Devolution or Disappointment:

The Spending Review and Heseltine's Single Local Growth Fund

June 2013

Executive Summary

Local government will be holding its breath on Wednesday to find out the scale of the cuts it faces in 2015/16. With a 14 per cent budget reduction already agreed between 2010 and 2015 and rising demand for services provided by local government, such as child and adult social care, the next few years will be tough. Yet there may be a glimmer of a silver lining as this week we also find out the details of the Single Local Growth Fund announced in the Budget.

For the Heseltine Single Local Growth Fund to have the desired impact, it should be at least £5 billion. This would be of sufficient size to enable some funding to be allocated to each of the 39 Local Enterprise Partnership (LEP) areas, while also leaving a substantial amount available for allocation on the basis of a competition. In this scenario, 50 per cent of the money could be allocated directly and 50 per cent made available on a competitive basis.

If the Single Local Growth Fund is smaller, for example, £2 billion, then we would want the Government to set out a clear direction of travel for future funding as well as making additional powers available. In an era of austerity it is highly likely that the Fund will be smaller than ideal, but in this case we would want to see a clear statement of how the Fund will evolve over time – for example, that the Fund will total £15 billion over five years.

If the Fund is £2 billion, we would also recommend that the vast majority of the funding is allocated in order to avoid depriving many local areas of any funding at all for transport and housing, and to prevent local areas from spending many hours jumping through Whitehall-imposed hoops to gain small amounts of money. If up to 20 per cent of the money is allocated on a competitive basis, Whitehall should consider awarding it to a very small number of LEP areas to pilot innovative new economic growth measures.

Local economic growth is not simply about the amount of money available; it is also about control. Alongside the Fund itself, Whitehall should set out a series of specific reforms that give local areas more control over funds, for example greater control over awarding Skills Funding Agency monies based on further education colleges responding to local targets, or over Highways Agency decisions on road infrastructure that have growth implications.

Central government should be challenging LEP areas to improve and setting clear desired outcomes, without dictating how those are achieved. Using a similar process to that used for City Deals, with Whitehall available to both challenge and support local areas to improve their bids, could help ensure that Local Growth Plans benefit from central capacity. Minimum standards around governance should also be set out clearly to encourage local areas to work together and take tough decisions, with some flexibility about whether the lead organisation is the LEP, or an equally strong local body. However, learning from the good example set by the Troubled Families Initiative, Whitehall should ensure it is working with local areas to set out desired outcomes but not enforcing – directly or indirectly – how these outcomes are achieved.

Context

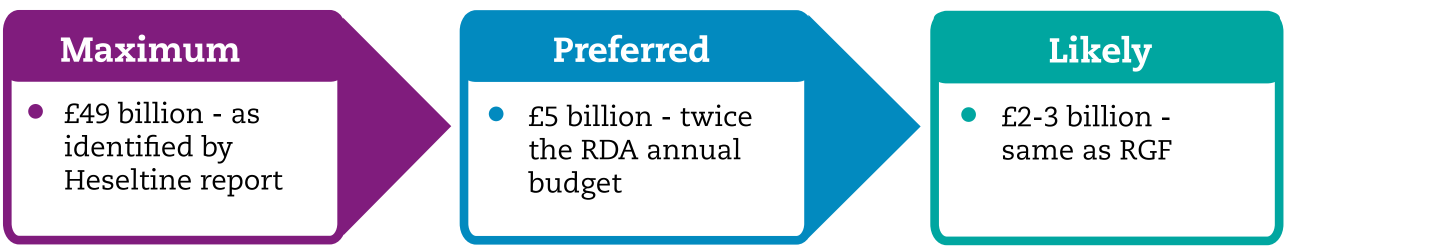
Lord Heseltine has been going round the country to get people excited about the potential of the Single Local Growth Fund, recommended in *No Stone Unturned,* to change the way local government manages its local services and local economy. But will it live up to the hype? This paper gives some background on the Fund and then sets out how Centre for Cities would like to see the Government respond to the challenge of pooling multiple different funding sources in one place for local areas to decide how to spend.

What is the Single Local Growth Fund?

The Single Local Growth Fund – often referred to as the Single Pot – was one of the proposals in Lord Heseltine's review, *No Stone Unturned.* He argued that decisions about significant economic development issues are more efficient and effective if taken at a local level. His suggestion was that up to £49 billion of funding related to local economic development should be allocated to a Single Pot.

