



National Audit Office

Report

by the Comptroller
and Auditor General

Department for Communities and Local Government

Local Enterprise Partnerships

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National Audit Office

Department for Communities and Local Government

Local Enterprise Partnerships

Report by the Comptroller and Auditor General

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Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

18 March 2016

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This report can be found on the
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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42%	of LEPs say that they do not publish a register of interests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.

Part One

The role of Local Enterprise Partnerships in local economic growth

1.1 The government set out its vision for Local Enterprise Partnerships (LEPs) in the 2010 white paper *Local growth: realising every place's potential*.¹ The white paper:

- set out the intended closure of the nine Regional Development Agencies in England;
- outlined a new approach to local economic growth that reflected the government's localism agenda, according to which power is devolved to communities to ensure that "where the drivers of growth are local, decisions [are] made locally"; and
- invited businesses and councils to collectively form LEPs, "whose geography properly reflects the natural economic areas of England".

1.2 This part of the report sets out:

- the local growth transition;
- the formation and structure of LEPs;
- funding for LEPs; and
- the role of LEPs in a devolved landscape.

¹ HM Government, *Local growth: realising every place's potential*, white paper, Cm 7961, October 2010.

Local growth transition

1.3 LEPs are a recent central government initiative to promote and rebalance economic growth between different regions. As we set out in our 2013 report, *Funding and structures for local economic growth*, over past decades there have been a number of different structures and funding regimes (**Figure 1**). These have included not only Regional Development Agencies but, for example, training and enterprise councils in the 1990s, and local area agreements more recently. As we also set out in 2013, and as the abolition of the Regional Development Agencies demonstrates, the changes that took place in this field in 2010 were distinctive in the extent to which they entailed the almost complete replacement of previously existing structures for local economic growth.

Formation and structure of LEPs

1.4 There are 39 LEPs across England (**Figure 2** on pages 14 and 15). LEPs are designed to operate across functional economic areas that reflect labour markets and offer sufficient economies of scale. As a result, they often cross administrative boundaries. On average, each LEP covers nine local authorities; 37 local authorities are covered by more than one LEP.

1.5 The government did not stipulate the form that LEPs should take, and they have adopted varying corporate structures. The most common corporate structure is a company limited by guarantee (51% of LEPs), followed by unincorporated voluntary partnerships between private sector representatives and local authority leaders (41% of LEPs). A further 8% feature a variety of unincorporated arrangements and committees.² Companies limited by guarantee have a legal status and can employ staff and enter into contracts, whereas partnerships operate through a nominated local authority. Regardless of organisational structure, each LEP has a nominated local authority or combined authority that acts as its accountable body.

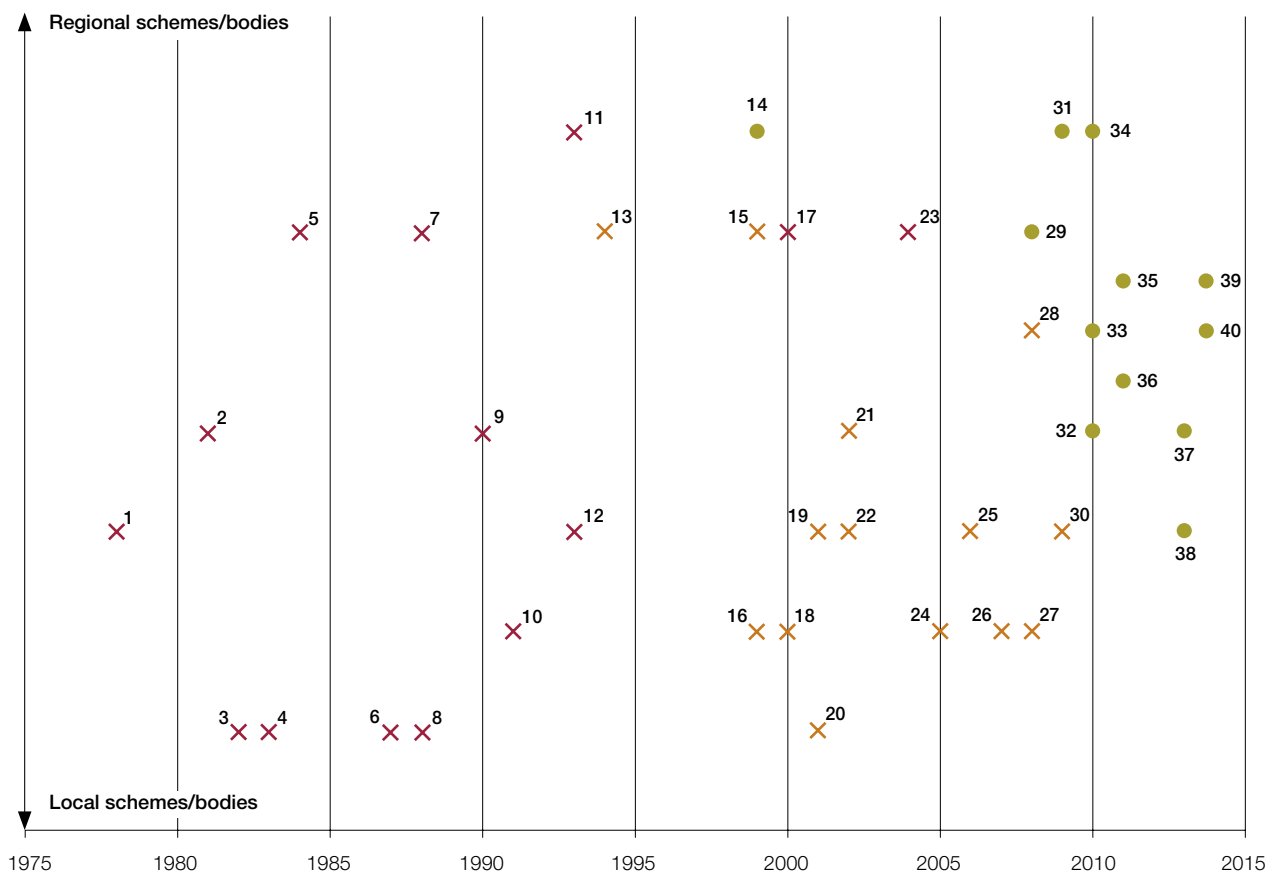
1.6 The government intended LEPs to be led by the private sector, in contrast to public sector agencies previously tasked with promoting local economic development. LEPs are required to have a private sector Chair, with the majority of board members also drawn from the private sector. In practice, this varies between LEPs: private sector board membership ranges from 45% to 80%, and is 58% on average. Three LEPs have minority private sector board membership (**Figure 3** on page 16). Many LEPs have managed to attract experienced business leaders to senior positions, although some stakeholders have raised concerns about how representative LEP boards are of their communities and of small business.

1.7 LEPs were designed to be lean strategic partnerships that are able to lever in staff and expertise where needed. Their size, as measured by the number of full time equivalent staff, varies considerably. LEPs reported that they have between 0 and 80 full time equivalent staff, with median staff size of 8.³ In addition to their full time equivalent staff, 90% of LEPs said that they can lever in staff from other partners, typically local authorities.

² For example, London LEP is a non-incorporated consultative and advisory body that operates through the Greater London Authority, without a separate legal status.

³ Some LEPs employ no staff as they draw solely on staff from larger structures such as combined authorities.

Figure 1
Regular changes in initiatives for local growth



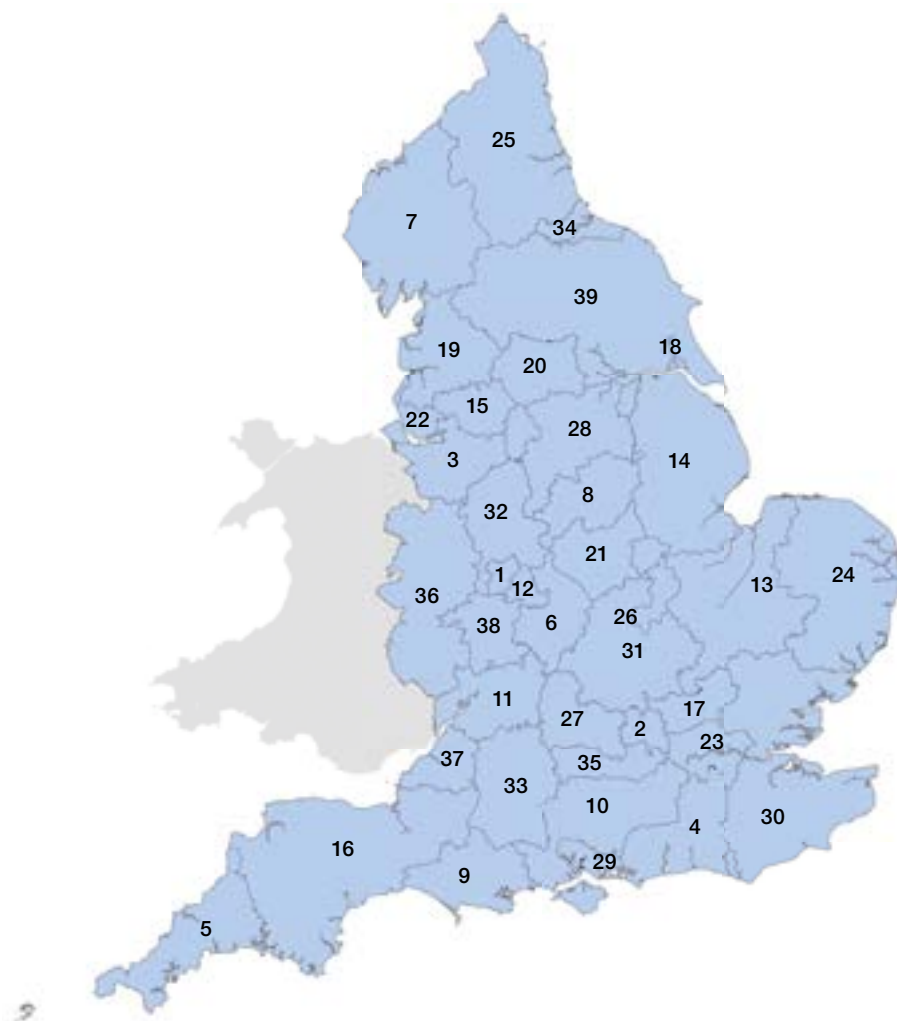
- | | | |
|---|--|-----------------------------------|
| 1 Urban Programme (expansion) | 15 Regional Development Agencies | 29 Grants for Business Investment |
| 2 Urban Development Corporations | 16 New Deal for Communities | 30 Future Jobs Fund |
| 3 Urban Development Grant | 17 Enterprise Grant Scheme | 31 Homes and Communities Agency |
| 4 Derelict Land Grant | 18 Urban Regeneration Companies | 32 Enterprise Zones (new phase) |
| 5 Regional Development Grant (revision) | 19 Local Strategic Partnerships | 33 Local Enterprise Partnerships |
| 6 Urban Regeneration Grant | 20 Neighbourhood Renewal Fund | 34 Regional Growth Fund |
| 7 Regional Enterprise Grant | 21 Housing Market Renewal Pathfinders | 35 City Deals |
| 8 City Grant | 22 Local Authority Business Growth incentive | 36 Growing Places Fund |
| 9 Training and Enterprise Councils | 23 Selective Finance for Investment | 37 Tax Increment Finance |
| 10 City Challenge | 24 Working Neighbourhoods Fund | 38 Business Rates Retention |
| 11 English Partnerships | 25 Local Area Agreements | 39 Devolution Deals |
| 12 Single Regeneration Budget | 26 Local Enterprise Growth Initiative | 40 Growth Deals |
| 13 Government Offices for the Regions | 27 City/Economic Development Companies | |
| 14 National Coalfields Programme | 28 Multi Area Agreements/City Region Pilots | |

