



National Audit Office

Report

by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Local Enterprise Partnerships: an update on progress

What this report is about

1 Local Enterprise Partnerships (LEPs) are private sector-led partnerships between businesses and local public sector bodies. They were established in 2011 to drive economic growth in local areas. There are 38 LEPs in England, each operating across more than one local authority. The government has committed £12 billion to local areas in England between 2015-16 and 2020-21. Of this, £9.1 billion has already been allocated through Growth Deals negotiated between central government and individual LEPs. The Ministry of Housing, Communities & Local Government (the Department) is accountable overall for the Local Growth Fund and the delivery system within which LEPs invest this funding.

2 This report has been prepared to update the Committee of Public Accounts (the Committee) on the work of LEPs and the Department to address previous National Audit Office (NAO) report recommendations that focused on value-for-money issues; and the Committee's recommendations on governance and transparency issues. It will also update the Committee on progress to meet the recommendations set out in the Mary Ney Review of Local Enterprise Partnership governance and transparency.

3 The factual material in this report is based on a review of the Department's documents and interviews with its officials. We have reviewed information from a sample of LEPs to test their compliance with the recommendations set out by the Mary Ney Review. In the time available we have consulted relevant stakeholders, including the Local Government Association, the Chartered Institute of Public Finance and Accountancy and the LEP Network. We have not evaluated the effectiveness of the Department's work or the value for money of local growth funding spent through LEPs.

4 This report sets out:

- changes to the role and remit of LEPs since we last reported in 2016 (Part One);
- the Department's and LEPs' progress with strengthening governance, assurance and transparency (Part Two); and
- funding spent through LEPs to date and future funding arrangements (Part Three).

5 Our audit approach is set out in Appendix One. Past recommendations to the Department are in Appendix Two.

Summary

Clarifying role, remit and leadership

1 The Ministry of Housing, Communities & Local Government (the Department) has clarified the role of Local Enterprise Partnerships (LEPs). In 2016, we reported that LEPs' responsibilities expanded considerably after government announced that it would deliver £12 billion of local growth funding to local areas, including through LEPs. In 2018, the Department tied the future of LEPs to the development of local industrial strategies for their areas, stating that this is a prerequisite to LEPs accessing future funding after 2020-21. The Department also set its expectations for LEPs and all combined authorities to develop and publish agreements over their respective roles and remits within their local areas. It also expects all LEPs to register as legal entities by April 2019 (paragraphs 1.5 to 1.9 and Figure 1).

2 The Department recognises that LEPs' accountability is diluted where their geographical boundaries overlap, and it is working to remove these overlaps by April 2020. In our 2016 report, we found that 37 local authorities were covered by more than one LEP. In 2018, the Department acknowledged that "retaining overlaps dilutes accountability and responsibilities for setting strategy for places." Of the 38 LEPs in 2018, the Department identified 20 with overlapping boundaries. As of March 2019, 11 LEPs have agreed to resolve their boundary overlaps. For the nine remaining LEPs, the Department says the situation is more challenging as it has been more difficult to resolve these issues locally (paragraphs 1.10 and 1.11 and Figure 2).

3 The Department has set out its commitment to strengthening LEP leadership. LEPs are required to have a private sector chair and to draw most board members from the private sector. Given the substantial amount of public funding LEPs manage, the Committee of Public Accounts (the Committee) said in 2017 that it expected all chairs to commit to the standards expected of those serving in public office. With the LEP Network, the Department will offer all new board members training and induction on how to work with government. It will introduce term limits for chairs and deputy chairs by April 2019. It has also committed to supporting LEPs to achieve more diversity on their boards, with a target of equal gender representation by 2023. Currently, on average, 27% of LEP board members are female (paragraphs 1.12 to 1.14 and Figure 3).

Progress with governance, transparency and assurance

4 The Department has implemented the recommendations made by Mary Ney's review into LEP governance. The Ney Review examined whether the system that the Department had in place to assure itself of LEPs' performance and governance was sufficient. It reported in October 2017 with 17 recommendations across eight areas including LEP culture and accountability; structure and decision-making; managing conflicts of interests; and transparency and government oversight. The Department's accounting officer wrote to the Committee in June 2018, confirming that the Department had addressed most of the Ney Review's recommendations through publishing best practice guidance. The Department addressed the remaining recommendations through reissuing a *National Local Growth Assurance Framework*, which set out the new minimum standards for LEP governance and transparency (paragraphs 2.4 to 2.8 and 2.13 and Figure 4 to Figure 7).

5 The Department assesses LEPs' compliance with governance standards but acknowledges that the risk of individual LEPs failing remains. The Department acknowledges that, for strong governance to take hold in LEPs, organisational culture must keep up with the changes that have been introduced, and that there is a chance that it may lag. The Department uses its annual performance reviews, programme of deep dives, and the intelligence it receives from its local area leads to gain an understanding of the organisational and leadership culture of a LEP. It acknowledges that it cannot mitigate entirely the risk of a failure similar to the Greater Cambridgeshire Greater Peterborough (GCGP) LEP (paragraph 2.9).

