

Local Enterprise Partnerships and the Development of European Structural and
Investment Fund Strategies in England

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Abstract

In England the new Local Enterprise Partnerships were given a unique opportunity to shape EU investment in their local areas; they were given the task of producing European Structural and Investment fund strategies to help ensure EU investment meets local need. However, while this appears to be a case of localism in action, the LEPs faced a number of constraints. These challenges include LEPs' relative infancy, a lack of capacity, centralization and uncertainty about funding arrangements.

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Introduction

Involving the local level in EU funding programmes is a stated ambition across all levels of government. Recently Commissioner Hahn stated that local and regional authorities are the European Commission's "primary partners" in the delivery of EU regional policy.¹ In England, local authorities "have long called for EU spending to be more locally responsive" and that local government should be responsible for "shaping and overseeing programme priorities, spending plans and decisions."² Such a role was proposed by Lord Heseltine in his review of growth,³ a recommendation largely endorsed by central government.⁴

This report outlines the role of and challenges faced by the local level in developing strategies to deliver European Structural and Investment (ESI) funds in England in 2014-20.⁵ Following the abolition of regional development agencies (RDAs) in England in

¹ J. Hahn, *Regions and Local Authorities are Our Primary Partners* (January 2014), available online http://europa.eu/rapid/press-release_SPEECH-14-22_en.pdf, accessed 17 January 2014.

² Local Government Association, *Local Involvement in Future EU Funding Programmes* (2011) p. 1, available online at <www.local.gov.uk/c/document_library/get_file?uuid=95754d78-6ed6-446b-835c-521898fb8161&groupId=10180>, accessed 10 October 2013.

³ M. Heseltine, *No Stone Unturned in Pursuit of Growth* (2012), available online at <www.gov.uk/government/publications/no-stone-untuned-in-pursuit-of-growth>, accessed 13 January 2014.

⁴ HM Government, *Government's Response to the Heseltine Review into Economic Growth* (March 2013), available online at <www.gov.uk/government/publications/governments-response-to-the-heseltine-review-into-economic-growth>, accessed 14 January 2014.

⁵ A system of asymmetric devolution operates in the United Kingdom, meaning different arrangements are

2010, the mandate for deciding how England's share of ESI funds should be spent has fallen on the new Local Enterprise Partnerships (LEPs), bodies aimed at stimulating local economic growth and comprised of local government, private sector and educational representatives. The LEPs' first task was to develop a strategy outlining how ESI funds could be spent in their local area, and how they could be best targeted to promote economic growth.

LEPs and the ESI Strategies

LEPs' were created following the abolition of RDAs in 2010. The coalition government sought to dismantle the regional structures established by the previous Labour government. The coalition, particularly Conservative partners, saw regions as unaccountable, inefficient, a burden on limited public finances and fundamentally at odds with localism. Regions were swiftly purged, both as geographic and administrative units and in policy discourse.⁶ This had a number of implications for how EU funding was to be delivered in England,⁷ one of which was that RDAs were central to the administration of EU cohesion policy, often acting as managing authorities.⁸

Following the decision to abolish RDAs, the government invited local authorities, local business leaders and local educational representatives to work together to tackle local economic concerns and form Local Enterprise Partnerships. These would be voluntary partnerships with a mandate to identify local economic need and promote the economic wellbeing of their areas. The government recognized that many previous local

in place for Northern Ireland, Scotland and Wales. This report only focuses on arrangements in England.

⁶ L. Pugalis and B. Fisher, "English Regions Disbanded: European Funding and Economic Regeneration Implications" (2011) 26 *Local Economy* p. 501.

⁷ The broader implications of the abolition of English regions on EU funding are discussed in Pugalis and Fisher (n. 6).

⁸ L. Pugalis, "The Regional Lacuna: a Preliminary Map of the Transition from Regional Development Agencies to Local Enterprise Partnerships" (2011) 281 *Regions* p. 6.

and regional administrative boundaries were arbitrary, so an emphasis was placed on LEPs conforming to “functional economic areas.”⁹ This invitation led to 62 bids to set up LEPs. By December 2011 39 of these had been approved (see figure 1). These LEPs are diverse; they differ in geographical size and membership. For example some, such as Greater Birmingham and Solihull, represent urban centres with a large urban economy, while others, such as Cornwall and the Isles of Scilly, represent broadly rural areas.

