

Cabinet

5 June 2013

North East Independent Economic Review Findings and Review of Governance Arrangements.



Report of Corporate Management Team

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Purpose of the Report

- 1 The purpose of this report is to update Cabinet on the decision of the seven Local Authority Leaders and Elected Mayor in the North East LEP area to embed collaborative working arrangements in a statutory form. A review of governance arrangements is underway for the seven local authorities in the North East LEP to assess if the existing governance arrangements in relation to Economic Development, Regeneration and Transport could be improved upon with the formation of a Combined Authority made up of the 7 constituent authorities.
- 2 This report also updates Cabinet on the key findings from the recently published North East Independent Economic Review (NEIER), chaired by Lord Andrew Adonis. The review sets out an agenda for creating “more and better jobs” in the North East and calls for the devolution of powers, responsibilities and resources from central Government to the area.

Background

- 3 The framework and governance arrangements through which economic development takes place at the subnational level in England has changed. In 2010, the Coalition Government announced that Regional Development Agencies would be abolished and subnational economic development would be facilitated through new Local Enterprise Partnerships (LEPs). A letter from Government in June 2010, invited local authorities and business leaders to come together to consider how they wished to form partnerships. Through LEPs, business and civic leaders are working together to drive sustainable economic growth and create the conditions for private sector job growth in their areas.
- 4 The North East LEP (NELEP) received Government approval on 13 January 2011. It covers the 7 local authority areas of County Durham,

Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland. The new partnership brings together local authorities, businesses, universities, colleges and the voluntary and community sector. The overarching aim is to create growth which means more and bigger businesses and more jobs and investment for the area. The key role of NELEP is an influencing one, taking a strategic lead in the North East economy. Key priorities for the partnership revolve around access to finance; skills and employment; infrastructure; innovation and connectivity; and image and tourism

- 5 At the same time and building on a history of successful joint working, the seven local authorities in the NELEP area formalised their collaborative arrangements. During 2012 the group of Leaders and Elected Mayor made a commitment to deepen their collaboration in regards to economic and transport policy by establishing the LA7 Leadership board. The board has some specific responsibilities such as shaping the strategic direction of Newcastle International Airport and agreeing local major transport schemes and has also been developing a cross boundary strategic approach for economic development and transport. Taking this one step further, at their meeting on 15 March 2013 the LA7 Leadership Board agreed a governance proposition as a statement of intent to establish ‘a statutory body that will enable the seven local authorities to come together around a shared vision for economic growth’ and ‘to be part of the cohort of areas establishing statutory arrangements in 2014’.
- 6 In order to achieve growth for the area, the importance of strong and growing private and community sectors in the North East has never been greater. NELEP therefore decided to ask a team of leaders from finance, industry, public and civil society to produce a strategic and constructively critical view of the North East economy. The commission, chaired by Lord Andrew Adonis, former Secretary of State for Transport and Minister for Schools, was asked to carry out an Independent Economic Review of the NELEP economy to identify a set of strategic interventions to be implemented over the next five years to stimulate both productivity and employment growth. Alongside an assessment of the North East economy in European and global markets, the NEIER called for evidence on a number of cross-cutting themes including labour markets and skills, infrastructure and land markets, finance and capital markets, private and social enterprise and the role of government and public governance.

North East Independent Economic Review Findings

- 7 The NEIER report was published in April 2013 and offers an agenda for NELEP and its partners, reflecting the commitment of the seven Local Authorities to strengthen collaborative working arrangements and strategic decision making across the area. Creating “**more and better jobs**” within the area’s economy is at the heart of the agenda and the highlighted themes and the recommendations support this outcome.

