centreforcities

Local Growth Deals

Policy briefing

July 2014

The funding for projects allocated by central government as a result of the Growth Deals is welcome and will make a difference to a number of important projects around the country, but there is more to be done if greater powers and funding are to be devolved to local places, enabling them to take their own decisions about how to fund and support economic growth in the long-term.

On 7 July, the 39 Growth Deals for Local Enterprise Partnerships (LEPs) were announced. This marks the culmination of months of negotiations between LEPs and central government, as well as negotiations between Whitehall departments, to allocate money available through the Local Growth Fund.

This briefing digs into the detail of the Growth Deals, comparing and contrasting them to see the degree to which they reflect the varying nature of the economy across England. It first sets out some headline observations, before looking more closely at areas such as job creation, housing and private sector leverage.

Box 1: What are Local Growth Deals?

The Local Growth Fund (LGF) is a £2 billion per year fund, comprised of contributions from the budgets of a number of Whitehall departments, from which England's 39 LEPs can bid to secure funding to support economic growth in their area. Each LEP negotiates a Local Growth Deal with central government to decide how much funding they will receive from the central fund and what that money will be spent on.

The concept of the LGF stems from one of the central recommendations of Lord Heseltine's report, No Stone Unturned, to create a single devolved fund for local economic growth – he proposed it should be worth £49 billion over a five year period.

Key points

There are three overarching observations that are relevant to all 39 Growth Deals:

1. Growth Deals focus on projects, rather than devolution of power

The original premise of the LFG suggested in the Heseltine report was that the fund, made up of the budgets of different Whitehall departments, would be devolved to individual LEPs in one block, which they could then decide how to spend. But instead of allocating funds on the basis of long-term programmes, or devolving decision-making to local level, the Growth Deals have been more of a bidding process that allocates funding for a range of specific projects approved by central government. As discussed in point two below, some of this may have been shaped by the large proportion of the LGF that was composed of pre-allocated transport funds, but even so it is more project than programme-based.

The vast majority of the Growth Deals also look surprisingly similar, suggesting than Strategic Economic Plans (similar to early Regional Development Agency plans before them) do not necessarily reflect the varying economic growth priorities across cities, city-regions and counties. For example, all contained a commitment to support the Government's targets around broadband, proposals to create or expand business Growth Hubs and most will take a "more proactive role in consultation on long-term rail."

There are three notable exceptions to this. Greater Manchester, Leeds City Region and Sheffield City Region LEPs will be allowed to re-direct funding to other projects as they see fit – subject to the LEP notifying the Government of any change it plans to make. Table 2 sets out the areas each deal focuses on.

2. All deals had a large focus on transport and housing

Alongside skills, transport and housing dominated most of the deals. While this in itself is no bad thing – transport has a key role to play in economic growth, while housing is a particularly acute issue in some areas – it's interesting to note that both areas fell outside of the original remit set by LEPs when they were created.

The dominance of transport in particular reflects the origin of over half of the £2 billion pot in transport funding, much of which was already allocated to transport projects. It remains to be seen in future rounds whether the relationship between the money that a department contributes and the nature of projects remains so strong. As the proportion of the LGF that is pre-allocated to projects will be reduced, this should begin to weaken the link between funding origin and project – giving LEPs more freedom over how they ultimately spend the money.

3. The deals focus on capital funded projects

Reflective of the first two points, the Growth Deals focus on capital investment rather than revenue spending. Capital investment is crucial to supporting economic growth, but revenue spending is also important to realise the impact of capital investments and enable more effective public service delivery. But as a result of the LGF pot being so capital-heavy, revenue allocations were limited. This is most obvious in skills, where construction of new buildings is the focus, rather than policies or projects that change what will be taught within them. Only Greater Manchester had a focus on the way that public services are delivered.

Policy detail

Transport

As noted above, all deals were transport-heavy, with a strong focus on roads. For example, the Thames Valley Berkshire LEP was allocated around £70 million for transport, accounting for almost 90 per cent of its current, provisional, allocation for the period 2015-2021. Inter- and intra-city connectivity and improving local transport hubs also featured, with those LEPs home to major cities on the HS2 route including plans to maximise the potential economic growth benefits of the scheme in their area.[1]

Housing

A total of 165,606 new homes are forecast to be built as a result of LGF funding across the five year period, with a majority of housing related projects focused on unlocking new sites through transport and infrastructure investment. The two most ambitious LEPs regarding housing surround London – and given the affordability issues that these areas face, their focus on housing is welcome. Hertfordshire expects to see 17,000 new homes built as a result of its Growth Deal, which equates to 3.7 per cent of its existing housing stock. This is followed by Thames Valley Berkshire's projection of a 10,000 new homes increase, which would mean a 2.8 per cent increase on the number of existing homes in the area (see Table 4).

