



Centre for Local
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bulletin

A new local economic narrative

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Introduction

The Coalition Government's approach to recovery and economic growth has so far been an approach that embraces the supposed rhetoric of three principles: small state; local decision making; and a competitive private sector. In the 2012 Budget Statement¹, the Chancellor of the Exchequer announced that the Prime Minister had commissioned Lord Heseltine to conduct an independent review into the performance of government departmental spending and decision making capacity around economic growth. The December 2012 Autumn Statement was an opportunity for the Coalition Government to reflect on Lord Heseltine's recommendations (presented in late October 2012²) and detail a revised plan for economic growth and recovery³.

This Bulletin provides a commentary upon the Coalition's approach to economic growth and recovery, in light of the Autumn Statement 2012, reflecting upon the recommendations of the Heseltine Review. Indeed, Heseltine and the Autumn Statement provide some useful recommendations upon future economic policy.

Whilst we welcome the Heseltine Review, at CLES we believe there is a need for a much more fundamental review of the way in which economic policy is designed, developed and delivered; a review in which a new narrative is developed in relation to local economies. The Bulletin therefore provides a commentary upon: what this new narrative might look like; where centralism is reduced in economic policy; where barriers to local economic development are removed; and where a greater belief that local places can deliver is fostered.

Content of emerging policy

Stimulating economic growth has been at the forefront of the Government's approach to addressing the economic deficit. Over the course of the last thirty months we have seen the development of a national growth plan, the advent of Local Enterprise Partnerships (LEPs), the return of Enterprise Zones, and the introduction of the Regional Growth Fund; all designed to stimulate local economic output and growth. The impact of this policy intervention is unproven; job creation remains a significant challenge, and partnership development has been slow as LEPs often lack the required governance maturity and powers. Both the Heseltine Review and the Autumn Statement have sought to think through recommendations as to how the powers of such vehicles can be enhanced to address the problem of a struggling economy.

¹ HM Treasury, Budget Statement 2012: http://www.hm-treasury.gov.uk/budget2012_statement.htm

² Lord Heseltine (2012) No stone unturned: in pursuit of growth:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34648/12-1213-no-stone-untuned-in-pursuit-of-growth.pdf

³ HM Treasury, Autumn Statement 2012: http://www.hm-treasury.gov.uk/as2012_index.htm

On 30 October 2012, Michael Heseltine presented his 89 recommendations to the Coalition Government, in the publication of *'No stone unturned in pursuit of growth'*. Heseltine's review is a friendly reminder to the Coalition Government that the current growth agenda is not performing as well as it should be. In some ways, the Heseltine Review represents a nod to the past, with a revival of competitive bidding between places and, at the same time, provides some innovation in the way of enabling a statutory function for economic development at the local level.

The Autumn Statement 2012 provided the Chancellor of the Exchequer with the opportunity to reaffirm the Coalition Government's *'Plan for growth'* and to respond to the outcomes of the Heseltine Review. Having had time to reflect on Heseltine's recommendations, there is some evidence of new funding for LEPs and more of a cross-government department approach to economic growth. However, it is only tinkering at the margins of economic growth policy, with a full response to Heseltine's review expected in spring 2013.

As such, two key themes sit in and across the Heseltine Review and the Autumn Statement in relation to economic growth and development at the local level. These themes are: more powers for LEPs; and the creation of a duty for economic development for local government.

More powers for LEPs

Local Enterprise Partnerships (LEPs) are the Coalition Government's flagship policy designed to redistribute growth and stimulate private sector led development at the local level. Both the Heseltine Review and Autumn Statement places emphasis upon an enhanced role for LEPs, in particular:

Devolution of funding for LEPs

Heseltine recommends that a single pot of funding is developed which cuts across central government department budgets around economic growth, and which is allocated to LEPs on a competitive basis. An aspirational figure of £49 billion is identified for such purposes for the next spending review period. The Government responded to this recommendation in the Autumn Statement by highlighting proposals to create a single funding pot for LEPs by April 2015. The Single Pot Fund will depend upon the proportion of growth related spend, which is set out in the LEPs strategic plans and reflected in the quality of the strategic proposals put forward by the LEPs. It remains to be seen whether the single pot is the full £49 billion advocated by Heseltine. The Autumn Statement commits to a new concessionary public works loan rate to an infrastructure project nominated by each LEP (excluding the Pan London LEP), with the total borrowing capped at £1.5 billion.