- 8 Under the overarching vision for the North East of 'Making, Trading and Exporting' the key themes running through the report are for the North East to become:
- An International Exemplar in Smart Specialisation, Open Innovation Systems and Culture
 - A Place to Invest in Business Growth
 - An International Leader in Trade in a Global Economy
 - A High Skilled Economy which Invests in its Young People
 - A leading location for Trade, Re-investment and Stickiness
 - A Special Place to Live and Work
- 9 A number of recommendations have been developed under each of these themes, with 14 overarching recommendations in total, some for NELEP, some for NELEP and its partners and some for Government (See appendix B).
- 10 The five top priorities, as identified by Lord Adonis, are:
- Champion "North East International", promoting the region at home and abroad as a magnet for trade, talent, tourism and inward investment.
 - A doubling in the number of youth apprenticeships to tackle the evil of low skills and high youth unemployment, alongside higher school standards and an increase in the proportion going on to higher education.
 - The development of strong "innovation and growth clusters", stimulating universities and their graduates, and existing companies and public institutions, to create and finance new high growth enterprises and jobs.
 - Big improvements in transport infrastructure and services to overcome the relative national and international isolation of the North East and to improve connections within the North East so that people can get to and from work more easily and cheaply.
 - The creation of stronger public institutions, including the location of key national institutions – such as the new British Business Bank – in the North East.
- 11 Durham County Council's approach within the framework of the County Durham Partnership places great emphasis on the economy, highlighting the crucial role of transport, skills and inward investment as well as quality of place in enabling economic growth. The NEIER report articulates the potential for the North East to become an international leader in trade and investment in a global economy by building on innovation, people and quality of place assets to boost investment into and within the region. The report also emphasises the role that local authorities individually and collectively, with partners, play in promoting growth in the NELEP area. There is clear alignment between the NEIER and County Durham's already established approach, which offers further opportunities to

capitalise on assets and strengths in County Durham to boost both local and regional economic growth.

- 12 The reaction to the NEIER has been positive across the public, private and community sectors. The LA7 Leadership Board has welcomed the opportunity presented by the North East Independent Economic Review to confirm its intention to move existing collaborative arrangements onto a statutory basis. Establishing statutory arrangements for collaboration between the seven local authorities will provide an opportunity to clarify roles and functions as well as strengthen relationships within the existing architecture of organisations focused on growth in the North East.
- 13 The NEIER will be submitted to the Deputy Prime Minister, the Right Hon Nick Clegg and cabinet colleagues. Its recommendations will identify those actions to be put in place by the North East LEP, others to be taken forward with regional and wider partners, and actions that require central government involvement and intervention.

Local Authority Leadership Board

- 14 The LA7 Leadership Board recognise that local authorities are uniquely placed to shape the strategic direction for the area as well as support delivery of the key interventions that will deliver growth and prosperity. The proposal to create a statutory body across the North East LEP area would create a formal structure to underpin strategic developments which support economic growth locally and also enable the devolution of responsibilities and resources from central Government. Building on the recent Heseltine Review, the Government has highlighted the role of local areas in driving economic growth; and the importance of joint working across areas to achieve this. The Government has therefore committed to support local authorities that wish to create a Combined Authority or implement other forms of collaboration. South Yorkshire and West Yorkshire are working towards establishing Combined Authorities and the LA7 Leadership board intends to be part of this cohort of areas establishing new statutory arrangements for April 2014, joining Greater Manchester which became a Combined Authority in April 2011.
- 15 The ambition articulated by the Leaders and Elected Mayor is to create the best possible conditions for growth in jobs, investment and living standards, to make the North East an excellent location for business, to prioritise and deliver high quality infrastructure and to enable residents to raise their skill levels and to benefit from economic growth long into the future.
- 16 The creation of a statutory vehicle will put into legal form what the LA7 Leadership Board has been doing by consent for some time, but as a legally independent and accountable body it will have a greater impact and provide a strong platform for the North East to obtain devolved powers and resources from Government. A Combined Authority is a new cross local

authority boundary structure, designed to support the effective governance and management of economic development, regeneration and transport.

- 17 A Combined Authority would not replace a Local Enterprise Partnership. The seven local authorities are committed to working together through the new statutory body and in partnership with the North East LEP on the vision for economic growth. The LEP is a business-led organisation with specific devolved responsibilities from central government and will have a key part to play in a strong and visible collective leadership of the region.
- 18 Through the Governance review process, the seven local authority Economic Directors, Chief Executives and the Leadership Board are considering the options for establishing appropriate strategic governance arrangements that address the issues, challenges and opportunities that are particular to the North East and enable devolution of funding and responsibilities from Government. In a submission to the North East Independent Economic Review, the Leadership Board outlined their statement of intent in relation to Economic Growth, Transport and Skills and emphasised the role they want to play in relation to the prioritisation and management of the Single Local Growth Fund and EU Structural Funds 2014-2020. The North East Independent Economic Review Team, led by Lord Adonis, strongly support the direction and commitment set out by the seven Local Authorities on the establishment of a Combined Authority by April 2014 and have incorporated relevant recommendations in the recently published report.