The recommendation was supported by the Government and particularly the Chancellor. In the official response, it was agreed that funding from three policy areas – housing, skills and transport – would be put, without ring-fencing, into the Single Pot and made available for Local Enterprise Partnerships (LEPs) to decide how to manage. The size of the Fund, to be available from 2015/16, will be revealed in this week's Spending Review. Other issues to be revealed either this week or before recess include decisions on how the money will be allocated between LEPs, to what extent restrictions will be placed on their freedom to spend it as they choose and whether other 'offers' besides the Fund will be made available to local areas.

How big should the Single Pot be?



Much speculation has circulated about how much funding will be allocated to the Single Pot. Our assessment of its potential size range is set out below:

In theory, the maximum potential size for the Single Pot is £49 billion, the amount Lord Heseltine suggested in his growth review. However, this was an illustrative (and much disputed) figure based on current Spending

Review levels and on a scenario in which the Government accepted and enacted all 89 of his recommendations in their entirety. There is no chance that the Fund will be on this scale.

The real Single Pot will be considerably smaller, but how small? We would argue that it should be at least £5 billion. At this amount, the 39 LEPs would have an opportunity to make a significant difference to the way decisions about economic growth are taken in their local area, and Government would demonstrate its commitment to devolution.

The minimum credible figure is around £2 billion, which is roughly equivalent to the total average annual budget available to all the Regional Development Agencies (RDAs) and on a par with the amount being spent through the Regional Growth Fund (RGF). Even in austerity, less growth funding in the Pot for 39 LEPs than was previously available for the nine RDAs would risk the Fund simply being too small to make a difference to local economic growth.

One of the challenges for the Government will be to manage the inevitable disappointment at the size of the Pot (whether it is our 'preferred' or our 'likely' scenario). An important element of this will be to set out a clear direction of travel over several years rather than just for 2015/16. Ideally we would like to see an indicative commitment to at least £15 billion over five years.

In addition, it is likely that local areas will have access to other funds that cannot be included in the Single Pot, for example EU Structural Funds. Demonstrating how local areas will be able to access these funds will be critical to managing reactions to the announcements.

Who should the Single Pot be allocated to?

One of the most significant recommendations in *No Stone Unturned* was that LEPs – the private sector-led organisations set up following the demise of the Regional Development Agencies - should be the bodies that administered any funds from the Single Pot.

Most analysis of LEPs highlights very mixed performance across the country. Some LEPs, particularly those building on long-running partnerships, are performing well but much newer organisations are taking time to establish themselves and build capacity. With this in mind, channelling all Single Pot funding through LEPs is likely to prove challenging. Rather than take the same approach everywhere, we would like to see the Government demonstrate its flexibility to local circumstances, while setting minimum standards. We would recommend that the Fund be available to 'local LEP areas', with local areas able to take the decision about the organisation that can best manage those funds, whether Combined Authority, LEP, Economic Prosperity Boards, Joint Strategic Committees, or something else.

Government should set conditions on the allocation of funds to LEP areas, however. This should use a similar model to the Troubled Families Initiative approach in Manchester, where the focus is on outcomes, but not on dictating the way in which they are achieved. Organisations wishing to access funds should demonstrate to the Government that they meet minimum standards (discussed in more detail below):

- They operate across the LEP area (which should ideally be the same as the functional economic area);
- They have governance structures that enable decisions about shared priorities to be taken based on a majority vote;
- They have a strong evidence base about what will best support economic growth;
- They have strong private sector involvement;
- They can take decisions in a democratically accountable way, without risk of conflict of interest;
- Decision making is transparent; and
- They can be held accountable to central government for their decisions and spending.

LEPs that can demonstrate they have the capacity to deliver should be given additional freedoms, funding and powers – for example, many of the Core Cities are moving down the Combined Authority route and have demonstrated their ability to take on more powers and responsibilities. Adopting a process similar to that used in the City Deals, in which local areas are challenged and supported by Whitehall to improve their bids, with more freedom for some and additional help available where required, could help ensure that Local Growth Plans benefit from central capacity.

In addition, when considering 'who' benefits from the Fund, it is important not to lose sight of the extra benefits cities deliver when it comes to economic growth. Cities – particularly large and fast-growing ones – drive the national economy, and investing in growth in these places will produce greater results. City Deals must still be delivered, particularly by the Whitehall departments that are central to putting the measures agreed into practice, and cities should be at the heart of conversations about the Single Pot.

How should the Single Pot be allocated?

Whilst *No Stone Unturned* was clear that competition should be an integral element of the Single Pot, one of the big decisions as yet unmade is how any funds would be allocated. Options include:

- A direct grant from the Government;
- Allocation entirely through competition; or
- A combination of both.

