



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Department for Communities and Local Government  
and Department for Business, Innovation & Skills**

# Funding and structures for local economic growth

## Key facts

**£3.9bn**

our estimate of funding from central government 2011-12 to 2014-15 on the local growth schemes covered in this report

**£1.2bn**

spent by departments in 2011-12 on the local growth schemes covered in this report

**£53m**

our estimate of funding actually paid to end beneficiaries in 2011-12 from the schemes in this report

<b>39</b>	Local Enterprise Partnerships approved by December 2011
<b>24</b>	Enterprise Zones operating by April 2012
<b>8</b>	City Deals agreed in principle in July 2012
<b>32,000</b>	jobs reported to have been created or safeguarded directly through the Regional Growth Fund by the end of 2012-13
<b>£599 million (89 per cent)</b>	capital element of the Growing Places Fund allocated to local projects by Local Enterprise Partnerships from the Department's June 2013 survey
<b>17</b>	Local Enterprise Partnerships that the Department for Business, Innovation & Skills considers to have a 'strong case' to represent a functional economic area
<b>54,000</b>	original estimate of jobs to be created in Enterprise Zones by 2015, published by HM Treasury in 2011 based on information reported by Local Enterprise Partnerships
<b>6,000 to 18,000</b>	revised estimate by the Department for Communities and Local Government of jobs to be created in Enterprise Zones by 2015
<b>39 per cent</b>	of successful bidders to the first round of the Regional Growth Fund had received their final contract nine months after the initial announcement of successful schemes
<b>97 per cent</b>	of successful bidders to the third round of the Regional Growth Fund had received their final contract nine months after the announcement of successful schemes following government investment to speed up the programme

# Summary

**1** In 2010, the government set out its plan for local economic growth in the White Paper *Local growth: realising every place's potential*.<sup>1</sup> The White Paper's core objective is "to achieve strong, sustainable and balanced growth that is more evenly shared across the country and between industries". The plans are part of the government's national economic policy, set out by HM Treasury and the Department for Business, Innovation & Skills in the 2011 *Plan for Growth*.<sup>2</sup>

**2** The 2010 White Paper described a new approach to local economic growth based on three main principles that reflect the government's localism agenda which aims to devolve power to communities and ensure that "where the drivers of growth are local, decisions [are] made locally":

- Shifting powers to local communities and businesses: principally through the closure of the Regional Development Agencies and the introduction of Local Enterprise Partnerships. The White Paper also discussed possible new arrangements for EU funds administered by the Regional Development Agencies.
- Promoting efficient and dynamic markets and increasing confidence to invest: through reforms to the planning system and the introduction of new incentives and powers for local authorities such as the New Homes Bonus, business rates retention and tax increment financing.
- Focused investment: initially through the Regional Growth Fund, and subsequently through the Growing Places Fund, Enterprise Zones and City Deals. The White Paper also referred to capital investment in infrastructure such as transport and communications.

<sup>1</sup> HM Government, *Local growth: realising every place's potential*, Cm 7961, October 2010.

<sup>2</sup> HM Treasury and the Department for Business, Innovation & Skills, *The Plan for Growth*, March 2011.

## Scope of our report

3 This report focuses on the first and last of these three strands: focused investment through new programmes specifically designed to support growth in particular places, together with the role of the Local Enterprise Partnerships as the key strategic local growth bodies that oversee or play a significant role in the delivery of the new investment programmes. This report examines whether departments are implementing these new local growth programmes in a way that is likely to achieve the government's objectives and provide value for money. We have considered:

- new structures for local economic growth (Part One);
- how funding is distributed (Part Two);
- progress in implementing new structures and funding (Part Three); and
- whether coordination, accountability and monitoring are adequate (Part Four).

4 We interviewed departmental officials and examined departmental data. Locally, we looked at six case studies and conducted 46 telephone interviews with local authorities and Local Enterprise Partnerships. We have also drawn on our previous report *The Regional Growth Fund*.<sup>3</sup> We have not sought to assess the impact of these initiatives on long-term economic growth in terms of Gross Domestic Product or Gross Value Added, but looked for evidence of outputs such as jobs created. Our approach is set out in Appendices One and Two.

