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Report 2: Policy Context and Observations from the Evidence

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This report provides a brief overview of the policy context for Local Enterprise Partnerships within the Government's wider growth strategy. This has been produced as a resource for the LEP Capacity Fund Project team to ensure that recommendations from the research evidence are relevant in a rapidly changing policy environment.

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D2N2 Local Enterprise Partnership Capacity Fund Project: Evidence Reports

2. Policy Context and Observations from the Evidence

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2.1 Introduction

This report provides a brief overview of the context for Local Enterprise Partnerships within the Government’s wider growth strategy and restructuring of sub-national economic development mechanisms. It was produced by the LEP Capacity Fund Project Team as a resource to ensure that observations from the evidence remain relevant in a changing policy landscape.

It summarises key policy developments, such as the Local Growth White Paper, the National Skills Strategy, the 2011 Budget Statement and the Establishment of Enterprise Zones. This policy context is followed by key conclusions and observations from the evidence collected as part of the D2N2 LEP Capacity Fund Project, which are drawn from a series of detailed thematic evidence papers on the economy, employment and skills, and education (Evidence Reports 3, 4 and 5 and summarised in Evidence Report 1).

2.2 Policy Context: Local Enterprise Partnerships and Economic Growth

In June 2010, the Government invited Local Authorities to work with businesses to form Local Enterprise Partnerships (LEPs) based on geographies that reflected the "natural economic geography of the areas they serve."[1] Practically speaking, LEPs would take the form of Boards comprising private sector representatives and elected Local Authority members, ideally chaired by a prominent local business leader, providing "strategic leadership in their areas to set out local economic priorities."[2] From 62 proposals received by the September deadline, 36 LEPs were eventually approved, covering 97% of England's population. The Derby, Derbyshire, Nottingham and Nottinghamshire LEP (D2N2) was approved in the first tranche of 24 LEPs, announced in the Local Growth White Paper.[3]

LEPs represent the sub-national organisational element of the Government strategy to 'rebalance' the economy away from a perceived over-reliance on public sector employment (which has left parts of the north and midlands particularly vulnerable to public spending cuts) and a 'narrow range of economic sectors'. This could be interpreted as both a geographical and a sectoral 'rebalancing' away from the principally London-based financial services (i.e. reducing regional inequalities and focussing on 'productive' activities in the services and manufacturing), but it could also be interpreted as shifting away from a reliance on 'traditional' or 'declining' manufacturing sectors within some areas of the north and midlands. LEPs are also presented as key agents in facilitating 'private sector job creation', which it is hoped will outweigh public sector job losses resulting from the spending cuts.

The establishment of the LEPs has also taken place within the context of major reductions in Local Government funding, as a consequence of the national programme of fiscal consolidation. Across England, Local Government is expected to lose approximately £6.7 billion, equivalent to a 26% reduction in central funding by 2015.[4] The options for activity available to LEPs are very wide - potentially covering areas previously delivered by the Regional Development Agencies (RDAs) as well as new activities. However, the Government has initially stated that there would be no 'new money', especially for the day-to-day administration of LEPs. Local Authorities would have to fund LEPs from existing resources and should seek to lever in private sector and other resources (such as from universities) to deliver against agreed objectives.

The Government only set out in very broad terms what the parameters of LEP activity should be, arguing that their roles should be "decided locally, according to local priorities"[5]. The original letter from the Secretaries of State for Business, Innovation and Skills and Communities and Local Government suggest that LEPs could choose to 'tackle' issues such as:

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[1] The Rt. Honourable Dr Vince Cable MP, Secretary of State for Business, Innovation and Skills, and the Rt. Honourable Eric Pickles MP, Secretary of State for Communities and Local Government, '*Local Enterprise*

[2] Ibid.

[3] HM Government, '*Local Growth: Realising Every Place's Potential'*, October 2010.

[4] Dr Philippa Lloyd, Director, Economic Development Directorate, Department for Business, Innovation and Skills, in a speech to the Conference '*Local Enterprise Partnerships: Unlocking Funding Streams and Making Successful Bids'*, London, 12th July 2011.

[5] Ibid.

- Planning and housing;
- Local transport and infrastructure;
- Employment and skills – working closely with universities and Further Education colleges;
- Enterprise (i.e. small business start-ups);
- The transition to the low carbon economy; and
- In some areas, tourism. [6]

Since this letter these parameters have been refined through the Local Growth White Paper, the 2011 Budget (‘*The Plan for Growth’*) and subsequent announcements on Enterprise Zones and education and skills (principally the ‘*Skills for Sustainable Growth’* White Paper).

2.2.1 The Local Growth White Paper and the Regional Growth Fund

The Local Growth White Paper (‘*Local Growth: realising every place’s potential’*) was published in October 2010, shortly after the Government approved the first tranche of LEPs. This set out many of the actions that would be taken forward in the Localism Bill (introduced to Parliament in December 2010) and the new National Planning Policy Framework (published for consultation in July 2011). However, there is a stated commitment in the White Paper not to define the role or remit of LEPs in any similar legislation. This means that these is no single legal, organisational or operational blueprint for what a LEP should look like and, fundamentally, it means that LEPs themselves cannot be given statutory roles in subsequent legislation. Any new statutory powers (such as new Right-to-Build or Tax Increment Financing[7] powers) can only be conferred on Local Authorities or other public bodies that may be involved in a LEP. This could represent benefits for LEPs, in terms of providing relative freedom from central control - especially when compared to the RDAs, who were required to deliver a number of national Government programmes to tightly defined specifications.