The transition from RDAs to LEPs was swift and LEPs were expected to rapidly fill the void left by regional structures. Yet progress was not uniform, and each LEP developed at a different rate.¹⁰ Furthermore, there lacked clarity over LEPs’ function. As noted by Pugalis and Shutt, the government proposed several “vague roles that LEPs ‘could’ perform, but more than eighteen months after the majority of LEPs were endorsed by the government, many of these potential roles have failed to materialise into any tangible functions.”¹¹ Indeed, LEPs’ initial development was preoccupied with form over function.

LEPs have also developed alongside other government initiatives designed to promote local economic growth. These include 24 Enterprise Zones (see figure 1) and 28 City Deals, the boundaries of which do not necessarily match those of LEPs. Not only does this mean LEPs have to compete with other institutions for the same limited central government funding, but that individual LEP partners might find themselves represented

⁹ V. Cable and E. Pickles, *Local Enterprise Partnerships: Letter to Local Authority Leaders and Business Leaders* (June 2010), available online at <www.gov.uk/government/news/councils-and-businesses-to-rebalance-local-economy>, accessed 13 January 2014.

¹⁰ L. Pugalis and G. Bentley, “Storming or Performing? Local Enterprise Partnerships Two Years On” (2013) 28 *Local Economy* p. 863. L. Pugalis and J. Shutt, “After Regions: What Next for Local Enterprise Partnerships?” (2012) 286 *Regions* pp. 24-25.

¹¹ L. Pugalis and J. Shutt, “After Regions: What Next for Local Enterprise Partnerships?” (2012) 286 *Regions* p. 25.

on other bodies competing with their LEP, placing a strain on partnerships.

In 2012 a government commissioned review of growth by Lord Heseltine made several recommendations regarding LEPs and their role in economic growth and utilizing ESI funds. Part of this was to ensure funding, from both national and European sources, met local need, so it was suggested LEPs develop a strategy outlining how such funding could be used.¹² The government broadly agreed with Heseltine's recommendations, saying LEPs would "shape priorities within an area by leading the development of a strategic plan, including as part of this an investment strategy for EU Structural and Investment Funds."¹³ An ambitious target of January 2014 was set for LEPs to have their ESI strategies in place.¹⁴

Challenges

While the prospect of playing an active role in ESI funding was largely welcomed, LEPs faced a number of challenges in the development of their ESI strategies. These fall into two main categories: capacity and centralization.

Capacity

The LEPs are new and infant institutions, and are also at different stages of development; most can be said to still be in the early development stages, with very few actually "performing."¹⁵ This, along with how the LEPs were set up, creates several

¹² Heseltine (n. 3).

¹³ HM Government (n. 4) p. 39.

¹⁴ HM Government, *Structural and Investment Fund Strategies: Preliminary Guidance to Local Enterprise Partnerships* (April 2013), available online at <www.gov.uk/government/publications/development-of-eu-structural-and-investment-fund-strategies-preliminary-guidance-to-local-enterprise-partnerships>, accessed 13 January 2014, p. 5.

¹⁵ L. Pugalis and G. Bentley, "Storming or Performing? Local Enterprise Partnerships Two Years On" (2013) 28 *Local Economy* p. 863.

capacity-related challenges.

Firstly, compared to the former RDAs, LEPs have no legal mandate. The RDAs were enshrined in legislation and given a number of clear statutory duties. The LEPs, however, have been set up on a much more informal basis.¹⁶ While this leads to flexibility for LEPs to set their own priorities, it also leads to confusion over what LEPs' role is supposed to be. The implication of this for the ESI strategies was that it was unclear exactly what the LEPs were supposed to do and how the ESI strategies would fit into their overall programme of work and other potential LEP activity such as economic development or strategic planning. Furthermore, the lack of legal mandate means many LEPs are constrained when it comes to using funds, having to rely on their constituent local authority partners instead.

