

Growth through good governance

How accountability, transparency and robust scrutiny should lie at the centre of the drive towards local growth and prosperity



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CfPS

The Centre for Public Scrutiny is an independent charity, focused on ideas, thinking and the application and development of policy and practice for accountable public services. CfPS believes that accountability, transparency and involvement are strong principles that protect the public interest. We publish research and practical guides, provide training and leadership development, support on-line and off-line networks, and facilitate shared learning and innovation.

Methodology

This research is primarily a review of research and activity relating to local growth since 2010.

It has been bolstered by more detailed investigation of the approaches taken in a number of areas – London, Greater Manchester, the Leeds city region, the area covered by the “LA7” group of authorities in the north-east and the area covered by the south-east Local Enterprise Partnership (LEP), (mainly covering Kent and Essex). We have spoken to a number of people in these areas to get an understanding about how local growth and good governance are connected in the minds of people on the ground. We have also spoken to a number of researchers at national level who have been directly involved in working on these issues with practitioners across England.

Introduction and executive summary: why does good governance matter?

It is easy to see the pursuit of economic growth in this country as a battle between bureaucracy and innovation, with innovative businesses being stifled by the dead hand of central and local government. But when significant amounts of public money are at stake – and when the impacts on local communities of business decisions are potentially profound – there is a strong pull from politicians that such accountability must exist, in some form.

The concept of good governance will look different to different groups of people and, hence, to the Boards of institutions like LEPs, which exist to develop policies and strategies on economic development at local level. These differing expectations, and differing perceptions about what good governance should look like, has provoked a debate about accountability which has tended to focus on structures rather than – as it should – on the culture of the organisations involved and the way in which they work together, and with others, to achieve the outcomes they need to.

To understand the positive contribution that governance can make, we first need to understand what effective economic development policy looks like, and then what can act as a brake on the ability of government to manage it.

What effective economic development policy looks like

The Government and others have been clear about what they envisage positive action looking like – examples include:

- Strong strategic objectives, clearly based on well-evidenced local need
- Identification of expenditure, or other interventions, to meet these objectives
- Identification of clear, practical ways in which this expenditure will be used, including delivery plans and commitment by partners, individually and collectively, to the delivery of those plans
- A number of partners working together – pooling finances, jointly identifying and tackling risks.¹

These statements focus on process and activity – both of which are easy to measure and predict. But there are shortcomings to this approach:

- Prescription on process by Government will encourage LEPs to amend their governance arrangements, and their approach to partnership working, to conform to the requirements in the criteria for the Growth Fund – working against the presumption in the White Paper, and in subsequent Government announcements, that LEPs will pursue approaches based on local need
- Prescription on process says nothing about local outcomes and local needs. The bidding criteria for the Growth Fund does mention the importance of outcomes and evidence throughout, but there is no indication of how Government will check that projects being proposed for funding will meet local needs.

¹ Taken from “Growth deals: initial guidance for Local Enterprise Partnerships” (HMG, 2013), Appendix A

What can act as a brake on the ability of governmental institutions to manage economic development

There is something inherent in the way that economic development and regeneration is “delivered” that will always present difficulties for government:

- Achievements and successes will often be long-term in nature
- A solution designed to act on economic development will need to bring its influence to bear on a range of other policy areas as well – housing, health and well-being, community safety and so on. There is the risk that this could see sub-regional arrangements growing organically to encompass other areas – not in itself a problem, but potentially a challenge for accountability and good governance
- Partnership working does require delicate negotiation and agreement that can, if managed poorly, delay or entirely derail delivery
- There is a limit to what central planning (even at sub-regional level) can achieve.

This is the challenge for good governance – to help people making economic plans to break through these barriers, and in so doing make it more likely that local bodies can meaningfully pursue, and “deliver”, local growth. The next section explores how this might happen.

Why good governance matters and how we think it can make a difference

Good governance is about accountability ² (ensuring that decision-makers can be held to account for their actions), transparency (ensuring that those decision-makers are open about what they are doing) and involvement (ensuring that decisions reflect the interests of the people affected by them and, where possible, that those people are involved in the decision-making process itself).

Good governance does not mean simply effective process and compliance. It can improve decision-making, and lead to better outcomes ³. In this context, we consider that it can be broken down into four elements.

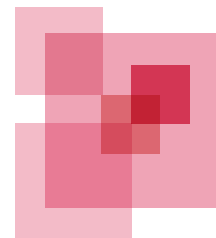
Clarity of purpose: good governance leads to a clearer sense by partners of what they are trying to achieve – which is critical to securing meaningful outcomes from partnership work. Effective scrutiny can constructively challenge partners, and mediate between competing interests in an independent way, to help to develop a dialogue about what the purpose of the LEP is and what its priorities are.

Ways to improve here:

- Making the development of the main strategies which define how partners will work together more transparent, thus making prioritisation and decision-making more robust
- Where the evidence base, or resourcing, may not exist to develop those strategies, it may be possible to develop them through the regular sharing of information and the bolstering of individual organisations’ own awareness of their customers and service users. This information can be published to justify the priorities that partners have chosen to use, and to allow them to be held to account for their activities

² As distinct from the related concept of “responsibility”, usually defined as having control or power over something. In this context, the responsible person would be a decision-maker (for example a LEP board) which was held to account by others, including the public.