The policies covered in the White Paper are presented under the shared objective of shifting “power to local communities and business, enabling places to tailor their approach to local circumstances”. “Dynamic local markets” would be “freed up” through improved land supply (i.e. through planning reform), and place-specific investment and incentives mechanisms (e.g. the Regional Growth Fund) would “tackle the barriers to growth.”[8] LEPs are presented as key delivery bodies in achieving these objectives. The White Paper suggests their establishment will:

- Support Local Authorities’ existing roles in economic development (including determination of planning priorities, enforcement of regulations, and investment in public realm);

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[6] The Rt. Honourable Dr Vince Cable MP, Secretary of State for Business, Innovation and Skills, and the Rt. Honourable Eric Pickles MP, Secretary of State for Communities and Local Government, ‘*Local Enterprise Partnerships’*, letter to Local Authority Leaders and Chief Executives inviting the establishment of LEPs, 29th June, 2010.

[7] Tax Increment Finance (TIF) powers are suggested in the ‘*Local Growth’* White Paper as a tool Government will investigate, that will enable Local Authorities to borrow for capital investment purposes against future additional local business rates incomes. Councils will be able to estimate the extent to which a given investment in infrastructure could increase the number of taxable businesses, and thus borrow against these expected future rates. This will require new legislation.

[8] HM Government, *‘Local Growth: Realising Every Place’s Potential’*, October 2010.

- Achieve economies of scale and synergies, co-ordinating the activity of groups of Local Authorities that represent "real economic geographies"; and
- Place businesses in the lead in refocusing these roles.

'*Local Growth'* expands the list of LEP roles from the list originally set out in the Pickles/Cable letter of June 2010, to cover the following additional activities:

- Working with Government to identify local priorities for national investment, including transport infrastructure (possibly similar to the previous process of Regional Funding Allocations agreed between RDAs, Regional Assemblies and Government Office and communicated back to Government);
- Co-ordinating proposals for the Regional Growth Fund (see below);
- Providing input to the development of national planning policy and ensuring business involvement in local planning decisions;
- Pooling and aligning funding streams across LEP partners to deliver strategic housing;
- Co-ordinated engagement with Jobcentre Plus to identify and address local unemployment challenges - although setting priorities for delivery under the new Work Programme or influencing the selection of regional lots of preferred suppliers and sub-contracting is not mentioned;
- Exploring incentives for local business and university engagement in renewable energy projects and the Green Deal;
- Undertaking analysis to understand and respond to the needs of their local economies, advising Government on locally specific challenges and opportunities in responding to economic shocks; and
- Becoming engaged in delivering national economic development priorities, previously outside the Local Authority remit, such as digital infrastructure.

The White Paper also announced the intention to create 12 directly elected mayors for the largest English Cities. It also suggests that Mayors could chair Local Enterprise Partnership Boards (although this could contradict the objective of business chairmanship set out in the original Pickles/Cable letter). Mayors would have strengthened roles in areas such as planning and strategic transport investment

Despite confirming the lack of central funding, '*Local Growth'* encourages LEPs to play an active role in identifying and supporting bids for the Government's new Regional Growth Fund (RGF), although LEP-led bids would "not receive preferential treatment against bids from other private or public-private partnerships."[9]

The RGF is a £1.4 billion national fund made available over three years. It was designed to support areas that are currently regarded as "dependent on public sector jobs", and thus heavily exposed to spending cuts. It will have no internal ring-fences by theme (there will not be an amount set aside for infrastructure, for example), and will be allocated on a competitive basis, with the minimum threshold for bids set at £1 million. Any organisation (public, private or voluntary) can submit a bid,

[9] Ibid.

from any part of England. Bids were assessed on whether the fund will leverage additional private-sector investment in the area and the number of jobs expected to be created or safeguarded - which should be 'sustainable' jobs, ideally in the private-sector. Any alignment with European funding (i.e. ERDF) would also be considered. Bids could relate to discrete projects (above the minimum £1 million threshold), packages of linked projects, or long-term programmes of activity. An independent advisory panel, led by Lord Heseltine, has been given wide flexibility to decide how to apply these considerations when judging bids.

Bids have so far been invited over two tranches, RGF1 (with a deadline for bids in January 2011) and RGF2 (with a deadline for bids in July 2011). The successful bid for funding under RGF1 from the D2N2 area came from Molecular Profiles Ltd – a pharmaceuticals manufacturer based in Nottingham Business Park. The bid claimed that the share of the fund would be used to expand the company's Nottingham base, with an estimated additional 65 jobs.

RGF2 has been even more competitive, with an estimated 500 bids received nationally, to a total value of £3billion. At the time of writing, , the provisional results have just been announced, pending further 'due diligence' and State Aid investigations. Bids from the D2N2 area have had more success, including one bid from a D2N2 LEP partner (Derby City Council), as follows:

- A bid from Derby City Council for £40million, which will provide support for those affected by job losses from Bombardier, Citibank, the Royal Mail and the public sector. It will establish a technology centre adjacent to the Rolls Royce Campus to support activity in innovation, product development, business start-up support, as well as investment dedicated to supporting research in the rail sector;
- A bid from Federal Mogul Friction Products Limited, based in High Peak, Derbyshire, who are a supplier of products and services (including automotive components such as brake pads) to manufacturing firms;
- Disley Tissue UK Ltd, also in High Peak, who produce industrial tissue products; and
- Usha Martin UK Ltd, in Workshop in Nottinghamshire, who manufacture wire rope products, conveyor cords, wire drawing and cable machinery.