6 The Department's ability to withhold funding from LEPs remains its main mechanism for correcting LEP underperformance or non-compliance. As LEPs are not statutory bodies, the Department does not have the power to intervene in the same way it does with failing local authorities. To correct governance failings and underperformance in LEPs in 2018-19, the Department withheld core funding in full from two LEPs, and staggered the release of payments to another two until they made progress. The Department expects LEPs to correct any shortfalls in the conduct of any of its board members. It has set out other mechanisms to intervene where it has detected ongoing failure. This includes ministers writing to the LEP board to express a loss of confidence in its leadership. These interventions are weaker than those available to the Department in the case of failing local authorities (paragraphs 2.20 to 2.23 and Figure 8).

7 There has been significant improvement in LEPs' financial transparency since our previous report in 2016. Only 13% of LEPs in 2016 shared financial information, such as salaries, and only 33% published their annual report online. As of February 2019, we found that all LEPs now publish financial information on the individual projects they fund, and 84% of LEPs publish their annual reports online. When a local authority or combined authority acts as the accountable body for a LEP, its Section 151/73 officer's role is to oversee the proper administration of the LEP's financial affairs. The Department, with the support of the Chartered Institute of Public Finance and Accountancy, has set out stronger expectations of the role and remit of Section 151/73 officers in assuring good financial governance in LEPs. Section 151/73 officers now sign off monitoring information reported by LEPs to the Department, as well as their local assurance frameworks confirming their governance arrangements (paragraphs 2.10 to 2.12).

Current and future LEP funding

8 LEPs have been awarded £9.1 billion in local growth funding since 2015-16 in three tranches of Growth Deals negotiated with the Department. To date, the northern region of England, home to 11 LEPs, has received most of the total funding, at £3.4 billion. LEPs have spent this funding on a range of projects, with most funding in 2018-19 spent on transport projects. The Department says it understands the challenges that LEPs face in planning complex projects with annual funding allocations. It says this is a decision for HM Treasury and that it does not expect that annualised funding arrangements will change (paragraphs 3.1 to 3.8 and Figures 9, 10 and 11).

9 The government has announced the creation of a UK Shared Prosperity Fund (the Fund) to replace EU structural funds. LEPs have a say in how to spend more than £5.3 billion of European structural and investment funds between 2014 and 2020. In a written ministerial statement, the government says that the new Fund will be simpler to administer and enable support to be better targeted, based on stronger evidence of what works locally. The Department says that tasking LEPs with developing local industrial strategies provides a "gateway" to accessing future funding after the UK exits the European Union. The Department told us it has delayed a public consultation on the Fund's future design and structure until it has more clarity about the terms on which the UK will leave the EU (paragraphs 3.9 and 3.10).

10 The Department has not evaluated the impact of the local growth funding it has provided to LEPs through Growth Deals. We have previously reported that the Department opted not to set quantifiable objectives for Growth Deals, including, for example, the number of jobs created. The Department does not intend to evaluate the impact of Growth Deals. Instead, it has plans for an "informal evaluation" before the 2019 Spending Review but acknowledges this will not amount to a clear understanding of the effectiveness of Growth Deals. The absence of robust evaluation means the Department and LEPs are less able to learn from what has worked well and ensure that this is reflected in the design or objectives of the new UK Shared Prosperity Fund (paragraphs 2.24 to 2.26).

LEP capacity

11 The Department does not understand individual LEPs' capacity to carry out their work or meet the new governance standards. In our 2016 report, we found that LEPs were highly dependent on local authorities for staff and expertise. In its 2016 report, the Committee recommended that the Department perform a structured assessment of LEPs' capacity. The Department says it assessed this before allocating the third tranche of Growth Deals but it is difficult to see whether – and how – they arrived at an understanding of LEP capacity through that work. The Department has now commissioned research to assess the capability of all LEPs to deliver their local industrial strategies but the results will not be available until June 2019 (paragraph 3.13 and 3.15 and Figure 12).

Conclusion

12 With the significant amount of public funding now delivered through LEPs and the recent failure of the GCGP LEP, there is a clear rationale for more demonstrable good governance in LEPs and better oversight by the Department. We recognise the inherent tension the Department faces in developing a system of governance over a delivery model based on the devolution of funding and responsibilities to ad hoc, business-led partnerships. The Department has responded by implementing the recommendations of the Ney Review and some of those made by the Committee. While the assurance framework is stronger, backed up by checks on compliance, it is not proven yet whether these measures will be effective in detecting and responding to governance failures over significant sums of public money.

13 The Department's accounting officer is accountable for the Local Growth Fund delivered through LEPs. However, the Department has made no effort to evaluate the value for money of nearly £12 billion in public funding, nor does it have robust plans to do so. The Department needs a grip on how effectively these funds are used. It needs to act if it wants to have any hope of learning the lessons of what works locally for future interventions in local growth, including the new UK Shared Prosperity Fund.