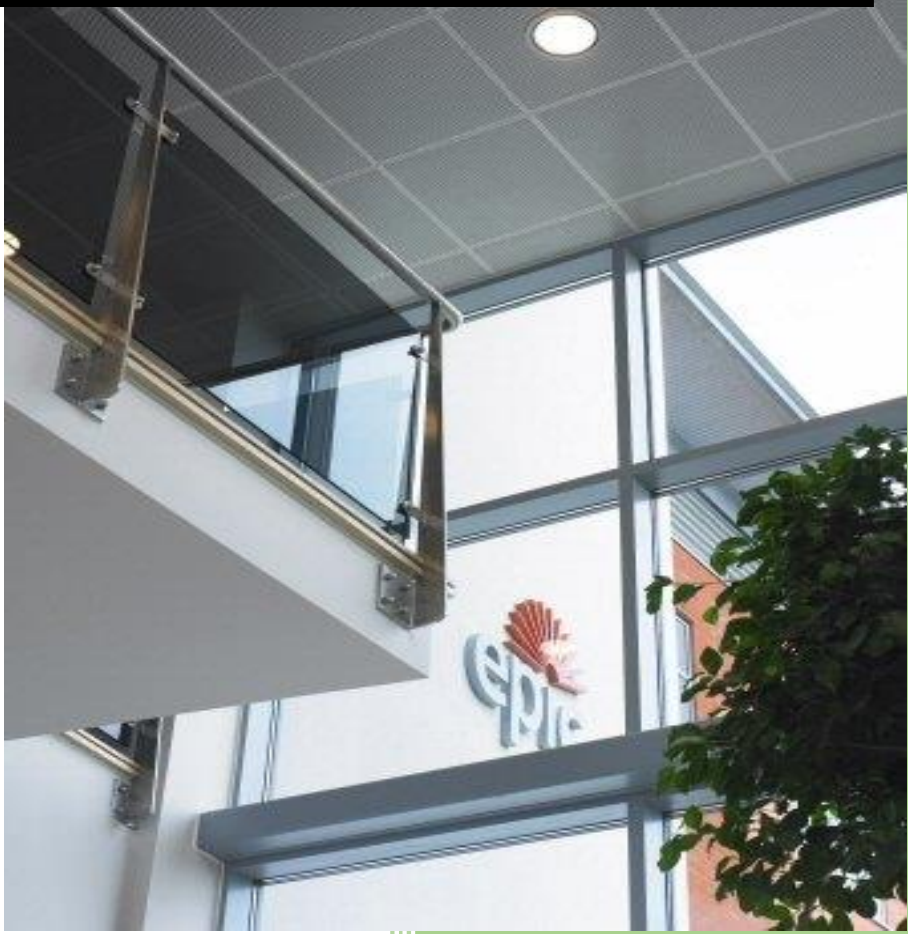
CEDOS

Local Authority Economic Development – Funding Governance & Delivery



Derek Walker

Chief Economic Development Officers Society

The Chief Economic Development Officers Society (CEDOS) represents Heads of Economic Development in upper tier local authorities throughout England. Membership includes county, city and unitary Councils in non-metropolitan areas. The Society carries out research, develops and disseminates best practice, and publishes reports on key issues for economic development policy and practice. Through its collective expertise, it seeks to play its full part in helping to inform and shape national and regional policies and initiatives.

CEDOS Research Programme - *Taking forward local authority economic development in the face of budget reductions and changing approaches to service delivery & the sub-national landscape.*

This is the latest report of the current research programme. The first report *Local Growth Deals – An early assessment,* which also included prospects for local authority economic development spend/services in 2015/16, was jointly funded with the Association of Directors of Environment, Economy, Planning & Transport and was published in September 2014.

This new report has been funded exclusively by CEDOS as part of its ongoing research programme, which aims to inform policy makers and practitioners in local and central government and local enterprise partnerships. The report has been prepared for CEDOS by Derek Walker Consultancy. The views expressed are those of the author and contributors to the surveys for the report and not necessarily those of our organisation.

May 2015

Cover photograph: Eliot Park Innovation Centre - one of Warwickshire County Council's managed businesses centres, which aim to facilitate diversification and growth in the more disadvantaged parts of the county by providing space and support for new business start-up and early phase growth businesses.

FOREWORD

Achieving local economic growth is a top priority for this country and in this local authority economic development has a central role. However, councils continue to face challenging times and the delivery of local economic development is taking place in the context of continuous change with funding reductions, developing sub-regional arrangements, continuing council restructuring and trends towards commissioning authorities and the outsourcing of services.

This latest report in our action-research programme on taking forward local authority economic development in times of change is very timely. With examples and case studies from across the country, it focuses on the key issues of funding, governance and delivery. It is informed by the latest evidence including importantly the findings from our latest CEDOS member survey, which also provided members with the opportunity to put forward their views on the overall impact of changes in governance, funding and restructuring and on the way forward for local authority economic development in terms of its scope, funding and delivery.

Of course, the report itself is being published at a time of what is clearly an ongoing process of change. With a new Parliament, the continuing deficit reduction programme and the still developing devolution agenda, local authority economic development will continue to be subject to this ongoing process.

CEDOS for its part intends to keep abreast of developments as they emerge and we look forward to working with Government to help take forward policies and initiatives to achieve sustainable local economic growth. We hope this latest report will contribute to this.

James Cushing

Chair

Chief Economic Development
Officers Society

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KEY MESSAGES

These are key messages that have emerged from the research and the CEDOS member survey, which has been a key part of it. More detail is given in the individual chapters, illustrated by case studies and examples from our member areas across the country.

Funding

- *Despite the introduction of the Local Growth Fund and the Regional Growth Fund, there has been a significant reduction in central government funding to support local growth in the last five years.*

- *There has been a very significant reduction in Government funding to local authorities of up to 40% during 2010/11 – 2015/16. Although councils have tried to protect spending on social care services, other service areas have seen larger reductions.*

- *The National Audit Office has reported a reduction in budgeted spend 2010-11 to 2015-16 in the economic development service area of -47%, one of the highest reductions amongst individual service areas.*

- *The 2015 CEDOS survey asked how member authorities' economic development budgets had changed over the last two years. Whilst there is variation, a clear majority – around 70% - indicate economic development budget reductions, certainly for revenue.*

- *Projections from the Office for Budget Responsibility at the time of the 2014 Autumn Statement indicated that in the new Parliament local government is set to face one of the toughest spending reviews in living memory and that as a proportion of GDP, local government current spending in England will have fallen from over 4% in 2009-10 to 2.5% in 2019-20.*

- *Although local authorities across the country continue to prioritise economic growth, the fact remains that economic development is a discretionary service and is vulnerable to spending cuts to come. There has to be a focus on new sources of funding if local authority services including economic development are to be maintained.*

- *CEDOS member authorities are pro-actively using/exploring new approaches to finance economic development, including external funding, generating income from services & investments, private sector funding/support, pooling business rates, prudential borrowing and joint funding arrangements.*

Devolution & governance

- *Reductions in funding to local authorities, the localism agenda, the focus on Local Enterprise Partnerships covering functional economic areas, and the follow-up to the Scottish independence referendum have combined to put a spotlight on devolution of key economic development activities to local areas in England.*

- *A devolved approach is essential for driving forward economic growth but to be successful it must unlock the potential of all parts of the country. Both city and county areas must be treated fairly and with proper recognition of their important economic contributions.*

- *The calls for more devolution and the advent of Local Growth Deals with LEPs has increased the focus on the need for effective governance and democratic oversight and the key role of democratically elected local government.*

- *Central Government's preference for combined authorities has become increasingly evident. This and the link between having a combined authority and the prospect of securing devolved funding and responsibilities has sharpened the focus on forming combined authorities.*

- *Whilst there is growing interest in forming combined authorities in many areas; in other areas options are still being explored including, but not necessarily limited to, the formation of combined authorities; and in some areas combined authorities are not seen as being needed as a vehicle for devolution.*

- *What happens from now on depends on how the Government's devolution agenda develops in practice in the new Parliament and it will be essential that CEDOS engages fully in this.*

Activities, restructuring & delivery

- *Ongoing change - the delivery of local authority economic development is taking place in the context of continuous change with developing sub-regional arrangements, continuing council restructuring and trends towards commissioning authorities and the outsourcing of services.*

- *Activities – the main local authority economic development activity areas highlighted in the 2015 CEDOS member survey results are: business support, skills and employment, inward investment, policy and intelligence, strategic development and infrastructure, business sites and premises, physical regeneration, European Structural and Investment Funds.*

- *Current delivery – in the 2015 survey 52% referred to activities being delivered in-house; 17% by LEPs, 14% by local delivery vehicles and 17% by other means.*

- *Restructuring - a clear majority (76%) reported that restructuring of their authorities functions/services is happening, being planned or is likely.*

- *Commissioning – in the survey, 79% reported that their authorities are involved in commissioning or planning to, for at least some services. Examples and case studies of commissioning affecting economic development are given but the overall extent is not yet clear.*

- *Outsourcing - recent research indicates a significant rise in councils outsourcing and intending to outsource services. For economic development this covers a range of options including joint delivery, partnership delivery through Local Enterprise Partnerships and/or others, and the establishment of delivery companies and vehicles.*

CEDOS member views on…

…the overall impact of changes in governance, funding & restructuring

- *Although some were more optimistic, many members highlight reduced resources and services.*

- *Some highlight dependence on progress towards the formation of combined authorities and joint arrangements.*

- *Many members see the possibility or likelihood of directly delivered services being reduced/potentially being outsourced.*

- *A majority of members envisage continuing support for their Local Enterprise Partnerships at least for the next year, with some referring to support increasing/possibly increasing and others anticipating a reduction.*

…the way forward for local authority economic development

The overall theme is that local authority economic development will continue to operate in times of ongoing change. Whilst some are positive about future prospects, for many, funding and the challenges ahead are the main concerns. Key issues highlighted are:

- *the need to focus on alternative sources of funding with innovative thinking and approaches;*

- *the impact of structural change both within their authorities and at a sub-regional level;*

- *a need for greater collaboration and joint working between local authorities and partners.*

1. INTRODUCTION

CEDOS Research Programme

1.1 CEDOS has an ongoing programme of economic development research funded by voluntary contributions from within its membership. The current research project is focused on how local authority economic development is being and can be taken forward in the face of budget reductions, changing approaches to local authority service delivery and to the sub-national organisational landscape. The purpose of our research programme is to:

- keep our members informed of what is going around the country and the latest thinking;

- share our collective knowledge, exchange information and ideas and disseminate best practice;

- inform local economic development policy and decision making;

- influence policy and thinking nationally.

1.2 The project and its reports are the latest in a series major CEDOS reports, which have included:

- *Recession & Post Recession: Taking Forward Economic Development and Regeneration* (July 2010) – which showed that despite the impact of the major recession, which began in 2008, on their finances, county and unitary authorities had devoted substantial resources to tackling and emerging from the recession through their economic development activities;

- *Delivery Models for Sub-Regional Economic Development* (March 2012) – which looked at new approaches emerging following the impact of the deepest recession for at least 60 years; of a major political shift in the delivery of sub-national economic development; and of very significant reductions to local authority budgets and national funding streams;

- *Local Authorities, Local Enterprise Partnerships and the Growth Agenda* (February 2014) – which assessed progress being made by LEPs and in particular at how local authorities were contributing to the growth agenda through the partnerships and looked at what was needed to enable local authorities and LEPs to drive forward local growth.

1.3 The major overall themes that have emerged from the findings of these research projects have been:

- the importance of local economic growth and the contribution all areas of the country make to achieving national economic growth;

- the central role of elected local authorities, working in partnership with others, in driving growth in their areas through their economic development activities;

- the challenges that are being faced by local authorities in continuing to do this in particular as a result of the reductions in financial support from central government.

Context

1.4 The challenges being faced intensified during the course of the last Parliament, which was dominated by the deficit reduction programme, and this provided the context for our latest research project. This period saw major changes to the sub-national economic development organisational landscape and significant reductions in central government funding, with:

- the closure of the nine Regional Development Agencies and their replacement by 39 Local Enterprise Partnerships as "joint local authority-business bodies brought forward by local authorities themselves to promote local economic development"[1];

- significant reductions in central government spending on local economic growth programmes over the five-year period 2010-11 to 2014-15[2].

- an estimated reduction in government funding to local authorities[3] of 28% in real terms between 2010-11 and 2014-15, with further planned cuts bringing the total reduction to 37% by 2015-16[4];

1.5 The reductions in funding focused particular attention on the Government's Local Growth Fund and this was the subject of the first report of the current CEDOS research project. The report *Local Growth Deals – An early assessment,* jointly funded with ADEPT, was published in September 2014. This highlighted a series of improvements needed to the Local Growth Fund and the Growth Deal process. It also made an initial assessment of the prospects for local authority economic development spend/services in 2015/16 through a survey of CEDOS and ADEPT Planning, Housing and Regeneration Board members.

Second Report

1.6 This second report builds on the earlier one to look at the core theme of the research project on how local authority economic development is being and can be taken forward in the face of ongoing change with a specific focus on the key issues of:
- funding;
- devolution and governance;
- activities, restructuring and delivery.

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[1] *The Coalition: Our Programme for Government* HM Government 20 May 2010
[2] *Funding and Structures for Local Economic Growth* National Audit Office December 2013
[3] *The Impact of Funding Reductions on Local Authorities* National Audit Office November 2014
[4] excluding the Better Care Fund and public health grant

1.7 These issues form three of the main chapters of this report, which has been informed by research and evidence from across the country and in particular by a survey of CEDOS members, which also had input from members of the ADEPT Planning, Housing & Regeneration Board. The CEDOS Member Survey 2015, details of which are given in Annex A, also provided members with the opportunity to put forward their views on the overall impact of changes in governance, funding and restructuring and on the way forward for local authority economic development in terms of its scope, funding and delivery.

1.8 The report is illustrated throughout with examples and case studies from member areas. In all cases, references to individual areas have been checked and verified with the individual CEDOS members concerned. In some cases though, particularly on the impact of local authority funding reductions on economic development and in the chapter on member views on the overall impact on local authority economic development and the way forward, quotes from the survey are sometimes unattributed to respect the wishes of individual members.