A further fund was made available to LEPs after the publication of the White Paper. The 'LEP Start-Up Fund' (SUF) was established by the Department for Business, Innovation and Skills in May 2011, to support LEPs in establishing "core operational capacity" and to "become self-sustaining". It would principally be provided to LEPs that lacked "sufficient existing institutional capacity." The fund will total £5 million, and will be available for a one-off period in the 2011/12 financial year. The Government received far more bids than expected by the August 2011 deadline, and therefore allocated awards on a formula methodology, with many LEPs judged as already having substantial administrative capacity and thus not being successful.[10] It is not clear if similar funds will be available in the future to support later phases of LEP development.

[10] The Department for Business, Innovation and Skills, '*Local Enterprise Partnership Start-Up Fund – Application Form*', May 2011.

2.2.2 The Plan for Growth

The 2011 Budget set out the Government's 'Plan for Growth', which included:

- Changes to taxation – notably a reduction in corporation tax from 28% to 26% in April 2011, and to 23% by 2014;
- A one year extension of small business rate relief, reform of R&D tax credit for SMEs, and reform to the Enterprise Investment Scheme and Venture Capital Trusts;
- The establishment of a Green Investment Bank, worth £3 billion, to support investment in green infrastructure, and the development of a new High Value Technology Innovation Centre (TIC), as well as nine university-based Centres for Innovative Manufacturing by 2012. The TIC is a virtual network of seven existing facilities in UK Higher Education, funded by the Technology Strategy Board (£140 million over six years), which includes the Manufacturing Technology Centre in Coventry, the University of Warwick Manufacturing Group and the University of Sheffield Advanced Manufacturing Research Centre;
- Additional funding for 50,000 Apprenticeship places - including 10,000 Higher Apprenticeships (equivalent to a Level 4/degree) - and the expansion of University Technical Colleges (UTCs) to establish at least 24 institutions by 2014; and
- The introduction of an initial 21 Enterprise Zones across England.

2.2.3 Enterprise Zones

A number of Enterprise Zones (EZs) will be established across England, primarily offering streamlined planning and business rate discounts within the designated areas, along with plans to provide access to super-fast broadband. To qualify for EZ status, an area must be allocated within an identified LEP. The partnership will take overall responsibility for managing and implementing the EZ. Aspects of delivery, as well as the required statutory powers, will be delegated to relevant LEP partners – principally Local Authorities – although the LEP Board remains responsible for reporting on progress and must be represented on any EZ management board or steering group. Implementation of EZs across England will be overseen by a cross-departmental Enterprise Zones Programme Board, jointly chaired by senior officials from CLG and BIS.

A competitive process was launched amongst LEPs to identify the location of ten zones in addition to the eleven that were specifically identified in the Budget. 30 bids have been received, which have been judged on:[11]

- Whether EZ status will address barriers to local growth in a sustainable way in that area;
- Whether partners will be able to minimise displacement of other economic activity elsewhere in the LEP; and
- Whether the bid sets out a coherent growth narrative, drawing on appropriate economic evidence and a consideration of costs, benefits and risk.

In the D2N2 area, the Alliance Boots site, in Beeston near Nottingham, was identified as a further Enterprise Zone, taking the total number of EZs across England up to 22. The Alliance Boots site covers 280 acres, 60 acres of which have been allocated for the Enterprise Zone. The site houses Boots UK's support office, manufacturing and main logistics service centre. Around 8,000 staff are

[11] Department for Communities and Local Government, '*Enterprise Zones Information Pack*', October 2011.

currently based on the site, working for Boots and manufacturing firms in its supply chain, such as Reckitt Benckiser. It is hoped that some of Boots' commercial partners and suppliers, such as Procter and Gamble and L'Oreal, could be encouraged to locate new investments in the zone.

In a similar vein to its invitation to form LEPs, the Government is taking a permissive approach, recognising that "each zone will necessarily be different in order to take account of different circumstances in each location and the needs of the particular businesses and sectors."[12] However, the Government has set out a series of "high level expectations", including requirements for robust management structures and performance monitoring (based on draft implementation plans required by the Government in November 2011).

The legislative and policy framework currently being implemented will mean that:

- From the 1st of April 2012, any business already established within an EZ that meets the requirements set out in the implementation plan will be entitled to a 100% discount from business rates for a five year period, up to State Aid *de minimis*[13] levels (equivalent to approximately £275,000 per business). This will be additional to any discounts that the business is already entitled to – such as the 50% small business rate relief. The five year discount period starts from the date the business locates within the EZ – up until a deadline of the 1st April 2015;
- As long as the business is located within sites or premises in the EZ that have been agreed with Government in the implementation plan, and meets other agreed criteria, the Government will reimburse the Local Authority - as the billing authority - up to the value of each rate discount. The Localism Bill also includes clauses that enable Local Authorities to grant business rate discounts anywhere in their area from the 1st April 2012 – but if a business is outside the EZ, the Local Authority will not be reimbursed by Central Government and will have to fund the discount from elsewhere within their own budget;
- Local Authorities will also be able to retain all business rate growth achieved within the EZ for 25 years. Although this explicitly relates to rate growth from businesses newly based within the EZ, revenue from this mechanism will be expected to be re-invested across the wider LEP area, including towards activities to mitigate any expected displacement effects of the EZ; and
- Simplified planning arrangements will apply within the EZ. In the majority of cases this will take the form of a Local Development Order (LDO), which will come into force from 1st April 2012. LDOs will assure developers that planning applications within the zone will be approved, provided they meet the conditions set out in the LDO.

Over a slightly longer timescale, the following mechanisms are being considered and consulted upon:

- Enhanced Capital Allowances (ECAs) for manufacturing companies based in the EZ to invest in plant and machinery (subject to State Aid rules). Proposals on how this could be implemented have been requested from LEPs. These allowances will require additional legislation, which will be developed through 2012 and could come into force in 2013;

[12] Ibid.
[13] The level of state aid that can be provided without prior notification to the European Commission.