5 We plan to report in 2014 on progress made in implementing recommendations made by the NAO and the Committee of Public Accounts in 2012 about the Regional Growth Fund.

## Background

6 Government plans for local growth have evolved and developed since the 2010 local growth White Paper as new initiatives and funds have been added. There is no single definition of local growth policy. For the purposes of this report we have examined the four largest new local growth programmes and Local Enterprise Partnerships, the key new strategic body, as follows:

### Local Enterprise Partnerships

- Small, strategic partnerships, created by local businesses and civic leaders to provide the vision and leadership to drive growth locally.

### Enterprise Zones

- Geographically-defined areas hosted by Local Enterprise Partnerships in which businesses can receive a range of incentives to start up or expand.

3 Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

**The Growing Places Fund**

- Comprises revolving investment funds overseen by Local Enterprise Partnerships providing support, predominantly through loans, to help provide short-term infrastructure projects and support local economic growth.

**The Regional Growth Fund**

- A competitive fund open to businesses, Local Enterprise Partnerships and local authorities that provides funding to encourage private sector enterprise and lever private sector investment.

**City Deals**

- Agreements between central government and cities that aim to give new powers, freedoms and funding mechanisms to local decision-makers.

**7** We estimate that central government funding to support local economic growth, through the new initiatives covered in this report, is currently £3.9 billion over the four years to 2014-15. Government funding for these local growth programmes, where it is going to local authorities and Local Enterprise Partnerships, is mostly provided via the Department for Communities and Local Government.

**8** The new local growth programmes sit within a broader significant body of ongoing spending that also supports local growth. This includes EU Structural Funds and spending by departments and local authorities on areas such as skills, transport and housing. While not within its scope, this report looks at the change in the overall level of this spend in order to set the new initiatives in context.