Skills

The focus on skills in most of the deals was on supporting advanced manufacturing and further education predominantly through capital investment – for example £15 million to refurbish Northampton College in the South East Midlands deal. There were also commitments to improve the links between skills and training and the local labour market through apprenticeships and business engagement, although it is not always clear whether this is capital or revenue-based.

Jobs

As ever with announcements of this sort, each deal included top line projections on the number of private sector jobs that will be created from the projects that they will fund. In total the LGF is projected to create 341,000 new jobs. Dorset and North East were the most ambitious; the number of jobs they propose to create – 25,000 and 60,000 respectively – equates to 8 per cent of the current workforce. To put this into context, 32 of the 39 LEPs made job creation projections that were smaller than 2 per cent of their current number of jobs (see Table 3).

Private sector investment

As with jobs figures, projections on how many private sector pounds will be invested for one public sector pound have become popular forecasts to make in any announcement of this type – overall the £2 billion LGF is forecast to bring in over £5 billion in private sector investment. Reflective of their ambitious jobs target, Dorset also makes the largest private sector leverage prediction at £530 million. This implies that for every £1 it spends from its allocation, a further £8 will be invested by the private sector. Other LEPs are much more cautious, making projections of £3 private sector investment for every £1 of LGF spent, or lower. And it is striking to see that 25 LEPs expect to leverage less than £1 of private sector investment for every £1 of public spending (see Table 5).

1. We set out why it is vital that cities are strategic about how to make the most of high-speed rail in our HS2 briefing paper. Available at http://www.centreforcities.org/research/2013/10/30/hs2-policy-briefing/

Borrowing

Eight out of the 39 deals included increases in the Housing Revenue Account (HRA) borrowing cap for local authorities, meaning that they can increase borrowing to build new homes. A total of £60,610,257 has been made available but the allocations varied across LEPs - South East Midlands has seen its cap increase by just £150,000, while in Greater Birmingham and Solihull it has increased to £10 million, rising to a £32 million increase in HRA borrowing capacity for London.

Six out of the 39 LEPs also agreed loans from the Public Works Loan Board (PWLB) at a discounted rate of 40 basis points below the standard rate. The total amount was £212 million – but again the allocations varied significantly, from £3 million agreed with Cumbria, compared to £88 million for Coast to Capital.

Conclusion

The agreed Growth Deals look very different to what was originally proposed by Lord Heseltine, not only because the size of the pot is significantly more modest, but more fundamentally because the deals have focused on specific project funding, rather than the devolution of funds and the freedom to allocate them locally. Although further discussions are required to confirm allocations and additional freedoms or flexibilities beyond 2016, as things stand the Growth Deals have helped a number of individual projects across the country. However, on their own they will not make a difference to the power and flexibilities that local areas need to drive growth in the long-term.

That said, the fact that funds have now been committed to a number of important local transport, housing and skills priorities is positive. So while the process may not have been perfect (from the perspective of either central or local government), nor truly reflective of Lord Heseltine's original ambitions, local areas do stand to benefit from the funding allocations included within Growth Deals.

The challenge for LEPs now is to oversee the delivery of these projects, while also making the case that in future years, Growth Deal rounds should focus more on the devolution of funding, rather than its allocation.

Contact

For more information, please contact:

Louise McGough

Policy Officer

l.mcgough@centreforcities.org / 020 7803 4325

Appendix

Table 1: Total Allocation for 2015/16

	LEP	Total LGF allocation, 2015/16 (£m)
1	Greater Manchester	170
2	London	152
3	North East	112
4	South East	85
5	Lancashire	84
6	West of England	79
7	Leeds City Region	73
8	Greater Birmingham and Solihull	63
9	Heart of the South West	63
10	New Anglia	60
11	Hertfordshire	53
12	Greater Lincolnshire	48
13	Sheffield City Region	46
14	Solent	46
15	Liverpool City Region	46
16	Derby, Derbyshire, Nottingham & Nottinghamshire	45
17	Coast to Capital	44
18	Black Country	35
19	Enterprise M3	35
20	York and North Yorkshire	34
21	South East Midlands	31
22	Humber	29
23	Leicester and Leicestershire	28
24	Dorset	24
25	Gloucestershire	24
26	Tees Valley	23
27	Greater Cambridge & Greater Peterborough	21
28	Stoke-on-Trent and Staffordshire	21
29	Cheshire and Warrington	20
30	Northamptonshire	19
31	Coventry and Warwickshire	18
32	Thames Valley Berkshire	17
33	Oxfordshire	16
34	Swindon and Wiltshire	13
35	Worcestershire	13
36	The Marches	13
37	Buckinghamshire Thames Valley	11
38	Cornwall and the Isles of Scilly	11
39	Cumbria	9
	Total	**1,733**

Table 2: Focus of the deals

LEP	Skills	Transport	Non-transport infrastructure	Public services	Housing	PWLB (£m)	HRA borrowing cap increase	Business support & finance	Freedom to re-direct funding
Leeds City Region	•	•	•		•			•	•
Greater Manchester	•	•		•					•
South East	•	•			•		•	•	
Greater Birmingham and Solihull	•	•	•		•		•	•	
Sheffield City Region	•	•			•			•	•
North East	•	•	•		•			•	
London	•				•		•	•	
Lancashire	•	•	•		•	•			
Liverpool City Region	•	•	•		•			•	
West of England	•	•	•					•	
Coast to Capital	•	•	•			•		•	
Hertfordshire	•	•	•		•			•	
Derby, Derbyshire, Nottingham & Nottinghamshire	•	•	•		•	•		•	
New Anglia	•	•	•		•			•	
Cheshire and Warrington	•	•	•				•		
Black Country	•	•			•	•	•	•	
Heart of the South West	•	•	•		•				
Swindon and Wiltshire	•	•			•		•	•	
Solent	•	•			•				
Enterprise M3	•	•			•		•	•	
Greater Lincolnshire	•	•	•		•			•	
York and North Yorkshire	•	•			•				
Oxfordshire	•	•	•					•	
Humber	•	•	•		•			•	
Thames Valley Berkshire	•	•			•			•	
Tees Valley	•	•						•	
Stoke-on-Trent and Staffordshire	•	•							
Leicester and Leicestershire	•	•	•		•			•	
South East Midlands	•	•	•		•		•	•	
The Marches	•	•			•			•	
Coventry and Warwickshire	•	•						•	
Greater Cambridge & Greater Peterborough	•	•	•		•			•	
Northamptonshire	•	•	•		•	•		•	
Dorset	•	•			•			•	
Gloucestershire	•	•	•					•	
Cornwall and the Isles of Scilly	•	•			•			•	
Worcestershire	•	•	•		•				
Buckinghamshire Thames Valley	•	•	•			•		•	
Cumbria	•	•				•		•	

Table 2: Job creation projections

	Local enterprise partnership (as of 23 April 12)	Number of jobs	As a % of the total
1	Dorset	25,000	8.0%
2	North East	60,000	7.9%
3	Thames Valley Berkshire	17,000	3.6%
4	Hertfordshire	13,000	2.4%
5	South East	35,000	2.3%
6	Cheshire and Warrington	9,000	2.0%
7	Derby, Derbyshire, Nottingham and Nottinghamshire	18,000	2.0%
8	Cornwall and Isles of Scilly	4,000	1.9%
9	Humber	7,000	1.9%
10	Heart of the South West	13,000	1.9%
11	Buckinghamshire Thames Valley	4,000	1.8%
12	Oxfordshire	6,000	1.8%
13	Gloucestershire	5,000	1.8%
14	Coast to Capital	14,000	1.7%
15	Liverpool City Region	10,000	1.7%
16	Greater Birmingham and Solihull	13,000	1.5%
17	Worcestershire	3,000	1.3%
18	Sheffield City Region	8,000	1.2%
19	Stoke-on-Trent and Staffordshire	5,000	1.2%
20	The Marches	3,000	1.1%
21	New Anglia	6,000	0.9%
22	West of England	5,000	0.9%
23	Black Country	4,000	0.9%
24	Cumbria	2,000	0.9%
25	Greater Cambridge & Greater Peterborough	5,000	0.8%
26	Solent	5,000	0.7%
27	Lancashire	4,000	0.7%
28	Enterprise M3	5,000	0.6%
29	York, North Yorkshire and East Riding	3,000	0.6%
30	Northamptonshire	2,000	0.6%
31	Leeds City Region	8,000	0.6%
32	Swindon and Wiltshire	1,500	0.5%
33	Greater Manchester	5,000	0.4%
34	Tees Valley	1,000	0.4%
35	South East Midlands	3,000	0.4%
36	Greater Lincolnshire	1,500	0.4%
37	Coventry and Warwickshire	1,000	0.2%
38	Leicester and Leicestershire	1,000	0.2%
39	London	6,000	0.1%
	Total	**341,000**	**n/a**