Key messages and looking ahead

1.9 In each chapter key messages are highlighted and these have been brought together in a summary at the beginning of the report. Inevitably though this report, which concludes Stage Two of the research project, can only take things to the point reached at the time it was written in what is clearly an ongoing process of change. With a new Parliament, the continuing deficit reduction programme and the still developing devolution agenda, local authority economic development will continue to be subject to this ongoing process.

2. FUNDING

Key messages

- *Despite the introduction of the Local Growth Fund and the Regional Growth Fund, there has been a significant reduction in central government funding to support local growth in the last five years.*
- *There has been a very significant reduction in Government funding to local authorities of up to 40% during 2010/11 – 2015/16. Although councils have tried to protect spending on social care services, other service areas have seen larger reductions.*
- *The National Audit Office has reported a reduction in budgeted spend 2010-11 to 2015-16 in the economic development service area of -47%, one of the highest reductions amongst individual service areas.*
- *The 2015 CEDOS survey asked how member authorities' economic development budgets had changed over the last two years. Whilst there is variation, a clear majority – around 70% - indicate economic development budget reductions, certainly for revenue.*
- *Projections from the Office for Budget Responsibility at the time of the 2014 Autumn Statement indicated that in the new Parliament local government is set to face one of the toughest spending reviews in living memory and that as a proportion of GDP, local government current spending in England will have fallen from over 4% in 2009-10 to 2.5% in 2019-20.*
- *Although local authorities across the country continue to prioritise economic growth, the fact remains that economic development is a discretionary service and is vulnerable to spending cuts to come. There has to be a focus on new sources of funding if local authority services including economic development are to be maintained.*
- *CEDOS member authorities are pro-actively using/exploring new approaches to finance economic development, including external funding, generating income from services & investments, private sector funding/support, pooling business rates, prudential borrowing, and joint funding arrangements.*

Introduction

2.1 In 2013, in a wide ranging assessment of funding and structures for local economic growth, the National Audit Office reported[5] that as a result of its deficit reduction, central government spending on the local economic growth

[5] *Funding and Structures for Local Economic Growth* National Audit Office December 2013

programmes[6] would be £6.2 billion during the five-year period 2010-11 to 2014-15 compared to £11.2 billion spent by the Regional Development Agencies over the previous five-year period 2005-06 to 2009-10. Subsequently, Government announced the Local Growth Fund at £2 billion a year starting in 2015/16.

2.2 In addition to the specific local growth programmes, the National Audit Office refers to public spending that supports local growth in areas such as transport, skills and housing and reported that "central government cut its wider growth-related funding by £4.5 billion (14%) in 2011-12, and by a further £3.1 billion (11%) in 2012-13"[7]. Alongside this, the reduction in central government funding for local government put further pressure on the availability of finance to support local economic growth.

Reduction in funding for local authorities

2.3 The Government's deficit reduction programme has had a very significant impact on local authority finances. As the Independent Commission on Local Government Finance reported: "The 2010 Spending Review planned a 26% real terms reduction in local government funding from central government by 2014-15 (excluding funding for schools and benefits claimants). An extra 2% reduction in 2014-15 was announced in the Autumn Statement 2012, while the 2013 spending round included a further 10% real terms reduction for 2015-16. The government has cut core grant funding to local government by 40% from April 2011 to April 2016"[8].

2.4 The National Audit Office, for its part, reported that the Government will have reduced its funding to local authorities by an estimated 28% in real terms between 2010-11 and 2014-15. Further planned cuts will bring the total reduction to 37% by 2015-16, excluding the Better Care Fund and public health grant[9].

2.5 The further reductions announced for 2015-16 have been the subject of different interpretations. Whilst the Local Government Minister announced that the overall reduction in Government funding had been kept to 1.8%, the Local Government Association's analysis found that funding to councils would fall by 8.8%, with councils having to save a further £2.6 billion[10]. Meantime figures from the Chartered Institute of Public Finance & Accountancy (Cipfa) indicated council's spending power falling 6% in 2015-16. Its analysis also showed central government funding to local government would be cut by 14.6% in the year. The National Audit Office drew attention to significant differences in the scale of funding reductions faced by different authorities and that those that depend most on government grant are the ones most affected by funding reductions and reforms.

2.6 The 2015 CEDOS survey asked how member authorities had been affected by the provisional finance settlement for 2015/16. Responses gave some details

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[6] Regional Growth Fund, Growing Places Fund, Enterprise Zones, City Deals, Local Enterprise Partnerships
[7] *Funding and structures for local economic growth* National Audit Office December 2013
[8] *Financing English Devolution* Independent Commission on Local Government Finance October 2014
[9] *The Impact of Funding Reductions on Local Authorities* National Audit Office November 2014
[10] *Provisional Local Government Finance Settlement 2015-16* Local Government Association Briefing 18 December 2014

of the funding reductions, with some referring to cash reductions in 2015/16 ranging from £9 - 30 million and others referring to anticipated spending cuts over the next 3 – 4 years ranging from £90 – 200 million.

2.7 On the impact on local authority services, the National Audit Office reported that although councils had tried to protect spending on social care services, other service areas had seen larger reductions and that "while local authorities have tried to make savings through efficiencies rather than by reducing services, there is some evidence of reduction in service levels"[11]. The report revealed that a survey of local auditors had indicated that authorities are showing signs of financial pressure and that:

- over a quarter of single tier and county councils had to make unplanned reductions in service spend to deliver their 2013-14 budgets;
- auditors are increasingly concerned about local authorities' capacity to make further savings, with 52% of single tier and county councils not being well-placed to deliver their medium-term financial plans.

Impact on local authority economic development

2.8 The Government Guidance on Growth Deals made clear that it expected to see a clear commitment from local authorities in LEP areas to maintain their activities on economic development and growth[12]. CEDOS, however, has warned consistently in its reports, evidence to Parliamentary Committees and responses to Government consultations that the priority being given to economic development by local authorities does not make it immune from cuts. Our member surveys have regularly highlighted the reductions that are having to be made to economic development and in the ability to invest in growth.

2.9 The National Audit Office has underlined the point in its report on the impact of funding reductions with the change in budgeted spend 2010-11 to 2015-16 in the economic development service area identified as -47%, one of the highest reductions amongst individual service areas[13].

2.10 The 2015 CEDOS survey asked how member authorities' economic development budgets had changed over the last two years. Whilst there is variation, a clear majority – around 70% - indicate economic development budget reductions, certainly for revenue, including for example:

- "30% reduction in last year";
- "The economic development budget has been reduced by 30%";
- "Overall 2015/16 represents a 25% budget cut on 2014/15";
- "Revenue reduction is 12% in 2015/2016 and then a further 25% reduction in 2016/2017";

[11] *The Impact of Funding Reductions on Local Authorities* National Audit Office press release 19 November 2014
[12] *Growth Deals – Initial Guidance for Local Enterprise Partnerships* HM Government July 2013
[13] *The Impact of Funding Reductions on Local Authorities* National Audit Office November 2014

- "The Economic Development and Skills Team has had a reduction of the equivalent of £118,000 in revenue funding in the last two years with an additional £62,000 to come 2015/16";

- "Over the past two years general fund investment in the Council's economic development services has roughly halved. This has involved a reduction in staff complement, albeit this has been undertaken to date through budget management".

2.11 Some refer to service delivery pressures and in some cases service cuts:

- "54% reduction; staff reduced to two full-time in 2015/16 but still providing a similar range of services – at the moment!"

- "There has been a continued reduction; over the last two years we have made over 13% savings and lost 3 senior manager posts. Service levels have not reduced, but pressures are increasing in terms of capacity to deliver and in particular to bid for external funding";

- "We underwent a major restructuring last year that removed 20% of staff and reduced the management team. Some of the functions have now been removed such as an external funding team. We continue to undergo changes in order to meet further reductions of up to 20% by 2017";

- "The department has been subject to successive cuts. We anticipate further significant cuts in 2016/17… the Council recently made a decision not to apply for any further European Funds and to close down the European Funding Team. Social regeneration, business support and employment support functions that were provided via external funding will be discontinued".

2.12 Just over 30% of members responding to the survey refer to static budgets over the last two years although in a few cases there are reports of some growth mainly in capital spending, for example:

- "This represents a standstill budget";

- "The core budget has remained static over the last 2 years";

- "Core funding for economic development has remained the same and not been subject to cuts that have been made to most other areas. We have also benefitted from a 'one-off' investment in skills development activity of £2 million over four years";

- "Levels maintained in revenue; capital increased";

- "Revenue position has remained relatively stable. Capital position has increased due to a reallocation of place-shaping capital to economic development and the Council's capital commitment to broadband infrastructure";

- "No line for line comparisons but this has grown reflecting increased priority on driving economic growth".

Looking ahead

2.13 Whilst the recently announced Budget set for July 2015 is awaited, it was evident before the 2015 General Election that whatever the make-up of the new Parliament, further public spending reductions and cuts to local authority finances could be expected. Projections from the Office for Budget Responsibility at the time of the 2014 Autumn Statement indicated that in the new Parliament local government is set to face one of the toughest spending reviews in living memory and that as a proportion of GDP, local government current spending in England will have fallen from over 4% in 2009-10 to 2.5% in 2019-20[14].

2.14 If this is the case, it will inevitably impact on local authority services, in particular those that are discretionary and are in unprotected areas. Research carried out by the Local Government Association in 2014 found 60% of councils said they were considering stopping at least some services in 2015-16 to meet their budget gaps[15]. The Independent Commission on Local Government Finance has argued that that English local government and the services it provides are no longer sustainable in their current form. Launching the final report of the Commission, its Chair Darra Singh said: "Local government and the services it provides are on a cliff-edge. Councils' success at implementing cuts over the past few years has shielded people from the stark reality that the services they use can't carry on as they are for much longer"[16].

2.15 In the 2015 CEDOS Survey we asked members "what is the future outlook for your authority's economic development spend/staffing levels/services?" As we have seen, a number of members have identified budget cuts to come, with some highlighting service delivery pressures and reductions. Although local authorities across the country continue to prioritise economic growth, the fact remains that economic development is a discretionary service and is vulnerable to further spending cuts.

New sources of finance

2.16 It is evident that there has to be a focus on new sources of finance if local authority services including economic development are to be maintained. The Independent Commission on Local Government Finance has argued that the future of local services is dependent on local authorities becoming largely self-sufficient and less reliant on central government. In this context a range of financing approaches are potentially available including municipal bonds, tax increment financing, use of pension funds, and traded services.

2.17 On alternative sources of financing, the Independent Commission refers to building on the current tax increment financing approaches as a way of funding infrastructure investment through future tax gains. It suggests that "combined authorities could have the power to finance investment in infrastructure,

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[14] *Economic & Fiscal Outlook* Office of Budget Responsibility December 2014
[15] *Under pressure - How councils are planning for future cuts* Local Government Association April 2014
[16] *Urgent Devolution Needed to Make English Local Government Sustainable* Independent Commission on Local Government Finance – News release 18 October 2014

employment and skills based upon the potential savings from increasing employment as well as the proceeds of growth"[17]. The National Audit Office gives the example of the London Borough of Bromley, which to boost its revenue income has set up an economic development investment reserve to buy investment properties and generate income from business rates growth"[18]. In May 2015, the Greater London Authority issued an inflation linked bond as part of moves to construct the Northern Line extension, which it has been suggested could provide a model for local government borrowing[19].

2.18 On the subject of issuing bonds, the CEDOS report on New Delivery Models cited the United States, the Netherlands and Sweden as countries where bond finance is one of the principal methods of funding infrastructure[20]. In this context, an important approach is the creation of collective investment vehicles, which enable local authorities to work together to borrow jointly to finance capital projects. Amongst a number of examples from North America and Europe, *Kommuninvest* in Sweden was cited as a successful local government funding agency established in 1986, which has an AAA rating from both Moody's and Standard & Poor's and helps councils raise capital through issuing bonds in Europe, Japan and other countries.

2.19 In France a new local government bond agency – *L'Agence France Locale* – which was formed in July 2013, issued its first bond in March 2015 raising €750 million. In this country, CEDOS supported the development of a municipal bond agency being promoted by the Local Government Association. The new agency, Local Capital Finance Company Ltd has now been set up and in an interview, its Chief Executive is reported as saying that the agency hopes to go out to the market in autumn 2015[21].

2.20 Another approach is traded services. The 2003 Local Government Act granted local authorities the power to trade in activities related to their functions through a trading company. The 2011 Localism Act, permits authorities to generate a profit through external trading in all services (excepting those which they are under a duty to provide without charge) and to charge for any in-house discretionary services with, in general, being limited to charging only what they need to recover in costs.

2.21 In 2010 a survey of council chief executives suggested that 15% of all local authorities had started a trading company and 25% were considering doing so[22]. More recently, a survey of 150 local authority figures including chief executives, leaders, cabinet members and chief finance officers has indicated 58% of respondents saying their councils currently operate a trading company[23]. Examples from CEDOS member authorities include IP&E Ltd, a wholly owned company of Shropshire Council set up to provide services and to tender externally, and Luton Traded Services, which has been set up by the

[17] Financing English Devolution Independent Commission on Local Government Finance October 2014
[18] *The Impact of Funding Reductions on Local Authorities* National Audit Office November 2014
[19] *CPI-linked bond 'could provide model for local government borrowing'* Public Finance 20 May 2015
[20] *Delivery Models for Sub-regional Economic Development* Derek Walker CEDOS & ADEPT March 2012
[21] Local Government Chronicle 30 April 2015.
[22] Survey of local authority chief executives and heads of finance Survey of local authority chief executives and heads of finance - Ipsos MORI and BDO LLP 2010
[23] *Commercial Councils - The rise of entrepreneurialism in local government* Richard Carr Localis March 2015

Borough Council as a separate organisation to allow services to be marketed more widely.

Shropshire Council – Wholly owned company to provide services & tender externally

IP&E Ltd ('inspiring partnerships and enterprise') is a stand-alone private company, limited by shares, the sole shareholder of which is Shropshire Council. The intention of establishing the company is for it to provide services to the Council and to allow it to tender for work with other organisations and raise money to reinvest and protect services.