**Key findings**

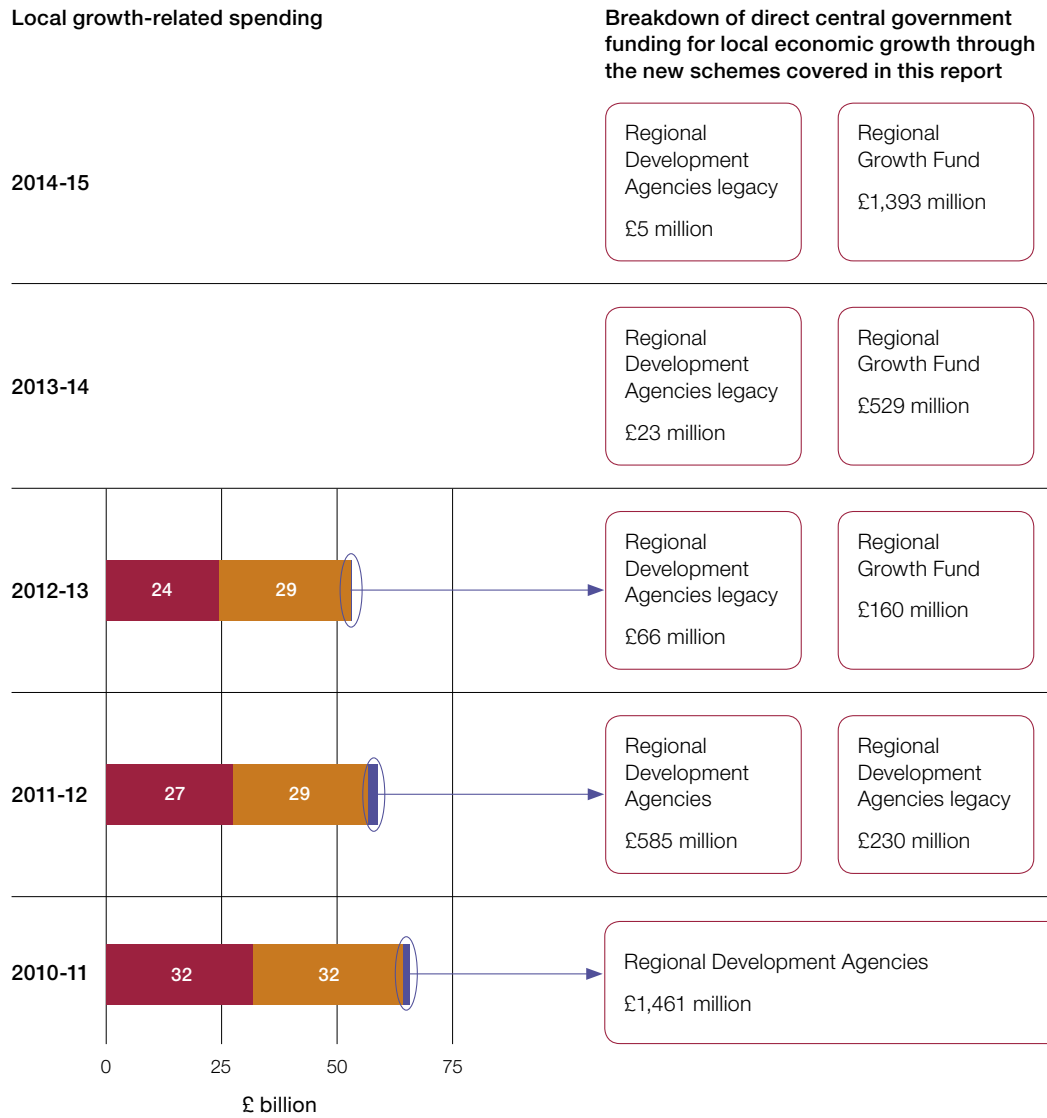
## Structural change

**9** **Since 2010, there has been a complete change in the structures and funding mechanisms to support local growth alongside devolution of powers to the local level.** Local growth policy over decades has seen existing structures and funding regimes often replaced by new schemes. Since 2010, government has almost completely removed previous programmes for local growth and replaced them with a new set of structures and funding mechanisms, alongside new local freedoms and responsibilities (paragraph 1.4 and Figure 3).

## New structures and funding for local growth

**10** **As a result of its deficit reduction objective, central government spending on the local economic growth programmes in this report has fallen (Figure 1 overleaf).** Over the five-year period 2010-11 to 2014-15 the government will spend £6.2 billion on local growth programmes, including £2.4 billion spent via Regional Development Agencies and their legacy, and £3.9 billion spent on the new funds and structures covered in this report. In comparison, the Regional Development Agencies spent £11.2 billion over the five-year period 2005-06 to 2009-10 (paragraph 2.3).

**Figure 1**  
Changes to funding for local economic growth, 2011-12 to 2014-15



- Wider departmental growth spending
- Local government growth spending
- Direct funding for local growth covered in this report

**Notes**

- 1 Reflects actual (before 2013-14) and forecast (2013-14 onwards) spending by departments on the new local growth programmes covered in this report; Regional Development Agency legacy spend is forecasts only. City Deal spend is estimates only. Recycling of funds used for loans is not reflected. The data is also at Appendix Three.
- 2 Wider growth-related spending by central and local government (see paragraphs 2.14 to 2.15) is shown as context but is not available for 2012-13 onwards.

Source: National Audit Office analysis of departmental data

City Deal Funding £72 million	Local Enterprise Partnerships (running costs) £21 million	Enterprise Zone Funding £223 million	<b>Total</b> <b>£1,714 million</b>
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City Deal Funding £118 million	Local Enterprise Partnerships (running costs) £21 million	Enterprise Zone Funding £94 million	<b>Total</b> <b>£785 million</b>
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City Deal Funding £33 million	Local Enterprise Partnerships (running costs) £6 million	Enterprise Zone Funding £8 million	<b>Total</b> <b>£273 million</b>
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Regional Growth Fund £465 million	Growing Places Fund £730 million	Local Enterprise Partnerships (running costs) £6 million	<b>Total</b> <b>£2,016 million</b>
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			<b>Total</b> <b>£1,461 million</b>
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**11 The transition from the Regional Development Agencies to the new local growth landscape covered in this report shows a marked dip in funding.**

In 2012-13, £321 million was provided to end beneficiaries via the new growth programmes, alongside £66 million of Regional Development Agency legacy spending. This compares to £1.5 billion spent by the Regional Development Agencies two years previously in 2010-11, and estimated payments to end beneficiaries of £1.9 billion through the new local growth programmes in 2014-15. There are two main reasons for this dip. First, government closed the Regional Development Agencies rapidly, as planned to realise savings, but introduced the new local growth programmes gradually over a different time frame. Second, the Regional Growth Fund had a slow start and government has not allocated funding as quickly as originally planned (paragraphs 2.5 to 2.11).