- Currently operational
- ✕ Closed since 2010
- ✕ Closed prior to 2010

Source: National Audit Office analysis of Departmental information

Figure 2

Local Enterprise Partnerships in England



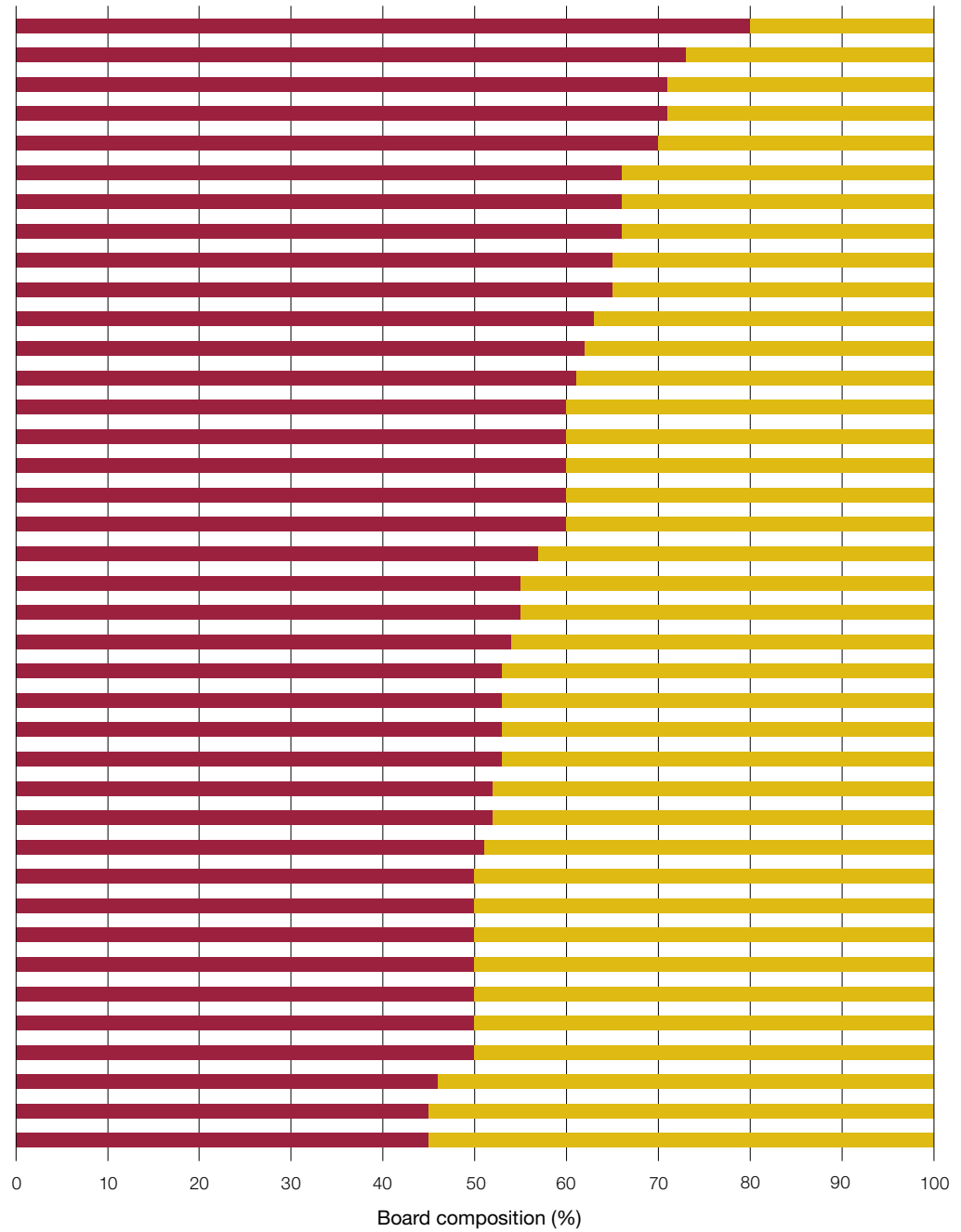
Source: National Audit Office

-
- | | |
|---|--|
| 1 Black Country | 21 Leicester and Leicestershire |
| 2 Buckinghamshire Thames Valley | 22 Liverpool City Region |
| 3 Cheshire and Warrington | 23 London |
| 4 Coast to Capital | 24 New Anglia |
| 5 Cornwall and Isles of Scilly | 25 North East |
| 6 Coventry and Warwickshire | 26 Northamptonshire |
| 7 Cumbria | 27 Oxfordshire |
| 8 Derby, Derbyshire, Nottingham
and Nottinghamshire | 28 Sheffield City Region |
| 9 Dorset | 29 Solent |
| 10 Enterprise M3 | 30 South East |
| 11 Gloucestershire | 31 South East Midlands |
| 12 Greater Birmingham and Solihull | 32 Stoke-on-Trent and Staffordshire |
| 13 Greater Cambridge Greater Peterborough | 33 Swindon and Wiltshire |
| 14 Greater Lincolnshire | 34 Tees Valley |
| 15 Greater Manchester | 35 Thames Valley Berkshire |
| 16 Heart of the South West | 36 The Marches |
| 17 Hertfordshire | 37 West of England |
| 18 Humber | 38 Worcestershire |
| 19 Lancashire | 39 York, North Yorkshire
and East Riding |
| 20 Leeds City Region | |
-

Figure 3
Local Enterprise Partnership board membership

The extent of private sector involvement varies between LEPs

Local Enterprise Partnerships



■ Private sector board membership (%) ■ Other, including public sector board membership (%)

Note
1 LEPs' responses have been anonymised.

Source: National Audit Office census analysis

Funding for LEPs

1.8 Since LEPs were created, their role and remit has expanded considerably. LEPs are now responsible for substantial amounts of growth funding including early rounds of the Regional Growth Fund, the Growing Places Fund and the management of Enterprise Zones. With the introduction of Growth Deals in 2014, LEPs have taken on responsibility for delivering growth programmes worth £2 billion annually. Additionally, LEPs have strategic direction over the use of European funding.

1.9 Before Growth Deals were introduced in 2015-16, domestic funding to LEPs totalled around £1.5 billion. The publication of Lord Heseltine's 2012 report, *No Stone Unturned in Pursuit of Growth*, made the case for greater alignment of funding through a single pot approach, and more local control to LEPs over where funding should be targeted.⁴ The government responded to this in the July 2013 spending review by confirming a £12 billion Local Growth Fund at £2 billion a year from 2015-16 to 2020-21 which LEPs have accessed through the negotiation of Growth Deals (**Figure 4** overleaf). This is described in Part Two of this report.

1.10 The government initially intended that LEPs would be able to fund their own running costs primarily by drawing upon the resources of local authorities and private sector partners. In the LEPs we visited, we found evidence of extensive private sector involvement; for example individuals voluntarily giving up their time to sit on committees overseeing the approval of infrastructure projects. However, overall, we found that contributions from the private sector have not materialised to the extent that LEPs initially expected. The Department provides LEPs with £500,000 in core funding for administrative purposes, subject to LEPs securing £250,000 in match funding from local partners. All LEPs received the same core funding, regardless of size or structure.

The role of LEPs in a devolved landscape

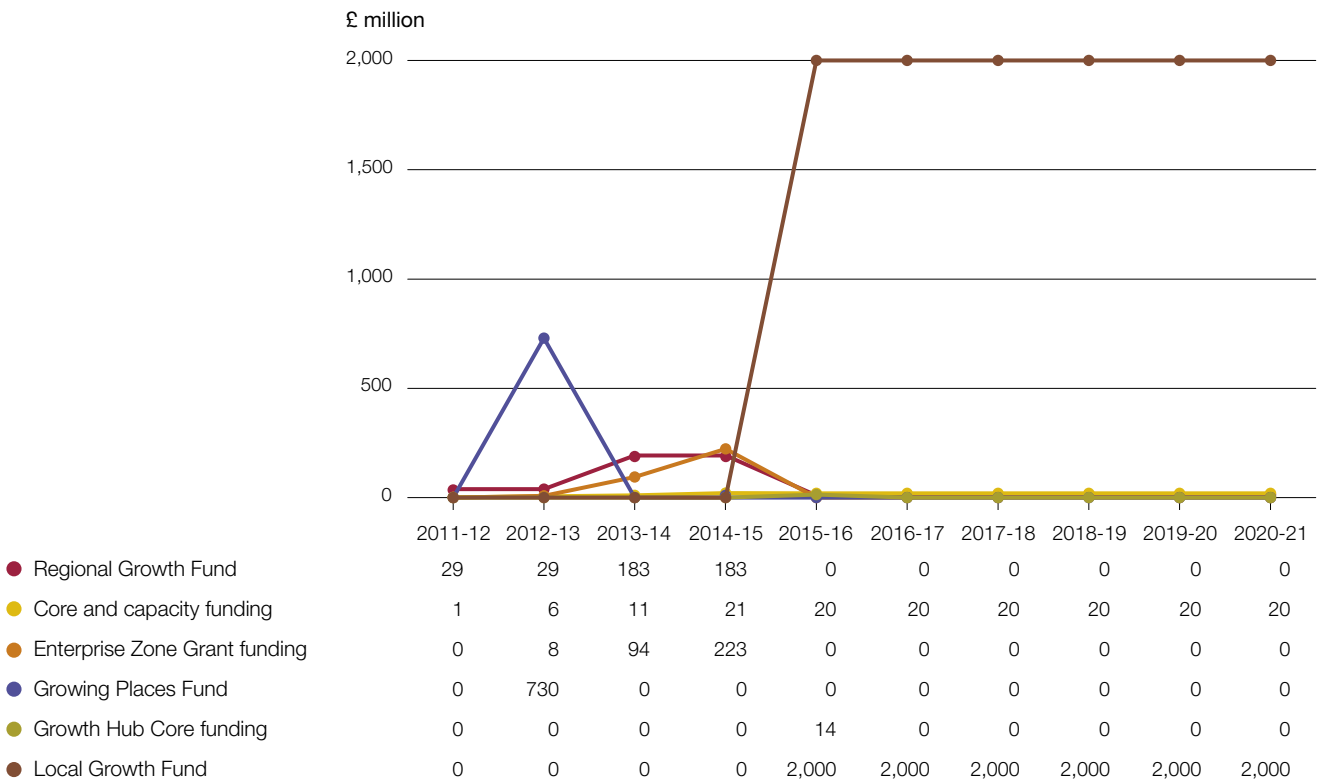
1.11 LEPs are one of a number of means aimed at devolving responsibility for creating local growth to local areas. A range of structures, including combined authorities, are forming alongside LEPs to support the devolution of funding and responsibilities from central government. Recently, the government has signed devolution deals with seven local areas in England. The government views LEPs as having a central role in the formulation and negotiation of devolution deals alongside local authority partners.

1.12 Despite this, LEPs reported to us that they were uncertain about their place in the wider devolved landscape. LEPs were also concerned that the Department had not made clear their role in economic planning and development as devolution progresses, particularly where their functional economic geography does not align with that of a combined authority. Additionally, only 49% considered that there were clear lines of accountability between the LEP and the local electorate.

⁴ The Rt Hon Lord Heseltine of Thenford CH, *No Stone Unturned in Pursuit of Growth*, October 2012.

Figure 4
LEP funding over time

Public funding allocated to LEPs increased substantially with the creation of the Local Growth Fund



Notes

- 1 Figures presented above do not include funding from the European Union that LEPs have 'strategic direction' over.
- 2 Core and capacity funding assumed to continue at 2016-17 levels.
- 3 Regional Growth Fund allocations straddle financial years. Allocations have been apportioned equally to relevant financial years.

Source: National Audit Office analysis of departmental data

Part Two

Growth Deals and the Local Growth Fund

2.1 Lord Heseltine's 2012 report, *No Stone Unturned in Pursuit of Growth* prompted a significant shift in the role and remit of Local Enterprise Partnerships (LEPs) within the local growth landscape. The report recommended "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, and can be augmented by private sector investment."⁵

2.2 In response, the government announced the creation of a single Local Growth Fund comprising £2 billion each year from 2015-16 to 2020-21, totalling £12 billion. In July 2014, the government announced a series of Growth Deals with each of the 39 LEPs through which it allocated £6.3 billion of the Local Growth Fund alongside a set of freedoms and flexibilities from government to target their identified growth priorities.⁶ The government later allocated an additional £1 billion of the Local Growth Fund in January 2015. Growth Deals are the single largest funding allocation to LEPs to date.

2.3 This section examines:

- the objectives set for Growth Deals and the Local Growth Fund;
- the structure of the 2015-16 Local Growth Fund allocation;
- how the Department for Communities and Local Government (the Department) assessed Growth Deal bids from each LEP and allocated funding;
- the progress of Growth Deals so far;
- the capacity and capability of LEPs to deliver Growth Deals; and
- future funding uncertainty.

⁵ The Rt Hon Lord Heseltine of Thenford CH, *No Stone Unturned in Pursuit of Growth*, October 2012.

⁶ Examples of local freedoms and flexibilities include changes to local tax and incentive regimes and reductions on regulatory burdens.

Objectives of Growth Deals

2.4 We have previously stated that public sector programmes should clearly link to the government's strategic priorities, and identify measures of success to quantify their contribution. Good practice dictates that departments should set clear, specific and measurable objectives for their policies.⁷

2.5 The Department intentionally did not translate the Growth Deal's high-level objectives into specific quantifiable success criteria. It did not identify how many outputs – such as jobs or houses – Growth Deals would create directly, nor did it set targets or minimum acceptable levels of additional outputs from the funding. When individual Growth Deals are aggregated, LEPs estimate that they will create up to 419,500 jobs and 224,300 housing units, alongside other outputs (**Figure 5**). However, the Department has not specified the extent to which these will be a direct result of Growth Deals. Establishing additionality and attribution is complex in local growth policy. However, the Department's approach means that it will be difficult to assess how well LEPs are progressing towards their intended long-term impacts and outcomes when these are not clearly defined. It is also not clear how the Department determined that the funding package of £12 billion would be sufficient to achieve their objectives. Assessing the impact and value for money of Growth Deals will therefore be challenging.

The funding and structure of Growth Deals and the Local Growth Fund

Composition of funding

2.6 The Local Growth Fund totals £12 billion between 2015-16 and 2020-21 (£2 billion per annum). The Growth Deals announced in July 2014 allocated £6.3 billion of the Local Growth Fund by including the full £2 billion for 2015-16 and £4.3 billion in the form of future indicative allocations. In January 2015, the government announced an extension to the first round of Growth Deals, making available a further £1 billion from the Local Growth Fund to LEPs. The remaining £4.7 billion of the Local Growth Fund has yet to be allocated for future years (2016-17 to 2020-21).