³ “Accountability Works” (CfPS, 2010) <http://tinyurl.com/p5r26ul>, “Accountability Works for You: final report” (CfPS, 2012) <http://tinyurl.com/qf3ac3f>



- Being clear at the outset about what the objectives of partnership arrangements are, and about institutional ownership.

Clarity of funding: good governance leads to a clearer position on local funding. This is about ensuring that there is a broad strategy for funding that reflects the partnership's priorities, identifying a sustainable mix of funding sources, and making it clear who funds projects in order to meet the aims and objectives of the whole partnership, and the whole area. Effective scrutiny can act as a check on strategic thinking around funding – helping to explore new ways for the LEP to fund its priorities and accurately assess risk. It could help to provide quality assurance and oversight over plans to pool budgets.

Ways to improve here:

- Actively pursuing the creation of local place-based finance arrangements to pool budgets
- Using city deals / growth deals to simplify the relationship between central Government and LEPs, and their constituent partners
- Developing a transparent mechanism for establishing what should be funded by whom (i.e., having a shared approach to where the responsibilities of organisations and individuals converge)
- Developing governance systems that reflect the level of financial autonomy the partnership has to make decisions, and reflecting the “funding mix” being spent by the partnership, both through the LEP and through individual bodies
- Recognising that in some areas local partners will have to individually and collectively hold LEPs to account if they falter.

Clarity of involvement: good governance leads to better and more meaningful involvement with a wider range of stakeholders, which makes plans more robust. Governance systems can build in to decision-making, and policy-making, the constructive input of a wider range of people. They will make it clearer who takes part in decisions, why, when, how and where – which will make it easier for partners themselves to determine their shared responsibilities and accountabilities, how they are involved in the process, thereby reducing the risk of duplication of effort. Effective scrutiny could challenge LEPs to better involve, and engage with, their stakeholders – and could carry out some of this engagement on the LEP's behalf.

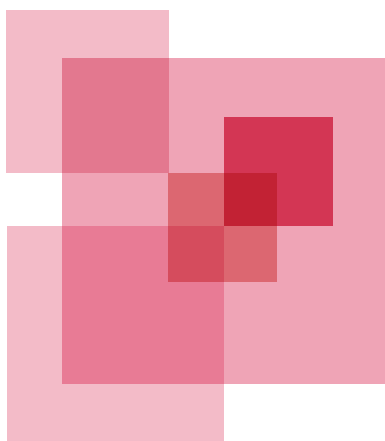
Ways to improve here:

- Governance systems should be designed to be public-facing, making it clearer who is responsible for what, to make public involvement easier to bring about
- More active steps could be taken to involve local business – particularly smaller businesses – and by so doing limit the pressure on the time of those businesses formally involved on the LEP board
- LEPs and combined authorities should see transparency as a priority, and as a means to make decision-making more robust.

Clarity of outcomes: good governance leads to better outcomes, because partners share the results of what they have done with others, challenge their assumptions about why those results may have come about, and use that process to tighten their plans in the future. Effective scrutiny could supplement the LEP's own monitoring functions, highlighting areas of success and weakness and embedding a culture of learning in the LEP, and its constituent organisations.

Ways to improve here:

- Ensuring that outcome measures do not focus just on process and activity, but that they reflect actual local needs
- Building proportionate scrutiny in to the consideration of outcomes, and the steps that are taken by partners to learn from them
- Recognising that there is a shared responsibility to bring about outcomes from this work – and that not only LEPs or combined authorities have a stake in achieving this.



How can good governance lead to stronger local growth, and what does experience show about this in practice?

Clarity of purpose

First principles

Without good governance, there is no way for those with an interest in economic development (councils, public sector partners, the private sector and others) to come together to agree who should work together to promote growth, or how this should happen.

Having formal joint working arrangements in place is not a guarantee of good governance. The existence of a LEP, for example, does not mean that the members of that partnership will be able to agree and act on a realistic plan for growth and development in a particular area. It also does not mean that there will be wide public engagement with that vision, a point to which we will return later. To secure a common purpose, strong and effective relationships need to be in place which go beyond the formal structures of the partnership in question.

Good governance is about having systems in place to:

- Allow leaders to take the initiative, informed by the interests of a wide range of other people
- Manage disagreement
- Develop and analyse shared evidence
- Prioritise effectively and differentiate between a choice of different development options
- Identify common interests
- Share out responsibility for making improvements.

Relationships forged through strong and effective governance arrangements will ensure more political stability. A more inclusive approach to the agreement of priorities will mean that changes in political leadership in local authorities, or in the senior management of other agencies, should not have an adverse effect on what partners think are the biggest priorities.

Experience in practice

Clarity of purpose comes not only from the existence of formal arrangements for working together – although they provide a framework. True clarity comes from existing, longstanding good relations between – principally – the local councils involved. Often, this has been brokered over the course of many years, and in a few instances decades.

There are three areas relating to clarity of purpose on which we have focused.

