

Report to: **Audit and Best Value Scrutiny Committee**

Date: **10 November 2010**

Title of report: **The current and evolving landscape of economic development in East Sussex**

By: **Director of Governance and Community Services**

Purpose of report: **To update Members on the current and evolving economic development landscape.**

RECOMMENDATION – The Committee is asked to note the report, in particular the role of the Council in economic development, the latest position on Local Enterprise Partnerships, the recent publication of the Local Economic Growth White Paper and the main proposed funding stream options it contains.

1. Financial Appraisal

1.1 There are no direct financial implications arising from this report

2. Background

2.1 At the Scrutiny Committee meeting of the 1st September 2010 Members requested a paper on the current and evolving landscape of economic development in East Sussex. In particular, it was requested that this focus on three specific areas:-

- Who is 'in the driving seat' for economic development in East Sussex.
- Sources of funding that are likely to be available and the mechanisms being put in place to access them.
- An update on the evolution of the LEP (Local Economic Partnership) and its bid for resources.

3. Context

3.1 The landscape for economic development activity has shifted considerably over the course of the last 6 months and the attached paper (appendix A) sets out the role of the County Council in economic development. It also sets out the principle sources of funding for economic development, as set out in the recently published Local Economic Growth White Paper.

3.2 As Members will be aware, all local authorities under the Local Government Act 2000 have the power to do anything to support the economic, social and environmental well-being of their area. In reality, there is no single organisation in the driving seat for economic development in East Sussex as there are a number of organisations that have a legitimate interest in this important area; these include the Borough and District Councils, Highways Agency, Further and Higher Education, schools, the Homes and Communities Agency, Business Link, Skills Funding Agency and Chambers of Commerce to name but a few. In any event, any successful activity is likely to involve at the least one other partner.

3.3 The County Council is, however, the only authority in East Sussex that has the statutory duty to undertake a Local Economic Assessment (LEA). In undertaking this duty we

also have a duty to consult and District and Borough's have a duty to co-operate in the production of the LEA. There was, until recently, prescribed Government guidance for the production of the LEA, however with the advent of the Coalition Government this was recently abolished although the statutory duty remains for upper-tier authorities.

3.4 District and Borough Councils have a fundamental role in setting the land use policies which are essential to the economic well-being of their localities and the county as a whole, allocating land for housing and business use. Similarly, the County Council, through its Minerals and Waste Plan and Local Transport Plan, has an important strategic role in relation to economic development in the county.

3.5 Currently the task of setting out the overall strategy for Economic Development for the county of East Sussex rests with the East Sussex Strategic Partnership. However, the new Local Enterprise Partnership approach is intended to cover the strategy for economic development so this is likely to change shortly. The LEA is the underpinning evidence base in support of the economic development strategy and work has been underway for some time in relation to the LEA with a draft to be published shortly for formal consultation.

4. LEP Position

4.1 Since submitting the LEP bids, government thinking has developed with discussions between Ministers leading to a view that LEPs of the right scale could become useful vehicles for further devolution of some functions. It is in this context that a revised submission was put to Ministers advocating a LEP covering East Sussex, Greater Essex and Kent. As Members will now know this was successful with the LEP being one of the first to be announced by the Government.

5. Conclusion

5.1 Members will wish to note that while writing this report a decision on LEPs across England and the White Paper 'Local Growth: realising every place's potential' were only announced and published on the 28th October. This aptly illustrates how quickly the landscape for economic development is evolving, and that there will be a need, as the implications of the LEP, the CSR and the White Paper become clearer to review and adjust the activity to ensure continued benefit to East Sussex.

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Background papers
None

Appendix A

**EAST SUSSEX COUNTY COUNCIL
DELIVERING A PROSPEROUS COUNTY**

Context

Local

1. At the last Cabinet meeting, Cabinet approved a revised East Sussex promise, namely that:-

“We will, in partnership, make the best use of resources to:

- help make East Sussex prosperous and safe
- support the most vulnerable people
- improve and develop roads and infrastructure
- encourage personal and community responsibility
- deliver the lowest possible council tax
- be a voice for East Sussex, listening and answering to local people”

2. This is supported by a specific policy steer in Councillor Jones’ portfolio to:-

- Raise the prosperity of East Sussex through a sharp focus on employment, skills and infrastructure

3. It is within this local context, and the clear importance given to economic prosperity, that this paper is framed.

National

4. In the national context, the Local Government Act of 2000 created for the first time the power for local authorities to promote the economic, social and environmental well-being of their areas. This is often referred to as the ‘*power of first resort*’ and central government expects local authorities to use their community leadership role to the full in managing their locality. Economic development is seen by central government as a key area of activity for local government.

