Heart of the South West Local Enterprise Partnership

Scrutiny Report

Report theme: Growth Deal End of Programme Report

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Summary

The Growth Deal programme completed spend in March 2021 and the attached report has been drafted to capture key lessons learned and to support good governance of the programme.

Recommendations

This is a draft version with the final report to be designed and then published as part of the AGM pack in October.

The draft report is attached and please note the gaps highlighted.

heart of the south west
local enterprise partnership

Heart of the SW Local Growth Fund End of Programme Report

Introduction

Through 2014 – 2021, Heart of the SW LEP secured and deployed funding from each of the three rounds of Growth Deal provided by Government through a competitive bidding process which delivered to three of the priorities outlined in the HotSW Strategic Economic Plan[1]. These were enhancing transport connectivity across the area, building on Hinkley C opportunities and maximising productivity, innovation and employment.

With the LGF programme formally concluding in March 2021, this report provides an overview of what the money has achieved for the area, what remains to be delivered, lessons learned for future programmes and a summary of the remaining LEP investment programme as at August 2021. Where relevant links and references to more detailed information are included.

A. Funding

Total

£197.8m LGF was secured by the LEP across the three Growth Deals[2], disbursed as shown below across 62 individual projects, details of which can be found at https://heartofswlep.co.uk/projects/

HOTSW LEP Growth Deal budget	**2015-17 £m**	**2017-18 £m**	**2018-19 £m**	**2019-20 £m**	**2020-21 £m**	**Total £m**
Income						
Grant from Gov't	100.11	36.132	9.986	13.146	38.459	**197.833**
Expenditure						
LGF	50.924	29.041	26.425	39.960	51.483	**197.833**
Surplus of (Deficit) for the year	**49.186**	**7.091**	**-16.439**	**-26.814**	**-13.024**	**0.000**

The total amount of the Growth Deal grant has been spent by 31st March 2021 in line with the grant conditions. £21.8m is being managed through Freedoms and Flexibilities with Somerset County Council as accountable body. This allows agreed projects (namely: Digital & Broadband, Taunton Toneway and Somerset Flooding) to spend into 2021/22 and 2022/23. Outputs on all projects will continue to be monitored by the LEP's Strategic Investment Panel – see below.

[1] Strategic Economic Plan - Heart of the south west LEP (heartofswlep.co.uk)

[2] To note: House of Commons library states HotSW total Growth Deal award of £239.1m, split £130.3m GD1, £65.2m GD2, £43.6m GD3. However GD1 amount included funding directly awarded to Plymouth City Council for Forder Valley Link Road and funding for loans to housebuilders which did not progress. The total reported by the LEP is therefore £197.8m

Thematic Distribution

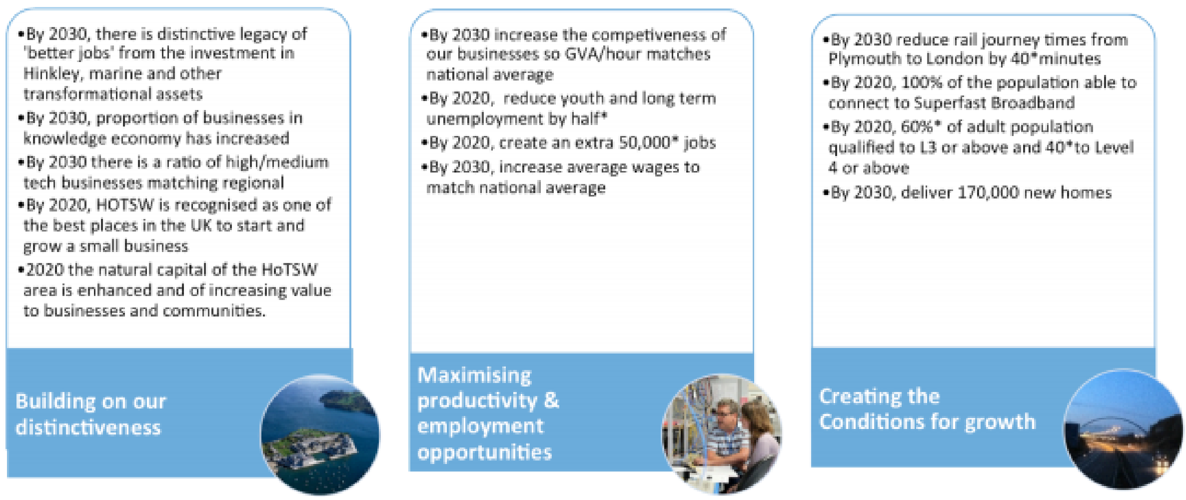
Local Growth Fund has been invested across the area as per the table below. LGF was a capital programme and with the Department for Transport contributing the largest share to the Growth Deal programme it is unsurprising that the largest proportion covered projects which improved local transport connections and which unlocked further development. Innovation included investments in the area's science parks and Enterprise Zones. LGF also supported a range of workspace across the area, supporting business start-ups and growth. A full range of the projects funded can be seen at [Projects in our area Archive - Heart of the south west LEP (heartofswlep.co.uk)]

