



Turning over all the stones: 10 priorities for government as it takes the Heseltine Review forward

March 2013

Introduction

Helping our cities to make the most of their economic potential is the UK's best chance of boosting jobs and growth over the years ahead. Home to over half of all private sector businesses in the UK, nearly 60 per cent of all jobs, and over 70 per cent of skilled workers, our cities make an enormous contribution to national economic performance.

This Government's recognition both that cities are vital to economic growth and that they are all different has already been demonstrated by City Deals, the localism agenda and local government finance reform. Yet if the Government is to continue to devolve significant new powers to local government, it will be vital to ensure that these reforms add up to a long-lasting and significant transformation.

In responding to Lord Heseltine's October 2012 report, *No Stone Unturned in Pursuit of Growth*, the Government has a 'once in a Parliament' opportunity to redefine the relationship between central and local government, and to unleash the economic potential of our great towns and cities to boost growth across the country.

Lord Heseltine's report is a tour de force, covering the need for Government to:

- Build on local strengths by empowering Local Enterprise Partnerships to bring together the public and private sector to drive growth
- Make Whitehall a confident, strategic centre of government that delivers a vision for growth, is smaller and more highly skilled and strategically partners with all sectors of the economy
- Ensure that Government is a decisive leader on major infrastructure projects, a more effective procurer and makes the most of the UK's research base
- Transform the education system to end underperformance, involve employers and ensure investment reflects the jobs available.

But will Heseltine's recommendations be sufficient to deliver local economic growth? And how can Government overcome some of the challenges that have always bedevilled devolution, from resistance in Whitehall through to concerns about accountability and capacity?

The Government has committed to implementing 81 of the 89 recommendations made by Lord Heseltine. **We have distilled the 10 most important reforms that central and local Government must prioritise and seek to take forward beyond the forthcoming Budget and spending review.** Informed by our independent research and analysis, not all of these follow Lord Heseltine's recommendations to the letter. But taken together, we believe they represent the best opportunity free our cities to boost growth in the years ahead.

In particular, national Government should:

- 1. Create a significant single funding pot for local areas, aligned with European funding allocations** to provide greater flexibility for cities to adapt policies to their local circumstances, a more efficient allocation of resources at a local level, a more effective allocation of European funding streams and more scope for local innovation in terms of service delivery and pursuing growth.
- 2. Be flexible about the institutional structures and geographies to which it devolves funding** to ensure that funds are devolved to functional economic areas, rather than within administrative boundaries, and that the body making decisions about funding allocation is democratically accountable and committed to a long term growth strategy.
- 3. Resist the temptation to continue setting the agenda nationally, particularly in relation to LEPs,** recognising that different areas need different kinds of support if their local economy is to thrive. Large Core Cities, fast-growing small and medium cities and cities struggling in a post-industrial economy all require different support. Government should be open to flexing policy according to different needs.
- 4. Implement an approach to funding allocation that relies more on incentives than competition** recognising that there are challenges inherent in making all funds subject to competition, including the risk that all places pursue the same priorities. Incentives should instead focus on the fundamental capacity of areas to deliver, including a requirement for strong governance, meaningful engagement with business and a clear focus on local growth.
- 5. Tackle Ministerial and civil service resistance to devolution** by adopting Lord Heseltine's recommendation that Ministers and permanent secretaries should be associated with individual LEPs, as well as creating permanent, cross-departmental local growth teams of civil servants to join up government at local level.
- 6. Use Heseltine to set a long term local growth agenda** addressing private sector concerns over a lack of certainty in relation to national and local policy frameworks that they feel is currently inhibiting investment.

Working together, national and local Government should:

- 7. Ensure that Local Government steps up to take responsibility for delivering economic growth.** Local government and LEPs need to take a lead by taking advantage of all existing and new powers to support economic growth at a local level. When developing local strategic plans, LEPs need to ensure that they are realistic, strongly place-based, developed with partners, and backed with investment and a delivery plan.
- 8. Manage issues relating to limited local capacity** to ensure that cities can find ways to support one another and draw on expertise from the private and third sector where necessary. Implementing Heseltine's recommendation for senior sponsors associated with individual LEPs may help with this, as could the introduction of secondments from national to local government and making use of public private partnership arrangements.
- 9. Ensure that Heseltine builds on the City Deals programme** by ensuring that new centres of influence and power are not set up to compete against one another. Local areas must decide on their own governance

and institutional structures to implement these separate processes, while elements of the City Deals process, such as the Core Package, should also be available to all local areas provided they can satisfy minimum criteria.