- The power to raise additional funding through Tax Increment Finance (TIF) arrangements is also being considered in order to support the long term viability of EZs. This will also require new legislation, with implementation beginning in April 2013;
- Finally, the Government is considering how UK Trade & Investment (UKTI) can support inward investment activities and promotion of EZs.

A key concern highlighted in the EZ guidance is the risk of displacing activity from other areas. The Government recognise that this was a key criticism of Enterprise Zones in the 1980s and 90s, so have stipulated that LEPs should make it very clear that the EZ will only support business growth that is 'additional' to activity elsewhere in the LEP. The guidance has stated that this could take the form of actively intervening to prevent certain businesses from relocating to an EZ from elsewhere in the LEP area – though it is not clear how this could be achieved.[14] With this concern in mind, the Government has emphasised the importance of local impact evaluation for each EZ, based on guidance it intends to commission centrally. Alongside local evaluations, the Government will also commission a nationwide impact assessment of the EZ programme and will undertake work in the future to inform the data requirements of both the local and national evaluation projects.

2.2.4 The National Skills Strategy

The National Skills Strategy White Paper, '*Skills for Sustainable Growth'* (November 2010), which is described in more detail in Evidence Report 4: Employment and Skills, sets out the Coalition Government's vision for a more market-driven education and skills system that 'puts the learner at the centre of decision making.'

This strategy represents a departure from the previous Government's more interventionist attempt to channel provision towards 'economically valuable skills.' For example, the previous Government used targets and funding incentives to shift provision towards key sectors and levels of qualification deemed most useful in the labour market - e.g. qualifications at Level 2 for those currently without them (the 'Level 2 entitlement') and funding for qualifications at Level 3 in sectors deemed important to each region's economy. Much of this activity was delivered in the workplace, through the 'Train to Gain' programme.

'*Skills for Sustainable Growth'* emphasises two key themes: increased freedom of choice, for both providers and learners, alongside a shift in financial responsibility - moving a greater proportion of the costs from the taxpayer towards the direct beneficiaries of education and training: the individual learner. Under the new system, the Skills Funding Agency (SFA) will now provide funding directly to colleges and other providers to enable them to flexibility deliver courses learners themselves choose. The funding will 'follow the learner', on the basis of a system of individual learner accounts for young people and adults in FE – which will also require an increasing contribution from the learner themselves.[15] Central planning targets will be removed and colleges will be able to invest SFA funding as they see fit – directly responding to their local markets. In practice, the 'market' will

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[14] Ibid.

[15] Department for Business, Innovation and Skills (BIS), '*Skills for Sustainable Growth – Strategy Document'*, November 2010.

result from the decisions made by individual learners – which assumes they will be adequately informed of the value of a given course to their future employment.

In the case of education and training for 16-19 year olds, the Government has removed the requirement on Local Authorities to maintain sub-regional and regional planning groups. Provision for 16-19 year olds should be mainstreamed within Local Authorities' wider vision for education, but it will be left up to individual authorities to determine how they will influence provision (such as by building on existing 14-19 partnerships with providers where they already exist). [16]

The Skills Strategy identifies a number of roles for LEPs. With increased flexibility for the learner and provider, LEPs will be expected to exert strategic influence, although they will have no formal powers to direct or control the activity of skills providers. The Government is encouraging Higher and Further Education Institutions to work collaboratively, through "self-organised networks", so that LEPs can engage with them to "ensure alignment between the economic development priorities and the skills provision available locally." The Government envisage that there will be agreements between LEPs and local providers.

As LEPs will have no powers to ensure providers deliver against the priorities they identify - Government expects them to use the employers on their Boards to 'hold providers to account' in delivering what businesses need. This means that LEPs will need to provide local providers with good information on employer skill needs in order to create a compelling case. To facilitate this, the Government has charged the SFA Data Service to publish regular information on FE performance.[17]

2.2.5 Current D2N2 Priorities

When identifying issues to consider from the emerging evidence, it is useful for the Capacity Fund Team to revisit what was originally stated in the proposal to establish the D2N2 partnership in September 2010. This document set out a series of possible activities under five priorities:

- Building on shared advantages in internationally competitive science, manufacturing, engineering and creative industries, to drive productivity growth and develop a low carbon economy;
- Developing a distinctive cultural, leisure, sport and tourism offer;
- Ensuring that the benefits of sustainable economic growth are shared across the area;
- Developing skills, building on the strengths and reputation of the FE and HE sector, to meet and drive up employers' current and future skills demands; and
- Continuing to secure investment in regeneration and infrastructure projects to stimulate private sector growth. [18]

Beneath these high level objectives, and linked to the above national policy developments, the proposal suggests a number of specific areas of LEP activity:

[16] Ibid.
[17] Ibid.
[18] Derby City Council, Derbyshire County Council, Nottingham City Council, and Nottinghamshire County Council, '*Derby, Derbyshire, Nottingham, Nottinghamshire: Local Enterprise Partnership Proposal*', September 2010.