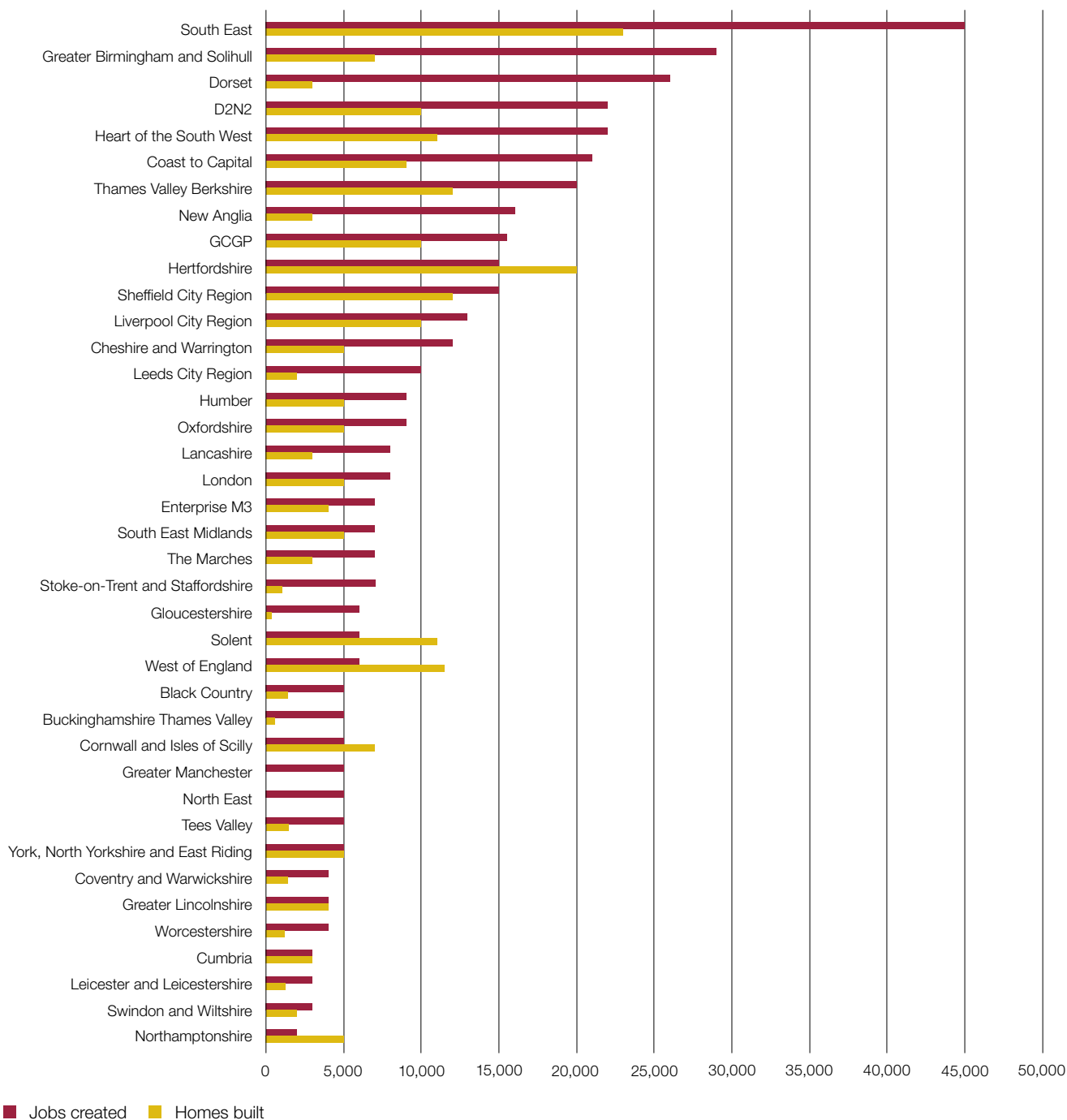
2.7 Growth Deals allocated Local Growth Funds that consist of funding previously managed by central government departments (**Figure 6** on pages 22 and 23). Of the £2 billion allocated for 2015-16, £1.1 billion was funding previously allocated, largely to local authorities, through other funding streams.

⁷ Comptroller and Auditor General, *The Regional Growth Fund*, Session 2012-13, HC 17, National Audit Office, May 2012.

Figure 5

Lifetime impact of Growth Deals: LEP estimates

LEPs estimate that Growth Deals could create up to 419,500 jobs and 224,300 homes built



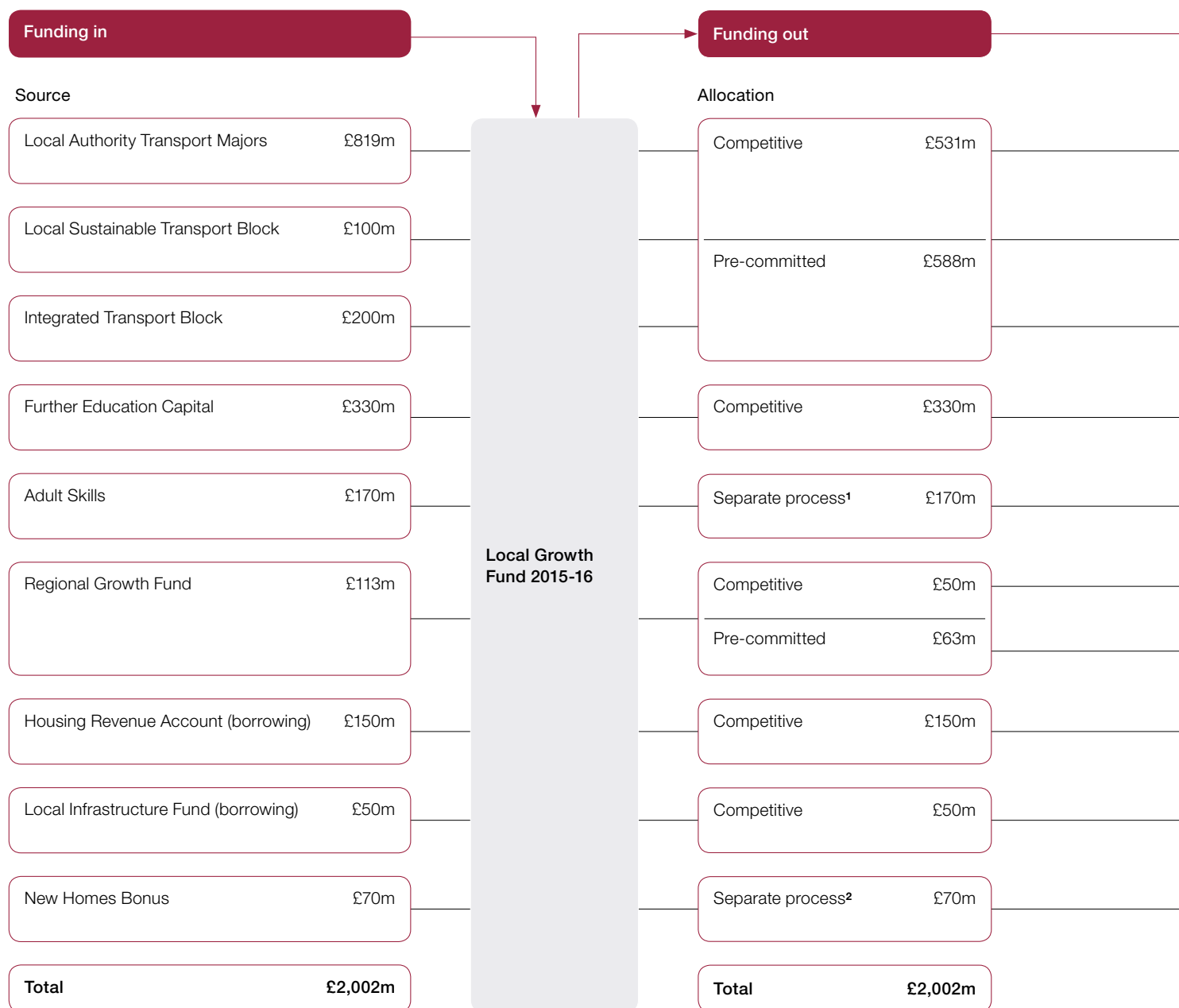
Notes

- 1 D2N2 refers to Derby, Derbyshire, Nottingham and Nottinghamshire LEP.
- 2 GCGP refers to Greater Cambridge Greater Peterborough LEP.

Source: National Audit Office analysis of Growth Deals

Figure 6
Composition of the Local Growth Fund 2015-16

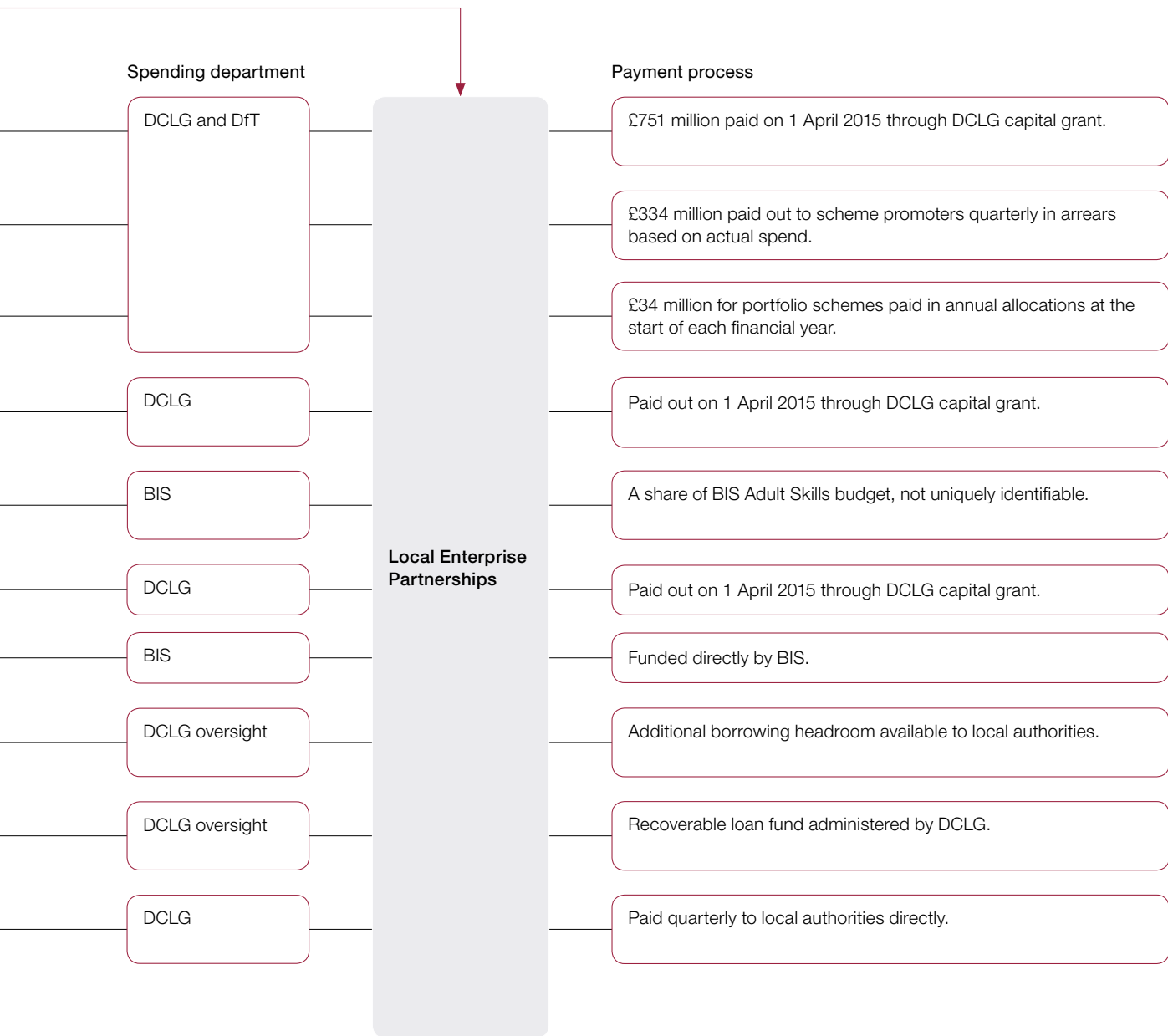
The Local Growth Fund brigades multiple funding streams



Notes

- 1 This is the portion of the Department for Business, Innovation & Skills' adult skills budget identified by the Skills Funding Agency (SFA) as suitable to be used as match funding for European Social Fund (ESF) projects.
- 2 London LEP only. This is London's share of the New Homes Bonus for 2015-16.
- 3 DCLG refers to the Department for Communities and Local Government; BIS refers to the Department for Business, Innovation & Skills; and DfT refers to the Department for Transport.

Source: National Audit Office analysis of departmental information



2.8 Transport funding made up the largest share of pre-committed funding. Over 60% of approved projects across the 39 LEPs for 2015-16 are transport projects. Three LEPs received pre-committed funding for transport projects amounting to over 50% of their total allocations (**Figure 7**). The restrictions on the use of a large proportion of the pre-committed elements of the fund mean that the Local Growth Fund is not a single pot as the government originally intended.

2.9 Of the £2 billion awarded to LEPs in 2015-16, the Department allocated funding through two processes. The Department allocated approximately £1.1 billion based on pre-existing funding commitments, and LEPs bid competitively for the remaining £930 million by presenting the Department with strategic economic plans. The Department aims to give LEPs greater funding freedom, making more of the Local Growth Fund allocated competitively in future.

