

FOLDING IN OF LEP FUNCTIONS

Economic Development



1) Summary

This report is seeking approval of the attached HOTSWLEP Integration Plan and the transfer of LEP functions to the Council as set out in the plan by 1st April 2024. This decision is to be supported by entering into agreements with Somerset, Torbay and Devon Councils to underpin the transfer of functions and fair distribution of assets and resources ensuring no Council is placed at a disadvantage or is required to deliver additional responsibilities without sufficient revenue and capital resource to discharge the responsibilities. The agreements will be completed by the end of March 2024 in advance of any transfer of function and final sign off of these agreements is proposed to be delegated to the Director of Place. There is no known additional financial risk to the Council.

The Integration Plan has been agreed with Government and was presented at the HOTSWLEP Board on 19th January 2024. It was developed by the 4 upper tier authorities with engagement from the HOTSWLEP's executive. The Integration Plan has been developed in accordance with the technical guidance issued by the Department of Levelling Up, Communities and Housing (DLUCH).

An opportunity to develop a bid in the form of a business case for up to £240,000 was included in the December 2023 guidance to local authorities. The guidance states,

“Government will provide up to £240,000 per local or combined authority area delivering functions over a functional economic area that meets the geographical requirements set out in the August guidance and reiterated above. Funding allocations are subject to final business case approval and the approval of integration plans. Funding beyond 2024/25 will be subject to future Spending Review decisions. This core funding is separate to any programme funding that may be provided to support the delivery of, for example, Growth Hubs or Careers Hubs. Funding for the delivery of government programmes as directed will be communicated to authorities by the responsible government department or body as per usual processes.”

Devon County Council is the eligible Council (population over 500,000) to lead the application in Devon in partnership with Torbay and Plymouth Councils and work in partnership to ensure no area is not supported.

Details of the functions to be transferred have been set out in the attached Integration Plan and covers business voice, economic strategy, and specific government programmes such as the Growth Hub and Careers Hub.

The four upper tier authorities have considered alternative options as set out in this report and the recommended approach is considered to achieve a smooth transition that meets Government's stated timescales. Affected staff have been consulted by their employer and local authority staff have been engaged. Legal advice and engagement with the Community Interest Company Regulator has been undertaken by Somerset Council as the LEP's Accountable Body.

2) Background

Local Enterprise Partnerships (LEPs) have played an important role in supporting local economic growth since 2011. LEPs have brought together businesses, educators, and local government, locally and cross-regionally, working towards the government's ambitions to support regional growth. Since the publication of the [Levelling Up White Paper](#), government has made strong progress on extending devolution across England and remains committed to empowering local leaders by integrating LEP functions into local democratic institutions.

The HOTSWELEP was established in 2011 covering Somerset, Devon, Plymouth, and Torbay. It was incorporated as a [Community Interest Company \(CIC\)](#). HOTSWELEP is a privately-led organisation with a Board of private and public directors and Somerset Council acts as its Accountable Body. The members of its board are listed here <https://heartofswlep.co.uk/about-the-lep/our-board/>. Whilst incorporated as a CIC, the LEP is a dormant company and has filed nil returns with Companies House since established. Somerset Council has reported the LEPs funding and assets sit within its accounts. All public spend administered by the LEP Board and its Operational and Investment Committee is governed by an Assurance Framework and by Somerset Council's Standing Orders. DLUCH monitor the LEPs compliance and performance against this Assurance Framework. A Joint Scrutiny has also been in operation to oversee the role, achievements, and the work of the LEP which is administered by the Council's Democratic Services. The HOTSWELEP has produced an annual report that provides further information that can be found [here](#)

In the Spring Budget Statement 2023 [Spring Budget 2023](#) Government set out its intentions regarding the future of Local Enterprise Partnerships (LEPs). It expressed a minded to decision to withdraw central funding from LEPs and transfer LEP functions into upper tier local authorities or combined authorities. Following an information gathering exercise, Government confirmed in August 2023 it would cease its sponsorship and core funding of LEPs from April 2024 and provided technical guidance on integrating functions into upper tier authorities or devolved administrations. The guidance indicated that the transfer of assets was a local matter for LEP Boards and their accountable bodies to resolve. Government invited local authorities to develop and submit a draft integration plan in November with the intention that the integration of functions would be completed from 1st April 2024. Wherever possible, government expects local authorities to work together to deliver LEP functions across whole county geographies or functional economic areas with a minimum population of 500,000, in line with the geography principles set out in the Levelling Up White Paper. In areas where there is not yet a devolution deal either agreed or under negotiation, government expects LEP functions to be exercised by the respective upper tier local authority or authorities.

