

# Kent and Medway Economic Partnership

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## KENT AND MEDWAY ECONOMIC PARTNERSHIP BOARD

8 September 2014

### ITEM 3

**Subject:** Local Growth Fund: Government feedback and next steps

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### Summary

This paper sets out the feedback that we have received from central Government on our Local Growth Fund allocation and the reasons why specific schemes were (or were not) supported. It also outlines current information on the process for drawing down funding and the work that is underway to support this.

It is likely that there will be some opportunity later in the autumn to bid for a small number of additional project allocations from the Local Growth Fund. The paper sets out the current information that we have available and seeks the views of KMEP Board on the process for agreeing potential priorities.

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## 1. Introduction

- 1.1. At its last meeting, KMEP Board expressed its disappointment in the overall scale of Kent and Medway's Local Growth Fund allocation and the fact that several projects ranked as priorities by the Board had not been selected for funding. The Board took a strong view that we should seek urgent feedback from Government on our Local Growth Fund allocation and the reasons why projects were (or were not) supported.
- 1.2. Since then, we have received feedback from BIS, Cabinet Office and DfT, both across the LEP and specifically for Kent and Medway, the outcomes of which are set out in this report. Graham Pendlebury, the South East LEP's senior Whitehall sponsor (based in the Department for Transport) is also able to attend the KMEP Board meeting on 10 November.

## 2. The project prioritisation process

- 2.1. When it was established, the Local Growth Fund was billed as a 'single fund', containing several departments' funding, but without ring-fencing. However, it seemed likely that Government would expect funding requests broadly in line with the composition of the fund, and the Kent and Medway submission reflected this.

- 2.2. The Government maintains that there was no ring-fencing within the Local Growth Fund budget, other than the top-slicing of £50 million for the Housing Infrastructure fund managed by the HCA (and some separate designated grant for London). Within the funds available, projects were selected on a scheme-by-scheme basis through a three-stage process:
  - a) Assessment of the overall Strategic Economic Plan, taking account of the robustness of governance and the ability of the LEP to prioritise;
  - b) Project level assessment (value for money, strategic rationale, deliverability, risk, etc);
  - c) Review of local prioritisation.
- 2.3. This means that while the priority ranking assigned to schemes by KMEP was part of the assessment process, individual schemes were still considered on their merits. This partly explains why the eventual approved list of schemes does not reflect the full rank order applied by local prioritisation.

### **3. Funded schemes: Next steps**

- 3.1. For the **transport** schemes, which account for £127.5 million of Kent and Medway's project allocation, work is underway to develop business cases more fully to meet the DfT's requirements. A series of meetings is underway with DfT officials and between the six transport authorities across the LEP. DfT have said that there is likely to be flexibility within the overall allocation for schemes starting in 2015/16, although not at this stage for schemes starting in future years.
- 3.2. In addition to the transport schemes, £6 million has been allocated to the **Kent and Medway Growth Hub**. This funding is capital, and therefore cannot be used for business support activities as originally envisaged. However, it could be used to support access to finance activity, potentially matched with European funding. BIS have asked us to come forward with a proposal: this is being developed as part of the Innovation and Growth Strategy Statement (see Item 5) and it is proposed that this will be brought back to KMEP Board on 7 October.
- 3.3. There is also a relatively small amount of **revenue funding for business support** (£800,000 across the LEP in 2015/16 to create a single gateway to national and local business support services. Again, this is being considered in the context of the Innovation and Growth Strategy Statement.
- 3.4. The allocation of skills capital funding is covered in Agenda Item 4.

### **4. Unfunded proposals: Feedback and future work**

- 4.1. There were two major proposals within the Strategic Economic Plan which were not funded. First, there was no funding made available for the **SEFUND** property investment fund. Government has said that this is because it did not want to establish subsidiary funds to the Local Growth Fund: it wanted to use LGF to invest in discrete projects. The Government did in fact take a similar view across the country, with only a small number of devolved funds (generally with quite specific objectives) being funded. However, the LEP is commissioning some further work to consider the potential for a property investment fund using

uncommitted Growing Places Fund balances and potentially local authority investment. Defining the nature of the fund and providing greater clarity on its aims and the market failure it seeks to address will clearly be important in this work.

- 4.2. Second, the SEP proposed a large extension to the existing **access to finance** schemes operating in Kent and Medway. This is also explained by Government's reluctance to establish subsidiary funds using LGF, and there are few examples of LGF being allocated for this purpose. However, ERDF funding and the Kent and Medway Growth Hub allocation outlined above could help to meet the objectives of this request (as might future rounds of Regional Growth Fund investment).

## **5. Governance issues**

- 5.1. The amount of funding flexibility made available to LEPs varies across the country. Generally, those LEPs with clear governance frameworks and decision-making processes have higher levels of devolution. In the case of the South East, the Government's proposals are comparatively restrictive, reflecting the complexity of the LEP geography and the unclear governance arrangements that currently exist.
- 5.2. In recognition of this, the LEP has appointed Irene Lucas, a former local authority chief executive and senior civil servant, to carry out a review of governance. The outcomes of this will be reported to the LEP Board later in September (and to KMEP at its next meeting). The terms of reference for the review are attached as Annex 1.