If the Single Pot is allocated entirely as a grant, it is likely that apportionment would be agreed using a similar formula to the Growing Places Fund, which used criteria combining population size and earned income. To illustrate what this would mean for different places, if the Single Pot is set at £2 billion and is allocated using the Growing Places Fund formula, then indicative allocations for LEP areas would be £730 million.

Local Enterprise Partnership	Growing Places Fund (£730 million indicative allocation)	Single Pot (£2 billion announced in Spending Review)
Worcestershire	£5,519,000	£15,120,000
Northamptonshire	£5,911,000	£16,193,000
Buckinghamshire	£6,276,000	£17,195,000
Cornwall and the Isles of Scilly	£6,366,000	£17,440,000
Cumbria	£6,668,000	£18,268,000
The Marches Enterprise Partnership	£8,191,000	£22,441,000
Gloucestershire	£8,498,000	£23,283,000
Tees Valley	£8,587,000	£23,526,000
Humber	£8,762,000	£24,006,000
Oxfordshire	£9,054,000	£24,807,000
York and North Yorkshire	£9,374,000	£25,682,000
Swindon and Wiltshire	£9,387,000	£25,718,000
Dorset	£9,639,000	£26,409,000
Lincolnshire	£9,801,000	£26,852,000
Stoke and Staffordshire	£11,463,000	£31,405,000
Coventry and Warwickshire	£12,816,000	£35,113,000

Cheshire and Warrington	£13,160,000	£36,054,000
Leicester and Leicestershire	£13,405,000	£36,727,000
Black Country	£14,488,000	£39,694,000
Thames Valley Berkshire	£16,040,000	£43,944,000
Greater Cambridge & Greater Peterborough	£16,118,000	£44,159,000
Hertfordshire	£16,236,000	£44,483,000
West of England	£17,107,000	£46,870,000
Solent	£18,110,000	£49,617,000
New Anglia	£18,201,000	£49,865,000
Sheffield City Region	£18,575,000	£50,890,000
South East Midlands	£18,760,000	£51,396,000
Lancashire	£19,379,000	£53,093,000
Liverpool City Region	£19,530,000	£53,506,000
Heart of the South West	£21,489,000	£58,873,000
Enterprise M3	£21,744,000	£59,574,000
Greater Birmingham and Solihull	£22,495,000	£61,629,000
Coast to Capital	£23,699,000	£64,929,000
(The) North Eastern	£25,253,000	£69,187,000
Derby, Derbyshire, Nottingham & Nottinghamshire	£26,344,000	£72,176,000
Leeds City Region	£36,225,000	£99,247,000
Greater Manchester	£37,358,000	£102,351,000
South East	£49,210,000	£134,822,000
Pan London	£110,761,000	£303,456,000
Total	**£730,000,000**	**£2,000,000,000**

Source: http://www.insidehousing.co.uk/development/%C2%A3270m-growing-places-cash-allocated/6521233.article

If the Fund is this size, it makes little sense to allocate much through competition. This is because decisions on transport spending will need to be taken even before 2015/16, as the time it takes to set up big infrastructure projects would cause a significant time lag in starting these projects. It may also mean that a great deal of local resource is spent on trying to jump through central government hoops in order to access a very small pot.