So far the Councils media, public relations and marketing service and its design and project management team, its integrated preventive health services 'Help2Change' and its development management and public protection services named 'Fulcrum' have transferred into the company. It is next planned that the educational traded services and all back office services such as HR and Finance will transfer across. The future intention is for more services to be given the go-ahead to transfer to IP&E as Shropshire Council becomes a fully commissioning Council. The Council's economic development services are about to undergo a major re-design and will be moving to a commissioned model. At present economic development services has a mixed economy with part externally delivered but the majority being provided in-house.

New sources of finance for economic development

2.22 Given the outlook for local government funding, for the focus on local growth to be maintained, new sources of finance for local authority economic development activities will be needed. In our research report on delivery models for sub-regional economic development, CEDOS and ADEPT recommended that "Local authorities, both individually and collectively, must continue to be pro-active in exploring and adopting new financial models for supporting the provision of infrastructure and other economic development initiatives"[24].

2.23 In this context, the CEDOS survey 2015 asked members whether new sources of finance for economic development activity are being explored and if possible to give details. This highlighted a range of areas in particular external funding, generating income from services & investments, private sector funding/support, pooling business rates, prudential borrowing, and joint funding arrangements. Examples from responses to the survey are given below.

External funding

2.24 Several members highlighted a focus on pursuing external funding opportunities in particular EU funding:

- "Focus on attracting appropriate external funding from Government, EU, etc" (Dorset);

[24] *Delivery Models for Sub-regional Economic Development* Derek Walker CEDOS & ADEPT March 2012

- “EU funds will become increasingly important; the Local Growth Fund will continue to be accessed, if it continues” (East Sussex);

- “European Structural & Investment Funds and Growth Deal” (Nottinghamshire);

- “Exploring more EU funding, also growth hub and funding from the Local Growth Fund” (Shropshire);

- “Greater use of EU funding now that programmes have been agreed” (Suffolk);

- “Funding programmes through the new EU Structural & Investment Funds programme” (Stoke on Trent).

Generating income from services & investments

2.25 A number of members referred to using/exploring the generation of income through economic development services or investment projects:

- “Currently using programme management fee income; approach likely to continue & that rental receipts from workspace may well be used to support revenue costs in 2016/17 onwards” (Cambridgeshire);

- “Income generation from consultancy, programme management, renewables and land estate” (Devon);

- “Our direct delivery services will operate as a trading account, and they will be encouraged to seek commissions from external organisations. This will help them to have a reasonable funding base” (Lincolnshire);

- “Exploring the idea of investing in projects that will provide a commercial return, although this work is at a very early stage” (Lincolnshire);

- “Exploring investment in property particularly where there is an identified market failure (e.g. industrial units of circa 2,000-50,000 sq. ft.), new sources of energy; potential high-growth businesses” (Stoke on Trent).

Cambridgeshire County Council – management fee & workspace rental receipts generate income

The County Council is using management fee income from two Government funded programmes to supplement its revenue budget – the *Eastern England Agri-Tech Growth Initiative*, which is receiving Regional Growth Funding, and the *Action on Energy* Green Deal scheme for Cambridgeshire, funded by the Department of Energy & Climate Change.

Under the Agri-tech Growth Initiative Delivery Plan, the County Council receives approximately £50,000 out of a total of £160,000 for programme delivery for the

£3.2 million RGF funded project. As it is essentially a LEP led project and the County Council acts as accountable body for the LEP, its fee covers programme monitoring and audit costs, project appraisal and claim checking, finance and legal recharging and general programme management. Whilst other parts of the County Council will receive part of the fee income, Economic Development is likely to receive the majority of the £50,000 as it is undertaking project appraisal, claim checking, monitoring and some general programme management. It is estimated that it will contribute £30 - £35,000 towards the economic development budget during 2014/15 and 2015/16.

The Green Deal income is for assisting the lead authority, Cambridge City Council with programme delivery and will generate around £10,000.

It is likely that this approach to supplementing the economic development revenue budget will continue and that rental receipts from workspace schemes may well also be used to support revenue costs from 2016/17 onwards.

Private sector funding/support

2.26 Some members are focusing on achieving and levering in private sector input:

- “Maximising impact of developer funded activity” (Buckinghamshire);

- “Increased public-private partnerships are being investigated in terms of specific project initiatives e.g. Business Timebank business support service” (Central Bedfordshire);

- “The South East LEP is looking to set up a LEP wide fund via private sector investors to provide loan funding to higher value capital investment needs” (East Sussex/Essex).

Central Bedfordshire: *Business Timebank*

As part of its ongoing investigations into increased public-private sector partnerships for individual projects, Central Bedfordshire Council launched the *Business Timebank* business support scheme in 2012 as an advisory service to help businesses to start up, grow and thrive. The service offers free one-to-one sessions on a wide range of business related topics with the aim of building long-term relationships between companies.

The Council organises the scheme and provided the initial funding with local business experts providing the advisory sessions including on finance, insurance, marketing, legal, accounting, ICT, business premises.

South East LEP: A South East Fund (SEFUND)

The South East Strategic Economic Plan proposed the establishment of a South East Fund (SEFUND) as a professionally managed, recyclable fund to invest in regeneration, infrastructure and property developments to enable significant business expansion and jobs and secure the delivery of new homes across the South East.

The aim for SEFUND is to accelerate delivery of existing schemes and/or secure the delivery of schemes which would otherwise not have occurred, with all investments being State Aid compliant. The intention will be to attract additional private, public and European investment. To do this, Kent, Essex and East Sussex County Councils and Thurrock, Southend and Medway Unitary Authorities have made an 'in principle' commitment to provide up to £250 million over the six years to 2021 to match SEFUND investments in development projects in the growth corridors and areas across the South East LEP area.

The Strategic Economic Plan envisaged that SEFUND would be funded initially with a £331 million contribution from the Local Growth Fund over the six years; recycled monies from the Growing Places Fund; and £17 million from the European Regional Development Fund; alongside the local authority contributions from their capital programmes. The South East LEP estimates that this will unlock at least £4.87 billion of private and local authority investment, which will give SEFUND a total 'financing reach' of at least £5.2 billion to March 2021, all of which would be additional investment to the South East.

Projects which are financially supported by local authorities will be accorded priority. Financial support for projects will include a direct contribution from the councils' own resources including New Homes Bonus, a forecast increase in business rates and in-kind consideration such as land and buildings.

In the South East Growth Deal, the Government stated that it "recognises the LEP's intention to establish a South East Fund (SEFUND) and will work with the LEP to help deliver the Fund and bring forward an implementation plan with South East LEP". A Steering Group has been put in place, with representation from the Cabinet Office, to develop the Fund.

Business rates

2.27 Some highlighted pooling business rates:

- "Pooling of Business Rates is being explored as part of the financial mechanism to support the Combined Authority" (Nottinghamshire);
- "Pooled business rate pot" (Suffolk);
- "Business rates from the Tees Valley Enterprise Zone site" (Tees Valley).

Borrowing

2.28 Others referred to borrowing:

- "Prudential borrowing – including Public Works Loan Board rate negotiated as part of Growth Deal" (Suffolk);
- "Partners are continually looking for new opportunities, including borrowing" (Tees Valley).

Suffolk County Council: Prudential borrowing to fund infrastructure for economic growth

The Local Government Act 2003 gave local authorities the power of borrowing money to finance capital projects having regard to the Prudential Code for Capital Finance.

Under the New Anglia LEP Growth Deal the local authorities within the LEP agreed to borrow at the Public Works Loan Board project rate discount of 40 basis points below the standard Public Works Loan Board rate to support strategic infrastructure investment which formed part of the overall Growth Deal package.

The Government confirmed that a total of up to £20 million would be made available at the discounted rate to the New Anglia LEP area in 2014/15 and 2015/16 to support strategic infrastructure investment which forms part of the overall Growth Deal package.

Joint funding

2.29 Several members identified joint funding approaches, for example:

- "New partnerships for highways and property should help secure extra capacity/resource" (Staffordshire);
- "Greater synergies with the LEP" (Buckinghamshire);
- "Joint funding of activity between neighbouring counties and also between different tiers of local government" (Suffolk);
- "Joint funding with neighbouring authorities and with the University of Chester" (Cheshire West & Chester);
- "We own and run Innovation Centre Medway; our Head of Innovation Services based at the Centre is funded by University of Greenwich. A specialist high growth business coach is also funded by the University of Greenwich" (Medway).

Staffordshire County Council: Private sector partnerships aim to secure extra capacity and resources

Staffordshire County Council is embarking on two major private sector outsourcing partnerships covering property and highways.

For property, the Kier Group has been awarded a 10-year (plus potential 5-year extension) property management deal with the County Council and the Police and Crime Commissioner. Kier will form a joint venture company with Staffordshire County Council to look after the council and police estates, valued at up to £400 million. Under the arrangement, Kier will review the partners' combined portfolios and then market surplus property to potential developers and occupiers over the next decade.

The County Council's aim is to optimise the use of its land and buildings to unlock the value in its property, create new sustainable income streams, improve quality of life and stimulate economic growth, including packaging and marketing old, empty and under-used buildings to unlock their regeneration potential and funding to reinvest.

For highways, the County Council is embarking on a strategic partnership with Amey LG Ltd in a pioneering *Infrastructure+* project to improve the county's infrastructure as effectively and efficiently as possible and support its plans to bring jobs and achieve economic growth. The contract is the first of its kind in the market and will initially see the partnership manage and maintain the county's highways infrastructure from design through to operational delivery. The partnership has been set up to evolve so that a much wider range of services can be added over time, with the potential for other local authorities in the region being able to join as the contract develops in the future.

Cheshire West & Chester Council: Partnership funded economic development posts

Mersey Dee Alliance – The Council has a long running partnership with neighbouring authorities in North East Wales and the Wirral. The *Mersey Dee Alliance* was set up some eight years ago to foster cross-border economic collaboration. Currently the priority focus is on skills and transport. Each local authority (Wrexham, Flintshire, Denbighshire, Wirral and Cheshire West & Chester) pays an annual contribution, which funds two members of Staff which sit within the Cheshire West & Chester Economic Growth Team.

University of Chester – The Council's Business Service Team, which support local business enquiries is based at the University and sits alongside the University's Business Team and the Chamber of Commerce. The Council is actively developing links with a number of faculties of the University including in the energy sector – the University now has responsibility for the Thornton Science Park (formerly the Shell Technology Centre).

2.30 It is clear that CEDOS member authorities are pro-actively looking to new sources of finance to fund economic development, with a range of approaches being explored/used.

Tees Valley – Range of approaches to funding economic development

The Tees Valley Investment Panel was established in 2012 to advise the Tees Valley LEP Leadership Board on investment opportunities. The Panel's role is to oversee the management of external funding streams and to consider new opportunities for generating investment in Tees Valley. The make-up of the Panel reflects the need to harness both public and private sector expertise, with membership consisting of the five Tees Valley Chief Executives plus local business representatives with particular experience in investment planning, management and delivery.

To date the Panel has successfully overseen:

- *The establishment, management and delivery of the Tees Valley Investment Fund* **-** which currently consists of Enterprise Zone income (the Tees Valley EZ has attracted over £750 million of capital investment by the private sector and has seen the creation of 700 jobs) and Growing Places funding;

- *The establishment of the 'Tees Valley Catalyst' Fund* – an innovative project funded through the Regional Growth Fund which provides extra financial security to SMEs to enable bidding for larger contracts, thus opening up new markets and opportunities. The Fund is externally managed by FW Capital with oversight from the Investment Panel;

- *The development of new investment models to deliver growth* - including financial instruments and loan funds to maximise private sector investment leverage;

- *The proposed creation of a flexible Tees Valley Business Fund* - which will combine ERDF and LGF to provide capital grants and revenue funding for businesses to enable them to maximise opportunities, such as business growth, energy efficiency, innovation and e-commerce. It will be needs-driven, putting the power in the hands of Tees Valley SMEs to purchase the solutions to meet their business needs, with the provider not necessarily based in Tees Valley. The Fund, to run from early 2016, will be branded under the Tees Valley Business Compass, which companies will access through a diagnostic service pointing them towards the right product.

Conclusions

2.31 This chapter has highlighted the facts that:

- despite the introduction of the Local Growth Fund and the Regional Growth Fund, there has been a significant reduction in central government funding to support local growth in the last five years;

- there has been a very significant reduction in Government funding to local authorities of up to 40% during 2010/11 – 2015/16 and that although councils have tried to protect spending on social care services, other service areas including economic development have seen larger reductions.

2.32 CEDOS has warned regularly that the priority being given to economic development by local authorities does not make it immune from cuts. This is underlined by:

- the National Audit Office, which reported a reduction in budgeted spend 2010-11 to 2015-16 in the economic development service area at -47%, one of the highest reductions amongst individual service areas;

- the 2015 CEDOS member survey, which indicates a clear majority – around 70% - reporting economic development budget reductions, certainly for revenue.

2.33 Looking ahead:

- whilst the recently announced Budget set for July 2015 is awaited, projections from the Office for Budget Responsibility at the time of the 2014 Autumn Statement indicated that in the new Parliament local government is set to face one of the toughest spending reviews in living memory and that as a proportion of GDP, local government current spending in England will have fallen from over 4% in 2009-10 to 2.5% in 2019-20;

- although local authorities across the country continue to prioritise economic growth, the fact remains that economic development is a discretionary service and is vulnerable to the spending cuts to come.

2.34 This emphasises the importance of a focus on new sources of finance if local authority services including economic development are to be maintained and the CEDOS survey shows that member authorities are pro-actively looking to new sources of funding for economic development, with a range of approaches being explored/used.

2.35 It also underlines the importance of moving forward with the devolution agenda including fiscal devolution. In the next chapter we go on to examine this key issue and the associated one of governance and accountability of action to achieve local economic growth.