In addition to the technical guidance provided by DLUCH, further guidance was issued to local authorities in December 2023. This gave information on the expectations for local authorities to integrate business voice as part of the transition and ongoing delivery of the transferring LEP functions. In Plymouth we are proposing to strengthen the Plymouth Growth Board. It also set out the opportunity for areas to apply for transition funding of up to £240,000, based on each area being above 500,000 population.

Whilst LEPs can choose to continue to operate as a private entity, the functions of business representation, strategic economic planning, and responsibility for delivering Government directed programmes are required to be transferred to a top tier local authority, or top tier authorities, or combined authorities as part of a devolution deal depending on local circumstances.

4) PROPOSED INTEGRATION PLAN AND APPROACH

4.1 LEP Integration Plan

Having considered the guidance from Government, and the progression of a devolution arrangement for Devon and Torbay, the upper tier authorities within Somerset, Devon, Torbay and Plymouth agreed for LEP functions to transfer to each of the Councils and to develop and submit a single integration plan. Whilst functions would transfer to each authority, the Councils will continue to collaborate building on the strong working relationships held to ensure functions are delivered across an appropriate functional economic area. All Councils have existing economic departments and can align LEP functions alongside these Services.

The plan has been approved by Government, subject to the approval from the four Council's, and has been presented to the HOTSWLEP Board. An agreement between the local authority partners has been drafted to underpin the Integration Plan which deals with operational implementation and sets out the principles of collaboration across the four council areas.

The partners have worked with the LEP Executive, Board and government officials to draft a compliant plan in accordance with the guidance given. The attached plan provides for a collaborative and smooth transition, within the timetable set down by Government whilst recognising some of the complexity of moving to a different delivery structure. It also recognises the development of a devolution arrangement in only part of the area. As significant partners within the LEP and already operating several of its functions, programmes and activities, the teams within the four local authorities are well placed to ensure continuity of contracts and that momentum is maintained. The partners, the LEP and its Accountable Body have worked through current LEP commitments and contracts, supporting the continuation of several valued programmes and activities, and aligning these with local authority priorities.

4.2 LEP Functions to transfer

The Plan covers the following core functions as defined by Government and which will transfer on 1st April:

- Business Voice
- Economic Strategy including Intelligence and Evidence
- Government Directed Programmes

In addition the LEP Board has developed other significant projects and programmes and these will also transfer.

The business voice will continue through the establishment of Economic Growth Boards in the local authority areas. In Devon it is proposed to work with Torbay to set up a Business Council to act as the Economic Growth Board for the two local authorities and be part of the shadow governance arrangements to support the creation of the CCA. It will work and engage with the existing Growth Board in Plymouth and alongside new arrangements being established in Somerset. The private sector

Board Members who sit on the LEP Board have all been recruited for their skills and expertise through an open process. They have played a key role in guiding the LEP and its achievements and it is hoped that these individuals would consider continuing to work with the local authorities through these Boards/Business Council.

The remit of the Growth Board in Plymouth, which has been operational for over 10 years will be expanded to include:

- shape and support an economic evidence base and provide insight to underpin Economic Strategies and setting of growth / sector priorities.
- have oversight of the development, and implementation, of Economic Strategies, including sector development activities
- have an overview of monitoring, and reporting, of LEP legacy projects and programmes – including capital schemes, business support and digital skills, supporting accountability and reporting into Government.
- provide peer support and networking across the four local geographies with the Boards collectively meeting regularly to discuss regional matters.

In terms of economic strategy, work will be undertaken to support a new economic strategy for Plymouth building on current economic plans and the LEP's Build Back Better Strategy. Priorities set out in the Local Industrial Strategy will also be revisited and updated considering new and emerging opportunities. This will be a two-stage approach:

- The economic strategy overview – March 2024
- A public and private sector pipeline of investment opportunities – September 2024

The current economic performance, challenges and global context will form the basis of setting a new evidence business, alongside business insights from across the business sector and consideration of national policy. The economic strategy and planning will be guided by the Plymouth Growth Board with the establishment of designated champions for each of the four pillars from Cabinet and the Growth Board. A separate decision paper will be presented to Cabinet in March, which will detail the Plan for Economic Growth and role of the Growth Board.

HOTSWLEP is currently responsible for key functions directed and funded by Government. These include the HOTSW Growth Hub and Careers Hub. Both of these services are delivered by Devon County Council under a contract from Somerset Council.