1. Institutional stability: LEPs and other sub-regional bodies need to have the confidence that their existence, funding and powers are broadly secure, in order to make formal plans. However, a study carried out by Newcastle University suggested that this was absent in a number of areas, and that this was manifesting itself in a number of ways. There was a tension between formal and informal governance arrangements, uncertainty about the extent to which LEPs are responsible for just strategy, or both strategy and delivery, and an inability for LEPs in some areas to move to being bodies with the capacity to have real impacts.⁴ Cultural differences between business organisations and public bodies has also been a concern⁵.

4 “The state of the LEPs” (CURDS / Newcastle University, 2013)

5 “Where next for Local Enterprise Partnerships?” (The Smith Institute, 2013)

2. Leadership: Government's view is that LEPs are business-led, but in practice the situation is more complex than this. Particularly in areas where combined authorities are being set up, direct control over funding and prioritisation of work increasingly rests with local authorities, with the LEP's role appearing to be that of an advisory body (albeit one with considerable influence)⁶. This may not make much of a practical difference where priorities are decided on jointly and where the LEP, and businesses, retain a powerful voice. But it does mean that economic development policy in areas where this happens will not be "business-led" in the sense that the Government has set out.

3. Information sharing: having a clear purpose, and the priorities for a given area, rests on the sharing of high quality information. Particularly in combined authority areas⁷, a conscious effort has been made to carry out detailed analyses of the local economy, and drivers of local growth. Plans have been consciously based on this research, which seems to have several things in common – it requires a fairly substantial central resource to plan and manage, its needs to be consulted on widely, it needs to be "owned" by all local partners, and it must directly feed into practical plans. In this way, discussions about priorities can sidestep political disagreements, and lead to a shared approach where partners understand that they will not always benefit from every decision.

“ An evidence base gives you an understanding of how the economy works over the wider geography of that area, and how that geography contributes. An evidence base means you have to have less of an argument about what happens when, and where. ”

Local authority chief executive

Despite the organisational benefits, sharing information in this way does have drawbacks. It is resource intensive, it risks that information which falls outside of that used to put together joint plans and priorities will be disregarded, and there is the risk that research can be used as a displacement activity.

Ways to improve

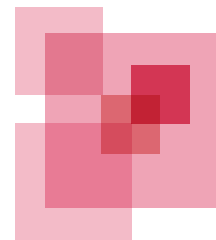
The use of evidence to support the prioritisation of work is something that we have researched in detail as part of our work on social return on investment⁸. There are a number of ways in which governance arrangements might be adapted to bolster the ability of partners to agree on what's important, and act on it:

- Having a more transparent process for defining what partnership priorities will be, and deciding how they will be put into action. In some areas this will be a desktop exercise, as carrying out an analysis based on empirical research can be seen as a significant resource commitment. However, bringing in a wider range of voices and opinions (from businesses, other partners, and – in a planned and proportionate way – the public) will help to spread this burden, and to cement consensus
- Where the evidence base may not exist to develop those strategies, pulling this together progressively, rather than in a "big bang". Better-resourced areas have been able to draw together significant amounts of data and to produce comprehensive economic analyses which will be beyond the reach of many, in terms of resourcing. Gradually pulling together an evidence base, and resolving

⁶ This is notably the case in London, where the London Enterprise Panel advises the Mayor – although the statutory powers and funding of the Mayor are of course different to that applying elsewhere in England. However, combined authorities are also taking this approach. A couple of LEPs have established cross-council oversight panels to effectively "lead" LEPs, although this is by no means a national trend. It is a trend recognised by the only comprehensive survey of LEPs, in early 2013 ("The state of the LEPs" (CURDS/ Newcastle University, 2013)

⁷ Principally because of the resources at their disposal

⁸ "Tipping the scales" (CfPS, 2012), <http://cfps.org.uk/publications?item=7137&offset=0>



to keep it updated based on information as it comes in, will help to bring partners together, and will ensure that evidence used to make decisions on funding is always current and accurate

- Being clear at the outset about what the objectives of partnership arrangements are, and about institutional ownership. This clarity will make it much easier to make decisions in difficult issues. This is not a matter of producing a “protocol” to define the relationship, as ensuring that all partners clearly understand what the LEP is there to do and how they will work with it in future.

Clarity of funding

First principles

Good governance is necessary to ensure that funds are being spent on the right things by the right people and at the right time. In some instances this will include the pooling of resources in local place-based finance arrangements⁹, which will need to be subject to oversight.

This will be about deciding both how priorities will be translated into action, and who will be responsible for delivering this action. Different governance arrangements may be necessary depending on whether “the partnership” is the body responsible for decision-making, or if decision-making and delivery rest with individual partners – recognising that this may vary from subject to subject and policy to policy.¹⁰

Experience in practice

There are several critical funding issues which relate directly to the way that LEPs govern themselves, and how decisions are made.

Tensions between national and local priorities

Funding, for partners and for the LEP as a whole, has the potential to be messy and uncertain. Some have managed to succeed in pooling budgets locally, but this continues to cause difficulties in some areas. Different national priorities also make a difference to LEPs’ abilities to have clarity of purpose. Criticisms have, for example, been levelled at the Regional Growth Fund (RGF) – including the fact that much of it remains unspent. The creation of the Single Local Growth Fund, which replaces the RGF, is intended to tackle some of this criticism, but the detail of the SLGF’s operation remains unclear (including, critically, what the balance will be between formula funding and funding through competition). The SLGF will, however, be largely ringfenced. The issue of what to do when national and local priorities conflict – highlighted as an issue by the National Audit Office (NAO)¹¹ in the operation of the RGF – has the potential to cause difficulties.