Secondly, the funding of LEPs also presented a significant challenge. LEPs are essentially funded under a voluntary model, where they are highly dependent on the resources that LEP board members can bring.¹⁷ The government committed £500,000 (another recommendation of the Heseltine review) over two years to help LEPs engage the private sector and employ core staff, but it was clear that LEPs were expected to raise their own funds, predominantly from the private sector, something which has been problematic.¹⁸ While a number of other funding schemes aimed at LEPs have been announced by the government, such as the Capacity Fund, Regional Growth Fund and Growing Places Fund, this still represents a significant decrease in budgets compared to the old RDAs. The resources to help LEPs develop their ESI strategies, and indeed other areas of work, are therefore extremely constrained.

¹⁶ M. Chadwick, P. Tyler and C. Warnock, "How to Raise the Bar on Impact Evaluation: Challenges for the Evaluation of Local Enterprise Partnerships and the Regional Growth Fund in Times of Austerity" (2013) 28 *Local Economy* p.846. Pugalis and Shutt (n.11) p. 25.

¹⁷ N. Wilcock, "Funding of LEPs" in M. Ward and S. Hardy (eds.), *Where Next for Local Enterprise Partnerships?*, (The Smith Institute, 2013) p. 81.

¹⁸ M. Jones, "It's like deja vu, all over again" in M. Ward and S. Hardy (eds.), *Where Next for Local Enterprise Partnerships?*, (The Smith Institute, 2013) p. 88.

Thirdly, the funding situation has meant that many LEPs have a limited staffing complement. Staff often have to fulfil several simultaneous roles rather than being able to dedicate their time to developing ESI strategies. Furthermore, some LEPs are “borrowing” staff from their constituent local authorities, leading to several “dual-hatted” roles. Again staff time is restricted, reducing the capacity LEPs have to invest in developing their ESI strategies. The staffing situation also leads to a problem with expertise in EU funding, which is notoriously complex and requires an understanding of the various legal and financial implications, as well as knowledge of EU regional policy itself. The RDAs were able to build up extensive expertise and knowledge into how EU funding operated. This knowledge, at least at the local level, was lost with the abolition of the RDAs.¹⁹ While a number of former RDA staff transferred to central government departments, the LEPs themselves have little independent capacity. Although some LEPs could rely on local authorities with previous experience of working with EU funds, most were charged with producing their strategies with little, if any, technical knowledge into how ESI funding works, save for the technical guidance issued by the government outlined below.

Centralization and limited room for manoeuvre

While attempts at regionalization, particularly for economic development, were made by the former Labour government, governance in England has traditionally remained highly centralized. Recent policy developments have compounded this. While the coalition government has promoted a policy of localism, this has been described as “a thinly veiled disguise for the (re)centralization of powers.”²⁰ This has already been seen with the limited funding LEPs have been given, with some asking the question “whether localism without funding would in fact lead to centralism.”²¹ This centralization can be

¹⁹ Pugalis and Fisher (n. 6) p. 510.

²⁰ Ibid, p. 505.

²¹ Wilcock (n. 17) p. 76.

observed in the development of LEP ESI strategies. Moreover, the often prescriptive nature of EU regulations regarding ESI funds further served to limit LEPs' manoeuvrability.

To assist LEPs in developing their strategies the government, acting as managing authority, produced a series of guidance documents. This was partly in response to a lack of LEP-based knowledge (as outlined above), but also ensured LEP strategies would meet restrictive EU regulations. While providing advice, the guidance also affirms centralization and limits LEPs' freedom in developing their strategies. The clearest example of this is around programme administration. Following the abolition of the RDAs, the managing authority roles for EU funds transferred to central government departments (ERDF, for example, transferred to the Department for Communities and Local Government). While LEPs have been given a role to develop strategies for how ESI funds will be spent in their local areas, guidance from the government made it clear that administration of funds will not be re-devolved, and will remain with the centre.²²

Programme administration aside, the guidance reveals that LEPs had less flexibility than the "localism" rhetoric may suggest. Firstly LEP strategies had to include certain information requested by the government and required by EU regulations, including an analysis of development needs, growth opportunities, a breakdown of proposed spending, a description of the main results expected and proposals for community led development.²³ LEPs, then, were not able to draft their strategies as they saw fit but had to

²² HM Government (n. 14) p. 3.