- 10. Strengthen local leadership by working towards the difficult process of local government reform**, attempting to simplify the current overly complex system to create a streamlined system that recognises functional economic geographies more closely. It is vital, however, that both national and local Government do not become bogged down on institutional reform at the expense of broader delivery on local economic growth.

An overview of No Stone Unturned in Pursuit of Growth

Local economic growth has been an integral part of the Government's agenda since it first came to power. The abolition of regional institutions, the creation of Local Enterprise Partnerships, the debates about 'localism' as a guiding philosophy, reform of business rates and, most recently, the development of bespoke 'Deals' with 28 of England's cities, are all components of the Government's commitment to push more powers to the local level.

Yet the extent to which this has resulted in more powers and funding being devolved to local areas continues to be the source of much debate, with the devil, as always, being in the detail of policy implementation. So, against the backdrop of an economy still struggling to recover from recession, what next for local economic growth?

Heseltine, is the short answer. Lord Heseltine's October 2012 report, No Stone Unturned in Pursuit of Growth, sets out 89 recommendations for improving economic growth in the UK. A man with a clear personal policy mission and a long-time champion of city regeneration driven by strong local leadership, it is unsurprising that devolving more power and funding to support local economic growth is integral to Lord Heseltine's vision for improving the UK economy.

Broadly speaking, No Stone Unturned sets out the need for Government to:

- build on local strengths by empowering Local Enterprise Partnerships to bring together the public and private sector to drive growth;
- make Whitehall a confident, strategic centre of government that delivers a vision for growth, is smaller and more highly skilled, and strategically partners with all sectors of the economy;
- ensure that Government is a decisive leader on major infrastructure projects, a more effective procurer and makes the most of the UK's research base; and
- transform the education system to end underperformance, involve employers and ensure investment reflects the jobs available.

Lord Heseltine identifies three main barriers to local economic development, namely:

- 1. Government is too centralised in England and does not sufficiently understand how diverse places are.** Central government tends to make London-based decisions that demonstrate little understanding of the differing circumstances facing different cities and policy is formulated in central government silos rather than holistically, looking at the challenges facing an area.
- 2. Local government is too complex.** England has 353 principal authorities, some unitary, some district, some county, and with very few bearing any relationship to their functional economic areas.
- 3. Local leaders are not taking responsibility for growth.** As central government continues to make the vast majority of economic decisions, local government has become increasingly disempowered and there is an ongoing lack of engagement by business leaders in their communities. There is a need for a stronger leadership model and a single point of contact in cities.

Heseltine's resulting recommendations are summarised in Box 1 below:

Box 1: Heseltine Localism Recommendations**Devolve funding**

1. Central government should identify the budgets administered by different departments which support growth. These should be brought together into a single funding pot for local areas, without internal ring fences.
2. Local partnerships should bid for funds from central government on a competitive basis. Bids should be for a minimum of five years starting from 2015/16.
3. Government should streamline its management of EU Common Strategic Framework funds in England, strip out the bureaucracy of multiple programmes and align local allocations from the four funds with the single funding pot.

Strengthen Local Enterprise Partnerships

4. Taking full account of the Government's national growth strategy, all LEPs, in collaboration with local stakeholders, should lead the development of a long term strategy and business plan for their area that will be used to bid for economic growth funds from central government.
5. The Government should allocate LEPS up to £250,000 of new public funding, resourced through departmental efficiency savings and underspends, in each of years 2013/14 and 2014/15 specifically to devise their local economic strategies, and create the foundations for their implementation.
6. The Government should invite LEPs to review their boundaries within a three month period to ensure they have a good match with their functional economic market area and that they do not overlap.
7. In light of the new role and vision for LEPs, each LEP should ensure that their board has the necessary skills and expertise to deliver their expanded functions and pay particular attention to the representation of employees from both private and public sector
8. At the earliest opportunity civil servants based across the country should be brigaded into Local Growth Teams, structured around clusters of LEPs, primarily tasked with joining up government and local partners in the areas of their responsibilities to facilitate, identify and realise economic opportunities.
9. Ministers and permanent secretaries should be associated with individual LEPs, not to advocate individual plans but to add an understanding of place to the existing culture of function.