Taken together, and alongside the Government decision to relocate the New Homes Bonus from local government to LEPs, this could be seen as exacerbating uncertainty around accountability.

Recent confusion over the preparation of growth deals¹² suggests that there is still significant work to be done in this area. Broader negotiations over growth deals and city deals, and negotiations over combined authority status in some areas, could lead to a situation where national policy increasingly dominates the discussion of local priorities, and that this could muddy the purpose of LEPs. Even worse, poor co-ordination between Government departments over what funding is available will lead to yet more fragmentation around how funding is directed to secure outcomes.

9 See page 10 on localist solutions

10 We explore different levels and natures of partnership decision-making in “Between a rock and a hard place” (2010)

11 “Review of the operation of the Regional Growth Fund” (NAO, 2012)

12 “City deals delayed as Whitehall engages in ‘turf war’ over roles” (LGC, 19 September 2013)

Income from a range of sources

A number of more ambitious areas have taken active steps to secure income from a wider range of sources, which include prudential borrowing ¹³, pooling resources from a number of different local sources, underwriting private sector risk through council balance sheets ¹⁴, and the use of seed funding to encourage private sector investment ¹⁵.

LEPs in Enterprise Zones will benefit from the retention of any growth in business rates that occurs during the period of the zones' operation. LEPs can also, either through their accountable body or directly, apply for European funding.

What these more ambitious arrangements have in common is that they are locally led, rather than centrally managed. There is a tension, in governance terms, between the mixing of funds from these sources and from central pots such as the RGF and, in future, the SLGF. This may manifest itself in confusion between local and national priorities – if Government is inclined to use the SLGF to be directive about what it considers its priorities to be.

Gaps opening up between more and less successful LEPs

Some consider that a gap will open up as some sub-regional bodies are successful in securing external funding, while others struggle and become unsustainable (or at least fail to fulfill their potential) ^{16 17}.

At national level there is an acceptance that different LEPs will move at different speeds and in different directions ¹⁸. However, given the locally-led nature of local growth funding, there is no neat solution for non-city LEPs who may be faced with these challenges. There is no prospect of further capacity-building funding – Government has argued that LEPs (and the bodies which make them up) already have the tools at their disposal to make themselves sustainable ¹⁹, and that the LEP Capacity Building Fund administered by BIS has performed this function adequately. Where a solution is to be devised for LEPs facing these difficulties, it will need to focus on their governance arrangements rather than on seeking to ensure further central funding to support them indefinitely.

The proper exercise of accountability at sub-regional level should ensure that such a loss of focus, and such difficulties, do not happen. The incentives of growth deals, the benefits of pooled budgets and the opportunities offered by the SLGF (and other funds) should drive improvement. However, some see the reality of shrinking local budgets disinclining partners to work together, as they feel that the levers do not exist within LEPs to achieve change ²⁰.

A localist solution: “local treasuries”

The Local Government Association (LGA), has suggested that “local treasuries” (or local place-based financial arrangements) should be established to formally pool funds for local investment, defined by pacts between a range of local partners which will take the place of city deals and growth deals ²¹.

The flipside of the creation of local place-based financing agreements would be the need to bolster governance arrangements. Governance would need to reflect the level of autonomy that LEPs (and other sub-regional structures) had to spend unringfenced funds ²². This goes beyond audit, onto value for money. It suggests a strong approach to local accountability that looks at the assumptions sitting behind local areas' appraisals of the economy, and the way they identify priorities for action. This is the kind of work that the NAO does at national level in support of

13 We carried out more detailed research on pooled budgets in “Between a rock and a hard place”, (CfPS, 2010)

14 A local equivalent to the £40 billion UK Guarantee scheme operated nationally – see <https://www.gov.uk/government/organisations/infrastructure-uk>

15 “Preliminary guidance to LEPs on development of structural and investment fund activities” (HM Government, 2013), 2.31 to 2.34

16 “The state of the LEPs” (Centre for Urban and Regional Development Studies, 2013)

17 “Devolution or disappointment” (Centre for Cities, 2013), see also “Cause celebre or cause for concern” (Centre for Cities, 2011)

18 This is inherent in the individual negotiation of Growth Deals and the absence of a nationally-mandated “performance management” framework for LEPs

19 Speech given by Vince Cable to LGA Conference, July 2013

20 See pages 12-14

21 “Rewiring public services: economic development” (LGA, 2013)

22 Raised as a concern by the Institute of Directors shortly after LEPs' creation: see “A proposed governance framework for LEPs” (IoD, 2011)

the Parliamentary Public Accounts Committee. A couple of the people we spoke to raised the possibility of a Public Accounts Committee for each area ²³, something we have previously proposed – if resourced effectively at the outset, such bodies could pay for themselves as a powerful force for the transparency of public spending, and as bulwarks for the concept of value for money ²⁴.