Review Process and Scheme Design for the North East

- 19 There are three stages towards the creation of a Combined Authority. First there is the review of the existing governance arrangements. Second a scheme is drawn up showing the operational arrangements and constitutional makeup of the proposed Combined Authority in relation to the delivery of economic development, regeneration and transport. Third, the agreed scheme is submitted to the Secretary of State who after consultation with each of the authorities (and the Integrated Transport Authority) and any other persons considered appropriate, submits an Order to parliament.
- 20 The purpose of the review is to determine whether the existing governance arrangements for promoting economic development, regeneration and transport in the area, including the exercise of relevant statutory functions, can be improved and made both more effective and more efficient. The review is considering the system, structure and procedures that are in place across the area to make decisions, set strategy, manage delivery, assess performance and report on progress.
- 21 Before a scheme for a Combined Authority can be finalised, the review needs to show that the creation of a new statutory body is likely to improve the exercise of statutory functions relating to economic development,

regeneration and transport in the area; the effectiveness and efficiency of transport in the area; and the economic conditions in the area.

- 22 The second stage in the process of creating a Combined Authority is the preparation and publication of a 'scheme' for the new body. The scheme will be the basis for the creation of the new body and will contain information on the area it will cover; its membership, voting and any executive arrangements; its functions and the way in which it will be funded. These details will be included in the statutory order that is needed to create the new body.
- 23 When a Combined Authority is created, its constituent local authorities decide which of their economic development and regeneration functions the Combined Authority takes on. These functions can be delegated either wholly, subject to a set of conditions, or concurrently with constituent local authorities. In some instances stronger collaborative arrangements across the area rather than a delegation of a statutory function may be more suitable. There is consensus across the seven local authorities, that a Combined Authority for the North East should be thin and strategic, focusing on strategy setting and prioritisation of investment in regards to transport, economic development and regeneration either through delegation of a statutory duty or on a collaborative arrangement depending on the function. A Combined Authority for the North East would also enable the devolution of powers, responsibilities and resources from Government to the area.
- 24 The Leadership Board's statement of intent includes specific propositions around economic growth, skills and transport which are currently being developed in more detail. On economic growth, the proposition foresees the creation of a joint Growth Plan for the region, which will set out how greater prosperity is delivered. In relation to skills, it is proposed that a skills system is developed that will bring greater employer influence, increasing the numbers of people with higher level skills and investing in high quality advice and guidance. On transport, it is envisaged that the Combined Authority will have a remit covering strategic transport for the whole of the LA7 area seeking further devolution of transport responsibilities to the region. By aligning the geographical footprint of transport governance across a functional economic area, the efficiency of the system can be improved and a better basis can be created for deciding investment priorities. Greater cooperation across the seven local authority areas will bring forward improvements to the region's public transport network. However this is a complicated area and there are important aspects of the Combined Authority and the constituent Local Authorities public transport roles and functions which need to be resolved as the proposals are developed and finalised.

Next steps

- 25 NELEP, the seven Local Authorities, partners and Government are currently considering the pragmatic implementation of NEIER

recommendations. There are plans to hold a conference post Spending Review around implementation of the report and a further conference in Autumn 2015, with the full review team, to review progress.