1. The LEP could supplement any national business support provision with a local focus on pre-start, micro-business support and areas of greatest opportunity, where local knowledge can add the most value. Subject to resources, this could include enterprise coaching and mentoring programmes and promoting social enterprise. This is an important development given the nationalisation of the Business Link service, previously managed and delivered regionally through the RDAs;
2. Existing innovation network activity (e.g. the iNets formerly managed regionally) could be built on, and innovation hubs could be further developed around university specialisms and incubation centres;
3. The LEP could work to influence the Government's model for business support, including specific programmes such as the Manufacturing Advisory Service (a national programme that was previously managed from the East Midlands). If possible, this could include local, sector-specific delivery;
4. The LEP Board could provide strategic direction for local inward investment and tourism activity;
5. In line with the responsibilities set out in '*Skills for Sustainable Growth*', the LEP could work to determine skills priorities and ensure this is integrated into the 14-19 provision;
6. The D2N2 proposal describes the need to "bridge the gap between school-based advice and guidance and adult advancement" but does not state how this can be achieved in relation to the previous and existing services (Next Steps and Connexions) and planned successor bodies (an all ages careers service, planned to be in operation by April 2012);
7. In linking welfare and employment support to the skills agenda, the LEP could establish a formal relationship with DWP across all its programmes of activity (including its local delivery arrangements with Jobcentre Plus). This includes expanding the City Strategy pathfinder initiative in Nottingham to enable co-commissioning between local authorities and Jobcentre Plus across the LEP area. The proposal also requests that the reorganisation of local Jobcentre Plus districts reflects LEP boundaries, as well as the geographical scope of Work Programmes contracts, and that the partnership is able to influence the tendering for and award of these; and
8. The LEP Board intends to set the strategic business context for and ensure the alignment of Local Authority planning, transportation and other major infrastructure provision, including projects to improve broadband speed and coverage. Although strategic infrastructure delivery and site development will remain the responsibility of the individual Local Authorities, the LEP will work with them on core strategies and local transport plans to ensure shared priorities are reflected and resources are aligned. The LEP will actively engage with the Department for Transport to inform the identification of national transport infrastructure priorities.[19]

2.2.6 Future Opportunities for LEPs

The Department for Business, Innovation and Skills has provided some indications of possible future areas of activity for LEPs, including additional funding streams and levers for direct intervention. This could include increasing the influence of LEPs in determining European Regional Development Fund priorities and on-going discussions around Tax Increment Finance (TIF) powers. Proposals for TIF and business rate retention are set out in the Local Government Resource Review Consultation (July 2011). The New Homes Bonus may also be an important development for LEPs. It is designed to address the current view that the local government finance system provides disincentives to

[19] Ibid.

increase housing. Government therefore intends to match the council tax raised for new homes with an additional amount for affordable homes for six years from 2011/12. For the next year, £200 million has been set aside to finance this, with an additional £250 million per year set aside for the subsequent three years.[20]

In addition, Greg Clarke MP, the Communities and Local Government Minister for Cities, has established an Urban Policy Unit within the Cabinet Office. This aims to direct a cross-Government initiative to support cities' "capacity for growth", reflecting the Government's stated belief that future economic growth is likely to disproportionately come from the cities.[21] The Minister has invited the eight Core Cities (Nottingham and Derby have been invited to submit a joint response) to negotiate a 'city deal', initiated by Local Authorities via a series of 'asks' that are consistent with LEP objectives . This development has arisen from a successful amendment to the Localism Bill tabled in the House of Lords, which could enable further devolution of power to Local Authorities via statutory instruments rather than Acts of Parliament. 'City deals' could include a range of mechanisms, such as simplified planning zones outside of an EZ or further devolution of local transport planning powers.

The Department for Transport and the Department for Communities and Local Government have also recently announced details of the Growing Places Fund (GPF). This will allocate around £500m to LEPs across England within the 2011/12 financial year to establish revolving infrastructure funds to address local infrastructure constraints. The funding will be made available to all LEPs on a formula basis, with LEPs required to submit proposals to draw down monies – with the deadline for the pre-qualification phase set for the 20th December 2011. The GPF will allow for up to 2% of allocations to be used to help LEPs resource the management of the funding. Proposals will need to identify a lead local authority from the partnership to receive and account for the funding.

Finally, it has recently been announced that a second phase of the LEP Capacity Fund will be made available, although details are currently limited. This could provide opportunities for further support in strategic development and implementation planning.

2.3 Observations and Conclusions from the D2N2 LEP Capacity Fund Project

The following sections briefly discusses the policy implications of the key findings from the evidence and analysis phase of the D2N2 LEP Capacity Fund Project. An Executive Summary for the three detailed Evidence Reports is included within Report 1.

[20] Dr Philippa Lloyd, Director, Economic Development Directorate, Department for Business, Innovation and Skills, in a speech to the Conference '*Local Enterprise Partnerships: Unlocking Funding Streams and Making Successful Bids*', London, 12th July 2011.
[21] The Rt. Honourable Greg Clarke MP, in a meeting with the D2N2 Board on 30th August 2011.

2.3.1 The D2N2 Economy

Analysis of the D2N2 economy suggests some commonalities but also clear distinctions within the area. In terms of industrial structure, Manufacturing is relatively important, but is significantly more important in Derby and Derbyshire than in Nottingham and Nottinghamshire.

Key Manufacturing sub-sectors include transport equipment (which is largely located within and around Derby), food & drink (in north Nottinghamshire and more rural parts of Derbyshire) and metals (which is more dispersed across the D2N2 area).

Other sectors are more important in Nottingham and Nottinghamshire. For example, there are a number of large Construction companies based in north Nottinghamshire. While the Service sector is relatively small compared to the UK in the D2N2 area overall, Nottingham stands out as a centre for Service sector activity, both public and private. Business Services (which contains a range of activities including accounting, banking, finance, legal services and marketing) is by far the largest sector in the city. Although Retailing is a relatively large sector in terms of employment and output, it is not significantly more important in Nottingham than elsewhere. Within public services, Health is a major sub-sector in both Derby and Nottingham.