Theme	**LGF £**
Transport & Housing	91,922,969
Innovation	47,053,868
Skills	18,257,198
Digital Connectivity	17,930,000
Natural Capital	13,049,000
Workspace	4,899,999
Business Support	2,770,381
Programme Management	1,950,001
	197,833,416

B. Impact

Infographic to be added (will be available post-SIP, based on impact report slides) incl forecast to 2025

The LEP has published annual impact report showing progress towards the SEP objectives with the most recent version available at add link. Agreed in 2014, the SEP set broad goals to 2030 with milestones at 2020 and the impact report tracks progress against these.



The SEP provided the foundation for each of the Growth Deal bids and it is worth noting that each Deal submitted sought a higher level of funding and broader powers on e.g. skills, than was finally agreed. Nevertheless, progress towards the 2020 milestones has been good for jobs and skills, with more to do in areas such as business start-ups. As with all capital programmes, outputs such as jobs and houses will flow some way after completion of the build project and Growth Deal projects will therefore continue to report through to March 2025.

C. Lessons for Future Programmes

Internal review of the Growth Deal programme has highlighted several important lessons for the future and these are set out below

1. **To achieve the scale of economic change that is needed requires both significantly larger investment over many years and more focus on the activities that will produce lasting improvements.**

   Although significant in absolute terms, the scale of Growth Deal investment (£197.8m) is very small compared with the size of the HotSW economy (£35 billion). Therefore many of the structural issues identified in the 2014 SEP remain an issue for the HotSW economy today, e.g. productivity gap vs the rest of the UK. Addressing these challenges requires sustained and significant investment over a long period. Given the relative resources generally available there is merit in ensuring any targets represent small improvements over time – rather than grandiose statements of transformational change.

2. **Setting targets around an investment programme should build on previous experience of what is achievable. Consideration should also be given, not just to the absolute numbers, but also the quality and resilience of the outputs**

   The SEP was a competitive process which encouraged ambitious targets and aspirations; there is a fine balancing act between setting aspirational targets/objectives and making sure those targets are attainable. Although by some measures the economy has performed well vs the 2014 ambitions, e.g. job creation pre-pandemic, a competitive process to secure funding risks inclusion of targets which may be difficult to achieve. As an example the cost per job of the three Growth Deal submissions from the LEP was £10,900; this compares with benchmarks in other programmes ranging from £25,700 (European Regional Development Fund, 2013) to £39,850 (Homes & Communities Agency, 2015). As a result, timing of delivery of numbers is always under pressure.

   This need to be aspirational fed through to individual projects and it has been relatively common for projects

   a) to be over optimistic on outputs at outline business case, only for these to be reduced as the project progresses through appraisal to funding agreement and

   b) to shift the timing of outputs into the future.