- 26 The Governance review, Combined Authority scheme design and consultation with key Stakeholders are taking place between February and June 2013. Stakeholders include representative organisations, service providers, delivery partners and relevant regulatory bodies. The final scheme will be considered by the Leadership board in June 2013, by each Local Authority Cabinet in June 2013 and each Local Authority full Council in July 2013.
- 27 A scheme for a Combined Authority will be considered jointly by the Secretary of State for Communities and Local Government and the Secretary of State for Transport. If the Secretaries of State consider that the scheme fulfils the requirements set down by the Act, a draft of the order required to create the Combined Authority will be prepared. The Secretaries of State are required to formally consult all relevant authorities, and any other persons considered appropriate, before the order can be laid before Parliament and, subject to the approval of both Houses, become law. The timetable is:
- February 2013 to May 2013 governance review
 - May 2013 to June 2013 draft scheme prepared
 - 6 June 2013 final draft of scheme to LA7 Chief Executives
 - 18 June 2013 final draft of scheme to LA7 leadership board
 - 24 June Governance Review and Scheme to be considered by each Local Authority Cabinet
 - July 2013 each of the 7 local authorities to consider the Scheme
 - 31 July 2013 Scheme submitted to the Secretary of State
 - November 2013 – January 2014 Order before Parliament
 - 1 April 2014 if Order made by Parliament, the date the Combined Authority would come into existence.

Recommendations and Reasons

- 28 It is recommended that Cabinet:
- a) Welcome the governance review initiated by the seven Local Authorities in the North East LEP Area;
 - b) Note that a further report will be submitted to Cabinet on 24 June 2013 and subsequently Council in July 2013 to consider a Scheme for a Combined Authority; and
 - c) Welcome the direction set by the North East Independent Economic Review.

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Appendix A

What is a Combined Authority?

Part 6 of the Local Democracy, Economic Development and Construction Act 2009 (LDEDC Act) enables the creation of Combined Authorities. This is a new cross local authority boundary structure, designed to support the effective governance and management of economic development, regeneration and transport. These structures are legal entities and are controlled by their members, a majority of whom must be elected members of the constituent local authorities.

Given the important links that exist between transport provision and wider economic development and regeneration – including access to economic opportunities – the LDEDC Act 2006 provides for cross local authority governance mechanisms on transport (ITAs) to be combined with those aimed at supporting broader economic development into a single, Combined Authority.

The Localism Act 2011 also enables Ministers to transfer local public functions from central government and quangos to local authorities, Combined Authorities and economic prosperity boards - in order to improve local accountability or promote economic growth. Authorities have been encouraged to come forward with innovative proposals.

Combined Authorities are designed for groups of relevant authorities that wish to work closely together to deliver improvements in economic development, regeneration and, in relation to Combined Authorities, transport across a functional economic market area. They are intended to support improved strategic decision making on economic issues, and better coordination and delivery of strategic schemes.

A Combined Authority:

- is a **formal** structure to lead collaboration between Local Authorities on transport and economic development and regeneration.
- is focused on collaboration to deliver functions identified as adding value when delivered across a wider geographic level.
- is **not** about Local Government re-organisation, the merger or take-over of Local Authorities.

Currently, there is one Combined Authority in England, in Greater Manchester. West Yorkshire (Leeds City Region) and South Yorkshire (Sheffield City Region) have committed to forming Combined Authorities by April 2014 as has the North East LEP area.

Appendix B

The NEIER economic review was chaired by Lord Andrew Adonis, former Secretary of State for Transport and Minister for Schools. The private sector-led review team included Will Hutton, former editor in chief of the Observer, now chair of the Big Innovation Centre and principal of Hertford College, Oxford; Heidi Mottram, CEO Northumbrian Water and member of the CBI's national infrastructure panel; Lord Don Curry, leading businessman and chair of NFU Mutual; Bridget Rosewell, economist and chair of Volterra Partners; and Jonathan Ruffer, County Durham-based founder of investment company Ruffer LLP who replaced the Most Reverend Justin Welby, the Archbishop of Canterbury.

Alongside an assessment of the North East economy in European and Global markets, the NEIER called for evidence on a number of cross-cutting themes including labour markets and skills, infrastructure and land markets, finance and capital markets, private and social enterprise and the role of government and public governance.

The NEIER report was published in April 2013 and offers an agenda for the Combined Authority and for the LEP and its partners. There is a big focus within the report on the proposed Combined Authority and sets out a partnership framework for the region to accelerate economic growth. Creating more and better jobs within the area's economy is at the heart of the agenda. As a minimum the report states that the North East need an additional 60,000 private sector jobs and more higher skilled and higher paid jobs to close the gap with the national average. A number of recommendations are made throughout the report but 14 overarching recommendations for action are highlighted.