There are also a number of significant local industrial concentrations. Agriculture, Forestry & Fishing is particularly important in Newark & Sherwood, Bassetlaw and rural areas of Derbyshire. The Minerals sector is extremely important in and around the Peak District, which is one of the UK's major mineral resources.

Tourism and Creative Industries are less amenable to quantitative analysis because of issues around the definition of these sectors and associated data availability. The data that is available suggests that in the D2N2 area, the tourism offer is distinctly divided between Derbyshire and Nottinghamshire, with the sector in Derbyshire driven by the Peak District and heritage assets and a greater focus on business related visits in Nottingham and Nottinghamshire. The available data for Creative Industries suggests that this activity is of similar scale to the national average. Low Carbon Goods and Services is an important sector and the D2N2 area has a number of significant assets, including major companies and university research strengths.

Productivity data provides an indication of the comparative advantages of the D2N2 economy. This data indicates that productivity (as measured by output per full-time equivalent worker) in the Construction and Food & Drink sectors is between 5% and 10% higher than their respective UK averages. It is the Transport Equipment sector that really stands out, with productivity almost 40% greater than the national average. This is a reflection of the presence of a number of globally significant companies - such as Rolls Royce, Bombardier and Toyota in and around Derby.

This analysis could inform the sectoral prioritisation envisaged by the Government in the implementation of Enterprise Zones, which should be sufficiently flexible to build on specific local advantages. In the case of the Alliance-Boots EZ, the analysis summarised above would suggest the need to build on strengths in the Services in and around Nottingham – specifically Health services as well as R&D activities (both private and university-based). Supporting businesses in the EZ involved in pharmaceuticals and medical devices manufacturing would also build on strengths specific to

Nottingham. Conversely, any future EZ around Derby would benefit from building on strengths in Transport Equipment manufacturing.

It will also be important to make best use of existing strengths in policies designed to support innovation, including building on activities within universities. For example, the universities in the D2N2 area are not yet included within the Government's Centres for Innovative Manufacturing (outlined in the 2011 Budget). D2N2 engagement in this network and the new Technology Innovation Centre (TIC) would be well justified, given the area's strengths in research across a range of manufacturing technologies – both in HE and in industry (for example, fuel cell research at Rolls Royce and the University of Nottingham). This may also be an opportunity to access further central Government funding streams (e.g. Technology Strategy Board funding). Universities also offer a range of opportunities in business development and enterprise support, through spin-out activity and initiatives such as the Hive at NTU and the Nottingham Science Park.

Business births and deaths create a dynamic that reallocates resources away from under-performing businesses and sectors to more productive use. Overall the rate of churn as measured by business births and deaths is lower than the national average in the D2N2 area. This does hide significant differences with the area, with rates of business churn relatively high in and around the cities of Derby and Nottingham.

There is a strand of research that has investigated the nature of high growth businesses. Within the D2N2 area, data is only available for Nottingham, Derby and Mansfield. This suggests that the proportion of high growth businesses (defined as businesses experiencing employment growth of 20% in any single year between 2007 and 2010) is similar to the national average. However the research then goes on to suggest that, in the absence of being able to identify such businesses before they exhibit high growth, business support policy should aim to provide an environment in which these businesses can develop. This suggests that LEP policy needs to be underpinned by an understanding of what matters to high growth businesses (i.e. finance, innovation, skills and infrastructure), both in respect to EZs and in activities affecting the wider area.

Access to finance remains a key issue – both for high growth businesses and the wider business community – as indicated by recent business surveys in the D2N2 area. Following Project Merlin, banks may now be more receptive to national and local initiatives aimed at increasing lending to businesses.

Finally it is important to consider the location of the activity described above and how centres within the D2N2 area interact with each other. Nottingham and Derby are clearly the main centres of activity. They are regional centres that attract significant amounts of capital and labour. However there are a number of smaller sub-regional centres that have significant roles (for example Chesterfield in Derbyshire or Newark in Nottinghamshire) and public policy needs to be appropriately tailored for these locations.

2.3.2 Employment, Skills, Education and Training in the D2N2 Area

D2N2 Evidence Reports 4: Employment and Skills and 5: Education and Training together provide a picture of the relationships between the demand for skills from employers, the stock of skills currently in the area's workforce, and the extent to which education provision is likely to meet demand in the future.

This shows that, although Local Authority areas within the D2N2 area have all been affected by the recession, the labour market impacts have been more serious in those areas which already had lower rates of employment. Nottingham City has experienced significant increases in unemployment rates, with young people aged 16-24 being affected particularly badly. The two Counties, Nottinghamshire and Derbyshire, have experienced more limited increases in unemployment. Derby City has also experienced a significant increase in its unemployment rate, but it remains well below that of Nottingham.

It would be reasonable to suggest that the differences in workforce skill levels and the occupational structure of employment go some way to explaining these differing local experiences of recession. This is because employers are less likely to cut high skilled jobs because skilled workers are more difficult to replace (and also represent significant beneficiaries of employer investment), whilst individuals with low levels of skill, working in relatively routine occupations, are more vulnerable. Generally speaking, Derby City and Derbyshire have higher proportions of residents working in highly skilled occupations, such as Managers, Professionals and Associate Professionals – some of which can be associated with the concentration of employment in advanced Transport Equipment manufacturing in the area. Conversely, Nottingham has the highest proportion of residents working in relatively low-skilled Elementary Occupations and also has a high proportion of residents with very low levels of qualifications. Furthermore, employers in Nottingham were considerably more likely to report staff who were not 'proficient' in their current jobs compared to elsewhere in the LEP area.