5. This drive has been further enhanced through the new statutory duty to produce a Local Economic Assessment (LEA) and the new mechanism partly to replace Regional Development Agencies, Local Economic Partnerships.

6. The new White paper notes that in addition a ‘Localism Bill’ will be published shortly that will provide a general power of competence for local authorities giving them the freedom ‘to act in the interest of local communities’.

East Sussex

7. The East Sussex Strategic Partnership (ESSP), the County wide Local Strategic Partnership (LSP) reflects the importance of this area in one of its three key objectives “making East Sussex a place to prosper”. It also currently has the responsibility for taking forward the new economic development strategy for East Sussex. However, this is now likely to change and shift to the newly created LEPs.

The County Council

Core Vision

8. The Council Plan of the Council articulates the key objective for our economic development activities as being:
 - “Raise the prosperity of East Sussex through a sharp focus on employment, skills and infrastructure”
9. To achieve this aim involves not only the work of the Strategic Economic Development & Skills team (SEDS: 4.8 FTEs) based in Governance & Community Services Department but it must also embrace the role and functions of the whole County Council. The County Council will only be able to deliver on its economic agenda if everyone within the Council plays their role in securing the council objective in their particular area, and appropriate partners also work in support of the jointly relevant objectives in their areas of work. The three key economic development priorities of the current administration of geographic focus, are:-
 - Hastings & Bexhill
 - Newhaven
 - Eastbourne/south Wealden
10. Beyond these key area priorities, it is important to articulate the thematic economic issues that are facing the County (for example skills levels, lack of appropriate and sufficient business accommodation) and what the role of the County should be in relation to those issues.
11. Members support for increasing prosperity is strong across the whole Council. As well as the key strategic partnership such as the Task Force focussed on Hastings and Bexhill, and the Adult Learning and Skills Partnership Board, local regeneration partnerships have an important role in focussing activity on a small geographical area. Members have historically been actively engaged in such partnerships. Such Partnerships are not, however, a strategic economic priority for the County Council and Members participate, or not, on the basis of their desire to contribute in their community leadership role.

Economic Evidence Base

12. Our work to try to create a more prosperous economy must be based on strong evidence. The County Council has a long and strong history of providing a strong evidence base through its Annual Business Survey and Economic Study setting out the key issues facing the County and its localities. This has now been further enhanced through the production of the LEA. The purpose of all this work is to inform, influence and facilitate the actions of partners to ensure that the key economic priorities identified by the work are addressed.
13. This work has historically suggested that there are four key areas that need to be addressed in order for the economy of East Sussex to prosper:-
 - Enterprise and productivity (Gross Value Added)

- Employment
- Infrastructure
- Skills Levels

County Council Role

14. In East Sussex we have developed a very focused approach based upon sound research, are engaged in key strategic partnerships and activities that include securing external funds and aiding investment in infrastructure.

15. Bringing all this together, it is proposed that there are 6 clear roles for ESCC:

- Information/evidence – providing the baseline data and evidence to ensure activities are built on a sound understanding of the needs of the East Sussex economy and business.
- Influencing, enabling and facilitating others to undertake activity that meets the economic needs of the County– for example the Further Education sector to become more responsive to business needs in relation to training. There is a very clear role here, in the context of the emerging Local Development Framework's, for a strong influencing role in ensuring that second tier authorities allocate sufficient developable land for economic needs, as well as housing needs. This is also the case with the future development of new European Union funded programmes, in particular the successor to the existing Interreg programme. Finally, in relation to tourism, whilst this is led in East Sussex by the Districts and Boroughs, East Sussex does have a role to play at a strategic level in ensuring cross border working is encouraged to maximise the effectiveness of existing resources.
- Direct Delivery – children's services, adult social care, transport & environment. For example, our work to raise educational and skill attainment and the Children's Trust work is core to developing a better local workforce. Ensuring IT skills is critical to economic well being, in order to avoid adults of the future becoming increasingly marginalised, The development of Enterprise and Entrepreneurship through Key stage 4, the academies programmes and the development of the 14-19 strategy are also important areas for the future economic well-being of the County.

In terms of Adult Social Care (ASC), health and social care are major employers within the East Sussex economy. In support of our activities, this has already been identified as a key skills development area. This will ensure that companies and organisations from which we commission services have the requisite skills to deliver a quality service for our residents, supporting the workforce development in this sector that is a key requirement for ASC.

Transport & Environment has a huge role to play in delivering a prosperous County, not just in terms of its strategic planning function, highways, waste management, but also in terms of its management of

key natural resources (rights of way, wetlands, etc), that are fundamental to the fabric of the County wide tourism offer.

The County Council is itself a major employer, employing in excess of 15,000 people, many of whom live and spend locally. The County Council itself has a significant budget at its disposal that has direct impact on the East Sussex Economy. This is particularly the case through the procurement of goods and services.