²³ HM Government, *Technical Annex: Preliminary Guidance to Local Enterprise Partnerships on Development of Structural & Investment Fund Strategies* (April 2013), available online at <www.gov.uk/government/publications/development-of-eu-structural-and-investment-fund-strategies-preliminary-guidance-to-local-enterprise-partnerships>, accessed 13 January 2014, p.12. HM Government, *The Development and Delivery of European Structural and Investment Funds Strategies: Supplementary Guidance to Local Enterprise Partnerships* (July 2013), available online at <www.gov.uk/government/publications/european-structural-and-investment-funds-strategies>

follow a template set by the government, which in turn had to meet equally prescriptive EU expectations.

Secondly, when LEPs developed their strategies they were expected to follow the Commission's so-called "intervention logic"; a five-step process which aims to identify the local need and map out how EU funds can address this with measurable outcomes. The government, however, had already considered the first three steps of this process before LEPs started drafting their strategies. This was done not at a local level, but at an England-wide level.²⁴ LEPs needed to incorporate this national assessment into their strategies. This draws into question how responsive to local need LEP strategies, and ultimately ESI funds, will actually be.

Thirdly, as part of their strategies LEPs had to outline how much ESI funding they intend to spend against each priority or objective. However, spending levels for each priority across England must reach certain minimums. While LEPs were told they can set spending according to their local need, they were also informed that the government might adjust LEPs' proposed spending levels to ensure spending for each priority across England met the minimum national spend required.²⁵

Fourthly, actions outlined in LEP strategies were expected to compliment national-level programmes and should not conflict with national policy objectives. It goes without saying that strategies also had to meet EU objectives. To this end the government established a list of activities for each thematic objective which LEPs were strongly

supplementary-guidance-to-local-enterprise-partnerships>, accessed 13 January 2014, pp. 5-12.

²⁴ HM Government, *Technical Annex: Preliminary Guidance to Local Enterprise Partnerships on Development of Structural & Investment Fund Strategies* (April 2013), available online at <www.gov.uk/government/publications/development-of-eu-structural-and-investment-fund-strategies-preliminary-guidance-to-local-enterprise-partnerships>, accessed 13 January 2014, pp. 19-21.

²⁵ *Ibid*, p. 11.

encouraged to consider supporting.²⁶ Again, an emphasis seemed to be placed on national, rather than local, actions.

Finally, LEP strategies were subject to final approval by the government. The guidance contained a set of evaluation criteria which LEPs could expect their strategies to be assessed against.²⁷ This approval process, along with the other provisions mentioned above, ensured that central government remained in control of ESI funding strategies, not LEPs. While this is to be expected given the government's role as managing authority, and thus their responsibility and liability for the successful delivery of ESI funds, it does draw into question whether LEP strategies reflect local need or national policy objectives.

Other challenges

Capacity and centralization are two fundamental challenges facing LEPs in the development of their ESI strategies, but others also exist. One is that LEP boundaries (see figure 1) do not conform to the NUTS boundaries used by the EU for administering regional policy, making it difficult for EU priorities to be accurately aligned to individual LEPs. Furthermore, figure 1 also shows that several LEP boundaries overlap. This leads to questions about how different ESI strategies, and the priorities contained therein, would complement each other in these areas. The overlapping geographies with City Deals and Enterprise Zones also compounds this.

Another challenge was the uncertainty surrounding ESI allocations and source of potential match funding. To assist the development of their strategies, the government

²⁶ Ibid, p. 21.