Growth Deal assessment

Strategic economic plans

2.10 The Department allocated the competitive element of Growth Deal funding based on the strength of multi-year strategic economic plans that LEPs submitted to the Department. These plans identified agreed economic priorities, LEPs' visions for their local areas, and potential projects with supporting evidence. In guidance issued in July 2013, the Department advised LEPs to ensure local consensus around a shared growth agenda.⁸ LEPs submitted their final strategic economic plans in March 2014.

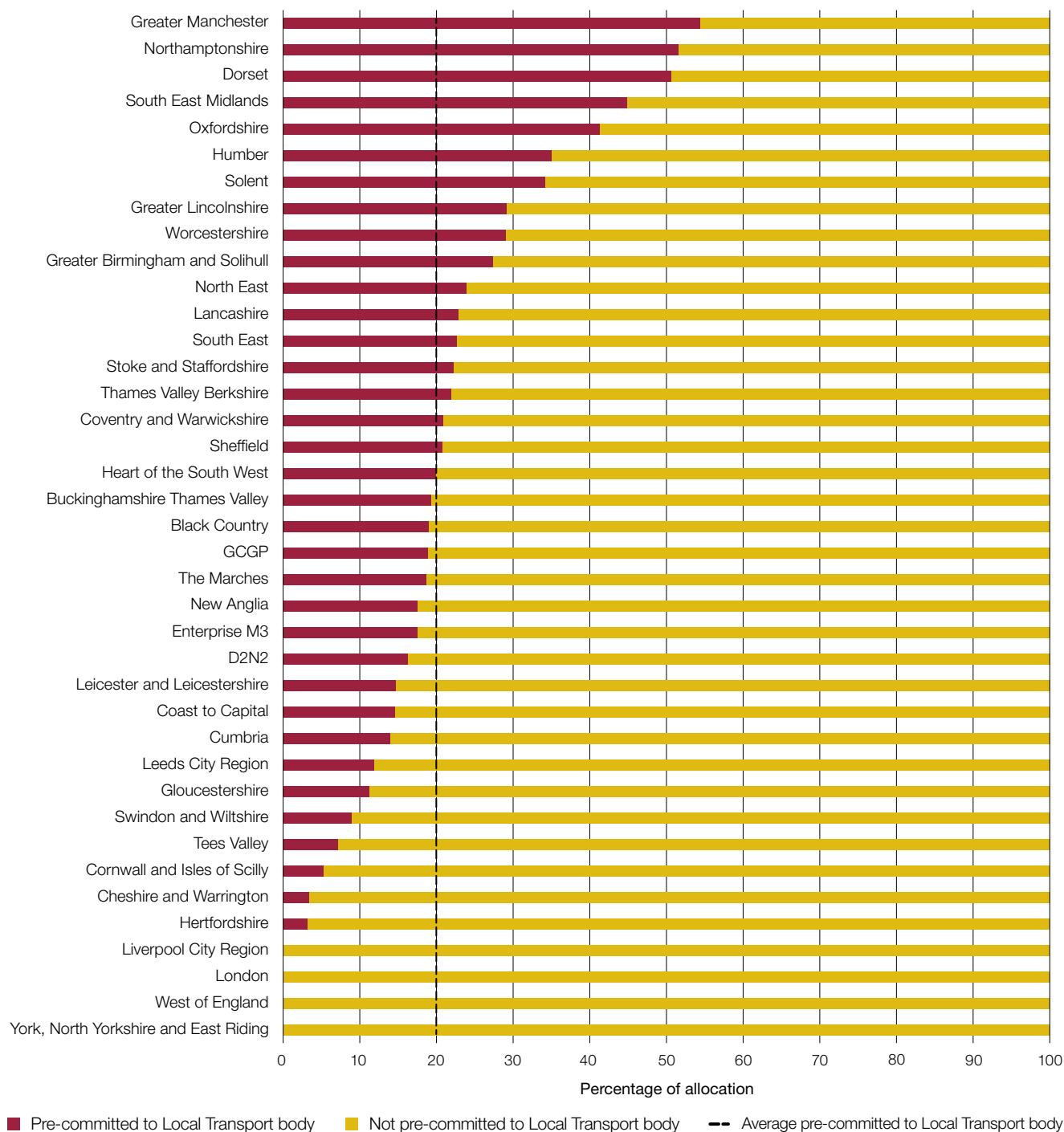
2.11 The Department's published guidance set out what they expected to see in LEPs' strategic economic plans; however, the Department intentionally did not specify the format that these plans should take. They did this to encourage LEPs to decide the process of formulating plans locally, competitively and in a way that would encourage innovation. This resulted in wide variation across the 39 plans in the way information was presented, time periods covered, and the evidence bases they used. Additionally, the Department did not define output metrics until after the plans were approved. LEPs therefore used different definitions to describe the outputs of their planned interventions, such as jobs. The Department's assessors reported that they found it challenging to assess the bids consistently; this will have made it difficult to identify the plans that represented the best value for money.

⁸ HM Government, *Growth Deals: Initial Guidance for Local Enterprise Partnerships*, July 2013.

Figure 7

Local Growth Fund pre-committed to Local Transport bodies 2015-16

On average, 20% of 2015-16 Local Growth Fund allocations were pre-committed to Local Transport bodies



Notes

- 1 D2N2 refers to Derby, Derbyshire, Nottingham and Nottinghamshire LEP.
- 2 GCGP refers to Greater Cambridge Greater Peterborough LEP.

Source: National Audit Office analysis of departmental data

2.12 LEPs and other stakeholders were largely positive about the process of creating strategic economic plans, as it encouraged partnership and collaborative working to assess local needs. The fact that LEPs are led by the private sector meant that they were able to take on board views from a range of local business representatives. In 74% of cases LEPs reported that their strategic economic plan was subject to public consultation, although the timing and format of this varied.

2.13 LEPs submitted prioritised lists of projects alongside business cases as part of their strategic economic plans. The Department regarded this as important in ensuring that LEPs were able to demonstrate their ability to deliver on their plans and spend their funding allocations. Some LEPs we visited reported that the Department's preference for quickly deliverable projects, in some instances, resulted in them selecting 'shovel ready' projects that could be delivered quickly over others that would have better matched their long-term strategic economic objectives or represented better value for money.

The Department's approach to assessment

2.14 The Department assessed strategic economic plans in two ways:

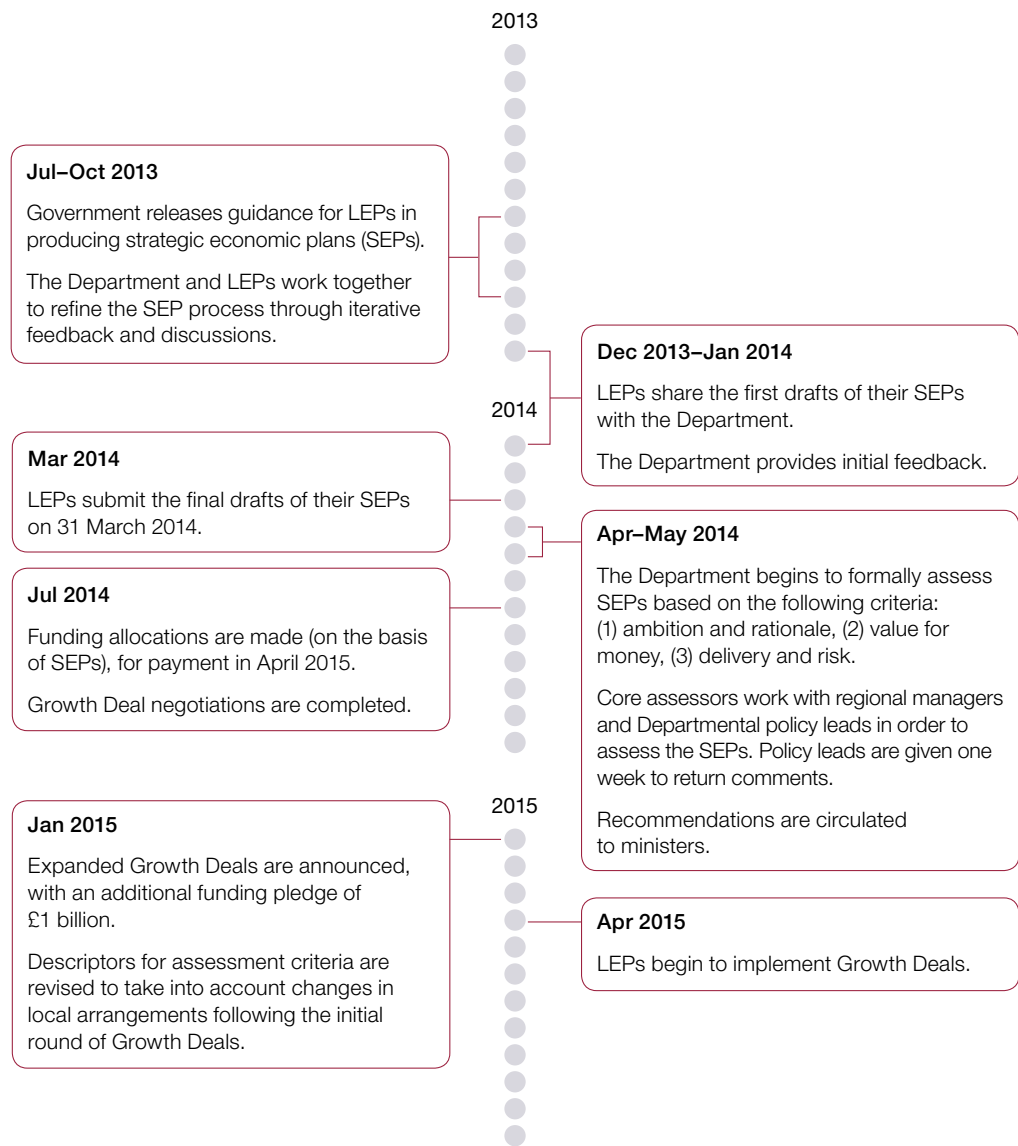
- project-level assessments, using value-for-money criteria; and
- plan-level assessments, assessing against two criteria: LEPs' ambition and rationale, and delivery and risk.

2.15 The Department's approach to assessing strategic economic plans was iterative and cross-departmental. The Department conducted an initial assessment so it could give LEPs feedback before the Department assessed final bids in April 2014. To assess each LEP's plan, the Department created a network of cross-departmental assessors. This enabled it to draw on specialist expertise from other government departments (**Figure 8**).

2.16 The Department intentionally took a 'light touch' approach to assessing value for money, and did not set a minimum threshold for value for money that would result in a project being rejected. We also found evidence that the high volume of projects meant that core assessors were only able to devote limited time to their assessment of each project. The Department placed reliance on LEPs putting in place local assurance frameworks to ensure value for money. Each LEP's assurance framework was signed off by its accountable body. However, as we state in Part Three of this report, many LEPs do not yet have these arrangements in place. Projects funded by the Local Growth Fund as transport 'portfolio' schemes were subject to a separate process of value-for-money scrutiny by the Department for Transport.

Figure 8
Growth Deal assessment process

The Department assessed and funded Growth Deals on the strength of LEPs' strategic economic plans (SEPs)



Source: National Audit Office analysis of departmental documentation

Allocating Growth Deal funding

2.17 Based on the Department's assessment of the comparative strengths and weaknesses of LEPs' strategic economic plans, the Department categorised LEPs into four separate groups. It then combined this categorisation with the proportion of England's population in each LEP to arrive at its allocation formula. This formula resulted in wide variation in funding allocated to LEPs. Leeds City Region LEP received the largest funding allocation of £627.5 million, followed by Greater Manchester LEP (£533.3 million). Cumbria LEP received the smallest allocation at £47.7 million (**Figure 9**). Per capita funding allocations ranged from £35 to £213 (**Figure 10** on page 30). Many LEPs did not think it was clear how funding allocations had been made. According to our census, 46% disagreed or strongly disagreed that funding decisions to LEPs have been made openly and transparently.

