



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Communities and Local Government

Local Enterprise Partnerships

Key facts

39

number of Local Enterprise Partnerships (LEPs) in England

£12bn

Local Growth Fund available to LEPs between 2015-16 and 2020-21

**Up to
419,500**

jobs to be created by Growth Deals according to LEPs

£7.3 billion	amount of the Local Growth Fund which has been allocated as of March 2016
£2 billion	annual funding to LEPs from the Local Growth Fund from 2015-16 to 2020-21
£627.5 million	largest Growth Deal awarded to a single LEP: Leeds City Region
45% to 80%	range of private sector board membership in LEPs
87%	percentage of LEPs for which we were unable to obtain information on senior staff remuneration from publicly available accounts
68%	estimated real-terms reduction in local authority net expenditure on economic development between 2010-11 and 2015-16
42%	of LEPs say that they do not publish a register of interests
49%	of LEPs agreed or strongly agreed that there are clear lines of accountability from the LEP to the local electorate
£85 million	estimated underspend on Local Growth Fund projects for 2015-16
5%	of LEPs agreed or strongly agreed that resources available to LEPs are enough to meet the expectations placed on them by government
8	median number of full time equivalent staff employed by LEPs

Summary

1 Central government in England has sought consistently to stimulate and rebalance economic growth between different regions. In 2010, the government set out its plans for local economic growth in the white paper, *Local growth: realising every place's potential*. This detailed the government's objective of achieving "strong, sustainable and balanced growth that is more evenly shared across the country and between industries." It also set out the government's new approach to local economic growth, under which power is devolved to communities to ensure that "where the drivers of growth are local, decisions [are] made locally."

2 Key to plans for local economic growth are Local Enterprise Partnerships (LEPs). These are business-led partnerships between the private sector and local authorities established with the purpose of steering growth strategically in local communities. Following the abolition of the Regional Development Agencies in 2010, 39 LEPs were established in England, with each designed to represent a functional economic area. The government intended LEPs to be strategic partnerships that are not resource-intensive to run, with delivery of growth programmes implemented through partners, supported by the private sector. The government did not stipulate the structure LEPs should take; they have mostly established themselves either as companies limited by guarantee or as voluntary partnerships.

3 Since 2010, LEPs have taken on increased responsibility for significant amounts of central government funding. The government responded to Lord Heseltine's 2011 review, *No Stone Unturned*, by announcing the creation of the £12 billion Local Growth Fund for the period 2015-16 to 2020-21. In 2014, the government announced that it had agreed Growth Deals with each of the 39 LEPs, through which it indicatively allocated £6.3 billion of the Local Growth Fund. Each LEP's Growth Deal was awarded based on the strength of their multi-year strategic economic plans. A further £1 billion was allocated in January 2015, making the total allocation to date £7.3 billion. In addition to their role in local economic growth, the government regards LEPs as essential to its progressing English devolution agenda. When it asked local areas to submit devolution proposals in 2015, for example, it was clear that it required LEPs to be closely involved in these plans. Some LEPs have also previously supported bids for City Deals, which aim to empower cities and boost local economic growth.

4 The Cities and Local Growth Unit, based in the Department for Communities and Local Government and including officials from the Department for Business, Innovation & Skills, led the government's efforts to secure Growth Deals with each of the LEPs and oversees the implementation of their programmes. The Department for Communities and Local Government's accounting officer is accountable overall for the Local Growth Fund.

Scope of our report

5 This report examines whether the Department for Communities and Local Government (the Department), as the lead department for the joint Cities and Local Growth Unit, has funded and implemented Growth Deals in a way that is likely to deliver value for money. We also examine LEPs' progress in implementing their local assurance frameworks and assess how transparent LEPs are to the public.

6 This report is the latest in our series of reports on local economic growth and the progress of devolving responsibilities and funding to local areas in England. Our report covers:

- the role of LEPs in local economic growth (Part One);
- Growth Deals and the Local Growth Fund (Part Two); and
- monitoring, evaluation and assurance (Part Three).

7 While our study looks at the strategic direction of LEPs, it does not consider broader cross-departmental leadership of ongoing devolution deals. We examine this in our forthcoming report on English devolution deals (due for publication in April 2016). In addition to receiving Growth Deal funding, LEPs have strategic direction over £5.3 billion of European Structural and Investment funding between 2014 and 2020. This is not within the scope of this study; nor is the performance of individual LEPs.