Table 3: House-building projections

	LEP	New houses	As a % of the current stock
1	Hertfordshire	17,000	3.6%
2	Thames Valley Berkshire	10,000	2.8%
3	Cornwall and the Isles of Scilly	6,000	2.3%
4	The Marches	6,000	2.1%
5	Solent	10,000	1.5%
6	Oxfordshire LEP	4,000	1.5%
7	Liverpool City Region	10,000	1.5%
8	Cumbria	3,000	1.2%
9	Greater Cambridge & Greater Peterborough	7,000	1.2%
10	Gloucestershire	3,000	1.1%
11	Heart of the South West	8,000	1.0%
12	South East	18,000	1.0%
13	Northamptonshire	3,000	1.0%
14	Dorset	3,000	0.9%
15	Derby, Derbyshire, Nottingham and Nottinghamshire,	8,000	0.9%
16	York and North Yorkshire	4,000	0.8%
17	Humber	3,000	0.7%
18	Swindon and Wiltshire	2,000	0.7%
19	Sheffield City Region	5,000	0.6%
20	Coast to Capital	5,000	0.6%
21	South East Midlands	4,000	0.6%
22	Tees Valley	1,500	0.5%
23	Greater Birmingham and Solihull	4,000	0.5%
24	Lancashire	3,000	0.5%
25	Enterprise M3	3,000	0.4%
26	Worcestershire	1,000	0.4%
27	Greater Lincolnshire	1,500	0.3%
28	Buckinghamshire Thames Valley	600	0.3%
29	Coventry and Warwickshire	1,000	0.3%
30	Leicester and Leicestershire	1,000	0.2%
31	Black Country	1,000	0.2%
32	Stoke-on-Trent and Staffordshire	1,000	0.2%
33	London	5,000	0.1%
34	New Anglia	900	0.1%
35	Cheshire and Warrington	400	0.1%
36	North East	706	0.1%
37	Leeds City Region	1,000	0.1%
38	West of England	0	0.0%
39	Greater Manchester	0	0.0%
	Total	**165,606**	**n/a**

Table 4: Private sector investment leverage

	LEP	Estimated PS investment	Private sector leverage
1	Dorset	530	8.0
2	Cornwall and the Isles of Scilly	150	3.1
3	Solent	360	2.9
4	Enterprise M3	310	2.6
5	Humber	240	2.3
6	Derby, Derbyshire, Nottingham & Nottinghamshire	380	2.2
7	Cumbria	50	1.9
8	Black Country	220	1.6
9	Worcestershire	70	1.5
10	Sheffield City Region	410	1.4
11	Gloucestershire	80	1.3
12	Coast to Capital	240	1.2
13	Tees Valley	100	1.1
14	Heart of the South West	140	1.1
15	Oxfordshire	100	0.9
16	York and North Yorkshire	100	0.9
17	Hertfordshire	180	0.9
18	Leicester and Leicestershire	70	0.9
19	West of England	180	0.8
20	New Anglia	120	0.7
21	Buckinghamshire Thames Valley	29	0.7
22	Greater Lincolnshire	70	0.6
23	Lancashire	140	0.6
24	Northamptonshire	40	0.6
25	Leeds City Region	340	0.6
26	Greater Cambridge & Greater Peterborough	40	0.6
27	Swindon and Wiltshire	70	0.5
28	London	121	0.5
29	South East Midlands	40	0.5
30	South East	190	0.4
31	Coventry and Warwickshire	30	0.4
32	Cheshire and Warrington	50	0.4
33	North East	90	0.3
34	The Marches	20	0.3
35	Stoke-on-Trent and Staffordshire	19	0.2
36	Greater Birmingham and Solihull	80	0.2
37	Thames Valley Berkshire	20	0.2
38	Greater Manchester	80	0.2
39	Liverpool City Region	30	0.1
	Total	**5,529**	**n/a**