²⁷ HM Government, *The Development and Delivery of European Structural and Investment Funds Strategies: Supplementary Guidance to Local Enterprise Partnerships* (July 2013), available online at <www.gov.uk/government/publications/european-structural-and-investment-funds-strategies-supplementary-guidance-to-local-enterprise-partnerships>, accessed 13 January 2014, pp. 13-15.

provided LEPs with notional figures for how much ESI funding they would be allocated,²⁸ however this information was provided at a very late stage; allocations for EAFRD were only given in December 2013, one month before the January 2014 deadline for strategies. The confusion was further compounded after the government's allocations were subject to a successful judicial review in February 2014, brought by the Liverpool City Region and Sheffield City Region LEPs, which felt they had been allocated their shares of EU funding unfairly.²⁹ Regarding match funding, projects under the 2007-13 ESI programmes were heavily dependent on co-finance from the RDAs.³⁰ As already noted, LEPs lack the budget to set aside sufficient match funding for projects to meet the objectives in their ESI strategies. LEPs have been told they will be able to bid for a variety of funding schemes, such as the Single Local Growth Fund, which could be used to support match funding. However, this is only available after ESI strategies are in place,³¹ and success is not guaranteed in a competitive bidding environment.

²⁸ HM Government, *European Regional Development Fund and European Social Fund: Allocations 2014 to 2020* (June 2013), available online at <www.gov.uk/government/speeches/european-regional-development-fund-and-european-social-fund-allocations-2014-to-2020>, accessed 13 January 2014. Department for Environment, Food and Rural Affairs, *EAFRD allocation to Local Enterprise Partnerships* (December 2013), available online at <http://rdpenetwork.defra.gov.uk/news-and-publications/rdpe-news/eafRD-allocation-to-local-enterprise-partnerships>, accessed 13 January 2014.

²⁹ Local Government Lawyer, *Councils win High Court case over allocation of EU structural funds* (February 2014), available online at <www.localgovernmentlawyer.co.uk/index.php?option=com_content&view=article&id=17253%3Acouncils-win-high-court-case-over-allocation-of-eu-structural-funds&catid=62%3Aprojects-articles&Itemid=30>, accessed 13 May 2014.

³⁰ Pugalis and Fisher (n. 6) pp. 510-512.

³¹ HM Government (n. 24) p. 12.

Concluding remarks

While giving the local and regional level a role in how ESI funds are invested is a widely stated aim, the case of the LEPs in England illustrates the many challenges. These have been aptly summarized by Goddard, Kempton and Marlow: “the 39 LEPs are infant institutions covering varying geographies, of differing characters, capacities and capabilities. Their boundaries do not match the NUTS2 areas that will be used by the European Commission. They have little (if any) direct expertise in EU programme formulation and implementation, and limited access at the moment to any major sources of local or national match funding on which to anchor an EU investment strategy.”³² Their assessment is that, at both the national and local levels, the challenges associated with ESI funding have been drastically underestimated.³³ Indeed, now that most LEPs have developed their strategies, the next challenge they face is delivering on them.

Moving forward LEPs will be identifying and supporting local projects which match the goals laid out in their strategies. They may choose to provide financial assistance to local organizations submitting project bids, or act as project partners directly. LEPs also have a role to play in project selection and approval, with representatives sitting on local management and project selection committees, although these bodies remain chaired by central government (with the exception of London). These roles are likely to add to LEPs’ workload and stretch their limited resources further. However, while this may seem like an insurmountable challenge for the relatively new and under-resourced institutions, there is cause for optimism. The LEPs’ informal set up may allow for greater flexibility in delivering ESI funds, despite the inherent centralization in England. LEPs also bring

³² J. Goddard, L. Kempton and D. Marlow, “LEPs, Universities and Europe – Opportunities and Challenges for Supporting Subnational Innovation in England” in M. Ward and S. Hardy (eds.), *Where Next for Local Enterprise Partnerships?*, (The Smith Institute, 2013) p. 60.

³³ *Ibid*, p. 56.

together many actors who traditionally have worked independently.³⁴ Additionally, the involvement of universities in LEPs is likely to prove advantageous in developing smart specialization, an important aspect of the 2014-20 programmes.³⁵

While it may be too early to fully assess the implications of the LEP's experience in developing their ESI strategies, two preliminary conclusions may be drawn. Firstly, young institutions often lack the capacity, stability and focus needed to successfully plan for the complexities of EU investment. Secondly, given this complexity, effective investment of EU funds requires sufficient resources, including funding, staff and knowledge.