3. DEVOLUTION & GOVERNANCE

Key messages

- *Reductions in funding to local authorities, the localism agenda, the focus on Local Enterprise Partnerships covering functional economic areas, and the follow-up to the Scottish independence referendum have combined to put a spotlight on devolution of key economic development activities to local areas in England.*
- *A devolved approach is essential for driving forward economic growth but to be successful it must unlock the potential of all parts of the country. Both city and county areas must be treated fairly and with proper recognition of their important economic contributions.*
- *The calls for more devolution and the advent of Local Growth Deals with LEPs has increased the focus on the need for effective governance and democratic oversight and the key role of democratically elected local government.*
- *Central Government's preference for combined authorities has become increasingly evident. This and the link between having a combined authority and the ability to secure increased devolved funding and responsibilities has sharpened the focus on forming combined authorities.*
- *Whilst there is growing interest in forming combined authorities in many areas; in other areas options are still being explored including but not necessarily limited to the formation of combined authorities; and in some areas combined authorities are not seen as being needed as a vehicle for devolution.*
- *What happens from now on depends how the Government's devolution agenda develops in practice and it will be essential that CEDOS engages fully in this.*

Introduction

3.1 The reductions in funding to local government, the localism agenda, the focus on Local Enterprise Partnerships covering functional economic areas, and the follow-up to the Scottish independence referendum have combined to put a spotlight on the issue of the devolution of key economic development activities to local areas. Alongside this, increasing attention is being given to the governance and accountability of action to achieve local economic growth.

DEVOLUTION TO ACHIEVE LOCAL ECONOMIC GROWTH

3.2 In his review published in 2012, Lord Heseltine gave strong support to the localism agenda calling on the Government to reverse the centralising trend of the past century and unleash the dynamic potential of local economies[25]. His report set out a case for a major reconfiguration of responsibilities for economic development between central and local government. His 'blueprint for the future' called for a very significant devolution of funding from central government to Local Enterprise Partnerships so that government investment in economic development is tailored directly to the individual challenges and opportunities of our communities. A key proposal was that Government should bring together Departmental budgets that support growth into a single funding pot for local areas.

3.3 In its response, the Government said it agreed with Lord Heseltine and that there was a need to take the next bold step that will turn the tide on the excessive centralisation that shackles local ambition and creativity[26]. It said the intention was to give business-led LEPs the power to make the choices that are right for their local economies and that it would:

- create a Single Local Growth Fund, allocated through a process of negotiation and using competitive tension to strengthen incentives on LEPs and their partners to generate growth;

- ask LEPs to develop new strategic multi-year plans for local growth, which would be the basis on which the Government negotiates deals with each LEP for levers, resources and the flexibility over them; and

- streamline the management of the EU Structural and Investment Funds in England and aligning priorities on the basis of the plans led by LEPs.

3.4 In its Growth Deals Guidance issued in July 2013[27], the Government announced its intention to decentralise through the Local Growth Fund those funding streams that it believed were appropriate for devolution, noting that plans were already underway for the devolution of funding for transport majors to Local Transport Bodies on the same geography as Local Enterprise Partnerships (but without overlaps in most cases).

CEDOS Position

3.5 CEDOS has consistently called for devolution of funding and responsibilities to local areas. As we said in the joint CEDOS/ADEPT report on the local growth agenda published in February 2014[28]:

- it will be important for local Growth Deals to result in a genuine devolution of funding streams with buy-in across Government Departments and for the Local Growth Fund to be developed to become a truly devolved single pot without internal ring fences for local decision–making and spending on locally determined priorities;

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[25] *No Stone Unturned in pursuit of Growth* Lord Heseltine October 2012
[26] *Government's response to the Heseltine review* HM Treasury & Department for Business Innovation & Skills March 2013
[27] *Growth Deals – Initial Guidance for Local Enterprise Partnerships* HM Government July 2013
[28] *Local authorities, Local Enterprise Partnerships and the Growth Agenda* Derek Walker CEDOS/ADEPT February 2014

- fiscal devolution accompanied by the necessary freedoms and flexibilities is needed to enable local authorities to explore alternative means of finance to invest in local growth and give local areas the scope to provide solutions that meet their individual needs and circumstances;

- fiscal devolution must cover all areas of England with both city and county areas treated fairly and with proper recognition of their important economic contributions.

3.6 In evidence to the Communities & Local Government Select Committee Inquiry into fiscal devolution to cities and city regions, we said: "A devolved approach is essential for driving forward economic growth but if it is to be successful we need to unlock the potential of all areas and sub-regions" and that "if fiscal devolution excludes areas outside London and the core cities there will be a considerable risk of increased inequality between local areas and increased regional imbalance, which could hold back economic growth both locally and nationally"[29].

Communities & Local Government Select Committee report

3.7 In the report of its Inquiry published in June 2015[30] the Committee said "We support the principle of fiscal devolution in England and call on the Government to work with local government to devise a fiscal devolution framework for local authorities". Although its Inquiry focused specifically on cities and city-regions, the report referred to fiscal devolution as not being restricted to any one type of area, capital city, core city, key city or county or combination, concluding that it is potentially appropriate for a range of areas.

Increasing calls for devolution in England

3.8 Particularly since the Scottish referendum in September 2014, there have been growing calls for devolution in England, for example:

- the House of Commons Political & Constitutional Reform Committee, which in 2013 had made the case for increased devolution of powers and funding to local government[31], said in a report in March 2015 "the transfer of powers away from the centre, to local communities best able to access them, determine how they should be delivered and hold authorities accountable for their delivery, is a fundamental principle which has been ignored by the political systems in all nations of the UK for too long"[32];

[29] CEDOS/ADEPT evidence to Communities & Local Government Committee Inquiry into fiscal devolution to cities and city regions January 2014
[30] *Devolution in England: the case for local government* House of Commons Communities and Local Government Committee June 2014
[31] *Prospects for codifying the relationship between central and local government*, Third Report of Session House of Commons Political and Constitutional Reform Committee 2012–13
[32] *The future of devolution after the Scottish referendum* 11th Report House of Commons Political and Constitutional Reform Committee 29 March 2015

- the Local Government Association has said the devolution question for England must be answered as "there is an appetite in all parts of the country for power to be devolved to local areas"[33];

- in its 'manifesto for a more prosperous urban Britain'[34], the Centre for Cities called for a new Cities and Prosperity Act, which would transform the UK economy by laying the foundation for a new relationship between UK cities and central government by introducing a presumption in favour of devolution, shifting the relationship between national and local government to one in which local areas have the legislative and policy freedom to put together plans – on as ambitious a scale as they wish – to manage their own finances, economies and public services in different ways. It goes on to say that the Act would make available to all city regions with combined authorities, or county regions with equivalent structures, the powers and flexibilities that are genuinely required to effectively support economic growth;

- the County Councils Network has called on Government to avoid a two-speed devolution & give new powers to counties at the same pace as city regions[35];

- reporting in March 2015, the Independent Non-Metropolitan Commission said the Scottish referendum had awakened a desire across England for power to be devolved to local level in both non-metropolitan areas and city regions. Its report refers to an emerging consensus that the status quo is no longer an option and that non-metropolitan areas should be given the same opportunity for growth as their urban neighbours: "we see a transformation of local authorities from dependants on a finite pot of central funding into entrepreneurial economic zones"[36].

3.9 The link between devolution and local authority funding is emphasised in the report of the Independent Commission on Local Government Finance set up by the Local Government Association and the Chartered Institute of Public Finance and Accountancy[37]. The Commission said that English local government and the services it provides are no longer sustainable in their current form and that urgent devolution is needed. It argues that the future of local services is dependent on local authorities becoming largely self-sufficient and less reliant on central government and said: "We have concluded that devolution and reform of the local government finance system must go hand in hand".

3.10 On economic development, the Commission argues that Government should develop additional freedoms to boost economic growth, which should include councils and Local Enterprise Partnerships taking on the entire responsibility for further and adult education, skills and apprenticeships, regeneration and employment support.

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[33] *Investing in Our Nation's Future: the first 100 days of the next government*, Local Government Association, July 2014
[34] *A manifesto for a more prosperous urban Britain*, Centre for Cities, September 2014
[35] *Our Plan for Government 2015–20* County Councils Network, September 2014
[36] *Devolution to Non-Metropolitan England: Seven steps to growth & prosperity* Final report of Non-Metropolitan Commission March 2015
[37] *Financing English Devolution* Independent Commission on Local Government Finance 18 February 2015

Progress so far - City Deals, Growth Deals & Devolution Deals

City Deals

3.11 The 2011 Localism Act included the core cities amendment, which offered local councils the opportunity to submit plans on how they planned to promote local economic growth; and provided that, if successful, councils would be invited to negotiate deals with central government for greater local autonomy over financial and planning matters. This approach was expanded in the consultation document *Unlocking Growth in Cities*, which announced that the Government would be working with different cities to agree a series of tailored 'City Deals'. These would consist of new powers for cities, enabling civic and private sector leaders to influence the key decisions that affect their economic competitiveness; and/or innovative projects to unlock growth in each area[38].

3.12 As of March 2015, there have been two waves of city deals plus a one-off deal, granting a total of 27 deals. The first wave of City Deals was launched in December 2011 and completed in July 2012. In this wave, the Core Cities, the eight largest English cities outside London negotiated deals. Details are given in the Cabinet Office publication *Unlocking Growth in Cities: City Deals – Wave 1*[39]. The second wave of City Deals was launched in October 2012 and was open to the next 14 largest cities and their wider areas and to the next six cities and areas with the highest population growth between 2001 and 2010. Prior to negotiations, cities were asked to develop proposals to work across their 'functional economic areas' as such Deals generally cover existing LEP boundaries. Of the invited 20 cities, 18 successfully negotiated Deals between September 2013 and July 2014.

Local Growth Deals

3.13 In 2013 the Government announced the intention to extend the Growth Deal principle to cover all Local Enterprise Partnership areas in England. On 7 July 2014 the Government announced details of Growth Deals with each of the 39 LEPs and the first instalment of its plans to invest at least £12 billion in local economies by 2020-21. The Government news release announced that this included the allocation of £2 billion from the Local Growth Fund for 2015-16 and in some cases commitments for following years so that important long-term projects could get underway.

3.14 In fact the actual allocations totalled £1.73 billion with £267 million held back mainly for European Social Fund match funding. Moreover, Governments over the years have been adept at re-announcing already committed funding and this was no exception. £1.1 billion of the £2 billion Local Growth Fund for 2015/16 had already been allocated to local transport projects.

3.15 The first report of the current CEDOS research project, which was funded and published jointly by CEDOS and ADEPT made an early assessment of the first round of Local Growth Deals[40]. It did so recognising that as a new process there would inevitably be things that could be improved upon and that

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[38] *Unlocking Growth in Cities* Cabinet Office December 2011
[39] *Unlocking Growth in Cities: City Deals – Wave 1* Cabinet Office July 2012
[40] *Local Growth Deals – An early assessment* Derek Walker CEDOS & ADEPT September 2014

constructive criticism is an important part of this. The report, with survey input from both CEDOS and ADEPT members, raised a number of key issues of concern in particular:

- *Local Growth Fund is not a single locally determined fund* – projects funded were still very "loyal" to their original government funding source – transport, housing, or skills capital. This was far both from Lord Heseltine's call for a single funding pot for local areas and the Government's statement that Local Growth Fund allocations would be available to be spent on the priorities LEPs and their partners had determined in their Strategic Economic Plans;

- *Over-emphasis on capital spend in 2015/16 and focus on transport schemes* – the emphasis on capital spend and the lack of a revenue element had skewed project priorities, whilst the focus on transport schemes could limit the scope of economic development strategies and local growth projects;

- *Government approach to selecting projects for funding* – a lack of understanding as to why some projects received funding and others did not despite being prioritised locally;

- *Lack of real freedoms and flexibilities* – although Growth Deals collectively provided some additional freedoms and flexibilities, many CEDOS and ADEPT members were concerned that in their areas they seemed to consist, for the most part, of generic commitments to engage with organisations that Local authorities and LEPs were already engaging with and offered little by way of genuine devolution of powers or influence.

3.16 The report argued for:

- *An improved Local Growth Fund* – that is genuinely additional; provides for revenue as well as capital spending; and gives local areas flexibility over its use to meet local needs;

- *Growth Deals to go further in future* – whilst being a step in the right direction, in future the process must go much further to become one that is genuinely local, backed by single pot funding and real local freedoms and flexibilities.

3.17 The Government made a second round of Local Growth Deal announcements in January 2015 referring to them being part of a long-term plan to devolve funding from central government to local economies, with the aim for "every part of the country to be a motor of growth for the national economy"[41]. The CEDOS/ADEPT initial assessment of Local Growth Deals has not yet been taken further to cover the second round of announcements.

[41] *Local Growth Deal announcements* HM Government 29 January 2015

Devolution Deals

3.18 So far three Devolution Deals have been signed between Government and local areas:

- *The Greater Manchester Agreement* was signed in November 2014. It involves provision for a new directly elected mayor of Greater Manchester and includes a devolved and consolidated transport budget, powers over strategic planning, control of a new Housing Investment Fund, devolved business support budgets, control of the Apprenticeship Grant for Employers and the opportunity to be a joint commissioner *The Sheffield City Region Deal*[42] was signed in December with the Department for Works & Pensions for the next phase of the Work Programme;

- 2014 giving the local area greater influence and control over skills, business support, transport and housing but excluding fiscal devolution;

- *The West Yorkshire Combined Authority Deal* was announced by the Chancellor in his March 2015 Budget speech, giving council leaders and businesses greater influence over investment decisions on skills, transport, housing and support for small businesses. Whilst acknowledged as a starting point, there has been considerable disappointment locally at the Deal's failure to match local ambition.

3.19 Other areas where devolution proposals have been put forward/are being negotiated include the North East Combined Authority and Cornwall, where a case for a substantial devolution of powers and functions is being presented[43].

GOVERNANCE

3.20 The calls for more devolution and the advent of Local Growth Deals with LEPs has increased the focus on the need for effective governance and democratic oversight. For its part, CEDOS has emphasised the importance of effective and accountable governance in the process of devolution:

- "The Government response to Lord Heseltine includes an expectation that the Single Local Growth Fund will be accompanied by pooling strategic economic development spend and functions across LEP areas. This will require robust local governance and accountability arrangements not only for the delivery of LEP strategies but also for making the strategic decisions on the spending of public money. For this, there must be clear and unequivocal democratic accountability for these decisions"[44].