Ways to improve

LEP funding is transparent – partners report to each other and to Government on how funds are spent, and much of this information is published. Meaningful accountability is however more pressing. Approaches could include:

- Actively pursuing the creation of “local place-based finance arrangements” to pool budgets, to bring about more local autonomy and to provide certainty around accountability for spending. These arrangements could be overseen by local Public Accounts Committees
- Using city deals / growth deals to simplify the relationship between central Government and LEPs, and their constituent partners. Such a simplification would provide much-needed clarity and transparency over funding, and would make it easier to assess the impact of that spending (other than through assessments of value through Gross Value Added)
- Using the experience of managing local disbursement of Growing Places Fund money to build more accurate local models for assessing what priorities should or should not be funded (based on outcomes), with these priorities directing the disbursement of the SLGF
- More clearly setting out where the responsibilities of the s151 officer of the accountable body, and those of the LEP, lie in reporting on spending, and publishing clear spending information, linked to outcomes
- Developing a transparent mechanism for establishing what should be funded by whom – whether individual local authorities, pooled budgets or other sources should take the lead. Such a mechanism would ensure that local areas would be able to reflect national policy (and national funding opportunities) while still maintaining a focus on local priorities
- For non-city LEPs, conscious efforts will need to be made to use existing resources to support bids to the RGF (and bids to other funding sources, including the SLGF, when the time comes). This refers back to one of the points we made in the last section about institutional ownership, and the need for the constituent bodies making up LEPs to be prepared to commit resource and time to making this happen. To work properly this process must be transparent, so that all partners, and other stakeholders, understand how the LEP’s funding plans reflect its priorities
- Developing governance systems that reflect the level of financial autonomy the partnership has to make decisions, and reflecting the “funding mix” being spent by the partnership, both through the LEP and through individual bodies. This could suggest an approach to accountability that is driven by the focus, nature and size of the spend, rather than a one size fits all approach. a bespoke approach to accountability which reflects the bespoke approach taken to the organisation and financing of LEPs themselves.

²³ Perhaps by means of bolstering councils’ existing overview and scrutiny functions.

²⁴ “Counting the cost, measuring the value” (CfPS, 2011), “Tipping the scales” (CfPS, 2012)

Clarity of involvement

First principles

Clear and unambiguous systems for deciding who accounts for what, and when²⁵, are vital in ensuring both wider public understanding of the role of various different organisations in promoting economic growth, and enabling them to make an active contribution to the way that those organisations make decisions, jointly and separately.

An effective governance regime will bring in voices and perspectives other than those around the table at the LEP or the combined authority. It will also ensure that decisions being made in partnership are evidence based, by using systems of accountability to challenge assumptions about what should be done and why.

Experience in practice

“ We don't have a continuous general conversation with the public on sub-regional issues – there is the direct line of accountability via elected members, reflecting residents' concerns. Some local people may be involved in working groups that we convene to examine particular issues.

However, in terms of our broader sub-regional strategy there was a more extensive public consultation, and a concerted attempt to engage as many people as possible. ”

Head of sub-regional policy support unit

By and large LEPs' governance arrangements are not public facing. However, amongst those to whom we spoke as part of our case study interviews, there was an understanding about the need to strengthen governance arrangements to involve more people (and those areas moving towards combined authority status are obliged to complete a governance review). However, this does not yet seem to have translated universally into clear and consistent action.

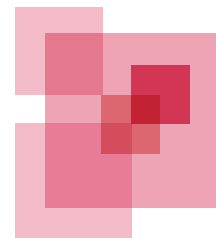
Involving the general public

In some areas attempts have been made to engage with the public as “one offs” (for example, during the preparation of economic strategies) but consistent, ongoing engagement is more difficult to identify. From our case study interviews, there seem to be four main reasons for this:

- Firstly, a perception that, for the wider public, some of the decisions being made and priorities under discussion at partnership level are too far removed from people's day to day experiences to be meaningful
- Secondly, resource limitations in carrying out such work, where a judgment has been made that people's engagement in such processes is likely to be low
- Thirdly, a view that democratic accountability is adequately provided by the links back from leaders, and other elected members (the prevailing view of those to whom we spoke in our case study areas)
- Fourthly, the fact that once the evidence base has been built and priorities have been agreed (a process subject to public consultation) it is felt that further engagement would be superfluous, as decision-making is entirely built on these evidence-based priorities²⁶.

25 Which may take the form of memoranda of understanding for partnership working or, more substantively, the foundations of shared partnership strategies

26 We noted the risk of “groupthink” inherent in this approach earlier in the report



While we understand the challenges of carrying out traditional public engagement over sub-regional economic development issues, if decisions on major local issues begin to move more into partnerships, local decision-makers will need to think much more rigorously about the transparency of those new arrangements. At the moment, public engagement does not seem to be a pressing priority for partners. In particular, it does not seem to have been recognised that there are opportunities to build broader public buy-in to major work being undertaken in partnership ²⁷.

The wider business community

Involvement of the wider business community has in some instances been hampered by the demands of public sector bureaucracy, both perceived and actual ²⁸. Where combined authorities have been established, conscious steps have been taken to ensure that a strong business voice is still at the heart of the process ²⁹. What is less clear is the engagement of the wider business community in the area. There seems to be a trend in some areas to consult businesses after plans have been developed, rather than to involve businesses in the policy development process itself. Conversely, in areas where business engagement is seen as a key means of ensuring the accountability of the LEP, this tends to reflect the presence of high-quality LEP board members who are able to accurately represent businesses in a cross-section of sectors, as well as staff in public sector institutions who understand the needs and objectives of local businesses and are prepared to act on them.

