

A horizontal bar with four segments of different colors: dark grey, light grey, yellow, and orange.

Four Tests for Local Enterprise Partnerships

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Challenging ideas – Changing policy

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Monday 6 September is the deadline for groupings of local authorities and businesses to submit proposals to become Local Enterprise Partnerships (LEPs). LEPs will play a key role in the coalition government's ambition to rebalance the economy. This is a worthy aim, whether it is understood as moving away from an over-reliance on certain sectors – like the financial services industry – or certain parts of the country – like the greater South East.

But economic performance will never be geographically uniform under a market economy, either within or between nations. Nations or regions may, over time, see their relative position improve or decline, but disparities will exist across a range of economic indicators. Nevertheless, some nations and regions have *consistently* underperformed, a trend which has aroused interest from both academic (Krugman 1991, for example) and policymaking communities. In the UK, a succession of initiatives has been introduced to moderate the impact of industrial restructuring and improve the economic performance in lagging regions – from the Manpower Services Commission in the 1970s through to Regional Development Agencies (RDAs) at the turn of the century.

LEPs will be the latest in this long line of initiatives. Their core remit will be economic growth, and they are expected to play a wide ranging role, taking in planning, housing, local transport, infrastructure, employment, enterprise and the transition to the new low carbon economy (Cable and Pickles 2010).

The invitation to form LEPs contained a selection of parameters that Government would like proposals to adhere to. Arranged under the headings *Role*, *Governance* and *Size*, these are by no means prescriptive. While this flexibility is welcome, it determines that Government is unlikely to receive proposals that are straightforward to assess. There are three principal reasons for this:

- *Volume of bids*: It is fair to assume that there will be more LEPs than the current nine RDAs, but England contains 351 local authorities and 162 Travel to Work Areas.¹ There has been no indication over how many LEPs might be considered appropriate, but creating a workable interface between Government and, for argument's sake, 100 organisations will be challenging;
- *Contradictory bids*: The proposed geographies are unlikely to tessellate. Some areas will almost certainly overlap, and some areas could find that they fall within a LEP that they do not want to be part of (if, for example, a non-metropolitan county council submits a LEP proposal that covers the entire county, but districts within the county submit a separate proposal);
- *Loose guidance*: The invitation to form a LEP provided very broad guidelines which are likely to be widely interpreted. While this creates space for LEPs to respond to their local circumstances, it also creates uncertainty as to what will meet the criteria and what will not.

As a result, Government will need to undertake a transparent process to endorse or seek amendments to the LEP proposals it receives. Furthermore, as RDAs are abolished, LEPs will become the most important vehicle for sub-national economic development. It is therefore essential that they are able to move forward economic development in lagging areas. This short paper outlines four tests that the proposals for LEPs should be assessed against.

¹ TTWAs are defined by 75% of the resident population working in the Area and also 75% of the workforce living in the Area. For further information see: <http://www.statistics.gov.uk/geography/ttwa.asp>

1. Empower the sub-national level

For LEPs make a real contribution to rebalancing the economy they cannot simply be an exercise in moving the deckchairs, and they must not duplicate functions already performed by other tiers. The establishment of LEPs should mark a new chapter in a new more decentralised England.

If the government is signed up to localism, then the powers and functions available to LEPs should be wide ranging, and informed by an analysis of local needs and opportunities carried out by local partners. This creates a challenge for both central government and for LEPs themselves.

The role of central government should be to respond to the aspirations of LEPs, removing barriers to the achievement of their economic vision. Where they are able to evidence the need for increased power or control of specific functions, central government's job should be to deliver it. But for this to work it is essential that all departments are fully signed up to making LEPs work. Past initiatives, such as multi-area agreements, have fallen at the hurdle of drawing powers down from central government, with some departments more committed to devolution than others (Russell 2010). A champion is needed to lead the process in Whitehall, encouraging and challenging departments to go further and faster. Given the primary remit for LEPs is economic growth, we suggest the Department for Business Innovation and Skills is well placed to play this role.

Furthermore this brokerage role should not be on a bi-lateral basis, with separate negotiations held with individual departments, as was the case with MAAs (Russell 2010). If LEPs are putting a package of measures together, central government should respond to it as a package, rather than some elements going ahead and others not on the whim of individual departments.

But there is a challenge here for LEPs too. Past plans for decentralisation have sometimes been undermined by a lack of imagination on the part of local government and its partners, with requests to central government for greater powers and flexibilities turning out to be things they have the power to do already (Johnson 2008). LEPs must rise to this challenge and be bold and creative if they are going to drive economic growth effectively.

A key test of whether LEPs empower the sub-national level will be whether they have meaningful mechanisms to resource their activities, and how far they have financial certainty to be able to make medium to long term plans. Clearly the Regional Growth Fund will have a role to play, but there will be considerable demand on this limited source. LEPs should therefore have the option of raising revenue to help pump prime and secure other investments where they wish to. Some options for vehicles to enable them to raise finance could include raising tax increment financing, local authority bonds, social impact bonds, the use of special purpose vehicles or local asset backed vehicles.