Change the structure and focus of local authorities and encourage more collaboration

10. Local authorities should have a new overarching legal duty to have regard to economic development in the exercise of all their activities and functions. Where local authorities share a functional economic market area they should be required to collaborate on economic development.
11. All two-tier English local authorities outside London should pursue a path towards unitary status. The Government should encourage this and work with authorities to clarify the process and enable it to happen.
12. Proposals for formal collaboration between local authorities that reinforce the standing of the LEP and enhance the partnership with the private sector across a functional economic market area, should be encouraged and prioritised for government approval. All proposals to move to unitary or combined authority models should be scrutinised by the Prime Minister's Growth Council.
13. The Government should remove all legislative barriers that are preventing local authorities from collaborating within functional economic market areas, including moving to a unitary status.

Strengthen local leadership

14. Local authority council members should be elected using the same electoral cycle across England where the whole council is elected at the same time every four years.
15. Legislation should be passed to enable combined local authorities, and other combinations of authorities, that wish to elect a conurbation mayor to do so.

The Government has committed to implementing 81 of the 89 recommendations made by Heseltine. Many of these commitments are very welcome and are supported by much of the Centre for Cities' research and analysis over the past eight years. However, as the Government considers how to deliver these, a series of significant questions remain about how much money will be in any single pot that is announced, about accountability and the institutions to which this money might be devolved, and about how monies are allocated.

The remainder of this briefing sets out how the Centre for Cities believes Government can take forward Lord Heseltine's proposals, before concluding with an assessment of the overall potential impact of the Review on enabling cities to drive economic growth in the future.

10 priorities for government as it takes the Heseltine Review forward

We have distilled the 10 most important reforms that central and local Government must prioritise and seek to take forward beyond the forthcoming Budget and spending review. Informed by our independent research and analysis, not all of these follow Lord Heseltine's recommendations to the letter. But taken together, we believe they represent the best opportunity free our cities to boost growth in the years ahead.

In particular, national Government should prioritise:

1. Create a single funding pot for local areas, aligned with European funding allocations

Since its creation the Centre for Cities has been arguing for greater devolution of funding to local areas, without ring fences, so that places can make local decisions about spending on the policies that will have most economic impact. With this in mind, we are strongly in favour of Heseltine's recommendations that economic growth funding should be brought into a single central pot and that government should align European funding allocations with the single funding pot.

Benefits of having a single funding pot are likely to include:

- **Better outcomes:** The barriers to economic growth in Bristol are quite different to those in Birmingham or Burnley. National policy tends to be place-blind, resulting in policies that can have adverse consequences in some cities. Greater flexibility to adapt policies to local circumstances are likely to support national government more effectively in achieving its over-arching aims of higher levels of economic and jobs growth.
- **More efficient use of money:** A single pot could reduce the resources needed to manage different funding streams at a local level. The potential has already been demonstrated through the Community Budget pilots, where bringing together funding streams for troubled families has resulted in a reduction in the budget of 80 per cent.
- **More effective use of European money:** Since the abolition of the Regional Development Agencies, local areas have struggled to access European funding because of the challenges of matching it.
- **More scope for local innovation:** Local areas will be able to experiment and innovate in the way they support economic growth, adapting policies to local circumstances.

Heseltine should also be an opportunity to open up questions about fiscal reform. Places need to generate more investment. If this single pot is to achieve its full potential, local authorities need to think about how they make the most of private sector funding. However, there are currently various barriers to doing this that Heseltine does not address.

In particular, there is a potential problem with the amount of funding being devolved locally, causing Treasury concerns about the Public Sector Borrowing Requirement. Government needs to think about the borrowing implications of the single pot and to be open to piloting fiscal reform in certain cities, on the basis of generating higher national and local economic and fiscal returns through greater freedoms.