“ Government want stronger governance in place where there are proposals to devolve. We need to draw in private sector investment to make this sustainable in the long term. They will want much more robustness in the proof of returns, and our governance arrangements will need to be designed to provide this assurance. That won't happen from day one, but we need to ensure that the LEP doesn't disintegrate, or become irrelevant, because the combined authority has come into existence. ”

current LEP chair in area where a combined authority is being developed

Councils, sitting on and working with LEPs, will need to recognise the power of LEP Boards to represent and advocate on behalf of the local business community. Accountability to, and engagement with, businesses will be vital to their success.

Ways to improve

- Governance systems should be designed to be public-facing, making it clearer who is responsible for what, to make public involvement easier to bring about
- Partners should actively build the involvement of the public into the design and delivery of projects. More participative methods for developing policy could be adopted, with active attempts made to engage groups actively affected by particular policies or projects
- More active steps could be taken to involve local business – particularly smaller businesses – and by so doing limit the pressure on the time of those businesses formally involved on the LEP board. This could assist in succession planning for LEP boards which might find themselves with vacancies

²⁷ There has been little research on LEPs' approach to being held to account directly by the public. For example, see “Local Enterprise Partnerships”, (BIS Select Committee, 2013), Section 4 especially paragraphs 56-58.

²⁸ “Where next for Local Enterprise Partnerships?” (Smith Institute, 2013), p27

²⁹ For example, in Manchester

- Involvement in sub-regional governance arrangements should be designed to be proportionate to the needs and resources of both businesses and local residents
- LEPs and combined authorities should see transparency as a priority, and as a means to make decision-making more robust.

Clarity of outcomes

First principles

“ There’s a significant challenge for demonstrating impact of individual projects.[...]. We do have a system whereby performance reports are taken back to the LEP, and individual council leaders have portfolio areas, which encourages accountability and a more hands-on approach. This is beginning to work, and will help with evaluation.

[...] Continually responding to new government guidance and new government cuts has meant that we were in the past being a bit reactive. But now we’re looking at focusing more tightly on growth and public service reform, and developing more of an investment culture, where investment must have an impact in cash terms. ”

LEP policy officer

Being able to compare what happens against what you had planned to do is a critical element of accountability. In part, this is about being prepared to be public about failure and shortcomings, but more importantly involves putting steps in place to learn lessons from this experience.

Again, this is less about structures than the mindset of the partnership, and the mindset of the individuals and organisations making up that partnership³⁰. At the heart of this will be an approach that recognises the presence of risk and the need to be frank about both successes and failures. Policymakers will also need to frame these judgments on the basis of accurate information - using the product of this exercise to inform future activity.

Experience in practice

In most instances (including the case study areas we looked at), outcomes are monitored using traditional mechanisms, such as scorecards. The extent to which this information is published in a consistent and comprehensible way varies across the country. We have not carried out an exhaustive analysis of this.

While many targets exist which focus on measures such as the number of full-time equivalent jobs and the “gross value added” growth rate, a number of areas have established outcomes which cut across the wider public policy landscape, such as health outcomes. This means that a much wider range of partners need to be involved – making governance and accountability even more complex. If the SLGF permits partners more latitude as to how public money is spent, this may make the process of defining outcomes look more and more different across the country. Under these circumstances, it may be more difficult for LEPs to measure outcomes by common scorecards³¹.

30 Mindset being one of the critical elements cited to us by case study areas where partnership working was high quality and outcomes were clearly defined. At its heart it is about individual stakeholders understanding that not all LEP decisions will bring them benefits directly, and that strategic thinking requires trade-offs.

31 This measurement and comparison was recommended by the recent inquiry into LEPs by the BIS Select Committee.

Is the LEP making the difference, and when can we expect to see results?

“ Causation is very difficult. A lot is qualitative rather than quantitative, so now we’re trying to look more at long-term trends, alongside focused pilot work to see what works on the ground. ”

Head of sub-regional policy support unit

The NAO has noted that the wider impacts of investment through the RGF (i.e., investment that would not directly result in the creation of jobs) would be more difficult to define. The NAO also noted the impact of the RGF on the market, stating that it was possible that some jobs may have been created anyway, and that investment may have caused some companies or groups to become disadvantaged, leading to negative impacts which are not measured.

The timescale of such outcomes is also relevant. Nationally, Government and business are both looking for quick results. With broad economic growth goals being long term in nature, many outcomes may well not be realised within tight timescales. It will be necessary to knit together short, medium and long term plans to achieve those outcomes, and for partners involved to work to those plans once they have been agreed. Overlapping accountabilities and priorities, as well as ones which change over time, can make those outcomes more difficult to achieve, or even recognise.

A diffusion of accountability can also be anticipated in the different ways that growth is being funded. It makes strategic sense for partners to seek to fund growth measures from a variety of sources – it makes work more stable and predictable. But it makes monitoring, accountability and the securing of outcomes potentially more difficult. The risk of overcomplexity and confusion has been avoided in those areas where joint working has been most advanced, but this is likely to be because there were already strong governance arrangements in place in these areas ³². The challenge will be in securing, monitoring, measuring and learning from outcomes in areas where those relationships may not yet exist.