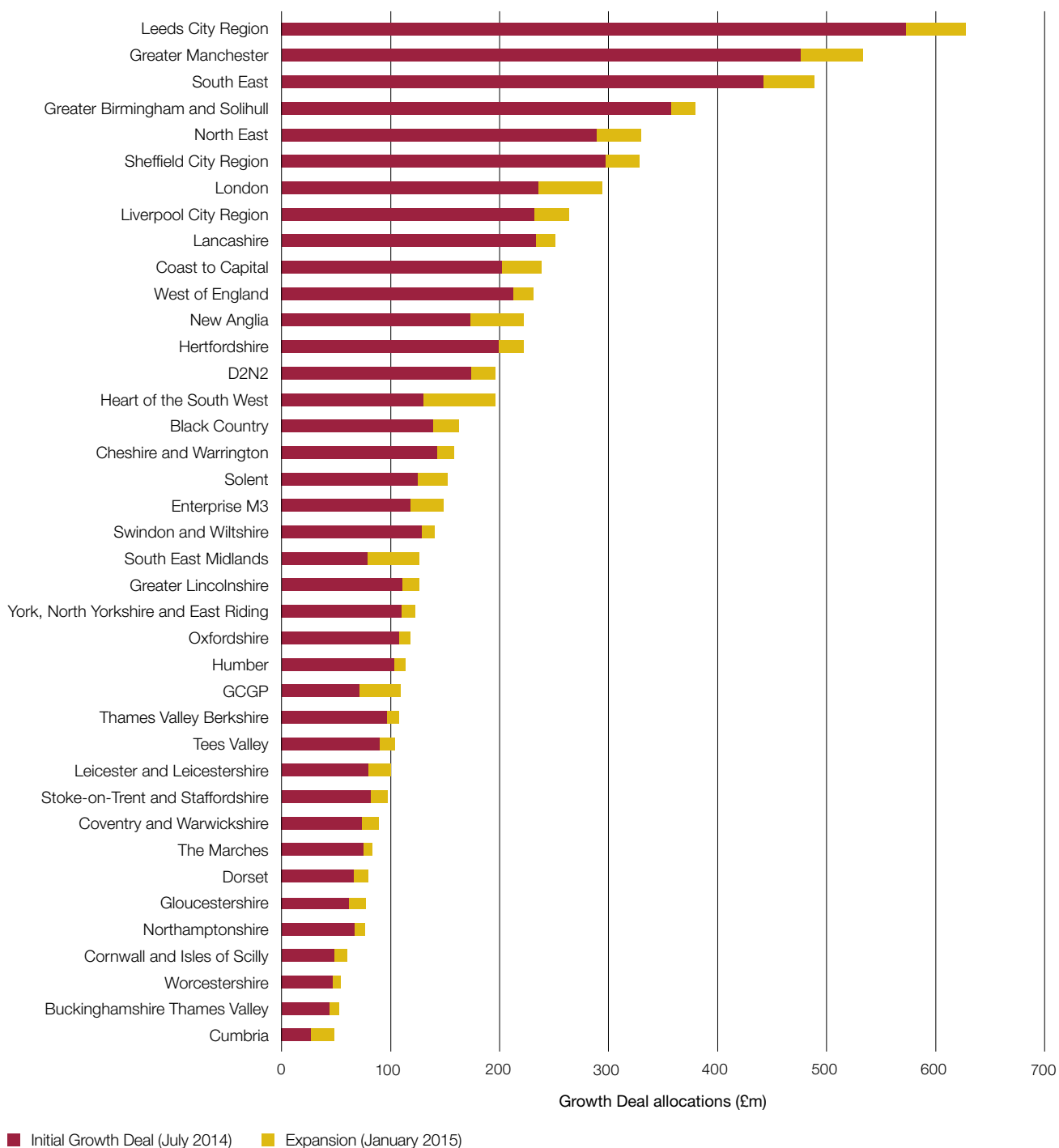
Funding flexibility

2.18 The Department set three levels of flexibility over the funding that each LEP received through their Growth Deal (**Figure 11** on page 31). This was based on the Department's confidence in each LEP's ability to deliver its plan and existing governance arrangements:

- **Low flexibility**
Any changes to agreed Growth Deal projects must be agreed with the Department in advance.
- **Medium flexibility**
The LEP must first discuss significant changes with its relationship manager from the Department for Business, Innovation & Skills (but reporting to the Department), who will advise on next steps.
- **High flexibility**
The LEP can make significant changes to agreed projects by notifying its relationship manager.

Figure 9
Funding awarded to LEPs through Growth Deals

The Department has allocated £7.3 billion of the Local Growth Fund through Growth Deals

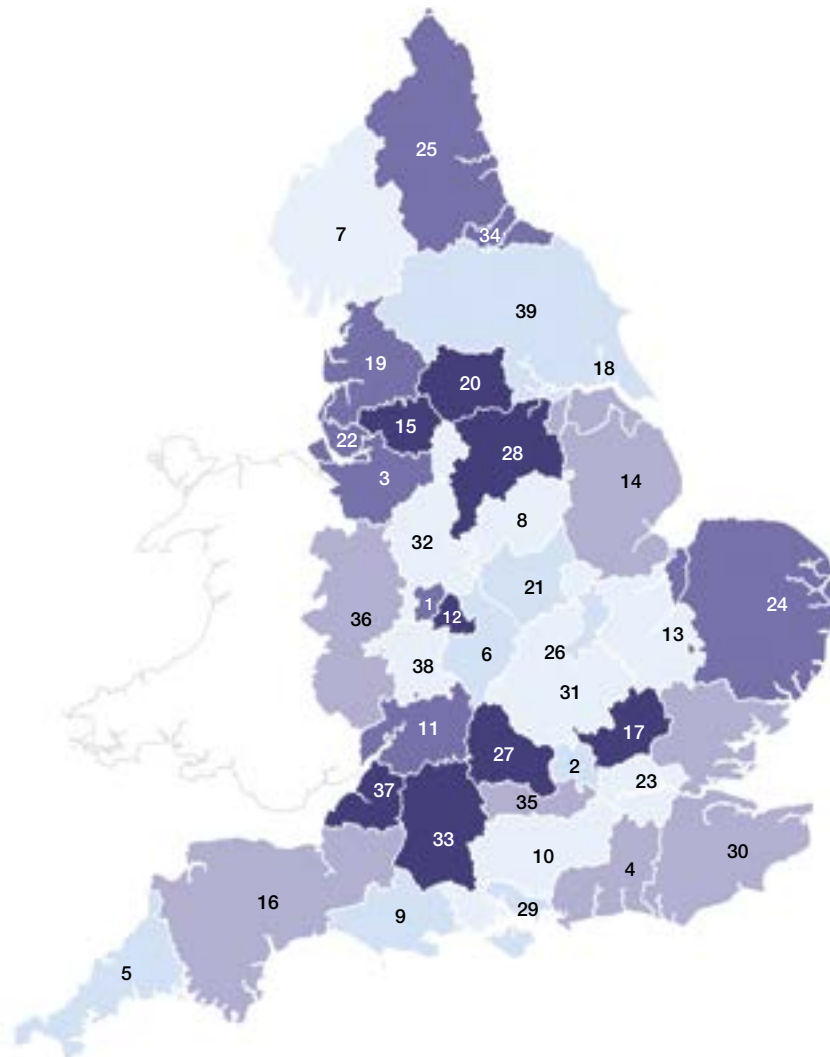


Notes
 1 D2N2 refers to Derby, Derbyshire, Nottingham and Nottinghamshire LEP.
 2 GCGP refers to Greater Cambridge Greater Peterborough LEP.

Figure 10
LEPs Growth Deal funding per capita

LEP Growth Deal funding per capita in England

- £35 to £97
- £97 to £112
- £112 to £128
- £128 to £177
- £177 to £213



- | | | |
|--|--|--|
| 1 Black Country | 13 Greater Cambridge
Greater Peterborough | 26 Northamptonshire |
| 2 Buckinghamshire Thames Valley | 14 Greater Lincolnshire | 27 Oxfordshire |
| 3 Cheshire and Warrington | 15 Greater Manchester | 28 Sheffield City Region |
| 4 Coast to Capital | 16 Heart of the South West | 29 Solent |
| 5 Cornwall and Isles of Scilly | 17 Hertfordshire | 30 South East |
| 6 Coventry and Warwickshire | 18 Humber | 31 South East Midlands |
| 7 Cumbria | 19 Lancashire | 32 Stoke-on-Trent and Staffordshire |
| 8 Derby, Derbyshire, Nottingham
and Nottinghamshire | 20 Leeds City Region | 33 Swindon and Wiltshire |
| 9 Dorset | 21 Leicester and Leicestershire | 34 Tees Valley |
| 10 Enterprise M3 | 22 Liverpool City Region | 35 Thames Valley Berkshire |
| 11 Gloucestershire | 23 London | 36 The Marches |
| 12 Greater Birmingham and Solihull | 24 New Anglia | 37 West of England |
| | 25 North East | 38 Worcestershire |
| | | 39 York, North Yorkshire and East Riding |

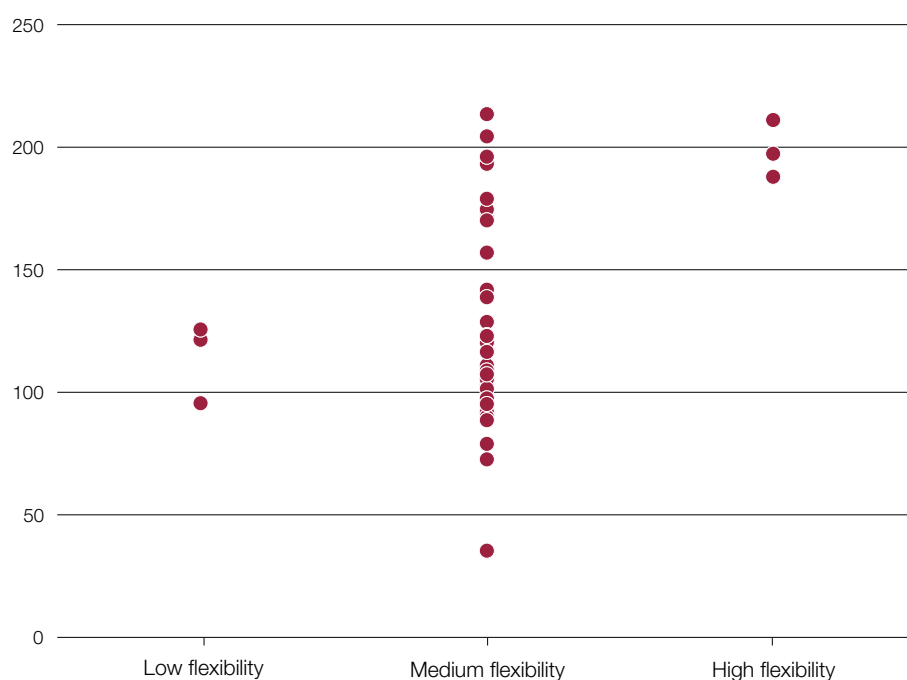
Source: National Audit Office analysis of departmental data

Figure 11

Growth Deal funding per capita and funding flexibility

The Department set three levels of flexibility over the funding each LEP received, based on the Department's confidence in the LEP's ability to deliver its Growth Deal programmes and existing governance arrangements

Growth deal funding per capita (£)

**Notes**

- 1 Funding flexibility is correct as of April 2015, when LEPs received their first tranche of Growth Deal funding.
- 2 Each point represents a LEP.

Source: National Audit Office analysis of departmental data

2.19 The Department plans to give LEPs greater flexibility if they demonstrate improved governance arrangements. At the time of our review, 39% of LEPs did not believe that they had sufficient flexibility over how public funding is used. Given the maturing status of LEPs, we regard the varying degrees of flexibility to be a prudent means of safeguarding public funds.

Progress on Growth Deals

2.20 It can take years before economic development projects achieve their impacts. As Growth Deal funding was only distributed in April 2015, it is not yet possible to conclude on the impact of Growth Deal projects.

2.21 LEPs indicated that they are under pressure to spend their Local Growth Fund allocation in 2015-16 at the risk of not receiving future funding. The Department confirmed that under the current funding mechanism for Growth Deals, LEPs are expected to spend their complete 2015-16 allocation within the financial year.⁹ Some LEPs we visited informed us that, when combined with the government's preference for projects that can be delivered quickly to ensure spend in year, this had prompted them to prioritise projects that were 'shovel ready' over those that had better long-term projections for value for money. At the time of our review, the Department estimates that Local Growth Fund projects will underspend by £85 million in 2015-16, representing an average underspend of £2.2 million per LEP. LEPs intend to mitigate this underspend by substituting alternative projects not funded by the Local Growth Fund.

2.22 One factor contributing to the inability of LEPs to commit funds has been the current state of the further education sector. In 2015, we reported that the financial health of further education colleges has been declining since 2010-11, due to a number of structural challenges facing the sector.¹⁰ Some LEPs reported that some of their projects focusing on skills in 2015-16 had been delayed or cancelled as the sector awaits the results of the government's area-based reviews of post-16 education and training institutions. According to the Department's progress report, 26% of LEPs reported challenges in delivering their skills projects. This has had an impact on LEPs' ability to spend funds within 2015-16, and many have found it challenging to find alternative projects to fund within a limited time frame.

The capacity and capability of LEPs to deliver Growth Deals

2.23 To deliver on 2015-16 Growth Deal projects and build up a pipeline of future projects, LEPs require access to staff with expertise in fields including forecasting, economic modelling, and monitoring and evaluation. We found that LEPs are highly dependent on local authority partners for staff and expertise. LEPs and local partners raised concerns about the sustainability of relying on local authority support given reductions in local government funding. We previously reported that the government's funding to local authorities would fall by 37% in real terms between 2010-11 and 2015-16.¹¹ We further estimate that local authority net spending on economic development will have fallen by 68% between 2010-11 and 2015-16 (**Figure 12**), as local authorities seek to protect spending on statutory service areas such as adult social care. LEPs and local stakeholders also report that the expected levels of private sector contributions have not yet materialised. The Department reports that it expects recent reforms to the local government finance system to enable better planning and management of local resources.

⁹ Grants are paid to accountable local authorities under Section 31 of the Local Government Act 2003.