Developing LEP growth and investment strategies

The Heseltine Review recommends that all LEPs should develop a long term growth and investment strategy with local stakeholders to determine their strategic objectives. The LEP growth plans should include analysis of the strengths, weaknesses and barriers to growth; and an investment plan, used to bid for central government funding such as the Regional Growth Fund (RGF), and the potential emerging Single Pot Fund. The Government have responded to this recommendation in the Autumn Statement by encouraging LEPs to develop such growth and investment plans. It is suggested that the role of LEPs should be strategic; developing the plans through consultation with business partners, such as Chambers of Commerce, and public partners, such as local authorities.

Capacity building resource for LEPs

The Heseltine Review recommends that LEPs should be allocated up to £250,000 each of funding to develop both their capacity to facilitate growth, and the growth and investment plans as discussed above. It also suggests that part of the remit of these capacity building funds should be to hire private sector planners to share expertise and reduce LEP dependency on stretched local authority planning departments. In the Autumn Statement, the Government committed to providing up to £10 million per year for LEP capacity building. Each LEP will have the opportunity to bid competitively for up to £250,000 of the total pot.

Providing the opportunity to review LEP boundaries

Heseltine recommends that LEPs have the opportunity to review their boundaries within a three month period to align with the economic footprint of the functional economic market areas. This gives smaller LEPs with overlapping boundaries the opportunity to come together and redefine their boundaries, thus better reflecting the socio-economic footprint of their geographies. This issue is not fully responded to in the Autumn Statement.

Reviewing the composition of LEP Boards

The LEP Boards are chaired by private sector board members, which also include members of the public and university sectors. Heseltine suggests that LEP Boards are too top heavy, with a lack of representation from public and private sector employees with on the ground experience of delivering investment and facilitating growth. It thus calls for a review of the composition of boards; this review of composition and involvement will probably come through the development of the investment and growth strategies, and wider capacity building activities.

Fostering LEP and skills provider relationships

An important element of the LEP investment and growth strategies will be to incorporate skills priorities which are both reflective of the local population and the needs of local employers. Key to this will be engagement with Further Education (FE) colleges and, as such, Heseltine recommends that FE Colleges form part of the consultation for growth strategies, and develop relationships with LEPs to ensure their courses are reflective of local labour market requirements.

The Autumn Statement suggests that LEPs will have a new strategic role in fostering skills development. LEPs will be encouraged to have a seat on FE Colleges governing bodies, with colleges represented on the LEP Boards. LEPs will also be able to determine how the European Union Common Strategic Framework funds are spent locally, including the European Social Fund, and will be able to bring bidders together to access Employer Ownership Pilot funding.

Development of Local Growth Teams

The Heseltine Review also recommends that Civil Servants based across the country should be allocated a cluster of LEPs. The Local Growth Teams should promote efficiency and coordination to prevent duplication and multiple areas bidding for single initiatives. Heseltine suggests that six to seven Local Growth Teams across the country are developed to foster relationships between central government departments and LEPs; in a similar way to the previous Government Offices. The Autumn Statement does not mention the role of Local Growth Teams.

Creation of local government economic development duty

Historically, one of the challenges for local government in responding to the Government's aspirations around growth and development has been the lack of a statutory duty or function around economic development. The Heseltine Review therefore has an overarching theme that local authorities should have a legal duty in regard to economic development. There are a couple of specific recommendations related to this:

The removal of a two tier system

According to the Heseltine Review, private sector businesses prefer to deal with a single local authority because they have a clear set of objectives, which results in faster decision making. Therefore, the Heseltine Review proposes that all two tier local authorities move to a single tier unitary system, with the belief that council services can be delivered more cost effectively at this scale.

Encourage local authority conurbations

Heseltine also recommends that formal collaborations between local authorities across functional economic markets on matters of economic development, regeneration and transport, should be encouraged providing they align with the functional economic geography of the existing LEPs. It is suggested that these adopt the structures of combined authorities already evident in Greater Manchester and Greater Leeds.

The recommendation in the Heseltine Review for a statutory economic development duty for local government is not reflected in the Autumn Statement; indeed local government responsibility around economic development is further fettered by a £445 million cut in budgets in 2014/15.

Key unanswered questions and developing a new narrative

Reading through both the recommendations of the Heseltine Review and the Autumn Statement brought a sense of déjà vu for CLES. The principles of the Heseltine Review were largely formed on relatively narrow assumptions that competition between places for funding will lead to innovation and new ways of facilitating growth. This principle was evident in the 1980s and 1990s with City Challenge and SRB, which created not a culture of innovation, but a culture where those with greatest capacity and skills to write bids were successful in attracting funds. The danger with the single pot for LEPs is again that those localities which have the ability to articulate their potential to enable economic growth will outbid those with more socially focused priorities.