Recommendation: *Government should set up the single funding pot, aligned with European funding allocations, and ensure that Whitehall departments are strongly encouraged to pool funding, rather*

than keep it back: Many Departments are resisting losing control and achieving a figure anywhere near Heseltine's £70bn will require strong leadership across government.

2. Be flexible about the institutional structures and geographies to which it devolves funding

Heseltine is very supportive of Local Enterprise Partnerships and makes a series of recommendations about **LEPs gaining up to £250k of funding to lead the development of a long term strategy and business plan** for their area, **ensuring their Boards have the necessary skills and expertise** to deliver these plans **and that local authorities should work together to reinforce the standing of the LEP.**

The Centre for Cities has been supportive of Local Enterprise Partnerships as most of them operate at the level of the functional economy and they serve as a way of engaging the private sector in supporting the local economy. We also welcome greater resources being devolved to LEPs, as many of them have struggled to be clear about their remit and to have sufficient capacity to deliver on their prospective agenda.

Nonetheless, as our [previous work has highlighted](#), LEPs are a mixed picture. Some are based on long-term partnerships; others are very new. Some operate in an area where there is a current or planned combined authority; others operate in areas where local authorities struggle to work together. Some are set up as limited companies; others remain advisory Boards with no formal legal status. There are also challenges around the accountability of LEPs, as they are private sector led, and on occasion around the geography of LEPs (as highlighted in Heseltine's recommendation that **LEPs review their geography**).

For Government, the priorities about devolution of funding should be that:

- Funds are devolved to functional economic areas, rather than administrative boundaries, so they can achieve maximum economic impact;
- The body making decisions about funding allocation is democratically accountable in some way;
- Local areas are signing up to a long term strategy that cannot easily be derailed;
- Local areas are finding ways to pool budgets and improve efficiencies and outcomes in exchange for greater devolution.

This will be achieved in different ways in different areas and form should follow function. Rather than national government determining the local structures, local areas should do so but be held to account by national government to ensure the institutions meet minimum standards. As a result, options could include:

- Devolution to LEPs that have a strategic role, a local authority as accountable body and that work with various local bodies to deliver the strategy;
- Devolution to a combined authority, with the LEP having a strategic advice role;
- Devolution to a City Deal Board, made up of local authorities, the private sector and LEP representatives.

It is also important that these structures should not be regarded as the only way for local authorities to work together as it is likely there will be many different partnerships that will help councils deal with a struggling economy as well as budget cuts. For example, some LEPs may need to work together across boundaries to tackle issues such as transport or innovation; on other occasions, two local authorities within a LEP may wish to work together on shared services or tackling worklessness.

With this in mind, Heseltine's conclusion that **LEPs should eliminate boundary overlaps within three months** should also be regarded as problematic. The overlaps conceal intractable political disagreements, which cannot be easily resolved. More importantly, they reflect functional economic overlaps, which are not acknowledged anywhere else in local structures. Where overlaps are based on economic realities, they may encourage the greater collaboration between neighbours for which Heseltine also calls. Greater flexibility should be allowed by national government.

Recommendation: *Rather than stipulate that all funding must go through LEPs, Government should require that funding is devolved to functional economic areas, ideally LEP areas, and that institutions must be established that meet minimum standards around joint working, longevity and achieving more efficient, effective outcomes.*

3. Resist the temptation to continue setting the agenda nationally, particularly in relation to LEPs

Governments always struggle to devolve power and, at a time of economic crisis, it becomes even more challenging for Ministers and civil servants to relinquish control of funding and scrutiny. This tension has been visible in interventions on planning and could be further strengthened if Heseltine's proposal to create a **ministerial Growth Council to set growth strategy** is implemented.

Aspects of Heseltine's recommendations, including being prescriptive about **devolving funding to Local Enterprise Partnerships** and **having a competition for funds that is based on nationally set criteria**, could unintentionally simply result in local authorities having greater control over funds but still delivering a national agenda.

It is also vital for Government to recognise that different areas need different kinds of support if their local economy is to thrive. Large Core Cities, fast-growing small and medium cities and cities struggling in a post-industrial economy all require different support. Government should be open to flexing policy according to different needs.