- "There is a need to develop forms of governance and accountability for LEPs in which democratically elected local authorities are an essential foundation and which give businesses a real say in making decisions to drive forward local economic growth"[45].

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[42] Sheffield City Region Agreement on Devolution HM Government & Sheffield City Region
[43] *The Case for Cornwall* Council March 2015
[44] *Taking forward the Single Local Growth Fund* CEDOS May 2013
[45] *Local authorities, Local Enterprise Partnerships and the growth agenda* Derek Walker CEDOS & ADEPT February 2014

3.21 The Government's approach was clarified during 2013. In its response to Lord Heseltine, it made clear that decentralisation would require appropriate accountability structures at local and national levels to be in place to deliver the step change needed and that it would be up to local areas to determine which governance structure is right for them. As part of this, it said the Government is supporting local authorities that wish to create a combined authority or implement other forms of collaboration including conurbation mayors[46].

3.22 The Guidance on Local Growth Deals[47] stated that Government would expect LEPs and local authorities to demonstrate arrangements which deliver collective decisions from all local authority leaders, including district councils, within the LEP with evidence of underpinning robust partnership arrangements. It recognised that arrangements may vary from area to area but suggested that authorities may want to consider, for example, a Joint Leaders Committee, Economic Prosperity Board, Combined Authority or other arrangement.

3.23 Subsequently, Government's preference for combined authorities became increasingly evident. This and the link between having a combined authority and the ability to secure increased devolved funding and responsibilities has sharpened the focus in a number of local areas on combined authorities. Others are involved in or looking at other options such joint committees or economic prosperity boards, whilst in some two-tier areas a debate on unitary options has re-opened.

3.24 With the growing debate on devolution and the increased resources already devolved to LEPs, the focus is increasingly moving to democratically elected local government. A recent report has argued for an approach whereby local economic spend would be characterised by a 'dual lock' with both council leaders and the LEP having to sign off annual budgets. This would allow LEPs to play a strategic role while maintaining local government's democratic importance[48].

Combined Authorities

3.25 Combined authorities are a legal structure that may be set up by two or more local authorities in England, following a governance review. A combined authority must include all local authorities in its area and cannot include part only of a county council area. They may take on transport and economic development functions. They have a power of general competence. The Greater Manchester Combined Authority was established in 2011. Combined authorities were established in the North-East, West Yorkshire, Sheffield City Region and Liverpool City Region in April 2014.

3.26 As well as not being able to include part of a county council area, combined authorities cannot include areas which are geographically detached. In an attempt to avoid these restrictions, the Sheffield City Region Combined Authority includes a number of district councils from north Derbyshire and Nottinghamshire as 'associate members', even though associate membership

[46] *Government's response to the Heseltine review* HM Treasury & Department for Business Innovation & Skills March 2013
[47] *Growth Deals – Initial Guidance for Local Enterprise Partnerships* HM Government July 2013
[48] *The Next LEPs - Unlocking growth across our localities* Localis/Lloyds Bank March 2015

does not exist in law. Similarly, York City Council is an 'associate member' of the West Yorkshire Combined Authority. In April 2014, the Government consulted on a proposal to remove both of these restrictions on combined authorities via a Legislative Reform Order, although as yet no changes have been made.

3.27 Currently local authorities cannot be full members of more than one combined authority. However, as 'associate membership' is not a legal entity, a district council is free to be an 'associate member' of more than one combined authority, or an 'associate member' of one and a full member of another.

Existing Combined Authorities

3.28 In more detail, the existing Combined Authorities are:

- *Greater Manchester Combined Authority* - covering the ten metropolitan boroughs which formerly made up the metropolitan county of Greater Manchester: Manchester, Salford, Stockport, Tameside, Trafford, Wigan, Bolton, Bury, Rochdale, and Oldham;

- *Sheffield City Region Combined Authority* (formally the 'Barnsley, Doncaster, Rotherham and Sheffield Combined Authority'), covering the former metropolitan county of South Yorkshire.

- *West Yorkshire Combined Authority*, covering Leeds, Bradford, Calderdale, Kirklees and Wakefield i.e. the former West Yorkshire metropolitan county. York City Council is an associate member;

- *Liverpool City Region Combined Authority* (formally the 'Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral Combined Authority'), covering the former metropolitan county of Merseyside plus the Borough of Halton;

- *North-East Combined Authority* (formally the 'Durham, Gateshead, Newcastle-upon-Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority'), covering the same area as the North-East Local Enterprise Partnership.

3.29 There is increasing interest in forming combined authorities. Areas where proposals have been put forward/are being considered are:

- *Tees Valley* (Middlesbrough, Stockton, Darlington, Redcar & Cleveland, Hartlepool) - where a public consultation had 1,800 responses, two-thirds of which were positive and where a combined authority has the potential to be in place by April 2016;

- *Derby & Derbyshire* – where ten councils have published a proposal to create a combined authority following a comprehensive review and public engagement exercise; the proposal has been submitted to and discussed in detail with Government;

- *Nottingham & Nottinghamshire* – where proposals for the creation of a combined authority for Nottingham City, Nottinghamshire County and the seven Borough and District councils have been presented to Government following a public consultation;

- *Birmingham/Black Country* – where a combined authority has been proposed to cover Birmingham, Sandwell, Dudley, Walsall, and Wolverhampton but the position of other authorities within the Greater Birmingham and Solihull LEP (Solihull Metropolitan Borough Council and some districts in Staffordshire and Worcestershire) and of councils in the Coventry & Warwickshire City Deal area complicates things;

- *Lancashire* – where discussions are going on between Lancashire County Council, the 12 district councils and the unitary councils of Blackburn with Darwen, and Blackpool, although alternative combined authority options have also been raised within Lancashire;

- *Oxfordshire, Buckinghamshire and Northamptonshire* - where the three county councils have announced plans to explore the potential of a combined authority model[49];

- *Devon & Somerset* – where there have been media reports that the two county councils have submitted a very preliminary expression of interest to the Government about forming a combined authority with the aim of achieving increased responsibility for transport and infrastructure, education and training, and economic development[50];

- *Essex* - Essex County Council, Southend Council, Thurrock Council and potentially other areas representing combinations of smaller authorities, are all looking at the possibilities for combined authorities and how they would work in the area;

- *Hampshire* – where it is reported that the Partnership for Urban South Hampshire (Southampton, Portsmouth, Isle of Wight and adjacent areas) and the Solent LEP are exploring the option of a combined authority for the Solent Area[51]. This is not supported by Hampshire County Council, which has developed a model framework for a Hampshire combined authority covering the whole of Hampshire plus Southampton, Portsmouth and the Isle of Wight.

[49] *The Creative Counties – Oxfordshire, Buckinghamshire & Northamptonshire - A Shared Approach to Driving Prosperity* Buckinghamshire, Northamptonshire & Oxfordshire County Councils 17 December 2014
[50] Municipal Journal 13 February 2015
[51] Fareham Borough Council press release 19 December 2014. Note that under current rules South Hampshire could not form a combined authority at present as it covers only part of the Hampshire County Council area.

Hampshire County Council: Proposal for a 'Wider Hampshire' Combined Authority

Hampshire County Council has developed a model framework for a Hampshire combined authority covering the whole of Hampshire plus Southampton, Portsmouth and the Isle of Wight which is under discussion through the Hampshire Partnership. It believes that by building on current successful partnerships that a Wider Hampshire combined authority, with devolved freedoms and flexibilities from Whitehall, would have the necessary scale and capacity to drive forward significant economic growth and public service transformation.

Key asks within the draft proposal for a Wider Hampshire Combined Authority include:

- fiscal and economic devolution, such as local retention of business rates and stamp duty to enable long-term investments in infrastructure to support business growth;
- devolved powers to support a more integrated and cost effective transport system across the county;
- devolved powers to join up delivery of skills, training and employment schemes, ensuring local provision is responsive to local labour demand, supporting young people to participate in education and training and enabling more people to access work.

At the same time as promoting a Wider Hampshire combined authority, the County Council recognises that at any one time it may be involved in several overlapping complementary arrangements with different partners operating at different levels but all working to deliver shared ambitions. For example, in addition to a Wider Hampshire combined authority there may well be merit in developing more robust cross-county partnerships to advance strategic transport priorities.

Position in other areas

3.30 In some other areas options are being explored including but not necessarily limited to the formation of combined authorities, as in:

- *Cambridgeshire* – where the County Council is exploring various options;
- *Cheshire East* - where there is early stage investigation of options with sub-regional partners (LEP, Cheshire West & Chester and Warrington Councils) and also a dialogue with other adjacent areas on some strategic priorities;
- *Dorset, Bournemouth & Poole* – where a consultation is currently taking place on options for a combined authority or economic prosperity board or other structure across the area, which is coterminous with the Dorset LEP;

- *Central Bedfordshire* - where all options are being kept open, to maximise flexibility;

- *Warwickshire* – where the County Council's position is that it is committed to the LEP area of Coventry & Warwickshire as an economic entity but the position is complicated by a possible interest in a Birmingham/Black Country combined authority by Coventry City Council[52] and some parts of the county that border Birmingham.

3.31 In some areas either there are no current plans for more formalised structures or combined authorities are not seen as being appropriate as for example in:

- *East Sussex* – where there is a range of existing partnership working approaches across different geographies;

- *Gloucestershire*, where there is reportedly little appetite for pursuing a combined authority[53];

- *Cornwall* where the county functions as a single economic entity which negates the need to establish a combined authority as the vehicle for devolution[54].

East Sussex County Council – Range of sub-regional partnership approaches

The County Council is involved already in a range of sub-regional partnership approaches across different geographies to meet the needs of East Sussex:

- South East LEP, which has a federated model at the three main upper tier areas (Essex, Kent and East Sussex) through which cross-LEP working is conducted where there is added value (e.g. the SE LEP Coastal Communities working together, strategic lobbying at main SE LEP Board level);

- South East 7 - a partnership of upper tier local authorities (East Sussex, Hampshire, Kent, Surrey and West Sussex County Councils, Brighton & Hove City Council, Medway Council) in the South East committed to increased joint working to collectively benefit their areas and secure increased value for money; a Memorandum of Understanding covers joint activities;

- Coast to Capital LEP/ Greater Brighton City Deal – part of East Sussex is covered by both of these areas with cross-LEP and cross-local authority working in respect of shared aims for the area.

The County Council currently has no plans for more formalised structures.

[52] Coventry's position is itself complicated by the fact that it is part of the Coventry & Warwickshire LEP and City Deal areas but at the same time is a member of the West Midlands Integrated Transport Authority.
[53] *Is this the future shape of local government?* Local Government Chronicle 26 February 2015
[54] *The Case for Cornwall* Council March 2015

Looking ahead

3.32 The launch of the party manifestos in April in the lead up to the 2015 General Election revealed a broad consensus on devolution across the political spectrum. There were, however, differences:

- the Conservative Party Manifesto committed to devolving powers over economic development, transport and social care to large cities which choose to have elected mayors and in other areas to deliver more bespoke Growth Deals with local councils, where locally supported; and allow councils to keep a higher proportion of the business rates revenue that is generated in their area and to pilot allowing local councils to retain 100% of growth in business rates;

- the Labour Party Manifesto committed to devolving more power and control to English city and county regions with new powers over economic development, skills, employment, housing and business support, including control over local transport systems, with local areas free to choose governance arrangements; and to enabling them to retain 100% of additional business rates raised from growth in their areas;

- the Liberal Democrat Party Manifesto committed to devolving more economic decision-making to local areas, prioritising the transfer of transport, housing and infrastructure funding, skills training and back-to-work support; and to introduce 'Devolution on Demand', enabling greater devolution of powers from Westminster to Councils or groups of Councils working together.

3.33 What happens from now on depends on the development of the Government's devolution agenda in the new Parliament. Soon after the General Election, the Chancellor of the Exchequer announced that legislation to allow the devolution of power to cities would be in the first Queen's speech of the Parliament, with the granting of additional powers including over housing, transport and planning, being conditional on areas following the Greater Manchester Combined Authority and adopting an elected mayor[55]. Later the Communities Secretary reportedly told the Local Government Chronicle "I've always been clear that backing a greater devolution of power and resources doesn't end with cities by any means. You've got the counties and the towns across the country that also are important motors of growth and can be more so. I fully intend to have a big push to decentralise powers, certainly to the cities but to places outside cities as well"[56].

3.34 The Queen's Speech opening the new Parliament on 27 May 2015 referred to legislation being introduced to provide for the devolution of powers to cities with elected metro mayors. Two days later, the more broadly entitled Cities and Local Government Devolution Bill was introduced for First Reading in the House of Lords.

[55] See Chancellor's speech on Building a Northern Powerhouse 14 May 2015
[56] Local Government Chronicle 20 May 2015

Conclusions

3.35 This chapter has highlighted that:

- reductions in funding to local authorities, the localism agenda, the focus on Local Enterprise Partnerships covering functional economic areas, and the follow-up to the Scottish independence referendum have combined to put a spotlight on devolution of key economic development activities to local areas;

- particularly since the Scottish referendum in September 2014, there have been growing calls for devolution in England including from the House of Commons Political & Constitutional Reform Committee, the Local Government Association, the Centre for Cities and the Independent Non-Metropolitan Commission;

- a devolved approach is essential for driving forward economic growth but if it is to be successful we need to unlock the potential of all areas and sub-regions; and that fiscal devolution must cover all areas of England with both city and county areas treated fairly and with proper recognition of their important economic contributions.

3.36 The analysis has shown that:

- the calls for more devolution and the advent of Local Growth Deals with LEPs has increased the focus on the need for effective governance and democratic oversight;

- with the growing debate on devolution and the increased resources already devolved to LEPs, the focus is increasingly moving to democratically elected local government;

- with central government's preference for combined authorities and the link with being able to secure increased devolved funding and responsibilities becoming increasingly evident, there is interest in forming combined authorities in many areas;

- in other areas options are still being explored including but not necessarily limited to the formation of combined authorities; whilst in other areas combined authorities are not seen as being needed as a vehicle for devolution.

