Improving the Local Growth Fund to tackle the UK's productivity problem

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Britain's ongoing productivity woes have attracted a lot of attention in recent years – they have led to the creation of a Productivity Plan by Treasury in 2015, lie behind the current push for a modern industrial strategy, and no doubt will be a focus for the Chancellor as he delivers his forthcoming budget.[1]

As we show in our briefing '*The role of place in the UK's productivity problem*', Britain's productivity problem plays out very differently across the country – the Greater South East, led by its cities, are one of the most productive places in all of Europe.[2] The problem for Britain is the performance of the rest of the country, and particularly its cities, which pulls down national productivity. And to address the UK's weak productivity performance, policymakers will need to address the barriers preventing productivity increases outside of the Greater South East.

In order to boost lagging productivity, cities will need to invest to reduce the barriers that hinder the attraction and growth of more productive businesses. Given the lack of fiscal freedom that would allow cities to raise this money themselves, they have had to look to central government to provide the money for such investment.

The Local Growth Fund (LGF) is the most recent in a number of policies to boost economic performance across the country, following on from the Urban Regeneration Grant in the 1980s to Regional Development Agencies in the 1990s. The current round of funding is due to expire in 2021. This briefing sets out how the LGF could be improved for any future rounds to allow it to play a more effective role (alongside other policy interventions that will be required) in improving the UK's poor productivity performance.

Improving the Local Growth Fund

The LGF was set up under the Coalition Government to fund projects across the country that would support economic growth and help to rebalance the economy. Formulated from the recommendation of the creation

1 HM Treasury (2015), Fixing the Foundations: Creating a more prosperous nation, London: The Stationery Office.
2 Swinney P, Breach A (2017), The role of place in the UK's productivity problem, Centre for Cities.

of a single pot of funding in Lord Heseltine's 2012 report '*No Stone Unturned: In Pursuit of Growth*', the first allocations of the £2 billion per year fund were passed to Local Enterprise Partnerships (LEPs) to spend in 2015/16, with the intention being that they would use their local knowledge to spend the money on addressing the barriers to growth in their areas.[3] Funding was allocated according to the perceived strengths of each LEP's strategic economic plans and their capacity and governance arrangements.

Box 1: What has the LGF funded to date?

The LGF has been used to fund economic projects ranging from Business Growth Hubs, to building new colleges.

For example, in Greater Manchester, the LGF has funded efforts to integrate public transport across the city, boosting access across the city and improving links to employment sites. £15 million will go to the International Screen School Manchester to drive skills development and innovation in order to support the local creative and digital supply chain. This amount has been match funded by Manchester Metropolitan University.

Since 2015, the LGF has also been used in the Leeds City Region to fund a £17 million programme of improvements to the further education estate across the city region.

The fund is due to run until 2021. But nothing has been said as yet as to whether it will continue. As part of addressing the lagging productivity of places outside of the Greater South East, the fund should continue, but with five key changes to give places **greater certainty and autonomy** to make policy and investments:

1. Set a clearer focus on supporting exporting activities

Currently – The National Audit Office has criticised the LGF for not having quantifiable objectives, which make it difficult to assess outcomes.[4]

Proposed – The LGF should be focused on improving the UK's poor productivity performance. More specifically, it should focus on supporting existing, and attracting in, exporting businesses to an area, as it is exporting sectors that mainly account for improvements in productivity.[5,6] The problem for low productivity places is that they have struggled to attract investment from higher-skilled exporters, and so the productivity of their exporting base is lower than those places with more productive economies.

All interventions should be able to justify how they help make a place more attractive to investment from exporting businesses. This means that direct support should not be given to local services businesses, such as retailers for example. Such support may help increase the number of jobs (at least while the programme runs), but will do little for increases in productivity.[7]

3 Heseltine M (2012), No Stone Unturned: In Pursuit of Growth, London: The Stationery Office.
4 National Audit Office (2016), Local Enterprise Partnerships, London: National Audit Office.
5 Defined as those businesses who sell beyond their local market, so to a regional and national market as well as an international one.
6 Serwicka I and Swinney P (2016), Trading Places: Why firms locate where they do, London: Centre for Cities.
7 Di Cataldo M (2017) The impact of EU Objective 1 funds on regional development: evidence from the U.K. and the prospect of Brexit. Journal of Regional Science. ISSN 0022-4146.

The fund should also drop any notion of aiming to rebalance the economy. The first priority is to improve absolute levels of prosperity in places that are currently struggling. Whether this closes the gap with the Greater South East or otherwise is a secondary concern.

2. Allocate to combined authorities where possible

Currently – Monies have been awarded to LEPs as they were seen to be the bodies that best matched the geographic footprint of local economies.

Proposed – Combined and mayoral authorities now exist in a number of places across the country. Where they are in place, these bodies should be charged with handling funding and deciding where it should be spent. Where they are not, LEPs should continue to be allocated the money for their areas. Crucially, these bodies will need to focus on improving the performance of the cities within them, as this is both where their local economy is concentrated and their main productivity challenges lie.

Where combined authorities exist, they should engage with the local private sector to ensure that their involvement continues in guiding what the main priorities are for an area.