Recommendation: *Government needs to ensure it is setting clear standards and desired outcomes without dictating how local areas go about meeting those standards. The temptation will be to keep so many strings around the single pot that it is simply a different way of local authorities delivering a national agenda.*

Recommendation: *Government considers how policies impact on three different kinds of places: large cities, fast-growing smaller cities, and more vulnerable cities. This may mean that national policies require the flexibility to be adapted to local circumstances in order to achieve desired outcomes.*

4. Implement an approach to funding allocation that relies more on incentives than competition

Heseltine is very clear that competition should be a central element of allocation of economic growth funds, drawing on his experience of the City Challenge Fund and arguing that this helps to raise standards.

However, there are some challenges inherent in making all funds subject to competition, including the risk that all places pursue the same priorities (set by central government) and that competitive bidding results in local areas throwing a lot of resource at a potentially losing bid, taking their minds off delivery. It may also result in some areas receiving very limited funds for economic growth, with a significant impact on jobs and growth in that local area.

Competition is all about incentives to improve standards and Centre for Cities' research suggests that there may be another way to allocate funding so that there are strong incentives for good bids, without running some of the risks of a nationally set competition. Some of these incentives should be about the requirement for strong governance, demonstrable capacity to deliver, meaningful engagement with business (for example, private sector support is required before bidding into a single pot) and a focus on local growth (rather than solely focusing on funding statutory services). This means that bids are assessed on process rather than on outcomes.

Recommendation: *The majority of funding should be allocated to the places that can satisfy some minimum criteria around governance, delivery capacity and engagement with business. Places that do not satisfy these criteria would receive funding but with strings around it, meaning that they are essentially delivering services for national government until they can 'earn autonomy'.*

Recommendation: *A significant minority of funding should be available as an incentive for improved innovation / performance, allowing places to compete with one another to access this discretionary pot.*

5. Tackle Ministerial and civil service resistance to devolution

While many Ministers and civil servants are champions of devolution, others are much more resistant. There continues to be a lack of awareness about the impact that local economic circumstances have upon the way that policies are implemented, and a lack of willingness to have a ‘menu of options’ approach to policy, rather than the same approach adopted everywhere.

Adopting Heseltine’s recommendation that **Ministers and permanent secretaries should be associated with individual LEPs** could help to tackle this. Centre for Cities has recently called for central government to adopt a more place-sensitive approach to policymaking, and to acknowledge that different places require different solutions. Senior acceptance of this need would send a strong signal, but wider cultural change would be needed to create any significant impact.

The report also proposes **local growth teams** of civil servants to join up government at local level. These could provide the structures needed to encourage cultural change, but would need to be permanent and cross-departmental to avoid the fate of the recently abolished Government Offices for the Regions.

Recommendation: *Prioritise Heseltine’s recommendations for attaching Ministers and permanent secretaries to individual LEPs and establishing local growth teams.*

Recommendation: *Supportive Ministers and civil servants need to implement a change management programme in order to start changing central government culture and ensure that any policies agreed are fully implemented.*

6. Use Heseltine to achieve quick wins and set a long term agenda

Both local government and the private sector have raised concerns about the lack of long term certainty over institutions at a local level, the availability of funding and policies designed to kickstart economic growth. The private sector in particular has highlighted that lack of certainty inhibits investment. At the same time, lack of quick wins results in scepticism about the impact of LEPs and can have an adverse affect on local economic confidence. Heseltine should be an opportunity to address both of these challenges, and change the relationship between central government and local areas.

Recommendation: *Government should regard Heseltine as a starting point for longer term institution reform, while ensuring that some places that are ready to deliver are able to move ahead as quickly as possible.*

Working together, national and local Government should:

7. Ensure Local Government can step up to take responsibility for delivering economic growth

Local enterprise partnerships, local authorities and businesses need to ensure that their local strategic plans are realistic, strongly place-based, developed with partners, and backed with investment and a delivery plan. They also need to devise ways to engage residents, particularly if the plan embraces economic growth that may have an impact on existing services.