3.37 What happens from now on depends on the development of the Government's devolution agenda in the new Parliament and it will be essential that CEDOS engages fully in this.

4. ACTIVITIES, RESTRUCTURING & DELIVERY

Key Messages

Ongoing change *- the delivery of local authority economic development is taking place in the context of continuous change with developing sub-regional arrangements, continuing council restructuring and trends towards commissioning authorities and the outsourcing of services.*

Activities *– the main local authority economic development activity areas highlighted in the 2015 CEDOS member survey results are: business support, skills and employment, inward investment, policy and intelligence, strategic development and infrastructure, business sites and premises, physical regeneration, European Structural and Investment Funds.*

Current delivery *– in the 2015 survey 52% referred to activities being delivered in-house; 17% by LEPs, 14% by local delivery vehicles and 17% by other means.*

Restructuring *- a clear majority (76%) reported that restructuring of their authorities functions/services is happening, being planned or is likely.*

Commissioning *– in the survey, 79% reported that their authorities are involved in commissioning or planning to, for at least some services. Examples and case studies of commissioning affecting economic development are given but the overall extent is not yet clear.*

Outsourcing *- recent research indicates a significant rise in councils outsourcing and intending to outsource services. For economic development this covers a range of options including joint delivery, partnership delivery through Local Enterprise Partnerships and/or others, and the establishment of delivery companies and vehicles.*

Introduction

4.1 Previous CEDOS reports have underlined the crucial role of local authorities in developing, leading and supporting action to achieve local economic growth. The economic development role of local authorities is though taking place against a background of ongoing change resulting from the significant reductions in Government funding, an increasing focus on devolution and developments in sub-regional arrangements and governance.

4.2 This research for this report has looked in some detail at local authority economic development activity areas and the way they are delivered in the context of continuing restructuring, and trends towards commissioning authorities and the outsourcing of services.

Economic development activity areas

4.3 In the survey for the report, we asked CEDOS members to indicate their authority's main economic activity areas and how they are delivered currently. From the response, the following emerge as the main activity areas (in order of frequency of mentions):

1. Business support including grants & loans
2. Skills & employment
3. Inward investment
4. Policy, Strategic Economic Plans, economic intelligence & monitoring
4. Strategic development & infrastructure including broadband
6. Business sites & premises
7. Physical regeneration schemes
8. European Strategic & Investment Funds

4.4 When we carried out a survey for a previous research report in 2011[57], in response to a similar question the listing was:

1. Strategy/policy development/strategic influencing
1. Leading & supporting partnerships
3. Inward investment promotion
4. Business support
5. Economic inclusion & worklessness
6. Urban & rural regeneration
6. Employment & training
8. Research & intelligence
9. Tourism promotion
10. Employment land & premises
11. Managed workspace/business incubators

4.5 Whilst the two surveys are not statistically comparable, perhaps the most striking observation is that in 2015 only 3 members (17%) identified tourism promotion, compared to 88% in 2011.

Current delivery

4.6 The 2015 survey asked how their activity areas are delivered currently in terms of: in-house, local delivery vehicles, Local Enterprise Partnership, and 'other'. In 2011 a similar question was included but identified the following categories: in-house, local partnership, LEP or other sub-regional partnership, and local delivery vehicles.

4.7 In 2015 the relative proportions of mentions of the categories referred to was:

- In-house 52%
- Local Enterprise Partnerships 17%
- Local delivery vehicles 14%
- Other 17%

[57] *Delivery Models for Sub-Regional Economic Development* Derek Walker CEDOS & ADEPT March 2012

4.8 Although the 2015 and 2011 surveys are not statistically comparable, the relative proportions for in-house, LEPs and local delivery vehicles are very similar. The relative proportions of mentions in the 2011 member survey were:

- In-house 51%
- Local partnership 18%
- LEP or other sub-regional partnership 16%
- Local delivery vehicles 15%

Reviewing & restructuring local authority function/services

4.9 In the research for our 2012 report on future delivery models[58], it was clear that in the face of unprecedented budget pressures, local authorities across the country were reviewing their approaches to delivery. Since then, as we have detailed in Chapter 2, Government cuts to its funding of local authorities have continued unabated. This is underlined in the 2015 member survey. Of the members who answered the question 'Is your authority undertaking or planning restructuring of its functions/services?', only three said 'no' or that things were relatively settled. Two referred to restructuring having already happened. A clear majority - 76% - reported that restructuring or further restructuring is happening, being planned or is likely, for example:

- "Yes, following a previous review in early 2014 - no details available yet, though likely to focus on project delivery and enabling capacity" (Central Bedfordshire);

- "Yes. Continuing a programme of establishing 'Alternative Service Delivery Vehicles'. Several have been established but none directly related to economic development activities as yet, although we do have a wholly owned property development company charged with helping to transform the Council's strategic land assets into places for jobs and housing whilst yielding capital receipts for the Council" (Cheshire East);

- "These have been happening over the last year as part of the four year budget process and this will shortly be complete. There are no longer 'Services' with their own Heads. The numbers have been halved and the intention is to have more integrated functionality" (Cornwall);

- "The Council is going through a process of change and restructuring across the board. The former Environment Directorate has been renamed as the Environment and the Economy Directorate. Divisions within the Directorate have been reduced from five to three, and further restructuring proposals are currently being consulted on. This would see a reduction in the number of groups, including the creation of the Economy, Planning and Transport Service, containing the Economy and Enterprise Team" (Dorset);

- "Restructure planned for spring/summer 2015. We have already restructured at senior management level, and this has created a stronger relationship between planning, environment, and economic development, and a firm commissioning/delivery split" (Lincolnshire);

[58] *Delivery Models for Sub-Regional Economic Development* Derek Walker CEDOS & ADEPT March 2012

- "Yes further re-structuring planned as council is moving to a fully commissioning Authority with a small core of council employed staff. Many services moving to our stand-alone wholly owned company IP&E Ltd" (Shropshire);

- "The City Council as a whole is undertaking and consulting on a restructuring of its services. Within economic development services, the council is currently implementing a proposal to combine the economic development & programmes service with the inward investment service to create a single focus of support for business growth" (Stoke on Trent);

- "The Council recognises that it needs to change, not just to meet the savings challenges but also to improve services. This includes the need to change the nature of demand for our services. The Council has identified ten separate transformation programmes to help us achieve these aims. These include health and social care integration, highways and infrastructure, and waste. The county's economic growth strategy has been identified as an enabling programme that will support the transformation programmes" (Suffolk);

- "Each local authority in the area is reviewing services on an ongoing basis" (Tees Valley).

Suffolk County Council – Service transformation

Suffolk County Council has been awarded £3.35 million of new Government funding and £1.8 million of capital receipts flexibility. One of the two largest Transformation Challenge Awards in the country, its purpose is to act as a catalyst for a programme of transformation across public sector services in Suffolk. The Award will lead to:

- an increase in the number of shared senior management posts; with an overall reduction in the number of such posts, the aim will be to create an integrated strategic leadership across Suffolk public services;

- the creation of a Shared Intelligence and Transformation Team to create a shared focus on change and improvement supported by evidence based decisions. The challenge will be to develop, with colleagues, options for how the required outcomes set by elected members can be achieved in a different and more cost-effective way;

- *Invest to Save* projects that create shared accommodation for Suffolk public sector services, including the development of customer/resident hubs in market towns. The aim will be to reduce back office costs and improve ease of access to services;

- co-locating teams to provide a fully integrated approach to providing enhanced support for those most in need and vulnerable – reducing future high intensity and high cost demand;

- the creation of a specialist team to work alongside existing officers to help unlock strategic housing and employment sites across Suffolk to accelerate the creation of new homes and jobs for communities with a resultant increase in New Homes Bonus and Business Rates.

Strategic commissioning and outsourcing

4.10 In our 2012 report on future delivery models, we said: "given the severity of the reductions in local government budgets and the likely outlook for public spending over the next decade and more, a growing emphasis on strategic commissioning with a shift to increased outsourcing and shared services seems likely". At the same time we emphasised that a 'one-size' approach will never fit the varying needs and circumstances across the country and this is likely to be reflected in differing approaches to delivery.

Commissioning

4.11 In their ongoing search for efficiency and effectiveness in service delivery, local authorities have continued to look for ways both to improve service delivery and to react to their financial circumstances, with commissioning and outsourcing high on the agenda. An assessment of trends in surveys of senior council managers by the Hay Group for the Local Government Chronicle indicated that the proportion saying their council was moving towards a 'commissioning council' model rose from 33% in 2013 to 58% in 2014[59].

4.12 The move to commissioning authorities is borne out by our 2015 survey, where we asked members whether their authorities had moved or were planning to move to a commissioning model of service delivery. If answering yes, they were asked to give details. 79% of those responding said their authorities are involved in commissioning or planning to, for at least some services. Only four members answered 'no' or 'not at present'. A clear majority (59%) answered an unequivocal 'yes' to the question, for example Shropshire, where the authority is moving to become a commissioning authority with a small core council and Lincolnshire, where a clear commissioning/delivery split is being created.

4.13 The overall extent to which the move to commissioning is affecting economic development services is not yet clear. Examples from member authorities are:

- "Economic Development was a commissioned model both pre and post the latest restructure" (Buckinghamshire);
- "Yes, with a focus on adult skills not competing with the market for provision and targeting support on employment skills" (Central Bedfordshire);
- "The restructure to that of a commissioning authority has had a bigger impact than any fluctuations in funding or changes in governance. We have developed commissioning strategies (and one for supporting

[59] *Further staff cuts and more outsourcing predicted* Local Government Chronicle 16 October 2014

businesses and economic growth) which frames our activities in this context" (Essex);

- "The County Council is now moving to become a commissioning council; for economic development, as in other service areas, it is creating a strong split between commissioning and delivery" (Lincolnshire);

- "The city council has always commissioned out services, including economic development services, where it felt that they could be delivered more effectively by the private or third sector. The emergence of a new, ERDF-funded Growth Hub will give the authority the opportunity to consider further commissioning of services, but no decisions have been made as yet" (Stoke on Trent);

- The Council's economic development services are moving to a commissioned model. At present economic development services has a mixed economy with part externally delivered but the majority being provided in-house. (Shropshire);

- "We have for some time been more of a commissioner of services than a direct deliverer. However, we are seeing more investment in economic development and there is likely to be a more 'mixed economy' approach with some services being provided in-house, some commissioned and some delivered through working in partnership with others" (Warwickshire).

Cheshire West & Chester – an authority undergoing continuous change

The Council has separated commissioning from delivery throughout its operations. A dedicated Change Team has been in place for two years. It has developed a *Make or Buy* programme whereby each service is scrutinised to see if delivery is able to be outsourced, run jointly with a neighbouring authority or if efficiencies can be delivered in-house. This has resulted in a number of key services being outsourced (ICT, Business Operations, leisure) and run by an external company and others run jointly with neighbouring authorities (e.g. schools supplies).

For economic development, currently capital programme and delivery is managed in-house, but there is an increasingly reliance on short term contracts for specialists that are no longer available within the Council. For example, development directors have been employed on fixed term contracts for two major development projects.

Lincolnshire – Creating a strong commissioning-delivery split

In the CEDOS report on delivery Models published in 2012, Lincolnshire was identified as a prime example of in-house delivery for economic development, with the County Council's Enterprise and Regeneration Team working with partners to deliver a wide range of economic services to meet the needs of the county.

The County Council is now moving to become a commissioning council. Its high level objectives are to:

- strengthen the leadership role of the Council;
- set agendas, not react e.g. to funding programmes;
- focus valuable time on leading, not doing;
- give it the authority to challenge others.

For economic development, as in other service areas, it is creating a strong split between commissioning and delivery. As restructuring takes place, the Council will challenge which roles should be delivered by internal departments and which should be delivered externally. Because the local delivery capacity is limited, the Council is looking to commission strategic programmes rather than small, self-contained items of work. A large amount of the focus will be on helping external partners, including government provision to meet local needs more effectively.

In the Environment and Economy Department, there is a County Commissioner for Environment & Economy and Chief Operating Officer overseeing all the in-house business teams delivering those services. This is reflected in economic development, where there is a Commissioner for Economic Growth. Here, as in other parts of the Council, the direct delivery services will operate as a trading account and will be encouraged to seek commissions from external organisations. This will help them to have a viable funding base although it is recognised this could create tensions in terms of what they choose to prioritise.

Outsourcing, Joint delivery, Delivery companies

4.14 Recent analysis by OC&C Strategy Consultants looking at 176 of the largest central and local government bodies suggests that since 2010, spending on outsourced services has grown from 22% of departmental budgets to 28%. Their forecast is that outsourcing of public services is set to grow by at least £20 billion over the next five years to reach more than £110 billion with £1 in every £3 spent by central and local government going to private providers by the end of the next parliament[60].

4.15 Looking at local authorities, a survey of 267 council chief executives, directors and heads of service for the Local Government Chronicle by the Hay Group in October 2014 reported a significant rise in the proportion of councils that intended to outsource more services in future, from 10% in 2013 to 51%

[60] *Outsourcing of Public Services set to grow by at least £20bn by 2020* OC&C Strategy Consultants 27 April 2015

this year. Alongside this, the survey reported that 17% expected the size of their authority's directly employed workforce to fall by 35% by 2020. Only 4% believed the size of their workforce would be unchanged in 2020, and 3% thought it would increase. On outsourcing, almost 7% said that in future their council would outsource all of its services or would become the 'provider of last resort', and 5% said they expected their council to outsource between 80% and 100% of its services by 2020. On the other hand some 16% said their authority would bring more services in-house[61].

4.16 The main service areas covered by outsourcing were reported on by the Local Government Chronicle in May 2014 using data compiled by the public sector procurement research firm Porge, based on councils' published receipts from 2012/13:

- housing & social care;
- property construction & facilities management;
- highways, transport & waste;
- ICT infrastructure, supply and maintenance.