**12 In addition to direct spending on these local growth programmes, central and local government spent £52.7 billion on wider growth-related activity in 2012-13, a reduction of £11.4 billion (18 per cent) from 2010-11 (Figure 1).**

Central government reduced growth-related spending by bodies such as the Skills Funding Agency, Homes and Communities Agency, and UK Trade & Investment, by £4.5 billion (14 per cent) in 2011-12 and by a further £3.1 billion (11 per cent) in 2012-13. Local authorities also reduced their spending by £2.8 billion (9 per cent) on a range of services linked to local growth including housing and transport. Local growth spending by local authorities fell by a further £900 million (3 per cent) in 2012-13 (paragraphs 2.14 to 2.15).

### Progress in creating the new structures and funds

**13 The 2010 local growth White Paper committed the government to “ensuring an orderly transition from Regional Development Agencies to the new delivery landscape”. In our view, this has not been achieved.**

The government closed the Regional Development Agencies, and abolished certain functions or transferred them upwards to central departments and their agencies, effectively and as planned. However, government conceived and introduced the new programmes covered in this report, which are aimed at transferring responsibility downwards to the local level, gradually and over a different time frame (paragraphs 3.2 to 3.5).

**14 The departments have made some headway and the new structures are moving towards implementation. Issues remain, however:**

- **Local Enterprise Partnerships are making progress though at different rates.** Some partnerships continue to face significant capacity issues, a factor exacerbated by the recent step change in the demands placed upon them through introducing the Growth Deals and new responsibilities for EU Structural Funds. Government has responded with additional funds to build partnerships' capacity (paragraphs 3.6 to 3.12).
- **The government has established 24 Enterprise Zones, but they face a significant challenge to create the number of jobs expected.** Job creation forecasts have changed from an initial expectation of 54,000 additional jobs by 2015 to an assessment of between 6,000 and 18,000. By July 2013, the Department for Communities and Local Government had agreed action plans with each Enterprise Zone setting out the key actions required to provide growth by 2015 (paragraphs 3.13 to 3.16).



- **Local Enterprise Partnerships are allocating funding from the Growing Places Fund to local projects but evidence of outputs in terms of new jobs, houses and improved transport to date has been limited.** Local Enterprise Partnerships allocated £599 million (89 per cent) of capital funds to 305 local infrastructure projects by mid-2013. However, those projects only spent an estimated £56 million and created 112 jobs in 2012-13 (paragraphs 3.17 to 3.19).
- **The Regional Growth Fund has begun to create and safeguard jobs in 2011-12, but the slow start means that the fund now faces a heavily back-loaded spending profile.** The Department for Business, Innovation & Skills has improved its central scheme management, reflected in improvements in the management of the third and fourth rounds. Nonetheless, the funding profile for 2013-14 and 2014-15 is challenging. The Department reported that the fund created 32,000 jobs by the end of 2012-13 against a target of 31,500. However, 40 schemes (21 per cent of operational schemes) achieved less than 25 per cent of their annual jobs targets (paragraphs 3.20 to 3.24).

**15 The eight City Deals are at an early stage but are progressing well in establishing the right structures and processes.** These initiatives have been welcomed in areas that have them, while other localities are keen to introduce the initiative in their areas. Central government is negotiating potential deals with 20 more areas and by the end of November 2013 had announced four of these deals (paragraph 3.25).

#### Coordination, accountability and monitoring

**16 The government did not design the local economic growth initiatives covered in this report as a coordinated national programme with a common strategy, set of objectives and implementation plan; although it has made changes over time to help address this.** The new initiatives covered in this report are each managed separately and there is joint working on each initiative. In June 2013, the government formed a local growth cabinet committee, chaired by the Deputy Prime Minister, to oversee initiatives affecting local economic growth. The cross-Whitehall local growth programme board has programme responsibility for Growth Deals (paragraphs 4.2 to 4.3).