This pattern of demand is reflected in the take-up of education and training across the area. Derby, Nottinghamshire and Derbyshire have higher levels of attainment in schools, higher take-up of Apprenticeships at Level 3, and higher proportions of students going on to HE compared to Nottingham City. The particularly high demand for intermediate, technician-level skills in Derby and Derbyshire suggests that Apprenticeships at Level 3 should continue to be prioritised in these areas. The successful Regional Growth Fund bid in Derby, and the establishment of facilities around the Rolls Royce Campus, could provide opportunities to meet these demands for technician-level skills, and could provide evidence to justify a possible Skills Academy in the area.

However, tackling lower skill levels would appear to be a key priority for areas like Nottingham, in providing an important foundation for a sustainable recovery and in improving resilience to future employment shocks. This is especially urgent, given the stark increases in the unemployment of young people, in order to avoid the long-term consequences of a 'lost generation', excluded from the labour market because of limited opportunities to gain the skills and experience associated with early progress in employment.

With the Coalition Government's skills policy moving towards increased freedom of choice for learners, alongside evidence of increased barriers to labour market access for young people, Evidence Report 5 looks at the relationship between subjects studied and employment outcomes. This evidence suggests that decisions made by adults in FE and young people in HE are fairly well aligned to labour market opportunities – with particular strengths in Science, Technology, Engineering and Maths (STEM) subjects at D2N2 universities. However, decisions made by young people in FE appear to be more influenced by individual interests, with concentrations of learners in courses related to creative and arts subjects, fitness and sport, and beauty and hairdressing.

This highlights the importance of careers guidance - especially in schools - to properly inform young learners of labour market opportunities and employer needs. Recent national research confirms this picture, suggesting that 75% of young people in school, FE and Apprenticeships chose courses based on their personal interests rather than what may benefit their future career paths. Furthermore, this research found limited evidence that schools and FE providers were engaging with employers to provide information and advice, work-placements, or wider programmes of work-relevant learning. Universities were found to engage with employers much more effectively, suggesting that non-graduates could be additionally disadvantaged in the labour market. Evidence from the 2009 National Employer Skills Survey found that employers were significantly more likely to view university graduates as 'well prepared' for work compared to college or school leavers.

LEPs will have a number of policy levers to improve the information, advice and guidance available to young people in schools and FE – both through Local Authorities' own statutory responsibility to deliver advice services to young people and adults, but also through influencing schools' new responsibility to provide independent and impartial advice. HE input to the D2N2 LEP Capacity Fund Project identified the practice in local universities of utilising 'market signals' from independent sector-specialists, ensuring employer engagement in careers events and arranging quality and course-relevant work-placements. Application of similar practices within schools and colleges could be considered by the LEP in its policy development.

There could also be consideration on how to improve progression routes across the LEP area, both for learners from Skills for Life courses to Level 2 and then to Level 3 courses, but also in supporting new labour market entrants to identify opportunities for jobs that enable genuine progression routes. National evidence suggests that employers find Level 2 qualifications insufficiently specific or advanced to add value in many jobs, indicated by low or even negative wage returns associated with qualifications at this level. If progression routes to Level 3 onwards are not available, there is a danger of a persistent number of individuals becoming 'trapped' because their skill levels are too low to benefit them in the labour market. This is a particular challenge for young people. DEMOS research indicated a relative reduction in the share of entry-level jobs that offer opportunities for skill development – with smaller proportions of non-graduates going into the Skilled Trades or Associate Professional Occupations, and larger proportions going into unskilled Elementary Occupations in the Retail, Health or Hospitality sectors. This demonstrates the need for well-informed advice and guidance services, starting at school, in order to prevent a growing proportion of non-graduates becoming trapped in a cycle of vulnerable low-skilled work and periods of unemployment.

2.3.3 Use of Evaluation in Policy Development

There is a strong recognition in UK national policy of the need to inform decisions with an understanding of what has worked in the past and lessons that can be learned from previous practice. This is clear in the current Government's EZ guidance, which includes a strong commitment to national evaluation of the entire EZ programme as well as a requirement for LEPs to conduct local evaluations of the EZs in their localities.

More widely, evaluation evidence could be an important tool in developing future LEP policy across the skills, enterprise, innovation, investment and infrastructure agendas. It can be used to indicate the kind of interventions that have had the greatest impact in the past and in identifying which interventions are most effective in meeting different objectives. Moreover, evidence of impact and good practice would increase the influence of LEP inputs to national policy (such as the reform of the Enterprise Investment Scheme and Venture Capital Trusts announced in the 2011 Budget).

There are a number of opportunities to utilise evaluation evidence – such as through the requirement for local EZ evaluation as well as through the rich resource of historic project and programme evaluation currently available to LEP partners. Within the D2N2 area, a key source of evaluation evidence of potential relevance to future LEP activity is the *emda* Knowledge Bank now hosted by NTU: http://www.tinyurl.com/emdakb .

The strength of e*mda*'s approach to impact evaluation was to use a consistent methodology to measure impact across all major areas of investment. This approach involved capturing data from beneficiaries about the employment effects associated with intervention and using this to calculate GVA impacts. This was a method that was adopted in order to facilitate comparisons between different types of activity. However, it is important to recognise that not all of the interventions evaluated were designed primarily with the objective of creating employment or maximising GVA. For this reason, it is important to exercise due care when interpreting the estimated lifetime return on investment data summarised below. The following table summarises relative impact estimates derived from a sample of some 250 *emda* projects and programmes delivered between 1999 and 2007.