Ways to improve

- Ensuring that outcome measures do not focus just on process and activity, but that they reflect actual local needs (drawing on our previous comments on clarity of purpose and involvement)
- Try to develop some kind of harmonised system of reporting on outcomes. LEP areas will not be able to do this themselves – many of the reporting requirements are imposed by central grants or funds. But growth deals may provide an opportunity for local and national government to rethink how local areas report against the variety of different requirements from different parts of Government
- Build formal scrutiny in to the consideration of outcomes, and the steps that are taken by partners to learn from them
- Manage the diffusion of accountability at local level, by building up effective governance arrangements that are founded on good relationships between partners
- Recognise that there is a shared responsibility to bring about outcomes from this work – and that not only LEPs or combined authorities have a stake in achieving this. The broad number of policy areas, and the large number of partners, involved will require that strong governance systems exist to knit together the webs of accountability operating at local level.

³² In Manchester and Leeds, for example

The role for proportionate local scrutiny

“ Ideally, we would love members to be able to work more often to do more detailed scrutiny work. But their work across the region comes in addition to the work they do in their individual authorities. Practically it wouldn't be possible to do any more. So there aren't opportunities for multiple meetings, it's all about snapshot reviews and quick one item agendas with quick turnaround, and ensuring that we gather evidence from non-local government people. ”

Regional scrutiny support manager

We have looked throughout this research at clarity, and how clarity can bring about better outcomes.

Clarity and good governance go together. Clarity is not possible without strong, effective and proportionate governance arrangements that allow partners to come together to decide on priorities, to assign funding, to decide how and when to involve others and to measure and learn from the outcomes of that work. And good governance is not possible without clarity – a clear commitment on all sides to working together and to being as accountable and transparent as possible.

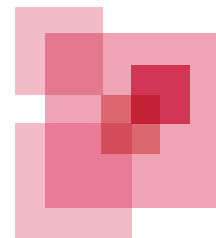
This connects with the challenge of designing governance structures which reflect the culture of the partnership being held to account, and which focus on outcomes. This holding to account, or scrutiny, will need to be credible and useful. It is not as simple as having a committee to hold the LEP to account – although we believe that the process should be led by elected councillors (given that they are the people with the local credibility and legitimacy to perform this role³³) but others would also need to be involved.

There are some general lessons about governance that we believe can tell us how arrangements to bolster local growth should be governed in the future. They should be:

- Light touch
- Not treated as a “bolt on” to existing arrangements (for example, the trend for the creation of joint committees in some areas to hold LEPs and combined authorities to account may not always be the most effective approach as it risks duplication of governance and decision-making)
- Actively used to secure and act on insight from non-executive councillors and other stakeholders, rather than as an information sharing mechanism
- Seen as a means of support for a business-led approach, alongside constructive challenge that reflects the public importance and wide impact of LEP decision-making.

We think that a proportionate approach is one that takes advantage of the principle of subsidiarity, and says that the right scrutiny should happen at the right level. This follows more closely the approach taken by the “scrutiny pool” in Greater Manchester (GM), which draws together a collection of non-executive members from GM authorities to conduct investigations on a range of citywide issues, with borough-specific issues still dealt with at local level. This sidesteps the risk that, with a formal committee or structure, there can be a temptation to feed it with work to justify its continued existence, rather than to use it to contribute positively to certain outcomes.

33 “Accountability Works” (CfPS, 2010)



It is likely that those involved in this activity will wish to make a contribution at particular times, such as:

- In reviewing the outcomes from major pieces of work and establishing what lessons can be learned
- In helping to establish the assessment and evaluation mechanisms which underpin what work is identified as a priority by the partnership
- In drawing together the evidence base needed to formulate strategies, through carrying out reviews and investigations into the economic state of the local area
- In acting as a mechanism whereby discussions on all the above can happen in an open, public forum.

Some possible models

We have some ideas about possible structural approaches that local areas could take that would help non-executives and a wider range of other stakeholders to make the kind of positive contribution we are talking about. Whatever form governance and scrutiny takes, further to the arguments in the body of this report it would have to focus on the four areas of “clarity” that we consider are necessary for LEPs to achieve real change.

Clarity of purpose – effective scrutiny can constructively challenge partners, and mediate between competing interests in an independent way, to help to develop a dialogue about what the purpose of the LEP is and what its priorities are

Clarity of funding – effective scrutiny can act as a check on strategic thinking around funding – helping to explore new ways for the LEP to fund its priorities and accurately assess risk. It could help to provide quality assurance and oversight over plans to pool budgets

Clarity of involvement – effective scrutiny could challenge LEPs to better involve, and engage with, their stakeholders – and could carry out some of this engagement on the LEP’s behalf

Clarity of outcomes – effective scrutiny could supplement the LEP’s own monitoring functions, highlighting areas of success and weakness and embedding a culture of learning in the LEP, and its constituent organisations.

Example 1: The informal LEP

This kind of LEP is an informal body, which meets to consider mutual priorities, but which (beyond some core funding secured through Growing Places, the BIS capacity funding for LEPs and possibly the RGF) has no funding of its own to deploy. Broadly, it acts as a forum for the discussion of ideas, a way for local authorities and other partners to canvass the views of business on general priorities for the area and to make sure that the activities of individual partners all “pull in the same direction”.