## **6. The next round of Local Growth Fund**

- 6.1. Government has encouraged LEPs to develop a limited number of additional projects in anticipation that a small amount of further funding may be announced before the elections. There is no funding available in 2015/16 and probably very little in 2016/17, so proposals are likely to be for the medium term. The Government has indicated that the very large number of schemes proposed in the last round was probably not helpful to the South East: for Kent and Medway, prioritisation of perhaps 3-4 important schemes is likely to be a more successful approach.
- 6.2. While we await more guidance from Government, it would be helpful to start to consider potential priorities, both for transport and non-transport schemes. In the last round, all non-transport capital schemes were badged as notional projects to contribute to SEFUND, and were consequently unsuccessful; in the next round, it may be worth reconsidering any projects which may work as individual proposals. Depending on the initial views of the Board, it is suggested that we seek to identify potential projects via the sub-county partnerships in parallel with further intelligence from Government and the central LEP, to inform a further paper to the Board in October or November.

## **7. Recommendations**

- 7.1. It is recommended that the Board:

- a) Notes the feedback from Government;
- b) Notes the work underway to bring forward those schemes that have been approved;  
and
- c) Considers KMED's approach to identifying priority projects for the next round. In the absence of a LEP position on next round funding, this could help to inform any discussion at the LEP Board later in September.

**Report author**

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## **ANNEX 1**



## **SE LEP Delivery Review – Terms of Reference and Scope 2014**

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### **SE LEP Delivery Review**

#### **Terms of Reference and Scope**

##### ***Objectives***

Reflecting the federal model of SE LEP, to establish new delivery arrangements and resourcing options for the LEP which

- Facilitate SE LEP's delivery of the Growth Deal and Strategic Economic Plan, and European Strategy (ESIF) ensuring that robust and timely delivery reporting mechanisms are in place to enable proactive management and intervention at the appropriate level
- Support the establishment of local delivery arrangements and local programme management through the federal model and devolution of funding through local delivery plans
- Embed the devolved operation and federated approach already approved by the SE LEP Board and provide clarity of roles at each level
- Ensure that Essex County Council as the accountable body provides effective support to SE LEP while meeting its own statutory and constitutional requirements
- Create effective reporting mechanisms to provide delivery assurance to the LEP and its constituent partners and recognising the Government will wish to deal corporately with SE LEP
- Ensures that the core LEP team and supporting capacity within LEP partners have the right capability, capacity and ways of working to support the effective operation of the LEP and the achievement of its ambitions within a federated model
- Respects the status and operation of the LEP as a business-led body hosted by ECC and working across the whole SE LEP area
- Address issues of accountability to local businesses and residents
- Supports and integrates with the delivery of the proposed SEFUND property and investment fund.

##### ***Reasons for undertaking review***

- Need to embed the federal model of SE LEP as agreed by the Board in new Ways of Working
- Agreement from business and public authorities that the time is right with the recently announced Growth Deal to ensure SE LEP's delivery and opportunities are maximised

- Recognition that unless delivery arrangements are robust, our case for further Local Growth Fund investment from Government is adversely affected
- Experience of some delays and lack of clarity across SE LEP and at all levels in meeting objectives and delivering programmes
- Concern that SE LEP and ECC, as accountable body, working in partnership have been insufficiently flexible and agile in securing opportunities
- Concern by ECC as to the governance arrangements they should have in place in supporting SE LEP and implementing their decisions
- Need to consider formally the advantages and disadvantages of incorporation of SE LEP
- Need for clear accountability as public funding through LEPs increases

### ***Method***

- Independent identification and analysis of current arrangements and their strengths and weaknesses by:
  - Review of documentation
  - Interviews with relevant Board Members and SE LEP Secretariat, advisers and local authority members and officers as needed
  - Desk top review of other LEPs arrangements including cities
- Discussion with Government officials about expectations
- Understanding of current SE LEP Business Plan objectives and budget
- Analysis of data
- Identification of issues and options based on best practice locally and nationally.
- Recommendations about revised future arrangements including working principles for future developments as context changes

### **SE LEP Governance Review**

#### **Terms of Reference and Scope**

#### ***Issues to be addressed***

- How best to ensure an effective local delivery structure for federated areas and providing SE LEP, partners and ECC as accountable body with clarity about management, delivery, financial flows and risk.
- Whether other bodies can have accountable body status delegated to them and if so under what circumstances
- How financial and delivery risks are best managed effectively
- The need for specialist advice from SE LEP
- How SE LEP is to be resourced including the capacity located within partners authorities and the SE LEP Secretariat

### ***Sources of Evidence***

- SE LEP Chairman, Board members and Director and Secretariat
- Leading members and senior officers of local authorities
- Chairmen, board members and directors of other LEPS and members and officers of their partner authorities
- BIS publications and officials.

### ***Indicators of Success***

- The development of proposals which address the issues identified above and secure the confidence of the Chairman and Board of SE LEP, the Government, leaders of partner authorities and Accountable Body.

### ***Delivery and Equality***

- SE LEP is subject to the Public sector Equality Duty. Proposals will be subject to an Equalities Impact Assessment.