Key findings

The role of LEPs within the devolution landscape

8 The role of LEPs has expanded both rapidly and significantly. LEPs began as largely strategic partnerships advising on economic growth. Between 2010 and 2015 total central government funding directed through LEPs was approximately £1.5 billion. With the advent of the Local Growth Fund, the amount of central government funding received by LEPs is projected to rise to £12 billion between 2015-16 and 2020-21 via locally negotiated Growth Deals (paragraphs 1.8 to 1.10 and Figure 4).

9 The English devolution landscape is changing considerably and it is not yet clear how LEPs fit into it. The government regards LEPs as central to its plans for English devolution. However, LEPs are often uncertain of their role within a more devolved landscape, particularly in areas where their economic geography does not align with that of the combined authority (paragraphs 1.11 and 1.12).

The objectives, assessment and progress of Growth Deals

10 The Department has not set specific quantifiable objectives for what it hopes to achieve through Growth Deals, meaning that it will be difficult to assess their contribution to economic growth. The Department did not consider that it would be possible to distinguish the impact of Growth Deal spending from other policy initiatives supporting local economic growth. As a result, it did not translate the Growth Deal's high-level objectives into specific measures for success, such as how many additional jobs or houses it was aiming to create directly. It will therefore be challenging to assess the value for money of Growth Deals without a clear idea of what the Department hopes to achieve through them. Without a specific objective for what they hoped to achieve, it is also not clear how the Department determined that the funding provided to the Local Growth Fund overall would be sufficient (paragraphs 2.4, 2.5 and Figure 5).

11 LEPs perceived the process of putting together bids for Growth Deals through strategic economic plans positively. To bid for Growth Deals, LEPs were required to draw up multi-year strategic economic plans, setting out the priorities for long-term growth in their communities. LEPs and other stakeholders found these useful in helping to assess local needs (paragraphs 2.10 to 2.13).

12 The Department's light touch assessment of LEPs' bids for Growth Deal funds relied on processes in LEPs that are not yet fully in place. The Department relied on LEPs having processes in place locally as part of their assurance frameworks to ensure the value for money of projects. However, in 10% of the LEPs' assurance frameworks we reviewed these processes were not in place. Projects funded as transport 'portfolio' schemes were subject to a separate process of value-for-money scrutiny by the Department for Transport (paragraphs 2.16, 3.16, 3.17 and Figure 17).

13 The Department has given LEPs flexibility in how they use Growth Deal funding. The Department has grouped LEPs into three categories of flexibility in how they can spend Growth Deal funding. This categorisation was based on the Department's judgement of each LEP's ability to deliver their Growth Deal programmes and the strength of their governance arrangements. LEPs can receive greater flexibility through improving their governance. We view this as important for safeguarding the value for money of public funds. Nevertheless, 39% of LEPs did not believe that they had sufficient flexibility over how public funding was used (paragraphs 2.18, 2.19 and Figure 11).

14 Pressure on LEPs to spend their Local Growth Fund allocation in year creates a risk that LEPs will not fund projects most suited to long-term economic development. In order to fulfil spending requirements, and given the Department's preference for quickly deliverable projects, some LEPs we visited reported that they have pursued 'shovel ready' projects over others that they would consider to represent better value for money or be better suited to the needs of their local communities (paragraphs 2.13, 2.20 and 2.21).

15 The Department estimates that Local Growth Fund projects will underspend by £85 million in 2015-16. On average LEPs are expected to underspend by £2.2 million, and are intending to substitute projects outside of the Local Growth Fund to mitigate this. This is partly because a large number of skills-related projects have been postponed due to challenges and uncertainty facing the further education sector. Some LEPs have found it challenging to develop a long-term pipeline of projects that can take the place of those that are postponed (paragraphs 2.19 to 2.22).

The capacity and capability of LEPs to deliver Growth Deals

16 LEPs are highly dependent on local authorities, and the sustainability of this support is uncertain. We found that LEPs depend on local authority partners for staff and expertise, and that private sector contributions have not yet materialised to the extent expected. However, cuts in central government funding mean that local authorities are themselves reducing their spending in areas such as economic development in favour of protecting statutory services, such as adult social care. As part of the Growth Deal funding process, the Department assessed LEP capacity in a variety of ways, but it did not base this assessment on a structured analysis of local authority finances (paragraphs 2.23 to 2.28 and Figure 12).

17 There is a risk that LEPs do not possess the resources necessary to deliver Growth Deal projects. To oversee and deliver Growth Deal projects effectively, LEPs need access to staff with expertise in complex areas such as forecasting, economic modelling, and monitoring and evaluation. Only 5% of LEPs considered the resources available to them to be sufficient to meet the expectations placed on them by government. Additionally, 69% of LEPs reported that they did not have sufficient staff and 28% did not think that they had sufficiently skilled staff. LEPs frequently cite insufficient revenue funding as a reason for this. Funding uncertainty has also made it difficult to recruit and retain skilled staff (paragraphs 2.23, 2.24, 2.29, 2.30 and Figure 13).