4.17 Amongst CEDOS member authorities, ones that have made outsourcing announcements over the last year include:

- *Northamptonshire County Council*, which has agreed a plan "to move entirely away from directly delivering services into a 'Next Generation Model' where an expert core council will commission specialist social enterprises to carry out activity to help achieve its goals for the county"[62];

- *Kent County Council* – which is undertaking a major overhaul of its service delivery under which all of its services are under consideration for outsourcing. It is assessing every service it delivers, under a programme called 'Facing the Challenge', to see whether each service could be provided to the same standard or better at a reduced cost[63];

- *Nottinghamshire County Council* - which announced in 2014 its plan to start looking to the private and voluntary sectors to run more of its services[64].

4.18 These and other local authority plans will be followed closely to see how they progress in practice. It was in 2011 that Suffolk County Council announced its 'virtual council' plans, under which the authority aimed to reduce its budget by 30% by "withdrawing as much as possible from its roles as a service provider". Adverse reaction from staff and residents led to the plan being called off and the authority is reported to be now implementing a more 'gradual' and 'pragmatic' version of its original plans. The council's headcount almost halved between 2010 and 2013[65].

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[61] *Further staff cuts and more outsourcing predicted* Local Government Chronicle 16 October 2014
[62] *Biggest ever transformation of services agreed by council* Northamptonshire County Council 19 February 2015.
[63] See *Facing the Challenge: Whole Council Transformation* Kent County Council July 2013
[64] *Redefining Your Council* Nottinghamshire County Council June 2014
[65] Local Government Chronicle 22 May 2014

Northamptonshire County Council – 'Next Generation Model'

In February 2015, the County Council announced that plans had been agreed to start the process of moving entirely away from directly delivering services into a 'Next Generation Model' where an expert core council will commission specialist social enterprises to carry out activity to help achieve its goals for the county.

The Council is starting work to explore how services currently run directly by the council can become separate stand-alone organisations free from statutory restraints. The Council Plan sets out how during 2015-16 to 2019-20 a much smaller organisation will be retained as the Northamptonshire County Council Group which will commission others to achieve its outcomes.

The Plan envisages the creation of four new separate organisations to which the vast majority of the Council's 4000 staff would move with just 150 remaining directly employed by the Council. These new organisations will be employed by the council to deliver services for the county. These could be:-

- a *Children Services Mutual* – to deliver safeguarding and other services for young people;
- an *Accountable Care Organisation* – to deliver services to protect vulnerable adults;
- a *Wellbeing Community Organisation* – to deliver health and wellbeing services;
- a *Place Shaping Company* – to deliver services to improve Northamptonshire as a place.

As well as these larger organisations, the message is clear that other services would also be able to form new enterprises either as private businesses, social enterprises, charities or as part of the voluntary sector. They would all be free to win other contracts to generate additional income to help reduce their costs to the council.

Published alongside the Council's plan, the Council budget agreed to 'efficiency savings' including a reduction of £1 million in promoting the county's economy.

4.19 As regards economic development, outsourcing covers a range of options including joint delivery, partnership delivery through Local Enterprise Partnerships and/or others, and the establishment of delivery companies and vehicles. These are is looked at below.

Joint Delivery arrangements

4.20 This issue was referred to in the CEDOS Research report on the local growth agenda in which we said: "As regards merging teams, it may be that this is most likely to be practical at the level of individual economic development service areas such as inward investment, examples of which include the Stoke on Trent & Staffordshire LEP, where Staffordshire County Council and Stoke on Trent City Council have established a joint inward investment team - *Make it in Stoke on Trent & Staffordshire* and the Black Country LEP, where *Invest Black*

Country has been set up with a dedicated team across all four local authorities to maximise inward investment opportunities"[66].

4.21 The 2015 CEDOS Survey asked members if any joint delivery arrangements had been put in place or were being planned. 17 members responded. Of these 41% said no or not at present; 12% referred specifically to back office functions e.g. finance, legal, HR and IT; 29% gave specific economic development examples; and 18% referred to possibilities being explored.

4.22 Those giving specific economic development examples include:

- "The first major change in terms of joint delivery arrangements will come into place over the next six months with the establishment of a Nottingham and Nottinghamshire Place Marketing Organisation" (Nottinghamshire County Council);

- "Some joint delivery takes place through formalised structures such as the joint working on the delivery of the Lowestoft and Gt Yarmouth Enterprise Zone (two county councils, two district/borough councils and the LEP) and a similar group on energy related inward investment. Other arrangements are more ad hoc such as pooling resources to deliver support to key sectors such as tourism - with districts and boroughs, or ICT - with Norfolk County Council, the Chamber and the LEP (Suffolk County Council);

- Joint inward investment team - *Make it in Stoke on Trent & Staffordshire* – which has operated successfully for more than three years; jointly managed Growth Hub pilot in 2014/15 (Staffordshire County Council and Stoke on Trent City Council);

- "We are doing some work on joint branding for inward investment, and already do quite a bit of joint promotional work; there is also our Growth Hub, which is jointly funded with some seconded staff" (Warwickshire County Council).

Nottinghamshire County Council & Nottingham City Council – Place Marketing Organisation

There are two key organisations currently delivering place marketing across the City of Nottingham and the County of Nottinghamshire:

- *Invest in Nottingham* to attract inward investment is primarily provided by the City Council, with a funding contribution from the County Council;

- *Experience Nottinghamshire Ltd,* a company limited by guarantee to promote tourism and attract visitors, is a private-public partnership drawing on local, regional and national funding. The County Council is a founding member and key funder.

[66] *Local authorities, Local Enterprise Partnerships and the growth agenda* Derek Walker CEDOS & ADEPT February 2014

The County and City Councils have agreed to establish a new Place Marketing Organisation (PMO) for Nottingham and Nottinghamshire to bring together the inward investment and tourism functions, which will provide significant scope for adding value from the closer connections between tourism and inward investment and for achieving efficiencies through integrated operations. One of the early priorities for the PMO will be to agree a unified strategy for place marketing in Nottingham and Nottinghamshire, with a clear vision of the future and a route for getting there.

The new organisation is being co-funded by the City and County Councils and one of the Districts. It will also raise income through a membership scheme, but the councils will be the principal funders and it will therefore be a local authority influenced company. Whether there will be a move to a commissioning model in the future is yet to be decided, but the two councils have committed to the new arrangement for a minimum of three years.

Joint delivery approaches – Stoke on Trent City Council & Staffordshire County Council

The City Council and the County Council are involved in a number of joint delivery arrangements:

- the first major one to be put into place was the joint city/county inward investment service *Make It Stoke-on-Trent & Staffordshire*, which has operated successfully for over three years;

- a Growth Hub pilot designed to stimulate and support indigenous business growth was managed jointly by the City and County Councils in 2014/15, with some continuation in 2015/16. The two councils are moving towards joint commissioning of a new Growth Hub to be funded across the entire sub-region;

- under the last European Regional Development Programme (2006-2013) the City Council managed programmes on behalf of the entire North Staffordshire area – Stoke-on-Trent, Newcastle-under-Lyme, Staffordshire Moorlands. These are likely to be rolled out across the sub-region as part of a wider Growth Hub.

Local Enterprise Partnership & joint local authority/LEP delivery

4.23 An example of a Local Enterprise Partnerships providing economic development services for a council is Hertfordshire, where the Hertfordshire County Council and Hertfordshire LEP teams were replaced in 2014 by a single LEP team with the County Council contributing £250,000 p.a. to the LEP, which delivers a number of services to the Council via a service level agreement.

4.24 Tees Valley provides an example of a joint local authority unit, which was established before the LEP concept emerged, delivering strategic economic development functions for a number of local authority partners and which now also supports the LEP. Here, Tees Valley Unlimited (as a staffing entity) carries out a range of economic development functions for the Tees Valley unitary councils and also supports the Local Enterprise Partnership in the area.

Tees Valley Unlimited – Providing economic development services for local authorities and other stakeholders

Tees Valley Unlimited (TVU) provides a range of economic development services on behalf of its five local authorities (Darlington, Hartlepool, Middlesbrough, Redcar and Cleveland and Stockton-on-Tees). The TVU partnership is also recognised as the Local Enterprise Partnership in the area and has a private-sector led Leadership Board. The staff within TVU also support the LEP activities. The five local authorities are moving towards a combined authority model for TVU which will maintain the effective public and private partnership approach developed over a number of years. The services undertaken by TVU include:

- *Strategy & influencing policy* – TVU worked with partners to put in place the agreed vision for the Tees Valley economy and works to influence Government to highlight Tees Valley priorities and ensure local policies and strategies are based on a strong evidence base;

- *Strategic transport* - working with government agencies, operators and others to attract investment in transport and improve the area's connectivity;

- *Investment & business growth* - working to attract inward investment to Tees Valley and engaging with the top, strategically important businesses in Tees Valley to encourage growth;

- *Tees Valley Business Compass* – a business support, advice and guidance service provided in partnership with the local authorities and other public and private sector partners to help small and medium businesses achieve their growth potential;

- *Tees Valley Catalyst Fund* – a £10 million fund which enables Tees Valley companies to open up new markets and opportunities by enabling them to bid for larger contracts by providing security for performance bond guarantees through provision of short-term debt investments from £100,000 to £2 million. Backed by the Government's Regional Growth Fund, the *Catalyst Fund* is led by Tees Valley Unlimited and managed by FW Capital;

- *Skills* - working with Higher and Further Education providers to help match training provision with employer demand and to improve careers information, advice and guidance;

- *Economic intelligence* - economic, business, demographic and labour market intelligence to support local authority business engagement, planning, housing and school planning functions;

- *Funding and support* – working with partners to access and use external funding e.g. Regional Growth Fund, Local Growth Fund, Growing Places Fund, Enterprise Zone income and European Funding to enable them to plan and deliver infrastructure and employment-creating projects across Tees Valley.

Local authority companies and other delivery organisations

4.25 Local authority companies set up at arms-length from their councils have a long history in local economic development delivery. Examples include:

- *Lancashire County Developments Ltd* – Lancashire County Council's economic development company, which works with new or growing Lancashire businesses and local partners to deliver sustainable economic growth for Lancashire. Activities include raising awareness of Lancashire as a place to live and work, specialist support to start-up businesses, investing in growing businesses, creating business tendering opportunities for County Council contracts, providing managed workspace, offering specialist planning advice for developers and businesses;

- *ARCH* - the Northumberland Development Company with a county-wide remit to attract investment, deliver development and implement regeneration. Wholly-owned by Northumberland County Council, with a mixed public-private Board, it is an asset-based business with a portfolio which allows it to invest in new projects and develop joint ventures with commercial partners. Operating surpluses are reinvested in projects to support and drive affordable housing, regeneration, economic development, digital choice and inward investment in Northumberland;

- *Torbay Development Agency* – a company controlled by Torbay Council, which delivers economic development and asset & facilities management services for the Council.

4.26 Other examples of delivery organisations in CEDOS member areas include:

- *Buckinghamshire Business First* - the county's Local Growth Hub for business support and economic development, with a membership base of nearly 5,000 business members – covering over 50% of Buckinghamshire's private sector employment;

- *Buckinghamshire Advantage* - jointly owned by Buckinghamshire County Council, four district councils and Buckinghamshire Business First, it is being developed as a local delivery vehicle to coordinate and accelerate the development and delivery of a variety of projects and schemes;

- *Sea Change Sussex* - the trading name of East Sussex Energy Infrastructure & Development Ltd, a not-for-profit company set up in May 2011 with a main focus on developing a portfolio of commercial property – offices, business parks and sites; its ten-year development plan focuses initially on the Hastings, Bexhill and Eastbourne areas of East Sussex;

- *Slough Regeneration Partnership* – a joint venture between Slough Borough Council and Morgan Sindall Investments Limited to form a new

£1 billion local asset backed vehicle to carry out regeneration work in the Borough.

Conclusions

4.27 This chapter has highlighted that the delivery of local authority economic development is taking place in the context of continuous change resulting from the significant reductions in Government funding and an increasing focus on devolution and developments in sub-regional arrangements and governance. There is a widespread and ongoing process of council restructuring, with trends towards commissioning authorities and the outsourcing of services.

4.28 The main local authority economic development activity areas highlighted 2015 CEDOS member survey results are: business support, skills & employment, inward investment, policy and intelligence, strategic development & infrastructure, business sites & premises, physical regeneration, European Structural and Investment Funds. In terms of current delivery, the most frequently mentioned in the 2015 survey continues to be in-house (52%), with 17% referring to delivery by LEPs, 14% by local delivery vehicles and 17% by other means.

4.29 However, in the survey a clear majority (76%) report that restructuring of their authorities functions/services is happening, being planned or is likely, whilst 79% report that their authorities are involved in commissioning or planning to, for at least some services. Examples and case studies of commissioning affecting economic development are given but the overall extent is not as yet clear.

4.30 Recent research indicates a significant rise in councils outsourcing and intending to outsource services. For economic development this covers a range of options including joint delivery, partnership delivery through Local Enterprise Partnerships and/or others, and the establishment of delivery companies and vehicles.

5. OVERALL IMPACT ON LOCAL AUTHORITY ECONOMIC DEVELOPMENT & THE WAY FORWARD – CEDOS MEMBER VIEWS

Key messages from the CEDOS Member Survey

On the overall impact of changes in governance, funding & restructuring:

- *Although some were more optimistic, many members highlight reduced resources and services.*
- *Some highlight dependence on progress towards the formation of combined authorities and joint arrangements.*
- *Many members see the possibility or likelihood of directly delivered services being reduced/potentially being outsourced.*
- *A majority of members envisage continued support for their Local Enterprise Partnerships at least for the next year, with some referring to support increasing/possibly increasing and others anticipating a reduction.*

Views on the way forward for local authority economic development in terms of scope, funding and delivery

The overall theme is that local authority economic development will continue to operate in times of ongoing change. Whilst some are positive about future prospects, for many, funding and the challenges ahead are the main concerns. Key issues highlighted are:

- *the need to focus on alternative sources of funding and the need for innovative thinking and approaches;*
- *the impact of structural change both within their authorities and at a sub-regional level;*
- *a need for greater collaboration and joint working between local authorities and partners.*

Introduction

5.1 The various individual impacts on local authority economic development have been referred to in the previous chapters. The 2015 CEDOS survey had a specific section asking members to assess the overall impact of changes in governance, funding and restructuring and how they are affecting/will affect:

- the economic development activity areas their authorities are involved in and how they are delivered;
- the services their authorities deliver directly;
- their support for LEPs covering their areas.