³⁴ Pugalis and Shutt (n. 11) p. 25.

³⁵ Goddard, Kempton and Marlow (n. 31).

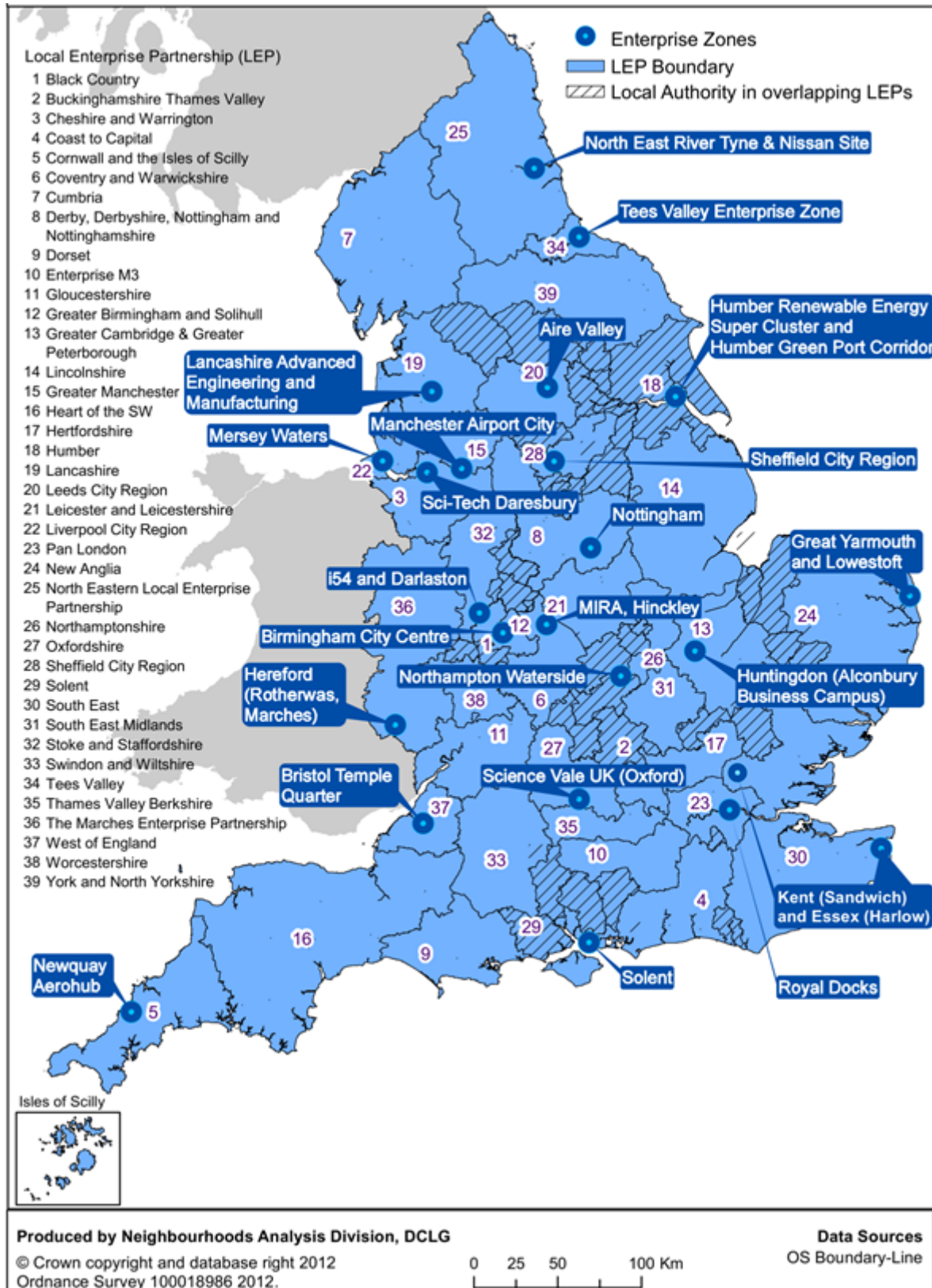


Figure 1. LEP boundaries