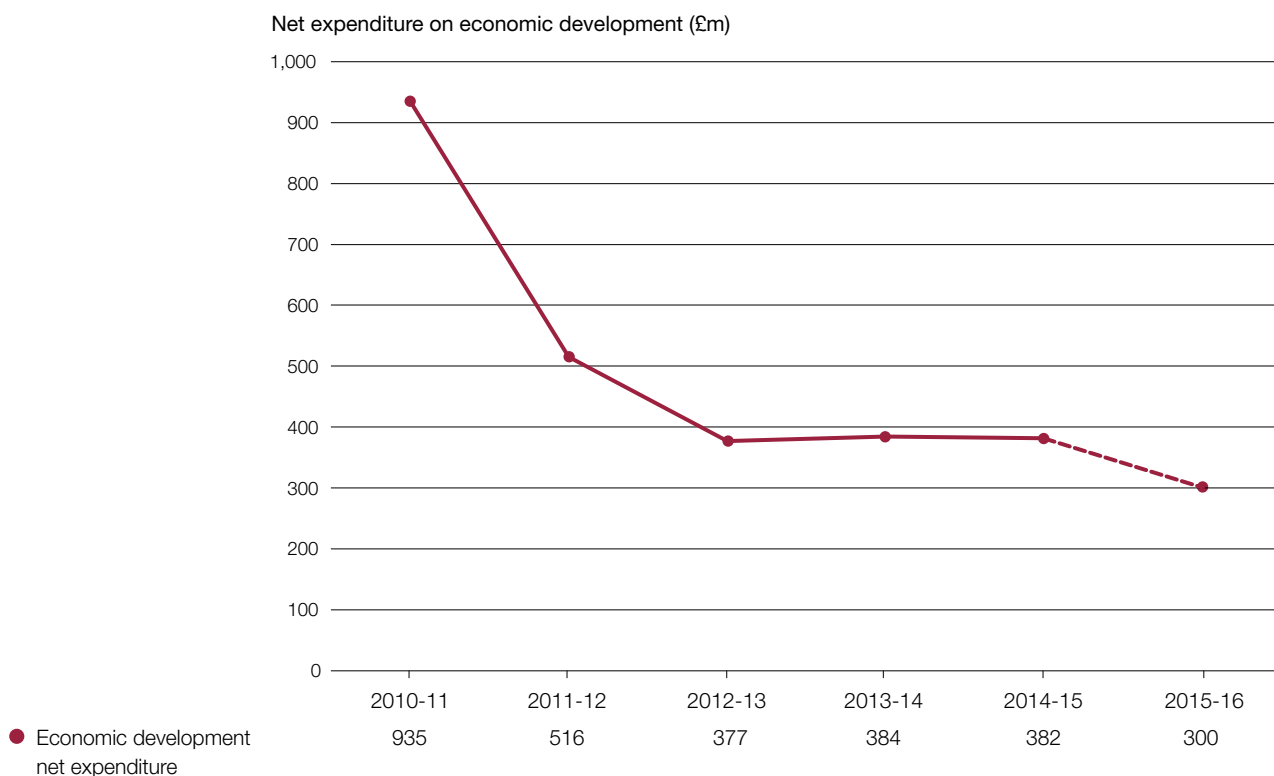
¹⁰ Comptroller and Auditor General, *Overseeing financial sustainability in the further education sector*, Session 2015-16, HC 270, National Audit Office, July 2015.

¹¹ Comptroller and Auditor General, *Financial sustainability of local authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014.

Figure 12

Local authority net expenditure on economic development 2010-11 to 2015-16

Local authorities have reduced net spending on economic development by an average of 68%



Notes

- 1 Figures expressed in real terms using 2012-13 prices.
- 2 Dotted figures represent budgeted figures.

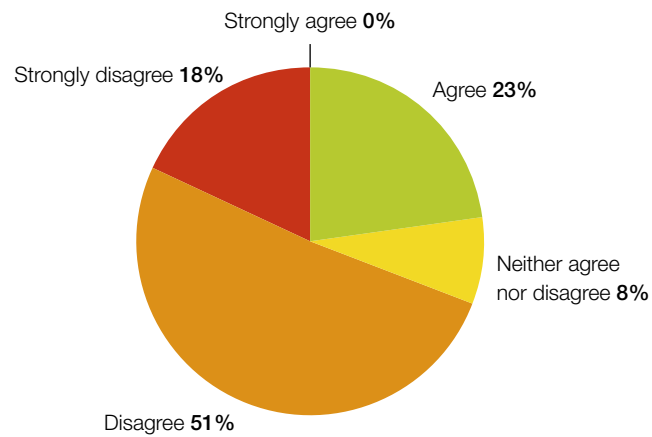
Source: National Audit Office analysis of Department for Communities and Local Government data

2.24 Only 5% of LEPs agreed or strongly agreed that the resources available to them are enough to meet the expectations placed on them by government. Additionally, 69% of LEPs did not believe that they had sufficient staff, and 28% did not consider that they had sufficiently skilled staff (**Figure 13**). LEPs frequently cited a lack of revenue funding as the reason for this. Some LEPs have opted to meet their capacity requirements through the use of consultants.

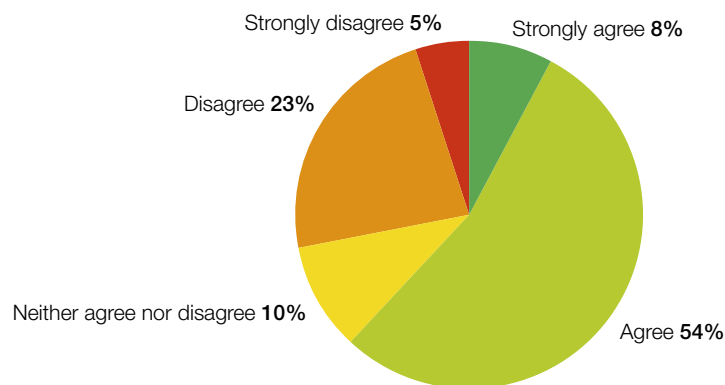
Figure 13

LEPs' views on staff and skills

The LEP has sufficient staff



The LEP has sufficiently skilled staff



Source: National Audit Office census analysis

The Department's understanding of LEPs' capacity

2.25 The Committee of Public Accounts has recommended that, in a time of continuing austerity, “the Department will need to develop a clearer way of ensuring local areas have the required capacity and capability in place to manage bigger and more complicated funding arrangements.”¹² In assessing LEPs' capacity, the Department relies on mechanisms including:

- qualitative intelligence gathered by local relationship managers (from the Cities and Local Growth Unit) through ongoing engagement with LEPs;
- LEPs' annual self-reporting on local match funding; and
- annual conversations with LEPs and their accountable bodies to take stock of Growth Deal delivery.

2.26 The Growth Deal assessment criteria did not assess explicitly the financial sustainability of local partners, which many LEPs rely on for financial and project management capacity. The Department largely relied on qualitative intelligence, which covers governance arrangements and partnership working, but not detailed financial information. We therefore consider the Department's assessment of LEPs' capacity to be incomplete.

2.27 Annual match funding returns submitted by LEPs to the Department only show the source of match funds. They do not show whether a LEP's overall resourcing is sufficient or sustainable for delivering Growth Deal projects from 2015-16 onwards or for developing a pipeline of projects for future years. The Department will be reviewing LEPs' plans for achieving financial self-sustainability of LEPs as part of the core funding application process for 2016-17.

2.28 Through the monthly progress reviews submitted by local relationship managers, the Department is aware of local concerns about LEP resourcing. For example, LEPs have voiced concerns about the lack of revenue funding for programme management and for the development of a pipeline of future projects. These feed into an annual conversation held between LEPs and the Department to take stock of Growth Deal delivery. However, this does not include a structured analysis of LEP or local authority finances.

¹² HC Committee of Public Accounts, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Seventh Report of Session 2015-16, HC 395, November 2015.

Future funding uncertainty

2.29 Creating an effective funding strategy, particularly when many projects are long-term transport or infrastructure projects, requires certainty and funding stability. LEPs and other local partners reported that the lack of certainty about future funding negatively affects the delivery of their projects. They add that private sector and local authority partners are often unwilling to assume the financial risk of new projects until future funding is confirmed. LEPs have also informed us that the lack of funding contributes strongly to their inability to retain or recruit skilled staff. A large proportion of those currently employed by some LEPs are on temporary contracts.

2.30 The Department informed us that the 2015 spending review prevented it from providing funding certainty to LEPS. Since the spending review, the Department has confirmed the core funding of £500,000 for each LEP for 2016-17, conditional upon the raising of £250,000 match funding. The government has also confirmed its intention to provide a £12 billion Local Growth Fund to LEPs between 2015-16 and 2020-21; however it is not yet clear which departments will provide funds and how much each department will contribute.

Part Three

Monitoring, evaluation and assurance

3.1 The Department for Communities and Local Government (the Department) gains assurance over Local Enterprise Partnerships' (LEPs') management of the Local Growth Fund in two ways:

- direct assurance via monitoring information, based on quarterly reports submitted by LEPs on spend and other lead indicators; and
- indirect assurance via the accountability system statement for the Local Growth Fund and Local Assurance Frameworks.

3.2 This section examines how the Department assures itself of the probity, regularity and value for money of LEP's activities. We assessed:

- the plans and arrangements in place for monitoring and evaluating LEPs' performance through Growth Deals;
- progress in implementing local assurance frameworks; and
- how financially transparent LEPs are to the public.

Monitoring and evaluation

3.3 Robust monitoring and evaluation of the impact of the Local Growth Fund is vital to both the Department's and the LEPs' understanding of what works best in promoting local economic growth.

3.4 In our previous work, we have found that good practice in monitoring and evaluation includes:¹³

- monitoring and evaluation processes with quantifiable and measurable outcomes in place at the outset;
- continual evaluation, with 'leading' measures that indicate progress towards long-term targets; and
- clear and simple measures that aid comparison between places and programmes as far as possible.

¹³ Comptroller and Auditor General, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Session 2015-16, HC 266, National Audit Office, July 2015.

Monitoring Growth Deals

3.5 In October 2014, the Committee of Public Accounts recommended that the Department agrees “a common approach to measuring and evaluating the outcomes of growth programmes, including job creation, with other government departments and local areas.”¹⁴ This should enable a continual, consistent and comparable evaluation of growth indicators across LEP areas.

3.6 The Department has taken positive action in response to this recommendation. It has standardised definitions for three lead indicators: jobs, private sector leverage, and housing units created. It has shared these with LEPs, alongside a list of other metrics and has asked them to choose which to report against depending on the nature of their projects. LEPs report on these metrics quarterly and annually to the Department, alongside their spending to date of their Growth Deal allocation. Metric definitions have been harmonised with other local growth initiatives where possible, reducing the reporting burden on LEPs and allowing the Department to benchmark performance across growth schemes.

3.7 The quality of national monitoring and evaluation relies on robust information being collected locally. While the Department has put in place some arrangements to test the quality of the monitoring information reported by LEPs (**Figure 14**), it considers LEPs to be responsible for the quality of their monitoring information. However, 21% of LEPs told us that they do not have arrangements in place to ensure the quality and accuracy of monitoring information.

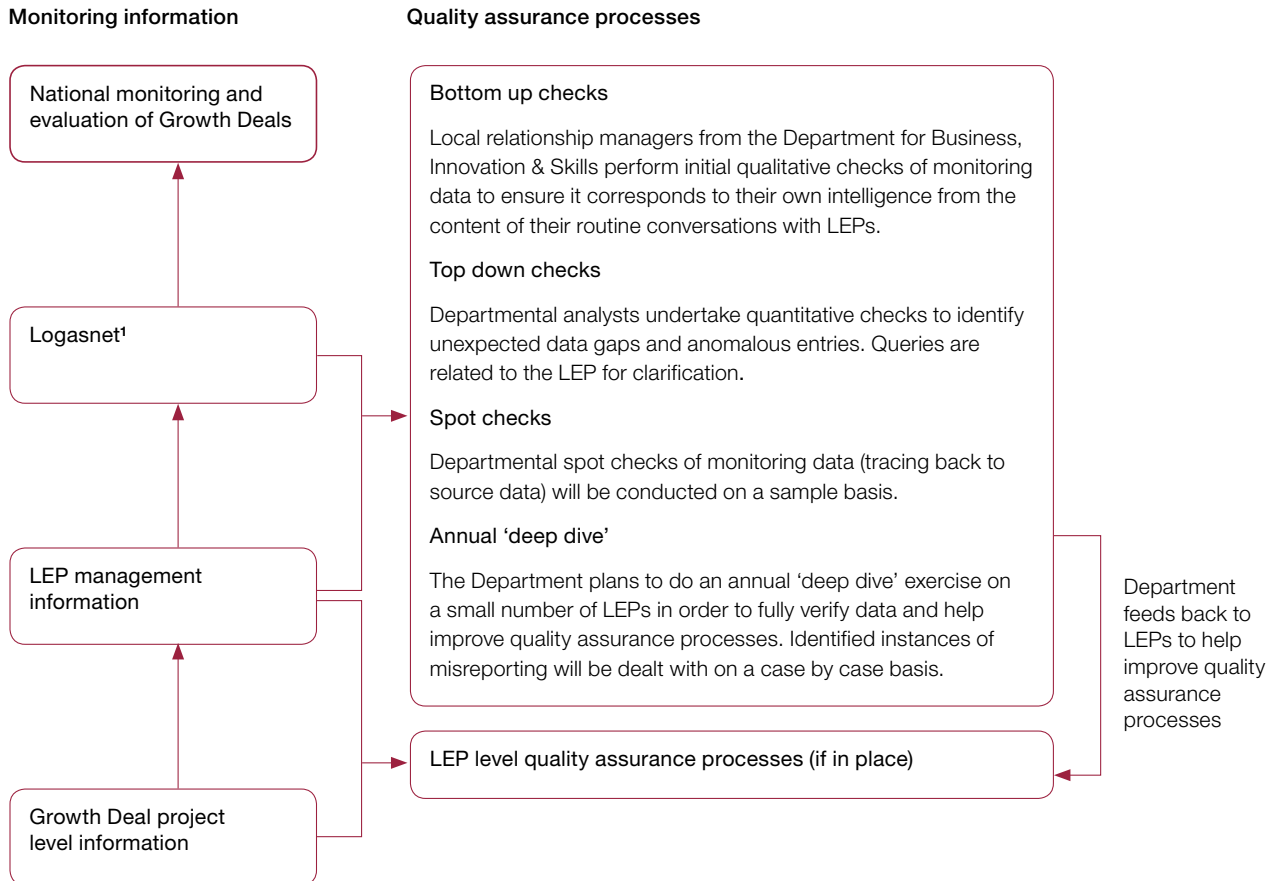
Use of monitoring information

3.8 LEPs collate monitoring information and report it to the Department each quarter. Relationship managers report to the Department on the monthly progress of the LEP from their perspective. The Department holds annual conversations with LEPs based on these reports. At this point it assesses whether to exercise one of a range of options to incentivise good performance, ranging from additional support to adjusting a LEP’s indicative funding allocation (**Figure 15** on page 40). While the annual conversation introduces an additional degree of funding uncertainty for LEPs, we consider this to be important for safeguarding the use of public funds.