   Similarly, where Growth Deal has unlocked a future development of e.g. a road which enables a housing site to progress, it can be the case that the subsequent development is delayed for reasons outside the LEP's influence, e.g. delayed planning permission. This means that achievement of outputs is not entirely within the LEP's control

   Finally, Growth Deals were conceived at a time of relatively higher unemployment though the HotSW economy soon moved to be one of the tightest labour markets in the country and the priority pre-pandemic shifted to creation of better quality jobs. It is returning to that as the economy recovers from Covid 19. Therefore there needs to be some scope to review and flex priorities as the macro economic conditions change. Key lessons would therefore be

- That programme targets should be based on absolute rather than relative targets – be in control of your destiny – and should be based on evidence of need rater than driven by a competitive process which encourages ambition which may not be based on the evidence
- Any targets should be stretching but attainable, based on achievements through other similar sources of investment
- Targets should represent small improvements over time – rather than grandiose statements of transformational change; especially so given that in general the resources available tend to be too restricted to shift the macro economy in a significant manner
- On occasions, targets/objectives at a lower geography may be useful though consideration needs to be given to the interconnectedness of places through travel to work, travel to learn patterns etc. Given investments have been concentrated in some (mostly urban) areas then there may be a closer association between investments and macro performance.

3. **The timescale for understanding impact is long term**

   There is also the issue of timescale for monitoring; HMT Green Book appraisal recommends a 10 year period for assessing the cost: benefit ratio of capital investments. With final Growth Deal spend continuing into 2020/21 this means full monitoring would only be complete by the early 2030s; at the moment Government reporting is continuing up to 2024/25.

   With the majority of outputs being delivered towards the end of this timeframe, although the LEP has conducted an interim evaluation of the programme from which many of the conclusions here are drawn, a full qualitative and quantitative evaluation would be possible around 2023 onwards and this will be part of the LEP's forward plan.

4. **The toolbox. Given the limited public funds available to the HotSW area for economic development, the strategic influencing role at national level becomes even more important and funding is only one part of the mix.**

   Economic development is about a whole range of initiatives and is about much more than supporting business. Very often it is a combination of different activities (e.g. skills initiatives, business support, property development, regeneration, innovation, strategic leadership, business finance, key sectors) that helps create a stronger set of outcomes. As well as direct funding for the are the Growth Deal bids sought additional powers over e.g. skills development or improvements in strategic infrastructure. In the main, these additional 'asks' were not agreed or the timing is significantly later than had been envisaged, e.g. improvements to the A303 are only just starting in 2021.

   The LEP has some of the levers but, in many cases, it means working with many other partners to ensure an effective and joined-up approach; capital funding is only one part of the mix and as has been shown, is generally very small compared with the economy as a whole

5. **Programme overheads were relatively low at 2% of total award and larger programmes offer economies of scale**

For a relatively large capital programme the 2% overhead charge compares favourably with other programmes. For example

- out of €3.6 billion in the 2014-20 European Regional Development Fund, €145 million or 3.97% was available as Technical Assistance, proxy for programme management
- part of the 2014-20 ERDF programme covered Community Led Local Development, enabling smaller projects targeted specifically at more deprived areas with population between 10,000 – 150,000. These were led by Local Action Groups and Government guidance stated that a maximum of 25% of the total public sector funding could be used to support the costs of coordinating the LAG and managing delivery of the strategy.[3] A HotSW LEP review of south west CLLD found that the bigger the programme, the smaller the percentage spent on management and administration as there are economies of scale; a programme of £7.5m had 16% overhead costs, £5m 20% and £2.5m 25%.

6. **An alternative approach. Potentially allocating funding based on an objective measure of need would be an appropriate alternative to a competitive process. Any funding should be seen as part of a broader approach which includes influencing key investments at a national level as well as considering which powers and decision-making are best made at a local level to influence local outcomes**.

Case Studies

To include the following from the attached Ash Futures report – can be added at the end or spread through the report if this works better

Oceansgate

Roundswell

City College Plymouth

Wiveliscombe

EPIC

ESP

South Devon College Hi Tech and Digital Centre

Plymouth Science Park

200624 HotSW Impact report - Ash

[3] Title (publishing.service.gov.uk)