Heseltine's emphasis on leverage, and how local public and private money and capacity can be used to match income from a central resource via competitive bidding processes, has its usefulness – especially in creating a focus on place and local place partnerships. However, this is an old approach for a very different economic time; many locations have far less public and private money. Furthermore, this was in the past, and remains a Central Whitehall departmental fix to a much deeper systemic problem of the economic and social issues our country faces.

Similarly, the Autumn Statement, whilst offering some hope in the form of incentives for business, follows the same twin track approach of deficit reduction and growth focused stimulus. Both documents left us with a number of questions for government in relation to their content:

1. Where is an overarching national economic development strategy?
2. How are government going to tackle the overriding central barriers preventing progressive localism?
3. How can local authorities develop statutory economic development functions in an era of cuts and competing demands for finance?
4. Is the Government encouraging competition between local authorities and LEPs for investment?
5. Where is the focus upon social growth and the localities which will not grow economically?
6. What do LEPs do with the potential £49 billion of economic growth funding to enable resilient places?
7. Does the commercial sector have the required skills to develop place based investment strategies?
8. Are we simply repeating the mistakes of the past in relation to initiatives and growth policy?

The answer for CLES comes through four means:

Create a new economic narrative

The narrative used by Heseltine and the Chancellor is generic and one dimensional: it is predicated on growth which is not bespoke to the characteristics of place; it is based on using trickle down economic policy to tackle inequality; and it is being driven by competition not collaboration. There is a need for a new narrative focused economic development strategy from central government, where the focus of policy is not just about growth but consideration of people, places, alternative finance, social return, social business, working within environmental limits, and cooperation. This narrative needs to challenge the orthodoxy of growth, recognise that economic uncertainty will be the new norm, and that public sector largesse has gone forever.

Challenge rampant centralism

The biggest barrier to developing local economies is not skills and capacity, nor is it weak local government and partnerships, it is oppressive centralism of government driven by Whitehall and notably the Treasury. There is an unwillingness of government departments to work together, share budgets for economic and social purposes, and ultimately decentralise power and responsibility away from London. The UK is the most centralised of all western liberal democracies and the culture, attitudes and regulatory framework prevents the significant acceleration of localism. As practitioners in localities, we need to be challenging this rampant centralism by identifying and detailing the exact barriers which prevent economic development at the local level.

Promoting heterogeneity through funding

The funding approach advocated by Heseltine and the Autumn Statement is one of homogeneity; the creation of a single pot for cross-departmental economic growth funding is bound to be accompanied by a competition criteria based upon the LEP areas which can grow the fastest. We can no longer afford to have this one dimensional approach to funding; it is not going to address the output gap, nor the inequality gap. The Government must therefore think differently about decentralisation of funding and power; criteria which is based upon the heterogeneity of place; and the challenges that different localities face in economic, social and environmental terms.

Get LEPs thinking wider than the economy

The £49 billion of funding recommended by Heseltine for bringing together a single pot, to allocate to LEPs for economic growth purposes, is a significant amount of money. If the Government does include this in the next spending review, we need to ensure LEPs are ready to go beyond local economic wealth in how they spend that finance, through:

- fostering procurement processes which facilitate wider societal outcomes;
- engaging the public and social sector to enable a full understanding of the challenges facing places;
- maintaining that any form of growth economically is also complimented by social growth.

Creating a new economic narrative, challenging rampant centralism, promoting heterogeneity of funding, and thinking beyond economic growth, are not straightforward asks of the Government. Indeed, they will require a fundamental cultural shift in approach. However, if places are to be advanced and facilitated to recover, the Government must be open to moving away from a generalist and one dimensional approach to economic policy, and towards a progressive economic future.

The tasks outlined above will form part of a new CLES research programme for the next three years called Local Economic Futures. In this programme of research, we will look to define the new economic narrative, identify the central government barriers preventing progressive localism, and highlight how LEPs and others can deliver policy and strategy which is truly beneficial in economic, social and environmental terms.

Bulletin is one of a series of regular policy reports produced by the Centre for Local Economic Strategies (CLES). CLES is the leading membership organisation in the UK dedicated to economic development, regeneration and local governance. CLES undertakes a range of activities including independent research, events and training, publications and consultancy. CLES also manages the monthly New Start digital magazine, through its new CLES online service, which provides comprehensive analysis and commentary on current policy and good practice.

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