¹⁴ HC Committee of Public Accounts, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Seventh Report of Session 2015-16, HC 395, November 2015.

Figure 14

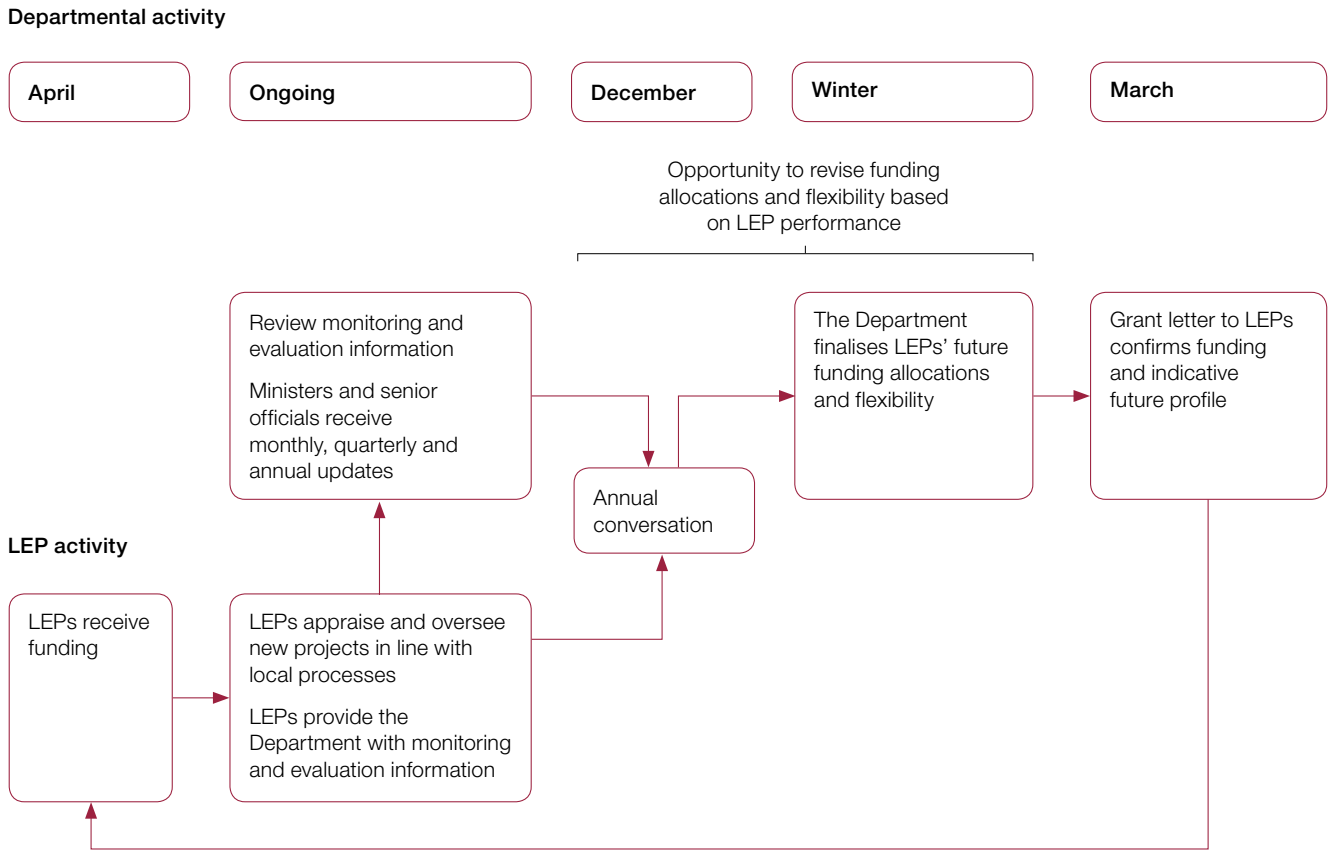
Quality assurance of Growth Deals monitoring

**Note**

¹ 'Logasnet' is an online local government finance system used by the Department to collect monitoring information.

Source: National Audit Office analysis of departmental documentation

Figure 15
Growth Deal appraisal, monitoring and evaluation cycle



Source: National Audit Office analysis of departmental documentation

Evaluating Growth Deals

3.9 We have previously criticised government evaluations of local growth policies for only using weaker methodologies to measure impact.¹⁵ The Department is still developing its evaluation strategy for Growth Deals, but has informed us that it plans to use a multi-method evaluation approach for this. LEPs themselves are also required to produce local evaluation plans.

15 National Audit Office, *Evaluation in Government*, December 2013.

3.10 Although the Department plans to focus on robust evaluation methods, it will face significant methodological challenges because of the way Growth Deals have been funded. Growth Deal projects may be partially funded from the Local Growth Fund and partially funded from other growth programmes, such as European Structural and Investment Funds. For evaluative purposes, the outcomes that can be attributed specifically to Growth Deals are therefore difficult to measure separately from those created by other local growth initiatives (**Figure 16**). It is challenging to evaluate and attribute particular additional outputs specifically to Growth Deals for this reason. If multiple schemes collect information on the same projects there is also a risk that outputs will be double counted.

3.11 The Department collects information on the funding structure of each Growth Deal project, including the proportion funded from the Local Growth Fund. The Department informs us that it intends to use this information as the basis for attributing specific outputs to Growth Deals going forward.

Figure 16

Growth Deal outputs potentially affected by other local growth schemes

Programme	Government Departments/Agencies involved	Growth Deal interventions potentially affected
Regional Growth Fund (2011–2017)	Department for Business, Innovation & Skills Department for Communities and Local Government	All
City Deals (2012)	Cities and Local Growth Unit	All
Growing Places Fund (2011)	Department for Communities and Local Government Department for Transport	All
EU Structural and Investment Funds (2015–2023)	Department for Business, Innovation & Skills Department for Communities and Local Government Department for Work & Pensions Department for Environment, Food & Rural Affairs	All
Enterprise Zones (2012)	Department for Business, Innovation & Skills Department for Communities and Local Government	Site development. Business support
Local Sustainable Transport Fund (2011–2015)	Department for Transport	Transport
Flood Defence (2015–2021)	Department for Environment, Food & Rural Affairs The Environment Agency	Flood defence
Broadband Delivery UK (2011–2017)	Department for Culture, Media & Sport	Broadband

Source: National Audit Office analysis of departmental documentation

Accountability and assurance

Assurance over the Local Growth Fund

3.12 Central government funding to LEPs is paid to nominated accountable bodies, typically an associated local authority or a combined authority. It is provided in the form of grants under section 31 of the Local Government Act 2003. The Department does not attach conditions to these grants, but expects LEPs to use funds for the purposes outlined in the Growth Deal grant offer letter sent to each of the LEPs in February 2015.

3.13 In 2011, the Committee of Public Accounts considered how government departments should maintain assurance of value for money over locally devolved funding.¹⁶ In response to this, the Department published an accountability system statement for the Local Growth Fund in March 2015, and uses this to gain assurance over regularity, propriety and value for money. The accountability system statement is underpinned by local assurance frameworks developed by each LEP. The Department also relies on the accountability system statement for Local Government, as well as the assurance and oversight systems of other government departments that contribute funding to the Local Growth Fund, such as the Department for Transport.

Local assurance frameworks

Development of local assurance frameworks

3.14 In December 2014, the government asked LEPs to produce a single local assurance framework to “support the developing confidence in delegating funding from central budgets and programmes via a single pot mechanism.”¹⁷ It issued guidelines outlining what LEPs should include in their local assurance frameworks. Given the maturing status of LEPs, this was an important development in setting out the minimum required standards of governance and transparency that LEPs are expected to meet.

3.15 LEPs reported that they found these guidelines helpful in setting out what they should include in their local assurance frameworks. Relationship managers also supported LEPs in developing their frameworks. However, only 62% of LEPs said that they had sufficient resources to meet government requirements for local assurance frameworks.

¹⁶ HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, April 2011.

¹⁷ Department for Business, Innovation & Skills, *Local Enterprise Partnership national assurance framework*, December 2014.

Implementation of local assurance frameworks

3.16 The Department asked LEPs' accountable bodies to confirm that a local assurance framework was in place and that it met the standards outlined in the Department's guidelines. By March 2015, each LEPs' accountable body had written to the Department confirming that they had local assurance frameworks in place and that they complied with national guidance. The Department used this as assurance when allocating the Local Growth Fund to LEPs in April 2015 and did not review the quality of LEPs' local assurance frameworks or ensure that they complied with national guidelines before allocating funding.

3.17 We reviewed 21 (54%) local assurance frameworks in December 2015 and the results of our census against the requirements and expectations set out in the government's guidelines. We found considerable variation in the quality of information presented in the frameworks (**Figure 17** overleaf). For example, 10% of the sample did not have any value-for-money criteria for assessing and prioritising projects. This is of particular concern given that the Department places reliance on LEPs' assurance frameworks to confirm that appropriate arrangements are in place to appraise projects and ensure value for money. As we have already set out in Part Two, the Department's 'light touch' approach to Growth Deal assessments is based on this expectation. The Department is reviewing the quality of local assurance frameworks, using the results of our study and work conducted by the Government Internal Audit Agency.

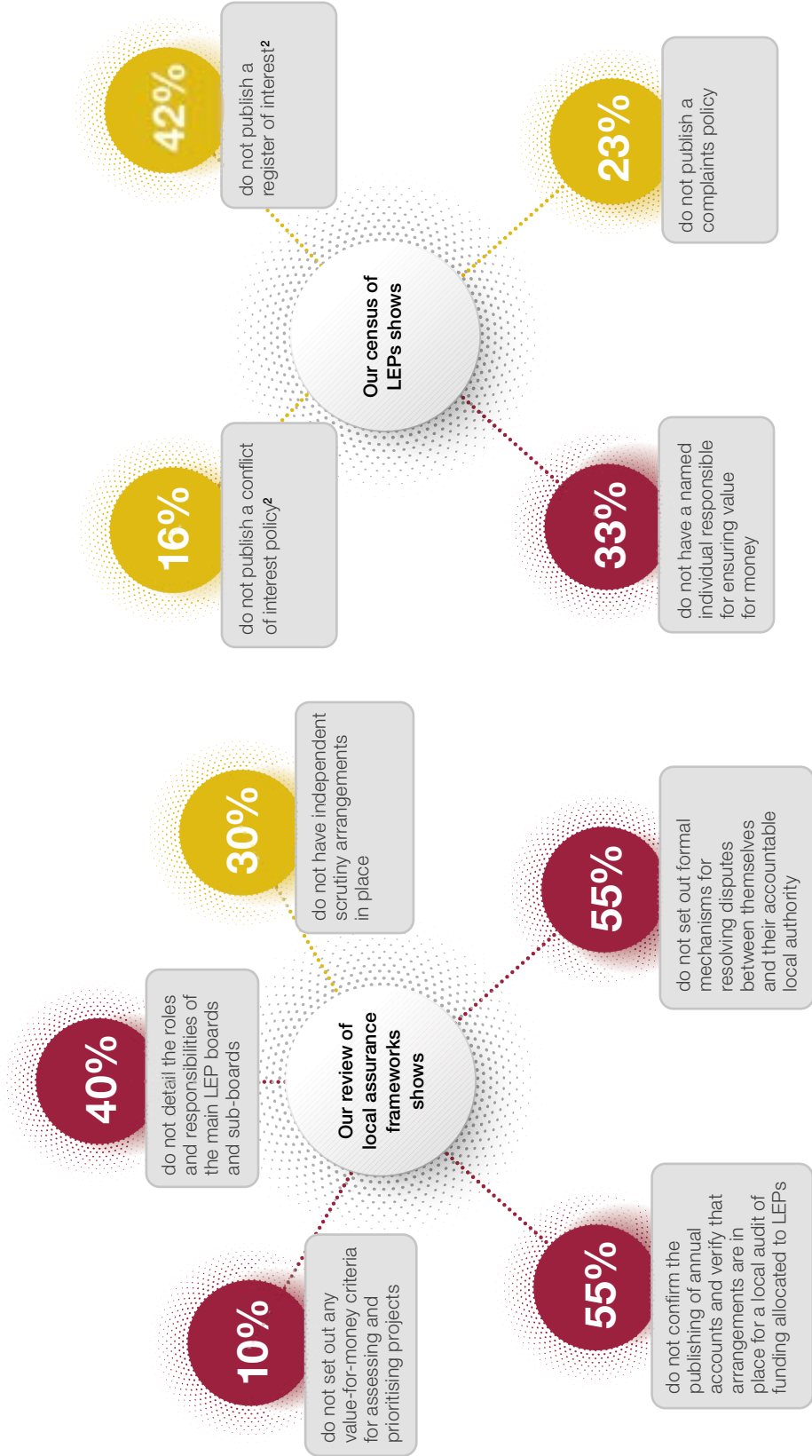
Financial transparency

3.18 To determine the format, detail and public availability of financial information on LEPs, we conducted a review of:

- the accounts or annual reports published on LEPs' websites;
- the financial statements of LEPs' accountable bodies; and
- accounts submitted by LEPs or their parent bodies through Companies House.