**17 The government does not have a clear plan to measure outcomes and evaluate performance and therefore show value for money across the programme.** As a result, departments cannot be sure about where to direct their resources to achieve the most impact. Although individual initiatives monitor their progress it is not done in the same way across initiatives. Consequently, this does not present an overall comparable picture of performance. There is no shared evaluation framework or plans to introduce one (paragraphs 4.5 to 4.6).

**18 The Department for Communities and Local Government is using its system of accountability for local authority spending for the new structures for local growth.** However, the involvement of Local Enterprise Partnerships in decision-making presents risks which need to be managed (paragraphs 4.7 to 4.11).

**19 Locally, it is not clear that the government has achieved its objective to “increase democratic accountability and transparency, and ensure that public expenditure is more responsive to the needs of local business and people”:**

- The allocation of the Regional Growth Fund, the most substantial component of local growth funding, is decided centrally following a competitive process. While this may be responsive to local businesses it has no direct connection to the local democratic process. Increasing democratic accountability and transparency was never an objective for the Regional Growth Fund (paragraph 4.7).
- Links between Local Enterprise Partnerships, and therefore the Enterprise Zones, Growing Places Fund and the Growth Deals, and the local democratic process are complex and weak in certain instances (paragraphs 4.8 to 4.10).
- Local Enterprise Partnerships are not subject to the same transparency requirements as local authorities (paragraph 4.11).

**Conclusion on value for money**

**20** Three years on from the 2010 White Paper, the new local growth landscape is taking shape and outputs are beginning to be delivered. However, a key government objective of ensuring an orderly transition to the new growth landscape has, in our view, not been achieved. The government closed the Regional Development Agencies and transferred certain functions upwards to central departments effectively, but introduced the new local programmes covered in this report gradually and over a different time frame. This is reflected in a significant dip in funding and outputs over this period. Furthermore, progress by Local Enterprise Partnerships has been mixed and job creation in Enterprise Zones and through the Growing Places Fund and Regional Growth Fund has been slow. Therefore, and without sufficient transparency or a comparable picture of performance across schemes, the new structures for achieving local economic growth have not yet demonstrated that they are capable of delivering value for money.

**21** To secure value for money from existing schemes, and from the new £2 billion Growth Deals, central government needs to ensure that sufficient capacity is in place both centrally and locally to oversee initiatives, and make sure that timescales are realistic and that accountability is clear. Departments need to manage the range of local growth initiatives as a programme and address how they intend to evaluate performance and monitor outcomes across the programme as a whole. Otherwise departments have no basis for matching resources against priorities across the portfolio of initiatives to achieve best overall value for money.

## Recommendations

**22** The Departments for Communities and Local Government and Business, Innovation & Skills, should:

- a** Plan more effectively in future reorganisations of local growth programmes to avoid unnecessary dips in activity; for example to sequence effectively the closure of existing programmes and the introduction of new ones.
- b** Work with other departments and Local Enterprise Partnerships to understand the implications for local growth programmes of ongoing reductions in wider government spending, so that decisions on priorities for funding can be taken in context.
- c** Continue to monitor and develop the capability and capacity of Local Enterprise Partnerships as their role develops.
- d** Provide sufficient capacity centrally to ensure the effective and efficient delivery of funding initiatives including the Local Growth Fund.
- e** Draw on information needed by Local Enterprise Partnerships and cities to manage their business, and the work of the 'What Works Centre', to:
  - develop project monitoring frameworks to allow genuine comparisons between different programmes based on consistently defined indicators; and
  - monitor and evaluate, where technically possible, the collective impact of the range of local growth initiatives.
- f** Develop a strategy for evaluating the additionality of jobs created on Enterprise Zones, focused on understanding the effects on surrounding local economies of any job displacement linked to the zones.
- g** Review the current arrangements for the coordination, accountability and transparency of local growth programmes, in order to:
  - manage and monitor local growth initiatives and structures as an overall programme;
  - ensure that the system for accounting to Parliament for the central government funding for local growth is transparent and gives sufficient assurance; and
  - work with Local Enterprise Partnerships to ensure that their local transparency arrangements are robust and meet the expectations placed on local authorities.