The informal nature of the LEP may mean that its work is unfocused. It may have proved difficult to agree on particular sectors for LEP work to focus on, and a lack of joined-up thinking may result in duplication, or in important issues being missed.

Even though this kind of body does not itself make decisions about funding, as a partnership board it will direct, in a general sense, the work of its constituent bodies. As such, the Board should publish as a matter of course information on those areas

where agreement on policy is being sought, and actively seek to represent the views of others on the Board itself. The LEP responsible authority might also set up, through its scrutiny arrangements, a time-limited, task and finish panel, co-opting members of other authorities onto it, to look at the LEP's strategy and plans as they are being developed. This may help to focus its work – and its priorities – on a few key sectors, enhancing its effectiveness.

Example 2: The traditional LEP

This kind of LEP could be an informal body or a formal, legal entity. As well as providing a forum for discussion, Board meetings result in defined action and agreements on funded projects. There is broad agreement on priorities and responsibilities and a framework for the appraisal of projects. Where economic analyses of the area do exist, they may have been prepared by individual local authorities. As such, disagreement over the evidence base for policies means that the scope of work is relatively narrow – focusing on, for example, jobs, housing, planning and business support.

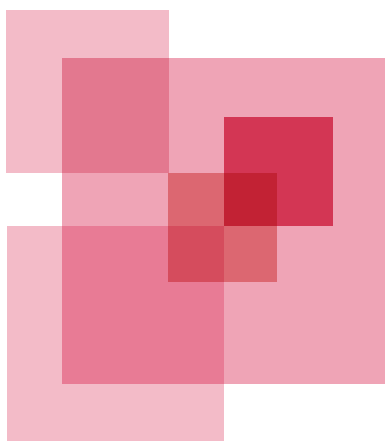
Better governance here could hinge on the use of evidence from others to build and develop a collectively accepted evidence base to drive future work. Similar to the approach taken in the informal LEP, task and finish work by the scrutiny function of the responsible authority – with co-opted members of other authorities – could seek to bring together evidence of local economic priorities and feed productively into planning arrangements at LEP level.

Example 3: The aspiring LEP

This kind of LEP will usually be a formal body with a small number of dedicated members of staff. There will be an ambition on the part of partners to make the LEP the core of a wider approach to partnership work, and a recognition that local growth and economic development is influenced by health, community safety, social care, education and transport policy, amongst other things.

There is likely to be a commitment to bringing in more independent funding – actively pooling budgets in a significant and strategic way. There will probably be a clear economic evidence base which is used to assess and agree priorities, with a focus on a small handful of sectors of the economy, alongside a performance management framework with locally-agreed outcomes. It will probably be too early to say how effective this performance regime is.

This kind of LEP will be moving towards more formal arrangements, in terms of decision-making and spending, than our first two examples. Consequently, scrutiny of its activities and the need to hold it to account will need to be rather more formal and sustained. Our idea of formal scrutiny acting as a “value for money” check could be valid here – the structure adopted to do this could follow the “scrutiny pool” model used in Greater Manchester, whereby members from across a city region come together to form task groups looking at particular issues affecting the whole area, but without regular, formal committee meetings.



Example 4: The enterprising LEP

This kind of LEP will have the broad setup of the “aspiring LEP”, but will be more dynamic in the way it seeks to secure funding for its broader work. For example, it may use local authorities’ powers to pump-prime economic sectors for private investment.

We think that the idea of a formal role for member scrutiny in value for money would be particularly valid here. Scrutiny would have a particular perspective on risk – with an accurate assessment of risk being a dominant feature in the success of the more ambitious forms of public investment undertaken by a LEP following this model. Scrutiny would be in a position to challenge assumptions made as part of risk assessment exercises, significantly strengthening the LEP’s approach to investment.

Example 5: The combined authority LEP

In a combined authority (CA), the LEP is likely to be subordinate, in practice, to the combined authority itself. It may find itself as a beefed-up “business advisory panel”, providing evidence to the CA and making recommendations, but with its decision-making powers ultimately ceded to local authority leaders.

Together, the LEP and the combined authority will develop a detailed economic appraisal of the local area, which feeds directly into plans for investment. The combined authority, which will have the support of a fairly large officer support team and broad strategic powers over a range of services, will not only be able to develop partnership priorities and pool budgets, but will itself be a major player in service delivery, and will have significant place-shaping powers. Funding and investment opportunities will be several orders of magnitude more significant than those existing for areas where the LEP is the only sub-regional body with a direct role in local growth.

Accountability and governance for these kind of arrangements is likely to be more difficult, and will need to reflect the different priorities and aspirations of the combined authority, and other partners in the area. Scrutiny could focus on a number of different issues – the relationship between partners (both those represented on the combined authority and the LEP, and others), relationships between sub-regional bodies, the formulation of evidence as the basis for sub-regional strategies – or it could look at the implementation of those strategies, consider the outcomes and make recommendations for improvement. There is the potential – with additional resource – for local authority-led scrutiny to link up with the non-executives of other sub-regional bodies, to produce a more cohesive approach to good governance. This would reflect the joint activity that would follow on from the agreement of priorities, and having strategies that directed how partners will deliver services, both individually and collectively.

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