3.19 Across these sources, we were unable to find any accounting information on 5% of LEPs. We also found areas of poor transparency: for example, in 87% of LEPs we were unable to obtain information on senior staff pay. Local authorities are required to disclose the pay of highly paid officers as part of their annual reporting, although no such requirement exists for LEPs.

Figure 17
LEPs' local assurance frameworks



● Required by government in its national guidelines ● Expected or encouraged by government in its national guidelines

Notes

- 1 Census results are self-reported by LEPs and have not been tested or verified.
- 2 One LEP did not respond to this question. Results calculated over a denominator of 38.

Source: National Audit Office analysis of Local Enterprise Partnerships' local assurance frameworks and census analysis

3.20 Where financial information on LEPs was available, we found that the format and level of detail varied considerably (**Figure 18**). The varying levels of transparency and inconsistency in presentation make it difficult to compare LEPs nationally.

Figure 18

Format and detail of LEP financial information

LEP websites

A third of LEPs published financial information on their websites, usually in the form of an annual report.

The format and content of financial information on LEPs' websites varies considerably. Where information was available, in 31% of cases this was not for the most recent financial year and in 46% of cases only high-level summary information was published.

Accountable body accounts

The way a LEP's financial information is presented in their accountable body's accounts depends on local authority accounting judgements.

Explicit mention of the LEP was made in 72% of accountable bodies' accounts, and 14% of these presented separately identifiable financial information on the LEP. LEPs' financial information was most commonly presented as a single line entry within the notes of the financial statements.

Companies House

Only LEPs that are registered as a company limited by guarantee are required to submit accounts to Companies House. A Companies House search revealed that 59% of LEPs had registered accounts, either themselves or via a parent company.

We found variation in the way LEPs present their accounts: 43% of LEPs that filed accounts with Companies House submitted 'dormant accounts', meaning that no information on LEP income or expenditure could be found in the financial statements. LEPs may file dormant accounts in cases where they meet eligibility criteria for reporting exemptions.

Of the accounts found on Companies House, 38% were not for the most recent financial year.

Note

1 We conducted our review in December 2015. The most recent completed financial year at the time of our review was 2014-15.

Source: National Audit Office analysis of publicly available financial information on Local Enterprise Partnerships

Appendix One

Our audit approach

1 This report examined how the Department for Communities and Local Government (the Department) allocated the Local Growth Fund in July 2014 and January 2015 through Growth Deals it negotiated with each Local Enterprise Partnership (LEP). It also examined how the Department maintains oversight and assurance over LEPs and whether this is likely to deliver value for money.

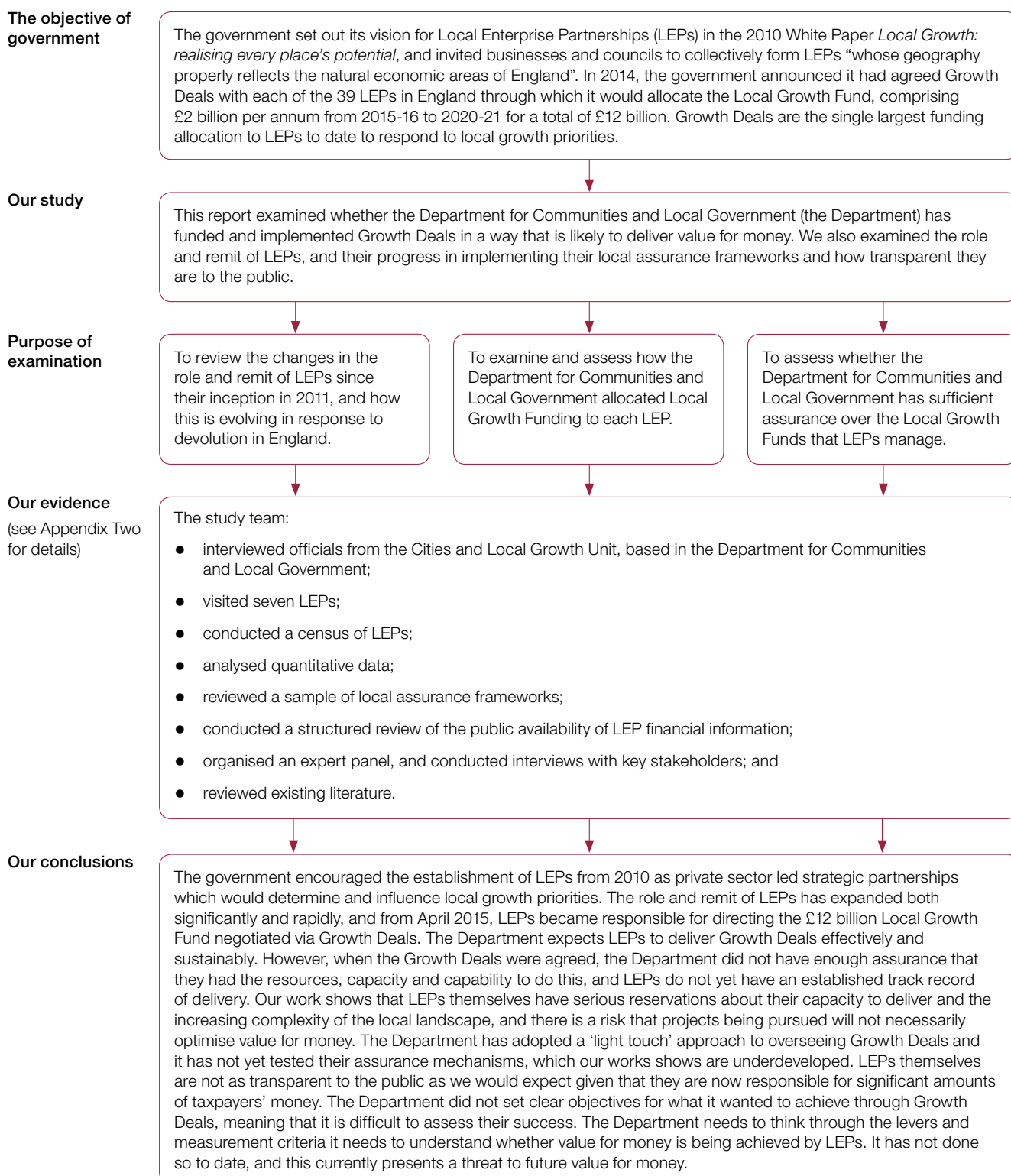
2 We reviewed:

- the structure of LEPs, and how their activities are funded;
- the Department's role in assessing the strategic economic plans submitted by LEPs as the basis of their Growth Deal bids;
- the structure and composition of the Local Growth Fund in 2015-16;
- the arrangements the Department put in place for monitoring and evaluation at both the national and local level;
- the Department's role in maintaining LEP assurance and accountability primarily through its support of the development of local assurance frameworks and their implementation; and
- publicly available financial information on LEPs.

3 Our audit approach is summarised in **Figure 19**. Our evidence is described in Appendix Two.

Figure 19

Our audit approach



Appendix Two

Our evidence base

- 1** We collected our evidence base between August 2015 and January 2016. We reviewed the Department for Communities and Local Government's (the Department's) assessment of Growth Deal bids and its subsequent allocation of Local Growth Funds through the Growth Deals announced in July 2014 and January 2015. We also reviewed the Department's oversight of Local Growth Funds and the mechanisms it has in place to maintain assurance, accountability and deliver value for money. Our audit approach is outlined in Appendix One.
- 2** We used qualitative and quantitative techniques to inform the scope and design of our fieldwork and refine our understanding of the role of LEPs in the local economic growth landscape, Growth Deals and the Local Growth Fund, and the Department's oversight of LEPs.
- 3** We conducted interviews with officials from the Department, specifically the Cities and Local Growth Unit (the Unit), other government departments, the LEP Network, the Local Government Association, think tanks and academic commentators. We also conducted case study interviews with officials from seven LEPs: Greater Cambridge, Greater Peterborough, Cumbria, Cornwall and Isles of Scilly, London, Greater Manchester, Leeds City Region, and Greater Birmingham and Solihull.
- 4** We formed an expert panel consisting of Charlotte Alldritt, Director of Public Services and Communities at the Royal Society of Arts, and Professor Andy Pike, Professor of Local and Regional Development and Director of the Centre for Urban and Regional Development Studies at Newcastle University. This expert panel provided valuable independent scrutiny and advice to the study team.

We reviewed the structure and evolving role of LEPs

- 5** We reviewed legislative documents that set out the government's intentions to increase local flexibility, including the 2010 Spending Review and the Localism Act.
- 6** We reviewed government documents to understand the government's policy on localism and local economic growth, and its objectives for LEPs within this policy landscape. This includes *Local growth: realising every place's potential*, published in 2010, the government-commissioned review by Lord Heseltine, *No stone unturned: in pursuit of growth*, published in 2012, and the government's response to Lord Heseltine's review, published in 2013.

7 We interviewed officials from the Department for Communities and Local Government, specifically the Unit, to understand LEPs' core funding arrangements and their local match requirements.

8 We reviewed departmental documents to understand what other funding streams that LEPs are responsible for managing.

9 We conducted a census of LEPs, with a 100% response rate, to understand their individual perspectives on their structure and staffing, governance, the Growth Deal bid assessment process, Growth Deal funding, and overall progress to date.

We reviewed the assessment, funding and progress of Growth Deals

10 We interviewed officials from the Department to understand the objectives of Growth Deals, how it assessed Growth Deal bids and LEPs' strategic economic plans, and its funding allocation formula for Growth Deals announced in July 2014 and January 2015.

11 We reviewed departmental documents to understand the guidelines, criteria and scoring used to assess LEPs' strategic economic plans, and the funding formula the Department used to allocate funding awards and flexibilities to each LEP. We also reviewed Growth Deal grant offer letters.

12 We reviewed departmental documents to understand the composition and structure of the 2015-16 allocation of the Local Growth Fund.

13 We conducted case study interviews with officials from seven LEPs to gather evidence on how they formulated their strategic economic plans, prioritised projects for 2015-16 and their progress in managing the delivery of Growth Deal projects so far.

14 We interviewed officials from the Department to understand how they determined LEPs' capacity to manage the delivery of Growth Deal projects in 2015-16.

15 We analysed local authority revenue outturn and revenue account data to determine the change in local authority spend on economic development.

We reviewed the Department's oversight, accountability and assurance arrangements

16 We interviewed officials from the Department to understand the government's perspective on how Growth Deals would impact local economic growth and how the Department planned to monitor and evaluate their progress.

17 We reviewed guidelines sent to LEPs to support them in establishing local monitoring and evaluation arrangements. We also reviewed a sample of LEPs' self-reported quarterly progress returns, and the Department's quality assurance mechanisms.

18 We have reviewed the work of the What Works Centre on the evaluation of local growth initiatives, and our previous work on evaluation in government.

19 We conducted a structured review of 21 (51%) local assurance frameworks against the departmental guidelines.

20 We conducted a structured review of the public availability of LEP financial information, including LEP websites and the accountable body's statement of accounts. Where relevant, we also searched for statements of accounts in Companies House.

21 We have drawn on our value-for-money studies that examine assurance over public funds, monitoring and evaluation of local growth programmes, and good practice in implementing jointly-led programmes, particularly with a focus on local growth. These include: *Devolving responsibilities to cities in England: Wave 1 City Deals*; *Funding and structures for local growth*; *Evaluation in government*; *Regenerating the English Regions: Regional Development Agencies' support to physical regeneration projects*; *The Regional Growth Fund*; and *Local government funding: Assurance to Parliament*.^{18,19,20,21,22,23}

18 Comptroller and Auditor General, *Devolving responsibilities to cities in England: Wave 1 City Deals*, Session 2015-16, HC 266, National Audit Office, July 2015.

19 Comptroller and Auditor General, *Funding and structures for local growth*, Session 2013-14, HC 542, National Audit Office, December 2013.

20 National Audit Office, *Evaluation in Government*, December 2013.

21 Comptroller and Auditor General, *Regenerating the English Regions: Regional Development Agencies' support to physical regeneration projects*, Session 2009-10; HC 214, National Audit Office, March 2010.

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

23 Comptroller and Auditor General, *Local government funding: Assurance to Parliament*, Session 2014-15, HC 174, National Audit Office, June 2014.

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