1. Overarching NEIER Recommendations

ACTIONS FOR THE NELEP

1. Establish a North East Finance and Investment Board, ensure a successor to JEREMIE and introduce new loan and venture funds to further support company growth in the North East.
2. Establish a North East Innovation Board and promote (initially) three Open Innovation and Growth Centres (Bionow, Neptune and AMAP) bringing together companies and angel investor networks.
3. Respond to Lord Heseltine's Review and the Government's resulting commitments by establishing the North East Single Local Growth Fund.
4. Produce an ERDF and ESF European Investment Plan which focuses on exports, innovation, business growth and skills to help re-balance the North East economy.

ACTIONS FOR THE NELEP AND PARTNERS

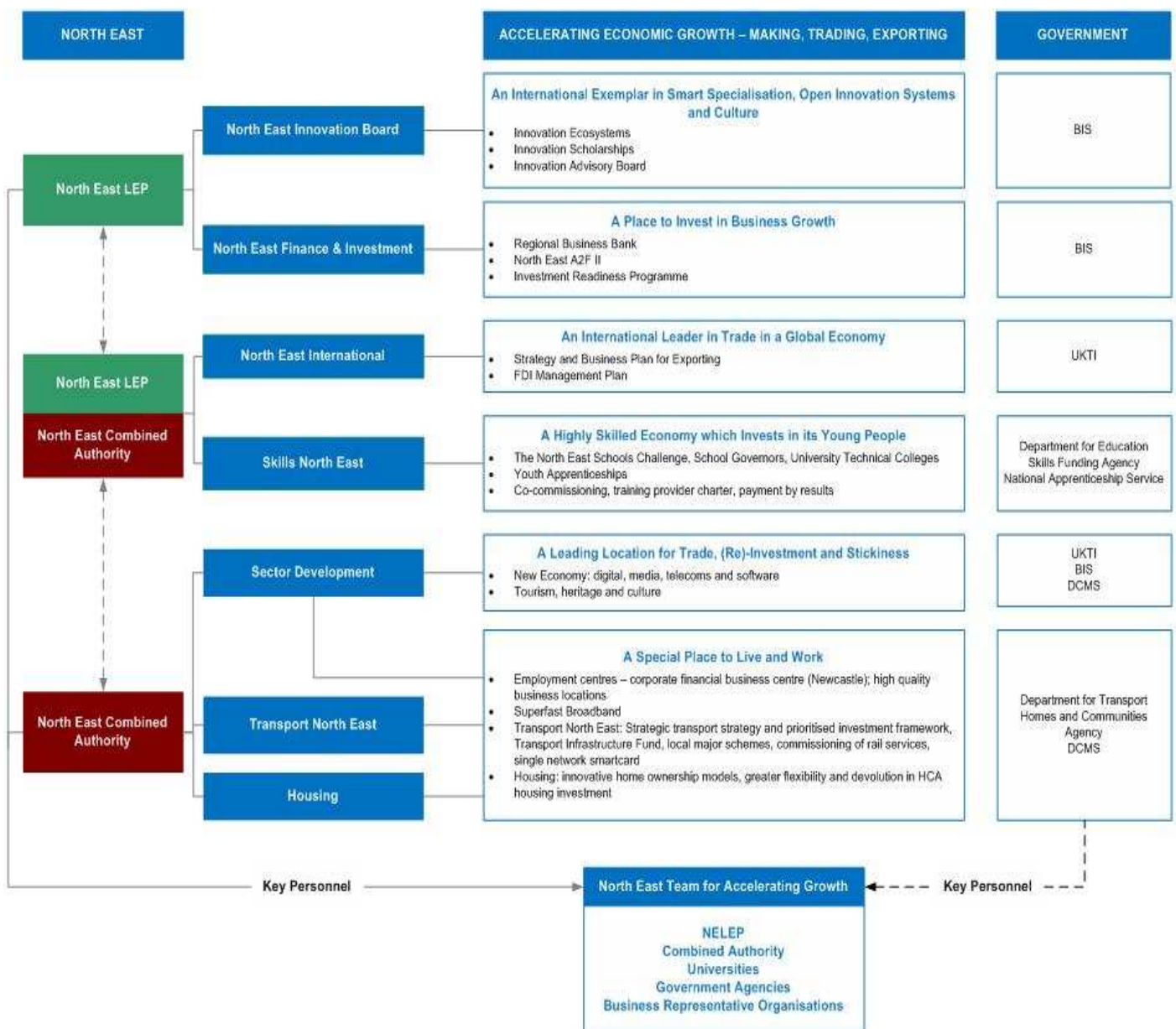
5. NELEP and the Combined Authority will establish Skills North East to raise school standards, with more schools in the top quartile (35% plus) and fewer schools in the bottom quartile (15% or less) of performance

