commitment in their response to the Heseltine Review? What changes within Government (such as a single accountable Minister for LEPs, as suggested by the BIS Select Committee, or new ways of working to enable LEP strategies to be assessed and negotiated on across departments) may be needed?**

The Government should adopt a primarily facilitative approach to LEPs. In addition to offering clear criteria for successful single pot bids as described above, Minister should significantly increase capacity funding for LEPs and ensure that effective structures are in place to allow for expansive data sharing between those bodies, the Office for National Statistics and central government departments (perhaps making use of the What Works centre for local economic growth.)

Appointing a single Minister with direct responsibility for facilitating and strengthening LEPs' efforts to stimulate growth, and locating all LEP contact officers in a single department – as recommended by the BIS Select Committee – constitute positive steps towards streamlining partnerships' dealings with central government. This proposals should not, however, be viewed as a panacea- SOLACE would favour a formal review of the oversight and enabling functions fulfilled by LEPs' senior Whitehall sponsors and civil servants within Local Growth Teams. We would, what is more, posit that this Ministry should perhaps be hosted within a department with a pan-governmental purview, such as the Treasury or the Cabinet Office. This proposal reflects that LEPs will have dealings with DCLG, DfT and DWP as well as BIS; and is aimed at preventing partnerships becoming marginalised through inter-departmental conflicts.

**What governance principles or models best equip LEPs for the new demands being placed on them, and are there examples of effective and ineffective governance in current practice?**

Many SOLACE members have expressed a concern that the discussion surrounding the governance of LEPs tends to operate on the assumption that those bodies were established via a single revolutionary step, whereas they in fact evolved incrementally and at different speeds and have consequently adopted varied operational frameworks and external engagement practices. Form must follow function, and attempting to formulate a one-size-fits-all governance model is – at this stage – simply not an especially constructive pursuit.

In private briefings attended by SOLACE, the Government has strongly indicated that local government should view the single funding pot announced at that Spending Review as a starting point, and that there is a pronounced possibility that more funding might be transferred to LEPs in future. Such a development would of course be welcome, but the Government should not seek to impose a governance regime on LEPs reflecting future rather than current funding levels. Requiring partnerships to undertake a level of expensive and time-consuming bureaucratic activity disproportionate to the degrees of funding and power devolved to them would plainly discentivise both private and public sector involvement in LEP activities.

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