Local areas also need to take more managed risks if they are to access the investment required to stimulate economic growth. This requires local authorities and their partners to take a different attitude to risk and be inventive about new forms of partnership. Currently, however, local government does not benefit from the increased tax receipts generated by supporting economic growth, meaning that it is challenging to repay borrowing. Moving towards an ‘Earn Back’ model similar to that adopted in Manchester, where local areas can

demonstrate additionality and their ability to make this work, would create much stronger incentives for local areas to invest in growth.

Recommendation: *Local authorities review opportunities to form new partnerships and take managed risks in order to support investment in local growth.*

Recommendation: *Central government consider applying something similar to the ‘Earn Back’ model to functional economic areas beyond Greater Manchester, creating incentives for local authorities to invest in the local economy as they gain a return from doing so.*

8. Manage issues relating to limited local capacity

All of these reforms are taking place against a backdrop of significant public spending cuts, affecting capacity at local and national level. Both national and local government need to ensure that they are finding ways to support one another and draw on expertise from the private and third sector where necessary. **Implementing Heseltine’s recommendation for senior sponsors** associated with individual LEPs may help with this. It could also involve secondments from national to local government or vice versa, as well as making use of public private partnership arrangements and drawing on the expertise available in the LEP.

Local government has also expressed interest in Government being an arbiter of standards but not manager of the detail. During the City Deals process, local authorities felt that Government played a useful role in facilitation, challenge about priorities and ensuring that bids were of a certain standard. This would be welcomed in the future.

Recommendation: *Government to play a facilitation role in helping local areas develop their strategic plans, without dictating precisely how they should do this.*

Recommendation: *Government should review options for secondments and additional support to local areas on a case-by-case basis.*

9. Heseltine needs to build on City Deals

There are potential conflicts between Heseltine and City Deals, which are both creating centres of influence and power that could compete with one another. It is both national and local government’s responsibility to ensure that they do not. This requires local areas being able to decide on their own governance structure and then being required to justify them to national government. Some of the gains of the City Deals, such as the Core Package, should also be available to all local areas provided they can satisfy minimum criteria.

Recommendation: Ensure that Heseltine builds on, rather than undermining, City Deals and that the Core Package options are available to any local area that can demonstrate certain requirements such as strong governance, capacity to deliver and engagement with the private sector.

10. Strengthen local leadership

Heseltine also tackles the thorny issue of local government structures, calling for all **two-tier areas to move towards unitary status**. Heseltine described the functional economic market area as “the dominant paradigm in local growth policy”. He has spent a political lifetime dealing with this issue in various ways, and it is no surprise it remains unresolved: local government reform is complex, unrewarding and politically unpalatable.

There are strong arguments in favour of a simplified, single-tier system of local government and the idea will surely not go away, but the current government seems unlikely to undermine its local growth approach with a centrally-drive shake-up.

However, moves towards combined authorities, as already seen in Greater Manchester and developing in Leeds City Region and Sheffield City Region, are welcome as a way of encouraging more joint working across

functional economic areas. This will not be appropriate everywhere but other local areas should consider how they can formalise stronger joint working across boundaries, as locally appropriate. This may involve LEPs taking a lead role, LEPs being strategic advisers to 'Local Economic Boards' or a range of other options. Key criteria should be that tough decisions can be taken about funding and investment across a functional economic area, based on economic assessments rather than any local politics.

Heseltine's other recommendation is for **elected metro or 'conurbation' mayors**. This has also been **called for by Centre for Cities**, but seems more likely to return to the political agenda if larger cities drive the agenda themselves, in contrast to the centrally imposed mayoral elections held earlier this year. Centre for Cities is strongly in favour of this.

Recommendation: *Local authorities should move towards stronger forms of governance locally, with the precise form likely to vary from combined authorities to LEPs working with local city boards, depending on local circumstances.*

Recommendation: *Government should support conurbation mayors in functional economic areas where local areas indicate an interest, and should reconsider introducing this option (with additional powers on the table) from 2015.*

Conclusions: What does Heseltine mean for the future of local economic development?

The Government has taken a big step in committing to deliver the vast majority of Lord Heseltine's recommendations. If implemented effectively, it could be an important step towards greater autonomy for cities and enabling stronger local economic growth in the UK. Centre for Cities will continue to work with national and local government to ensure we make the most of the reforms, in the short term and in the years beyond 2015.

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