In the case of the Careers Hub this is delivered for Devon, Plymouth and Torbay, with Somerset operating its own Careers Hub. Devon County Council already employs the staff delivering these services. As set out in the Integration Plan the current arrangements are proposed to continue for the duration of the committed funding to deliver a seamless set of services. Included within this will be working together to secure further and extended national funding.

The LEP has commissioned several business support and skills programmes that will continue beyond March 2024. Plymouth will continue to work with Devon, Torbay and where appropriate Somerset to deliver these programmes, regardless of devolution arrangements. These programmes include a Digital Business Support Programme and a Digital Skills Programme. Devon County Council is delivering these contracts across the HOTSW area and has funding agreements in place with Somerset Council. As set out in the Integration Plan these will continue under the current arrangements, with performance and monitoring of these contracts being undertaken by the Growth Boards and shadow Business Council.

There are several sector support programmes being delivered by the LEP via local authority partners. These include:

- Marine sector
- Food and Farming sector
- Aerospace and Aviation sector
- Nuclear sector
- Clean Growth sectors

The local authority partners are developing a position on each of these which will be set out as part of the local authority agreement by the end of March and considering sufficient residual LEP funding being available. Staff employed by local authority partners or through the LEP are being engaged by their employer as part of this process.

5) PROPOSED APPROACH TO TRANSFER OF LEP ASSETS AND RESOURCES.

The current residual LEP revenue funding and assets are being finalised by the Somerset Council as Accountable Body. These resources will include cash reserves, interest, loans repayments, charges on buildings and shares in South West Mutual. The local authority partners have developed an approach to agree the distribution of residual revenue in proportion to the number of businesses within each area using the IDBR database. This provides the following allocation: 52% Devon, 33% Somerset, 8.5% Plymouth and 5.5% Torbay. These sums will support the continuation and delivery of LEP functions.

There are several capital schemes that will complete after March 2024 which have been funded from the Local Growth Fund and Getting Build Funds capital grants programme and from the Growing Places Fund which in the main operates as a loan fund. It is proposed that each local authority will be responsible for any capital scheme being delivered within their area and grant and loan contracts are novated accordingly.

The distribution of any capital sums unallocated will be distributed in a fair and equitable way between local authority partners. Once the assets and revenue sums have been finalised (by the end of March 2024) the authority partners will set this out in an agreement. Any funds transferred will be placed in a ringfenced fund to support the delivery of economic development in Plymouth

Plymouth University employs the core LEP team and local authority partners employ staff to deliver Government directed services, and LEP programmes. Each employer is taking their own HR advice in respect of staffing impacts resulting from the transfer of functions and is engaging with their employees within their HR policies and practices.

6) NEXT STEPS

Milestones to prepare for the transition of functions is set out in the proposed Integration Plan. The key next steps are:

February	<ul style="list-style-type: none"> • Budget implications (based on balance sheet forecasts and assets list) will be considered and incorporated into Local Authority budget management processes. This will require confirmation from Government on funding. • Local Authority Cabinet decisions will be taken to accept the transfer of assets and functions. • Continuation of communication with projects, contractors and key stakeholders outlining end date of funding/contracts and continuity arrangements as appropriate. • Economic Growth Boards / Shadow Business Council developed. • Local Authority Officer Group operational with Agreements on operational implementation and asset allocation developed. • Accountable Body to confirm end of contracts and Service Level Agreements; confirm continuity arrangements for legacy programme management and Accountable Body services as appropriate. • Celebratory event of LEP achievements.
March	<ul style="list-style-type: none"> • Closure of ceased functions including website and social media. • Functions and activities will transfer to appropriate upper tier local authorities by 31 March 2024 underpinned by local authority agreements.
April/May	<ul style="list-style-type: none"> • Accountable Body to confirm end of year financial outturn and transfer outstanding legacy funding. • Completion of returns and assurances to Government, as appropriate. • Continuation of PMO function for monitoring and reporting against investment programmes as appropriate. • Continuation of relevant Accountable Body functions. • Review process for submitting business case for ongoing Growth Hub funding.

7) CONSULTATIONS

The LEP Executive and Board have had opportunities to comment on the Integration Plan and proposals from the local authority partners. Government officials have also been engaged in the development of the process and the Joint Scrutiny Committee have received updates and have offered comments to the LEP executive. The Integration Plans and guidance from government have been produced after periods of review and national engagement with the LEP Network, local authorities, devolved administrations and others, which HOTSWLEP Chief Executive and Chair have participated in.