5.2 The final chapter of this report not only looks at this but also at member views on the way forward. To encourage frankness and to respect individual member wishes, the quotes from the survey are not attributed

IMPACT ON ECONOMIC DEVELOPMENT ACTIVITY AND DELIVERY

5.3 There were a number of different types of response to this, which are not appropriate for analysis in percentage or other overall terms but which provide insights which can be grouped under a series of headings.

Resources and services

5.4 Many members highlight reduced resources and services:

- "Reductions in line with funding";

- "Service down to two full time staff so a limited range of activities already provided. There will need to be a further reduction of activity in 2016/17 if sources of income are not found to cover the savings required";

- "Some of the areas that we have held expertise in are now less valued and are being lost, such as funding and economic research. We have also reduced capacity in areas such as skills";

- "Local government settlements continue to put considerable strain on the provision of local services and this means that some areas, like economic development, that have few statutory obligations in terms of provision are put under extreme financial pressure as funds are necessarily diverted despite the best efforts and intentions of local government to continue to support growth";

- "Whilst we discuss the concept of reducing the amount of work we do on economic development, in reality we are more likely to maintain the same volume of work but do it more slowly due to less resources";

- "At the individual local authority level there will be a reduction in business support activity delivered locally".

5.5 A smaller number were rather more optimistic, as for example:

- "There is certainly a sense of 'business as usual' for the 2015-16 financial year at this stage";

- "Our budget is settled for the next two years, and we have additional funding to do more on skills related activity. With the advent of the new round of EU funding, we might be involved in a few more areas, and are working on strategic partnerships with our universities around incubation space, and access to finance - both support to businesses, and funding grants/loans activity".

Dependence on progress towards combined authorities/Rationalising resources in two-tier areas

5.6 Some highlighted the dependence on progress towards the formation of combined authorities and joint arrangements:

- "Much is dependent upon the pace of change towards a combined authority/single growth unit, which will see the function moved to a new body. This will still need to achieve savings across the board and witness a clear prioritisation of activities. The relationship with the LEP and its programme team will also have to be considered and clarified";
- "Clearly the development of a combined authority would be likely to have a big impact, but this is likely to be some way down the line in our area";
- "New structures and governance arrangements are likely to form around the combined authority";
- "This will inevitably evolve as and when the combined authority is established";
- "There is already a strong record of joint working in our area on delivery of projects both between the different tiers of local government and also between local authorities and the LEP. The real challenge is rationalising the economic development resources available between the two tiers of local authorities (both people and funds) and what the real appetite is for new ways of joint working".

Focus of economic development activity and its delivery

5.7 Some members addressed in particular the focus of economic development activity:

- "Increased focus on physical project delivery, with the Council acting as an enabler and working very much in partnership to deliver new development. Possible increased focus on skills sets related to project delivery and regeneration";
- "More intensive focus on bringing forward development sites, skills, increased engagement/support for SMEs";
- "More focus on LEP-related activity";
- "A greater requirement for collaborative partnership working, whilst at the same time meeting core council requirements";
- Closer working between councils under the auspices of the LEP and greater dependence on external funding including the new ESIF;

- "Governance, funding and restructuring I don't feel will change the type of operation although it will be a commissioner and deliverer split of some kind".

Impact on services authorities deliver directly

5.8 Whilst inevitably responses differ in relation to services currently delivered, overall they underline the fact that member authorities are in times of change with several seeing the possibility or likelihood of directly delivered services reducing/potentially being outsourced, for example:

- "These are likely to reduce";

- "May reduce how much is directly delivered";

- "Reduction in business support activity delivered locally with a move to a more strategic approach";

- "A general reduction in number and scope of services; details not currently available as to which services";

- "We have become more focused on ensuring that we achieve the outcomes articulated in the commissioning strategies and whether they are delivered in-house or externally is secondary to the importance of delivering the outcomes. As a result of this, we expect some services will inevitably be outsourced and internal services will be challenged to operate in a more competitive environment";

- "Potential outsourcing to private or third party providers; greater dependence on its own income generation";

- "The inward investment role for the sub-region may be transferred to a private sector organisation to lead on if funds can be raised from both government and private sector".

Impact on support for LEPs covering the area

5.9 Of the members that answered this question, a majority envisage continued support for their Local Enterprise Partnerships at least for the next year:

- "The Council will continue to support the LEP, and this role is unlikely to diminish, however, it will also seek to work more closely with authorities beyond the LEP boundary";

- "The local authorities will continue to fund the LEP activities";

- "No significant change anticipated, although with ERDF/ESF programmes this may change the dynamic";

- "One officer currently seconded to the LEP 2 days per week; this is likely to continue in 2015/6";

- "Match funding for Government's core LEP funding ring fenced at £50,000 for 2015/16 but not secured for subsequent years yet";

- "Support for the LEP will remain unchanged to the point at which the LEP geography changes and the authority will resource accordingly";

- "The commitment to support the operation of the LEP will continue - somehow!"

5.10 A smaller number refer to support increasing/possibly increasing with some anticipating a reduction:

- "Increased support due to ability for LEP to generate income for the economy team";

- "We chose to prioritise skills and the LEP when creating our new budget, so the new arrangements should if anything strengthen the amount of support that we give to the LEP";

- "We now prioritise all activity through the LEP to support delivery of the Strategic Economic Plan";

- "We have seconded one full time post to the LEP. We expect the LEP to fund this next year";

- "We plan to reduce our support to the LEP in light of core funding for LEPs";

- "We no longer provide core funding to the LEP".

THE WAY FORWARD

Member views on the way forward for local authority economic development in terms of scope, funding and delivery

5.11 In the 2015 CEDOS member survey we asked for member views on the way forward. As personal views they provide insights into the current thinking of Heads of Economic Development from councils around the country. The over-riding theme is that local authority economic development will continue to operate in times of ongoing change as exemplified by the following response:

> "Change will continue. The ever increasing focus on driving efficiencies in the public sector and competitive bidding, with private sector leverage key, will continue to drive new delivery models such as combined authorities or public-private partnerships. A key challenge will be to match this with accountability and the democratic process. The need for robust evidence and local capacity to bid will increase. Matching very local projects initiatives with targeted national programmes and limited resources will need to be balanced".

5.12 Within this overall context, the focus of views inevitably varies with individual local circumstances. Some are positive about future prospects:

- "It is looking very positive – the success and PR arising from key projects has led to further commitments, although there are still significant policy challenges";

- "At the moment, reasonably positive. We have placed economic growth as the key priority for the council, and the work we are doing around skills has cross-party support. We are freeing up resources to provide match-funding for ESIF, which will enable us to get involved even more";

- "The political and corporate commitment currently evident is most welcome, and this is reflected in the restructuring proposals, and the appointment of a new Economy Portfolio holder on the Council's Cabinet".

5.13 For many, funding and the challenges ahead are the key issues:

- "It is undeniable that the continued reduction of budgets across local government and the resulting need to protect areas of statutory responsibility will impact on the ability for economic growth activity to fight for budget whilst adult social care and health related areas continue to need increased funding";

- "Greater squeeze on non-statutory services such as economic development; greater dependence on both traded income and external funding (e.g. ERDF, RGF etc)";

- "Economic growth still a major priority of the Council. The challenge is always finding ways of doing it better with less resources and trying to galvanise the whole council to do it by changing the culture";

- "The Economic Development Service has been given a challenge to demonstrate its value in terms of inward investment and EU funding. It suffers from not having any statutory services, which puts it at risk from severe cuts from 2016/17 onwards";

- "Funding remains a challenging issue. This will be influenced by the macro economic and political situation so innovative approaches will be needed".

5.14 Several members highlighted the need to focus on alternative sources of funding and the need for innovative thinking and approaches:

- "Further exploration and use of alternative funding streams; greater innovation – looking at ways to deliver core services more efficiently";

- "The need for sustainable growth becomes even more important as government funding streams are reduced and retained business rates and New Homes Bonus - assuming these continue - become increasingly a source of funding for local authorities";

- "Funding of economic development should be much more strongly linked to actual growth on the ground. There is some pooling of business rates but the effect of this is limited and there is no mechanism for ensuring that the pool is subsequently reinvested in economic development activity. The same is true of the New Homes Bonus, where once again the parochialism of local politics kicks in and none of the Councils is prepared to have a mature conversation about using it more creatively";

- "Our Enterprise Zone offers the potential for a TIF mechanism to be developed to create an investment fund, with the borrowing to be repaid by future Business Rate uplift. Significant effort has gone in to modelling this and DCLG are supportive, yet so far none of the upper tier authorities has expressed a willingness to take this forward. Without this type of creative thinking and, to an extent, informed risk-taking, it is unlikely that the Enterprise Zone will fulfil its potential for the area".

5.15 Some members highlight the impact of structural change both within their authorities and at a sub-regional level:

- "A huge amount of effort and energy is being diverted from delivery of tangible economic development activity into facilitating partnerships and discussions around governance. In my view this has had serious detrimental consequences for the performance of the Council's economic development service";

- "I would foresee a small group whose role is to help the council to develop its strategies and then commission them effectively. I expect that our delivery activity will be focused on a few major infrastructure schemes, with revenue activity to help the local economy to realise the benefits of those schemes";

- "It seems as though the function of economic development will continue to diminish in Local Government as the pressure increases to make further efficiencies. Arguably there will be less scope to undertake innovative work and to develop new initiatives. Much of what we do is still driven by the ambition to deliver a number of key capital programmes, but ongoing future investment in similar projects looks less likely. The way in which our services and teams are now being integrated and merged with other council functions means that the role and function of economic development will become less visible and less of a priority";

- "My personal view is that local authorities will no longer be direct providers of economic development functions within the next three years".

5.16 A number of members highlight a need for greater collaboration and joint working between local authorities and partners:

- "Need for greater joint working between local authorities with increased clarity and focus on local priorities and opportunities";

- "Increasingly in a time of scarce resources, economic development will be carried out at a sub-regional/city region level to allow local authorities to benefit from economies of scale, joined up working and a more strategic approach; in order to deliver on this fully, more devolution is needed from central government to enable city regions/sub-regions to have more control over their own resources and economic destiny";

- "Greater collaborative working with partners across the board";

- "If two-tier rural areas are to compete for both business and resources then the only sensible option is for the tiers to work closely together and where necessary across tiers i.e. cross-county collaboration. What is not clear is how any new joint structures would deal with the internal demands made on an economic development service. These include supporting other council services in their own transformation work. Whilst this may be a priority for a county economic development unit it may not be as high a priority for a combined unit that sees itself focusing on particular high value sectors".

5.17 Some focus specifically on LEPs:

- "Whilst the moves towards a joint growth unit make absolute sense for the LEP area, the status and scope of such a unit will be critical to its ability to really influence and drive economic growth";

- "Merger with the LEP seems the most likely long term way forward for county's strategic economic development and programme management roles, with inward investment potentially taken on by the private sector for part of the county area. This may depend on whether the LEP geography remains the same and is not enlarged through LEP mergers";

- "Rationalisation of LEP boundaries should be an early priority of a new government".

Conclusions

5.18 The 2015 CEDOS survey deliberately avoided undue constraints on members and provided the opportunity for them to focus on issues that are particularly relevant to them and their authorities in terms of the overall impact of changes in governance, funding & restructuring and to share their views on the way forward for local authority economic development.

5.19 On the overall impact of changes in governance, funding & restructuring, although there were a number of different types of response, some key features emerge. Although some were more optimistic, many members highlighted reduced resources and services, with some highlighting dependence on progress towards the formation of combined authorities and joint arrangements. On the question of direct delivery of services, many members see the possibility or likelihood of them reducing or potentially being outsourced. On the question of support for Local Enterprise Partnerships, a majority envisage continuing support at least for the next year, although some referred to support increasing or possibly increasing whilst some others anticipated a reduction.

5.20 On the way forward for local authority economic development, the overall theme is that local authority economic development will continue to operate in times of ongoing change. Whilst some are positive about future prospects, for many, funding and the challenges ahead are the main concerns. Key issues highlighted are: the need to focus on alternative sources of funding with innovative thinking and approaches; the impact of structural change both within their authorities and at a sub-regional level; and a need for greater collaboration and joint working between local authorities and partners.

ANNEX A: CEDOS MEMBER SURVEY 2015 – QUESTIONNAIRE

This could be an Annex on the survey as a whole with response rates, member coverage, member authorities responding although to some extent this will be referred to in the Introduction Chapter.

A. Overview of current economic development activities, their delivery & funding

1. Please indicate your authority's main economic development activity areas & how they are delivered currently (please put 'yes' or 'no' in text boxes)

Activities	Delivery			
	In House	Local Delivery vehicle	LEP	Other

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2. In each case, to what extent are they funded by the authority itself and/or are dependent on Government, EU or other external funding? (please put percentages in text boxes)

Activities	dependence on external funding			
	LA	Govt	EU	Other

Please give some details if possible for (1) and (2) as part of the final page of additional information & details

B. Local authority finance for economic development

(please give details for the following questions including figures/percentages where possible)

3. How is your authority affected by the provisional local government finance settlement for 2015/16?

4. What is the expected economic development budget for 2015/16 of your authority in terms of (a) revenue (b) capital?

5. How has this changed over the last 2 years and what is the future outlook for your authority's economic development spend/staffing levels/services?

6. Are new sources of finance for economic development activity being explored? If so please give details.

C. Governance & delivery changes

7. What sub-regional governance arrangements (Combined Authorities, Economic Prosperity Boards or other arrangements) are being planned/put in place in your area?

8. Have/are any joint delivery arrangements been/being planned/put in place?

D. Local authority restructuring

9. Is your authority undertaking or planning restructuring of its functions/services? Please give details if possible.

10. Has your authority moved or is it planning to move to a commissioning model of service delivery? Please give details if possible.

Impact on economic development

11. How are/will changes in governance, funding and restructuring affect:

a) the economic development activity areas your authority is involved in and how they are delivered?

b) the services it delivers directly?

c) its support for LEPs covering the area?

12. What is your view on the way forward for local authority economic development in terms of its scope, funding and delivery?