The Regional Growth Fund (RGF) consultation reinforces the importance of evidencing market failure. While the LEPs' remit will extend beyond the RGF, the importance of their financial outlook and governance should not be underestimated. If LEPs identify investment opportunities that offer a return on investment, this would allow them to reinvest. This mimicking of a more commercial approach might initially appear attractive, but an obvious criticism would be that if an investment offers a return, the private sector should capitalise on this opportunity. There are explanations for why this does not always happen – scale of investment required, information asymmetries – but evidence of such genuine market failures must be very strong

should LEPs seek a return on investment, albeit one that they will subsequently reinvest.

2. Further social justice

It is right that economic growth should be the primary function of LEPs. Growing the economy will boost tax revenues, contributing to deficit reduction, as well as creating jobs. But economic growth should not be the sole goal of LEPs. Ensuring all people are able to share in the proceeds of economic growth should also be a central part of what LEPs do. They should further social justice as well as pursuing economic growth.

The availability of jobs has become a central concern for policymakers following the recession. But it is easy to forget that in some parts of the country, particularly in the North, a lack of available jobs has been a problem of longer standing. Policymakers are often more comfortable dealing with the supply side issues of the labour market, like skills and qualifications, but these will be of limited value if there are not jobs for people to move into.

LEPs should not be afraid of supporting measures to boost demand in the labour market to help ensure the availability of jobs. But they will need the appropriate tools to achieve this. The centralisation of the Regional Development Agency's inward investment, business support and innovation functions is a backward step in this respect. Where LEPs request such powers for themselves, subject to passing the other tests, these should be granted.

LEPs should also play a key role in supporting people to enter employment. For most people, work remains the best route out of poverty, although the quality of jobs and progression once in work are also concerns (Lawton 2009). LEPs should be able to play a key role in the new Work Programme, with responsibility for co-commissioning the new programme. Through this route they would be able to shape employment services so they fit the economic aspirations of the area (see McNeil forthcoming and Cox and Schmuecker forthcoming).

LEPs could also draw on planning powers and negotiate with transport providers to ensure entry level jobs are accessible to people living in deprived neighbourhoods.

3. Pass a “functional economic area” test

Functional economic areas are amorphous and notoriously difficult to define. Boundaries vary depending on the activity; within the market for goods and services, the footprint of a market for new cars will be much larger than that for a single loaf of bread. Much expertise and effort has been invested in developing a coherent set of travel to work areas, but there is variance within these – witness the positive correlation between commuting times and qualification levels and/or earnings. Functional economic areas historically evolve more quickly than public policy can keep pace with. Nonetheless, delivering economic development policies at a scale that reflects functional economic areas as closely as possible remains a worthwhile ambition, as it will improve the efficacy of service delivery through avoiding overprovision of similar office premises in neighbouring local authorities, for example. A persistent criticism of the regional tier of governance in England has been the failure of administrative boundaries to accurately reflect functional economic areas, an assessment that is equally levelled at local authorities. This analysis is entirely valid and forms a central element of the rationale offered by the coalition for replacing RDAs with LEPs. Ensuring that LEPs *do* reflect functional economic areas is therefore essential to maintaining the integrity of this policy shift.

Proposals to form LEPs must be able to demonstrate convincingly how their proposed grouping corresponds to a functional economic area. To maintain the integrity of this policy shift, Government must reserve the right to reject LEP proposals that do not correspond to functional economic areas. An independent assessment could be provided using existing travel to work area data held by CLG. In cases where proposals are rejected on these grounds, support should be provided to build the capacity of partnerships that correspond to functional economic areas.

4. Pass an accountability test

A further criticism of the regional tier of governance in England has been the absence of direct democratic accountability. Although RDAs have always been Non-Departmental Public Bodies responsible to the Department of Business, Innovation and Skills (and its predecessors), who have always been required to approve appointments to their Boards, a feeling that their activities have not been suitably monitored has remained. The introduction of Local Authority Leaders' Boards (Local Democracy, Economic Development and Construction Act 2009) sought to assuage this criticism, but there was a general feeling that this was something of 'a square peg in a round hole'.

It is right that LEPs should develop their own governance structures that are workable for their area. Nonetheless, it is essential that there are clear lines of accountability back to the electorate through the involvement of local authorities. Furthermore, the formality of the governance arrangements should vary in accordance with the level of powers and functions being exercised by a LEP. In some cases, in time, a sub-regional mayor could well fit this role.

Central government should set out an expectation, without being prescriptive, that greater powers – particularly any financial powers – will require a greater degree of accountability and formal governance arrangements. There is a limit to the powers that can be exercised by a voluntary partnership.

A key element of the accountability of LEPs will be the role that local authorities play in running them. Local authorities should engage fully with LEPs, and not delegate responsibility for their participation in them to one individual. Rather a range of individuals from the leader to key portfolio holders and lead officers should all be involved with the work of the LEP at appropriate times.

Conclusion

LEPs are now in the vanguard of sub-national economic development. As such it is vital that they are strong and powerful bodies that are able to make a real contribution not only to economic development but also to advance the causes of localism and social justice. We believe that if LEPs meet the four tests set out here, they will have potential to do just that.

About the authors

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