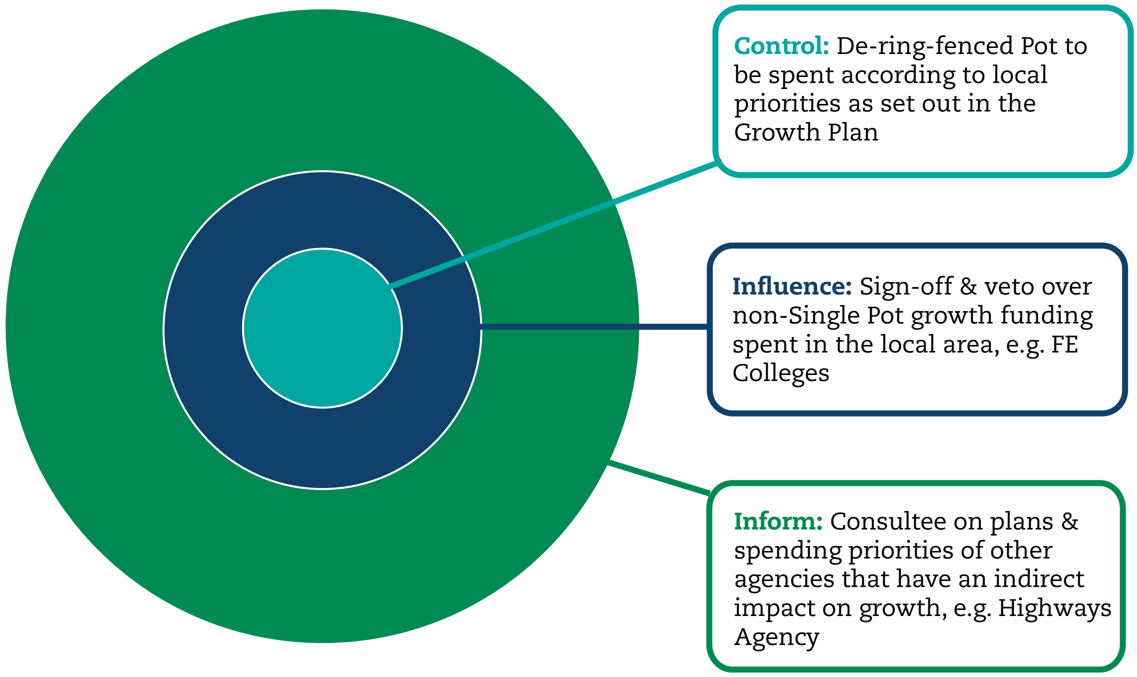
Allocation via grant will inevitably reduce the total allocated through competition, giving relatively little advantage to places with a stronger offer. So an element of competition is desirable, if it acts as a genuine incentive and enables the most able local areas (it is worth noting that this does not necessarily mean the most economically successful) to access more funds to support their plans. If the Fund is around £2 billion and a proportion is allocated through competition, this should be a maximum of 20 per cent of the total Fund.

Clearly a larger Fund would leave more room for competition. Local areas that have higher quality plans and greater capacity to deliver could then access more funds through competition, potentially increasing the quality of overall outcomes from the Fund. This could involve a similar process to that used for Local Area Agreements, which used 'stretch targets' to financially reward additional above average performance. To reduce reliance on central government procedures, any approach should be relatively light touch without excessive Whitehall management, and the allocation process should aim to give local areas the maximum freedom to make decisions on their own priorities.

It's not just about money...

Clearly money matters, but during an era of austerity, the amounts on offer to local areas are always likely to fall short of hopes and expectations. However, as Centre for Cities' recent paper *Ways and Means* illustrates clearly, the amount of money on offer is just one element of cities being able to influence their local economies. The other issue is control.

The Heseltine growth review made 89 recommendations but the focus since has been almost entirely on the Single Local Growth Fund. Nevertheless, it will operate as one element in a wider system and its potential effectiveness cannot be assessed in isolation. The diagram below illustrates the context the Fund will sit within, as one aspect of local influence over growth spending.



Currently, despite the progress made by the Coalition on funding that is not ring-fenced, local areas still lack a great deal of control over how they spend their money as a result of statutory obligations and centralised rules and regulations.

One element of managing the inevitable disappointment at the size of the Fund should be by giving local areas greater control over how they spend money that is not in the Fund. These controls should be specific rather than vague 'powers': for example, making the chartered status of Further Education Colleges dependent on whether they have taken LEP skills priorities into account, giving LEPs significant new powers to influence local education and training provision. There is also the potential for local areas to exercise a further level of influence over decisions made by agencies controlling investment decisions in their area with, for example, proposals from some LEPs to become statutory consultees in the planning process. Additional powers should be awarded on the basis of capacity.

Conclusions

The Single Local Growth Fund has the potential to be a significant milestone on the route to a less-centralised funding system in which local areas, particularly cities, are given their head and backed to grow their local economies. Whether it delivers on this promise depends on ministers, on civil servants and on local partners.

Ministers need to support the local growth argument, and fight for sufficient funding to give the Single Pot real clout. Civil servants need to be ready to relinquish central control in the wider interests of the national economy, even if it means stepping into the unknown. Local partners – councils and businesses – need to be capable of working across their boundaries, and collaborating to make spending decisions in the interests of their whole area, rather than just their patch. They also need to do more than central government could, and to be able to prove it. It is a tall order, but worthwhile reform requires real change and commitment from all parties. In the next few days, we will know whether the Single Local Growth Fund is a game changer or not.

Contact

For more information, please contact:

Alexandra Jones
Chief Executive
a.jones@centreforcities.org / 020 7803 4302

Centre for Cities
Enterprise House
59 - 65 Upper Ground
London SE1 9PQ

www.centreforcities.org

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