Box 2: Where LEPs and combined authorities don't align

In places such as Greater Manchester and the Liverpool City Region, the area covered by the combined authority is the same as the one covered by the LEP. This isn't the case everywhere though. In the West Midlands, three LEPs cut across the area. However, including the non-constituent members of the authority aligns the geographies, and so the combined authority should be given the funding for its wider geography. In the West of England, North Somerset is part of the LEP, but not the mayoral authority. The local authority could be awarded funding separately, but this funding would not qualify for the mayoral multiplier as it would if it was part of the mayoral authority.

3. Extend the funding period to 10 years, and award funding on a per capita basis

Currently – Funding has been awarded to 2020/21 thanks to a number of rounds of funding being awarded since 2014. In the first year of funding in particular (2015/16), areas were required to spend their allocations within this year, thus meaning that longer term investments could not be made with the money.[8]

Unpredictable process of funding allocation - Bids were submitted by LEPs but many places are unclear on how much they would receive, what it could be used for and when it could be spent.

Proposed – Two main changes should be made to the allocation process. The first is to extend the funding programme to a 10 year period, with a five year break clause depending on performance. The longer time frame allows those cities who wish to fund a smaller number of larger investments to do so, rather than being limited to making a series of smaller investments, and gives greater certainty about the funding available. The five year break clause gives Government the ability to step in if there is clear evidence that the use of the fund is not meeting the aims of the fund.

The second is to allocate on a per capita basis. There are many good things about having a competitive bidding process, as it incentivises places to think through their bid as part of the application process, and

8 National Audit Office (2016), Local Enterprise Partnerships, London: National Audit Office.

allows the best bids to be chosen. But this process creates an industry in itself, as places put their bids together. Having up front allocations increases certainty of funding, while having a review process in place allows the Government to police the system as it is in progress, monitoring progress, rather than before it begins through the selection of bids.

Those places that have come together to form either a combined or mayoral authority should be rewarded through greater funding. Having governance over the geography that an economy operates is an important part of being able to tailor policy to the area that an economy operates over. And recent wrangles around metro mayors in some areas shows how difficult this can be to put in place. For this reason, there should be two multipliers of funding - a **Combined Authority Multiplier of 20 per cent** and a **Mayoral Multiplier of 50 per cent**.

This will require the Government to allocate extra money to those places that come together to form a combined or mayoral authority before the implementation of the next phase of the LFG.

Box 3: The London question

Allocating on a per capita basis would see amount of funding that London would receive through the LGF increase by £31 million every year. Given that the focus of the fund is to tackle the productivity problem, and this problem lies principally in cities outside of the Greater South East, directing more funding to London would not help achieve these aims. Given this, and the resources at the capital's disposal, London should be excluded from this fund. Other cities in the Greater South East should remain in it however – their size and limited resources restrict the policy tools they have available to respond to the barriers to productivity growth that they face.

To be clear, this doesn't mean that London does not face challenges – as set out in our briefing '*Why don't we see growth up and down the country?'* economic success brings with it costs, such as congestion, air pollution and rising property costs.[9] Policy interventions will be required to deal with these costs. But this falls outside of the scope of a fund aiming to improve productivity of lagging areas.

4. Give greater autonomy to places to decide where best to invest the money

Currently - Despite the name and ambition of the LGF, individual departments, especially the Department for Transport, signed off projects that they funded. And some LGF money was actually pre-committed towards certain projects, meaning there was little flexibility as to how this money was spent.

Proposed – Funding should be provided without any strings attached as to how it is spent, so meaning that places have full autonomy over how they would like to spend it within the frame of the overall criteria of the fund.

5. Build evaluation into the process

Currently – As is the case with much local economic policy, very little evaluation has been built into the projects funded by the LGF. This means that little understanding is gained from what works and what doesn't.

9 Swinney P (2017), Why don't we see growth up and down the country? London: Centre for Cities.

Proposed – All projects should have evaluation built into them from the beginning, and the findings made publicly available. Not providing sufficient evaluation should be one of the steps that the Government looks at when it reviews the progress of the LGF at the five year break clause.

The aim of the changes proposed above are to give greater focus, certainty and autonomy to the LGF, and to allow these decisions to be taken at the level where greatest knowledge about local economic performance sits. This would enable the next iteration of the LGF to build on the success of the first fund, address its limitations and improve productivity at the local level. And it should improve the ability of the fund to leverage in private sector investment too.[10]

Appendix

The following sets out the indicative awards that each mayoral and combined authority would receive over a 10 year period assuming a total allocation in England of £2 billion per year would continue. Sheffield City Region has been included assuming that a mayor will be elected across the whole combined authority next year, and the Derby, Derbyshire, Nottingham and Nottinghamshire LEP so that all of England's Core Cities are covered by the table. Note that this LEP does not benefit from a multiplier as the other geographies in this table do.

To avoid double counting, arrangements on how to split funding would have to be agreed between LEPs that overlap first. For that reason a broader list of allocations to the LEPs that remain has not been shown here.

Combined Authority/LEP	10 year funding award (£)
Cambridgeshire and Peterborough CA	460,845,000
Derby, Derbyshire, Nottingham and Nottinghamshire LEP	788,158,000
Greater Manchester CA	1,510,148,000
Liverpool City Region CA	832,343,000
North East CA	854,120,000
Sheffield City Region CA	751,790,000
Tees Valley CA	363,627,000
West Midlands CA	2,224,755,000
West of England CA	499,167,000
West Yorkshire CA	998,638,000

10 McDonald R and Bailly A(2017), What investors want: a guide for cities, London: Centre for Cities.

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