8) OPTIONS / ALTERNATIVES

The following options were considered by the Council and its partners to support the integration of LEP functions as directed by government:

- a) Retain the LEP until devolution arrangements are in place across the area.
This option was not considered viable given that there are different devolution arrangements moving forward at different timescales across the Heart of the South West area. This would create a staggered integration process creating uncertainty for businesses, staff and local authorities. This would also not meet the intentions set out by Government in its guidance. Further the process and timescales for the devolution proposals in Devon and Torbay

remain subject to consultation, Council sign off and legal processes. The current timescales could therefore slip leaving uncertainty for staff, contractors and local authority partners.

- b) Transfer the functions to one local authority partner to deliver on behalf of all four partners. This option was discounted as it would not support the Devon and Torbay devolution arrangement and proposals emerging in Somerset. Meeting the criteria of a functional economic area was also set out by government, and broadly Devon and Somerset can be considered functional areas, with blurred boundaries. The recommended approach recognises local variations across the two broad functional economic areas and provides the opportunities of collaboration and generating economies of scale. It also supports the whole area move forward with devolution at separate timescales.

9) FINANCIAL CONSIDERATIONS

Agreement on the transfer of assets and resources is under development by the Council and its local authority partners. **The principle of the agreement is that no local authority is placed at a disadvantage and that no additional costs or financial burdens are taken on by any local authority partner. A fair and equal distributions of assets to support the delivery and implementation of the Integration Plan is proposed.**

The current estimate is that there will be sufficient revenue residual revenue funding to support the continuation of the directed Government services, namely the Growth Hub and Careers Hub up to their current contract terms. The partners will work together to secure ongoing resources for the HOTSW Growth Hub and enter into a new agreement for the delivery of this Service with the County Council once funding is secured.

The current contracts that the Council is delivering for the LEP under contract with Somerset Council are fully funded for their duration. Any decision to continue with these programmes beyond their current terms will require additional funding from externally funded sources.

The proposal includes bidding for Government funding to support the integration and transfer of LEP assets. Currently there is no information on the timescales or requirements to apply through submitting a business case. Devon would qualify with a population of over 500,000 and it is proposed to do so in partnership with Plymouth and Torbay. This would offset transitional cost, including legal and financial support, transferring web-based services and setting up ongoing monitoring and reviews with DLUH.

There may be redundancy costs for some current members of the LEP staffing complement. Any such costs once known will be netted off from the revenue funding held by Somerset Council before the distribution of remaining funds to each partner under the agreed allocation methodology.

The distribution of any funds or assets from the HOTSW LEP will be ringfenced for economic development.

10) LEGAL CONSIDERATIONS

Legal advice was taken by Somerset Council on behalf of the local authority partners and the LEP. This has supported the approach to asset ownership and the approach to asset transfer.

There are a number of funding agreements between the accountable body and government, and with recipients of contracts and grant and loan agreements. There is work required to novate these to the receiving local authority and legal costs will be funded from the LEP legacy budgets to support this completing smoothly and in time for the transfer date of 1st April 2024. A number of contractual arrangements will continue as currently proposed and reducing the number of agreements that need to be amended.

HR advice has been undertaken by each employing authority. The proposed transfer of functions is not impacting on any staff employed by Plymouth City Council and Plymouth University has determined that there is no TUPE applied to the core staff that they employ based on the Integration Plan.

The regulator for the Community Interest Companies has been informed of the proposed approach.

The Joint Scrutiny committee that oversees the work of the LEP is proposed to stand down by the end of March. There will be ongoing assurance and monitoring of the LEPs funded capital programme by DLUCh and each local authority will be responsible for the reporting and monitoring information and attending compliance and annual conversations with DLUCh as necessary.

11) ENVIRONMENTAL IMPACT CONSIDERATIONS (INCLUDING CLIMATE CHANGE, SUSTAINABILITY AND SOCIO-ECONOMIC)

The integration of LEP functions is not deemed to have any environmental impacts. The work of the LEP has supported a number of net zero and sustainable programmes including skills, infrastructure and business support programmes. The proposal is to continue these programmes that remain live and contribute to a range of net zero outputs and outcomes. completed projects will also be monitored for the duration of funding agreements to ensure that all environmental impacts are monitored.

12) EQUALITY CONSIDERATIONS

An Equality Impact Assessment is being prepared as part of the completion of the Integration Plan and is a requirement from Government to complete the process.

13) RISK MANAGEMENT CONSIDERATIONS

A Risk Register has been produced for the Project.