- Reputation management – not just of the County Council but of the County as a place to do business in and with. The recent decision of SAGA to locate in Hastings is a resounding success story that will need to be capitalised on. An important factor here is when we decide not to engage in an activity, that we manage the reputational impact of that decision.
 - Community leadership – e.g. PSA/LAA/Broadband East Sussex – intervening where there is a critical gap that it not being filled/cannot be filled by others
 - Lobbying – The economic performance of East Sussex, its dependence on the public sector for employment, allied with the financial settlements historically provided through the central Government allocation of resources, all lead to the need to ensure that we are robust in lobbying and making the case for increased investment and support for the County, both locally to residents, regionally, nationally, internationally and via the EU Commission.
16. The County Council has limited capacity but a great deal of ambition in relation to economic development and it will be imperative that we continue to focus our limited resources accordingly. The four key areas highlighted from the economic evidence base (para 13) provide that focus and will allow the County Council to help shape the delivery of others to ensure that their resources are focused on these priority areas as well.
17. Having clear, evidenced priorities yet with limited resources inevitably means that not all demand can be met. It is also clear that in times of constrained resources we need to ensure that our capacity can meet our ambitions. We are clear that the risk of not identifying those key things that need to be done means potentially diluting the effectiveness and impact of the limited resources at our disposal.

Appendix B

White Paper 'Local Growth: realising every place's potential'

Summary:

1. The government's economic ambition as outlined in the White Paper is to create a fairer and more balanced economy – with less dependency on a narrow range of economic sectors. This change is to be driven by private sector growth with new more balanced business opportunities. The government states that all parts of the country will benefit from sustainable economic growth. The White Paper sets out how the Government intends to put businesses and local communities more 'in charge of their own futures', give greater incentives for local growth and change the way central government supports and maintains growth.

2. The Paper focuses on three key themes:

➤ Shifting power to local communities and businesses –

In recognition that every place has potential to progress, localities should lead their own development to release their economic potential through local authorities, local businesses and others. This new approach will enable places to tailor their approach to their circumstances.

➤ Promoting efficient and dynamic markets and increasing confidence to invest

The government intends to create the right conditions for growth and prosperity and allow markets to work within a consistent and efficient investment framework. The right planning framework is seen as a key component to this, and there are plans to reform the planning system accordingly.

➤ Focused investment

The Government will support investment that will have a long term impact on growth. Places that are currently successful may prioritise activity to maximise further growth by removing barriers, such as infrastructure constraints, in other areas the priorities might include ensuring that the conditions for growth exist, attracting new investment and ensuring that local people have the appropriate skills and incentives to participate.

3. The role seen for local authorities in supporting this growth includes:

➤ leadership and coordination – using the community leadership role and planning powers to set out a clear framework for local development;

➤ supporting growth and development through ensuring a responsive supply of land that supports business growth and increases housing supply;

➤ using the land assets to leverage private funding to support growth;

➤ directly and indirectly influencing investment decisions via the use of statutory powers, particularly through the planning system;

➤ supporting local infrastructure – transport investment, in particular, as a key enabler of growth;

- support for local people and businesses, including regeneration, business support and employment programmes, working with nationally led schemes;
- providing high quality services, such as schools and transport, that directly support businesses' investment confidence and individuals' life chances;
- keep markets fair by maintaining trading standards and provide wider services and investment that increase the attractiveness of an area; and
- leading efforts to support and improve the health and well-being of the local population to ensure that all individuals have the maximum opportunity to benefit from work and to contribute to the local economy.

Local Enterprise Partnerships

4. In June the government invited businesses and councils to come together to form local enterprise partnerships (LEPs) whose geography properly reflected the natural economic areas. The government's stated intention is to have LEPs which understand their economy and are directly accountable to local people and local businesses. To this end the partnerships are to be business led. Government announced 28th October that the East Sussex, Greater Essex and Kent LEP is amongst the first of the 25 LEPs to be agreed.

5. The White Paper is not prescriptive in terms of LEP roles; however it notes that government will particularly encourage partnerships working in respect to transport, housing and planning as part of an integrated approach to growth and infrastructure delivery. Roles may include:
 - working with government to set out key investment priorities, including transport infrastructure and supporting or coordinating project delivery;
 - coordinating proposals or bidding directly for the Regional Growth Fund (see below);
 - supporting high growth businesses;
 - making representation on the development of national planning policy and ensuring business is involved in the development and consideration of strategic planning applications;
 - lead changes in how businesses are regulated locally;
 - strategic housing delivery, including pooling and aligning funding streams to support this;
 - working with local employers, Jobcentre Plus and learning providers to help local workless people into jobs;
 - coordinating approaches to leveraging funding from the private sector;
 - exploring opportunities for developing financial and non-financial incentives on renewable energy projects; and
 - involvement in delivery of other national priorities such as digital infrastructure.