Table1: Estimated lifetime return on investment (ROI) from a range of *emda* interventions[22]

Intervention Type	Estimated ROI	Notes
Site acquisition	-	Small sample
Site acquisition plus	High	
Capacity building	Low	
General business support	High	
ICT adoption & connectivity	Low	
Initiatives to reduce energy consumption & waste	Very Low	Included number of pilot initiatives
Initiatives to develop renewables	Very Low	Included number of pilot initiatives
Innovation support	Very High	
Inward investment	Very High	
Job brokerage, work placements & IAG	Very High	
Trade opportunity promotion	Average	
Reclamation	Very Low	
Reclamation plus	Low	
Site development - commercial	High	
Site development – community, sports & training	Average	
Site development - industrial	High	
Site development - mixed	Average	
Site development – public realm	Low	
Site development – visitor attraction	Very Low	
Site servicing	Average	
Social economy support	High	
Start-up support	Very High	
Tourism marketing	Average	
Tourism support	Very Low	
Trade support	Very High	
Training & skills provision	Low	

Throughout their lifespan, RDAs were required by Government to invest in a wide range of activity with a diverse range of policy objectives in mind. For example, many business support interventions were designed to improve firm productivity rather than create employment per se. Similarly, investments were often made in order to secure environmental or social benefits to local communities. It is for these reasons that it is important to consider the specific policy objectives for

[22] Derived from material presented in 'Evaluating the Impact of the East Midlands Development Agency', ECOTEC Research and Consulting for *emda* , 2009.

activity alongside evidence of economic impact when assessing the relative success of different projects and programmes.

It is also important to note that the activity evaluated by *emda* and summarised here took place prior to the onset of recession in 2008 and included a number of pilot initiatives that subsequently became mainstream. It is therefore necessary to exercise caution in applying these results to the consideration of future intervention to be delivered in the context of less favourable economic conditions. Nevertheless, used sensitively, this and similar evaluation evidence from other sources could help D2N2 LEP partners to assess the relative scale of potential impact likely to arise from different programmes of activity under consideration.

Summary of Policy Observations

- Manufacturing is important to the D2N2 economy, but is significantly more concentrated within and around Derby compared to Nottingham/Nottinghamshire.
- Key Manufacturing sub-sectors include transport equipment (which is largely located within and around Derby), food & drink (in north Nottinghamshire and more rural parts of Derbyshire) and metals (which is more dispersed across the D2N2 area).
- The productivity of the transport equipment sector is almost 40% greater than the national average. This is a reflection of the presence of a number of globally significant companies - such as Rolls Royce, Bombardier and Toyota.
- The Services are more important in Nottingham and Nottinghamshire, with Business Services representing the largest sector in Nottingham City.
- The tourism offer is quite different across the D2N2 area. The sector in Derbyshire is driven by the Peak District and heritage assets whilst there is a greater focus on business related visits in Nottingham and Nottinghamshire.
- Low Carbon Goods and Services is an important emerging sector. The D2N2 area has a number of significant assets, including major companies and university research strengths.
- This analysis could inform the sectoral prioritisation envisaged by the Government in the implementation of Enterprise Zones, which should be sufficiently flexible to build on specific local advantages.
- Universities offer a range of opportunities in business development and enterprise support, through spin-out activity and initiatives such as the Hive centre and the Nottingham Science Park. It will be important to make best use of these strengths in policies designed to support innovation. For example, the D2N2 universities are not yet included within the Government's Centres for Innovative Manufacturing (outlined in the 2011 Budget).
- LEP policy needs to be underpinned by an understanding of what matters to high growth businesses, such as access to finance, skills and infrastructure, both in respect to EZs and in activities affecting the wider D2N2 area.
- Access to finance is a key issue. Following Project Merlin, banks may now be more receptive to national and local initiatives aimed at increasing lending to businesses.
- All Local Authority areas within the D2N2 area have been affected by the recession. Increases in unemployment have been particularly significant in Nottingham City.
- The differences in the increases in unemployment across the D2N2 area can be explained to some extent by the differences in skills supply and utilisation, as skilled workers are less easily replaced and are thus less vulnerable to redundancy.
- Derby City and Derbyshire have higher proportions of residents working in highly skilled occupations, whilst Nottingham has the highest proportion of residents working in relatively low-skilled Elementary Occupations and also has a high proportion of residents with very low levels of qualification.
- Employers in Nottingham were considerably more likely to report staff who were not 'proficient' in their current jobs compared to elsewhere in the LEP area.
- This suggests that tackling low levels of skill, and ensuring that local provision includes key transferable skills (ICT, communication, team-working, etc.) is important

in Nottingham – particularly for young labour market entrants. This would provide an important foundation for sustainable recovery and would improve resilience to future employment shocks.

- The successful Regional Growth Fund bid in Derby, and the establishment of facilities around the Rolls Royce Campus, could provide opportunities to meet demands for technician-level skills (e.g. Apprenticeships at Level 3), and could provide evidence to justify a possible Skills Academy in the area.
- The Government's emphasis on learner freedom of choice highlights the importance of careers guidance. Regional and national research suggests that young people in Further Education are much more likely to be influenced by personal interests than by an understanding of the skills needed in the workplace. LEPs will have a number of policy levers to improve the information and guidance available to young people in schools and FE – both through Local Authorities' own statutory responsibility to deliver advice services to young people and adults, but also through influencing schools' new responsibility to provide independent and impartial advice.
- The national EZ guidance suggests that a key role can be played by evaluation in developing future policy development and implementation – to identify those interventions that may achieve the greatest impact, for example. There are a number of opportunities to utilise evaluation evidence – such as through the requirement for local EZ evaluation as well as through the rich resource of historic project and programme evaluation currently available to LEP partners.