- nationally, increase the number of students progressing to higher education and doubling the number of youth apprenticeships.
6. The NELEP and Combined Authority will integrate City Deal, European Investment Plans and new flexibilities into a single approach to investment supporting economic growth.
 7. Universities should lead on establishing four University Technical Colleges; help to increase participation by some 300 undergraduate places per annum (1%) until the North East matches the national average in higher education participation; boost internship programmes to assist graduates and post graduates; and develop a network of substantive post-doctoral innovation scholarships.
 8. In anticipation of the establishment of Transport North East local partners will develop an investment plan for addressing bottlenecks in the A1/A19 (Combined Authority); develop an interoperator smartcard for public transport (Nexus); embed faster rail connections into new rail franchises (LA 7 Leadership Board) and establish a direct scheduled flight to the US (Newcastle Airport).
 9. NELEP and the Combined Authority will work with business representation bodies and UKTI to create North East International as a single body to promote the area nationally and internationally.

ACTIONS FOR CENTRAL GOVERNMENT

10. Promote a North East Schools Challenge, based on the successful London Challenge, to support local partners to achieve a step change in both primary and secondary schools.
11. Devolve skills funding, based on the Sheffield Model, to Skills North East, in return for a big increase in the quantity and quality of youth apprenticeships.
12. Facilitate the establishment of Transport North East within the new Combined Authority structure, taking over from Nexus and the existing Integrated Transport Authority expanded to include County Durham and Northumberland.
13. Locate key national institutions in the North East. The new British Business Bank and the National Audit Office – which has a minority of its staff in the North East but is headquartered in London – should become North East headquartered institutions.
14. Set the technology mix for renewable generation as soon as possible and prioritise Dogger Bank and the Humber mouth to the south as the first locations for new investment in the next generation of offshore wind power infrastructure.

2. Proposed structure to deliver on the agenda set out by NEIER



3. Detailed Recommendations in the NEIER in Relation to Skills North East; Transport North East; and North East International approaches. (Please note that implementation may differ to recommendations)

3.1 SKILLS NORTH EAST

A joint approach between the **Combined Authority and NELEP**.

Key Actions:

- **Raise school standards**, with more schools in the top quartile (35% plus) and fewer in the bottom quartile (15% or less) of performance nationally.
 - Establish a **North East Schools Challenge** to accelerate the improvement of North East primary and secondary schools.
 - **Increase the proportion of Teach First teachers** to match the leading regions.
 - Have a minimum of **two School Governors** per school who are active in the **business community** and can provide links to local businesses.
- Combined Authority to receive **devolved skills funding, based on the Sheffield model**, in return for a big increase in the quantity and quality (double the number) of **youth apprenticeships**.
- Work with the Universities and local employers to Introduce **four University Technical Colleges** to increase the provision of vocational and industry oriented education for 14-19 year olds
- Work with the Universities to increase the number of young people going on to **higher education**, and to **expand intern programmes** for graduates and post-graduates.
- Introduce **chartered status** for FE providers, **co-commissioning of training** through the SFA, and **payment by results** for providers.

3.2 TRANSPORT NORTH EAST

To be **established by the Combined Authority** as a formal **statutory body within the CA**.

Key Actions:

- **Take over the functions** of the existing Tyne and Wear Integrated Transport Authority, some of the transport planning functions of Durham and Northumberland and the LA7s interests in rail franchising and secretariat support to the proposed North East local transport body.