LEPs' monitoring, assurance and transparency

18 Measuring the impact of Growth Deals will prove challenging. The Department has responded positively to previous recommendations from the Committee of Public Accounts in designing its approach to monitoring and evaluating Growth Deals. It has standardised definitions for indicators and taken steps to align metrics with other local growth initiatives. LEPs report on these indicators regularly to provide evidence of progress on Growth Deals. However, Growth Deal projects are presently funded from a range of sources. This will make it challenging to attribute specific outputs to Growth Deals. Additionally, 21% of LEPs do not yet have arrangements in place for ensuring the quality and accuracy of their monitoring information (paragraphs 3.3 to 3.7, 3.9 to 3.11 and Figures 14 and 16).

19 The Department has acted to promote standards of governance

and transparency in LEPs. In response to the Committee of Public Account's recommendations, the Department published an accountability system statement for the Local Growth Fund in March 2015. It uses this to gain assurance over regularity, propriety and value for money. All 39 LEPs had assurance frameworks in place by March 2015. LEPs spoke positively about the Department's guidance in developing their assurance frameworks, although only 62% thought that they had the resources they needed to meet the standards required (paragraphs 3.12 to 3.15).

20 The Department had not tested the implementation of assurance frameworks at the time that Growth Deals were finalised, and we found that there are considerable gaps in LEPs' compliance with the Department's requirements.

The Department places reliance on LEPs having arrangements in place for ensuring the value for money of projects, robust governance, and transparency. These are set out in LEPs' local assurance frameworks, which were signed off by their accountable local authority. We found considerable gaps in many LEPs' assurance frameworks in areas such as approving business cases, handling disputes with their accountable bodies, and independent scrutiny arrangements. The Department is using the results of our study and work conducted by the Government Internal Audit Agency to test LEPs' assurance frameworks (paragraphs 3.16, 3.17 and Figure 17).

21 We found variation in the availability and transparency of financial information across LEPs. Financial information was unavailable for 5% of LEPs and we were unable to find information on senior staff salaries for 87% of LEPs. Where financial information was available, we found that the format and level of detail varied considerably across LEPs, making it difficult to draw meaningful comparisons (paragraphs 3.18 to 3.20 and Figure 18).

Conclusion on value for money

22 The government encouraged the establishment of LEPs from 2010 as private sector led strategic partnerships which would determine and influence local growth priorities. The role and remit of LEPs has expanded both significantly and rapidly, and from April 2015, LEPs became responsible for directing the £12 billion Local Growth Fund negotiated via Growth Deals. The Department expects LEPs to deliver Growth Deals effectively and sustainably. However, when the Growth Deals were agreed, the Department did not have enough assurance that they had the resources, capacity and capability to do this, and LEPs do not yet have an established track record of delivery. Our work shows that LEPs themselves have serious reservations about their capacity to deliver and the increasing complexity of the local landscape, and there is a risk that projects being pursued will not necessarily optimise value for money.

23 The Department has adopted a 'light touch' approach to overseeing Growth Deals and it has not yet tested their assurance mechanisms, which our works shows are underdeveloped. LEPs themselves are not as transparent to the public as we would expect given that they are now responsible for significant amounts of taxpayers' money. The Department did not set clear objectives for what it wanted to achieve through Growth Deals, meaning that it is difficult to assess their success.

24 The Department needs to think through the levers and measurement criteria it needs to understand whether value for money is being achieved by LEPs. It has not done so to date, and this currently presents a threat to future value for money.

Recommendations

- 25** Given the challenges that we set out above, we recommend that the Department:
- a** clarifies how LEPs fit with other bodies to which it is devolving power and spending;
 - b** distributes Local Growth Funding to LEPs in a form that will give them medium to long-term funding flexibility, subject to performance, to reduce the risk of funds being spent on projects that LEPs do not regard as offering the best value for money;
 - c** sets out specific quantifiable objectives and performance indicators for the success of Growth Deals;
 - d** ensures that there is sufficient local capacity within LEPs to deliver Growth Deals by taking a more explicit and consistent account of the financial sustainability of local authority partners;
 - e** uses its approach to monitoring Growth Deals as an opportunity to standardise output metrics for future local growth initiatives, allowing for comparative performance assessment and reducing reporting burdens; and
 - f** tests the implementation of local assurance frameworks before confirming future funding allocations, and works with LEPs to ensure that the required standards of governance and transparency are being met.