- **Develop and implement a Transport Strategy** to serve the overall economic and spatial development strategy of the Combined Authority, to include a bus and metro strategy, extending the metro to the largest towns not currently on the network and setting out a plan for better express buses between places that are off the metro to places providing jobs.
- **Develop a prioritised transport investment programme** geared to delivering accessibility to the Combined Authority's priority locations for economic growth.
- In anticipation of the establishment of Transport North East local partners to:
 - **Combined Authority** - develop an investment plan for addressing bottlenecks on the A1 Western Bypass and A19;
 - **Nexus** – develop an inter-operator smartcard for public transport;
 - **LEP Partners** – agree a comprehensive Rail Strategy for the North East looking at faster journey times, more comfortable trains with adequate capacity and reliable broadband access, better regional rail services into Newcastle from Northumberland, County Durham and Teesside, and a continuous 75mph route for rail freight between Newcastle and Northallerton.
 - **Newcastle Airport** – establish a direct scheduled flight to the US.

3.3 NORTH EAST INTERNATIONAL

A joint approach between the **Combined Authority and NELEP**, working with business representative bodies and UKTI. The main purpose would be to **promote the region at home and abroad** as a magnet for trade, talent, tourism and inward investment.

Key Actions:

- **Develop a Strategy and Business Plan for exporting**, working with regional and national agencies to set the framework for actions on trade development and global supply chains. The Plan should deliver a 20% increase in non-automotive exports and an increase of 200 in the number of companies exporting. It should:
 - Seek to increase the take up of support available to exporters and the services provided by consular services abroad.
 - Include support to mentor those at the early-stage of the exporting process (focussed initially on European markets and then increasing global engagement in all overseas markets).
- **Develop a FDI/New Investment Management Plan to include:**
 - **A front of house system, operating on a concierge basis** and working closely with Universities, which presents a single access point for FDI enquiries, supported by the experienced teams based in each local authority.
 - **A client relationship management**, linking inward investors and fast growing companies into exporting, innovation, business

development and supply chain networks, particularly the LEP area's Universities.

- **A case for public sector re-location**, based on the quality of the workforce and lifestyle, and targeting a major re-location relevant to the North East economy.

Appendix C: Implications

Finance -

As the governance review is not yet concluded, there are no financial implications arising directly from this report. Each constituent authority would be expected to make a contribution to the funding of the combined authority. If transport functions are to be part of the combined authority then the authority will need to determine if it will levy for transport costs.

As the approval of any scheme formulated after the governance review will be a matter for both Cabinet and Council, full financial implications will be included in the subsequent report to Cabinet in June 2013 and in reports to Council.

Staffing -

This proposal to develop and introduce a Combined Authority comes at a time when councils have gone through and continue to go through a period of constant change, including staffing reductions across all seven local authorities. It is too early to say exactly what the staffing implications might be until Government agreement and the development of an implementation plan. All affected employees will be kept informed and involved in developing any future arrangements.

The Combined Authority will be a small, focused organisation and it is expected that it can be delivered within existing resources.

Equality and Diversity -

There are no equality and diversity issues arising directly from this report.

Accommodation -

There are no accommodation implications directly arising from this report.

Crime and Disorder -

There are no Crime and disorder implications directly arising from this report.

Human Rights -

There are no human rights implications directly arising from this report.

Consultation -

The project board at its first meeting identified the stakeholders that will be consulted in relation to the governance review. Each local authority will engage with the stakeholders in their area. There is also a period of consultation that the Secretary of State will undertake before deciding whether or not it is appropriate to recommend the making of an Order creating a combined authority.

Procurement -

There are no human rights implications directly arising from this report.

Disability Discrimination Act -

There are no Disability Discrimination Act implications directly arising from this report.

Legal Implications -

If there is to be a combined authority for the North East of England then this can only arise after a review of the governance arrangements in relation to the economic development, regeneration and transport functions undertaken by the 7 North East local authorities and the Integrated transport Authority. If that review demonstrates that those functions would be improved by the creation of a combined authority then a scheme is drafted and once approved by each of the constituent local authorities and ITA submitted to the Secretary of State. If the Secretary of State is satisfied that a combined authority would be likely to improve the exercise of such functions or improve the economic conditions of the region, the Secretary of State will recommend to parliament that an Order is made creating a combined authority for the region.

The approval of any scheme formulated after the governance review will be a matter for both Cabinet and Council as there is the potential for executive and council functions to be delegated to the combined authority.