6. It is very early days in respect of the new LEP and (further) discussion will need to take place on a number of fronts including governance and

representation, support structures, work streams, overarching objectives and the business plan. Clearly, it will be important within this that the needs of the East Sussex economy are properly represented and understood.

Funding Streams

7. The White Paper suggests that leveraging in private sector investment must be a consideration to obtain best value for any public sector investment, and proposes funding avenues that will support this way of working:

The Regional Growth Fund:

8. The Regional Growth Fund (RGF) is new and will be the main enabling fund over the next 3 years. At £1.4b over three rounds, comprising capital (£580m) and revenue (£840m), it will be used to encourage private sector enterprise, create sustainable private sector jobs and help places currently reliant upon the public sector make the transition to sustainable private sector led growth and jobs.
9. The White Paper announced that the first round for the RGF is now open with a closing date of 21 January. Partners in East Sussex had already started the development of an East Sussex RGF bid involving a 'package' of projects. To aid bid development two groups were set up; one working on the process and content aspects of the bid and the other set up by the East Sussex Chief Executives group to maintain strategic oversight. The White paper gave the additional information and criteria required to further progress bid development.
10. What can be included within the bid is however limited by the following:
 - the need to accrue 'significant' private sector leverage; this is much more difficult to achieve via revenue than capital - and in the case of East Sussex this is difficult to achieve even with capital.
 - projects must be completed within the RGF timeframe (by 2013/14)
 - bids must demonstrate they will create significant private sector growth and private sector job creation.
11. Led by SeaSpace, a tender has been issued to bring on board specialist consultants to write, and importantly, assess the bid under the Treasury Green Book appraisal system as this is the key element in terms of how bids will be assessed. The actual bid cannot be led by the public sector but by the private sector or by a private/ public partnership or a LEP; where a LEP exists it is expected that the LEP, where not the lead bidder, will comment on the appropriateness of the bid. The East Sussex bid is likely to be led by SeaSpace (as a private sector organisation) in partnership with the local authorities and other key public and private sector organisations.
12. The East Sussex bid is very much in the development stage, and new criteria detailed in the White Paper mean that some rethinking may need to be done. To date the capital elements of the bid are likely to be in

support of further work in Hastings via SeaSpace and progression of the Sovereign Harbour development, other elements are also being developed.

13. The decision on successful bids, expected in the spring, will be by Ministers however there will be an advisory panel chaired by Lord Heseltine. It should be noted that the principle aim of the fund is to address the public sector/private sector imbalance in those parts of the country where it is overly reliant on the public sector. There has, and continues to be, a great emphasis placed on the needs of the North East and North West in this regard but similar arguments can be, and will be, made about the needs of East Sussex.

European Funds:

14. The European Regional Development Fund (ERDF) provides match funding for economic development. The overall ERDF allocation for programmes within England over 2007-13 is some £2.8 billion, to be spent by end 2015. The government is currently working on new delivery structures to replace delivery of the fund by the RDAs. Alignment of the Regional Growth Fund (see below) with ERDF, where the aims of bids are eligible for support from both Funds will be encouraged.

15. The EU Budget for the next programming period (2014-2020) was [adopted](#) on the 19th October and gives overall figures for the whole EU. Details for individual Member States will be given in May/June 2011. Depending on the Commission's requirements in the next programming period, Member States will need to focus their financial allocations on 2 or 3 priorities (or more if more deprived). A focus on 'Innovation' will be compulsory. There will be three layers of programmes:

- Community (all funds together)
- Investment and partnerships (at national level)
- Operational Programmes (usually 'regional')

16. Information from the Department for Communities and Local Government (CLG) suggests that discussions are ongoing on how EU funds could support national priorities, through supporting enterprise, innovation and giving more autonomy to local government. CLG are looking at LEPs and their potential future role in managing EU funds and the Local Government Association is central in these discussions.

The New Homes Bonus

17. The White Paper suggests that the current local government finance system does not provide the right incentive or rewards for councils to build new homes as little of the economic gain from new development is captured by the local community. A particular issue is that any increases in a local authority's council tax base are reflected in its formula grant allocation, thereby reducing the financial return from new homes.

18. Starting in 2011-12 the scheme will match fund the additional council tax for each new home and property brought back into use, for each of the six years after that home is built. Central government will help establish the scheme with support of £196 million in the first year and £250 million for each of the following three years. A consultation will shortly be published setting out the government's proposed model for implementation and it is important to note that there is, therefore, little detailed information as to how this will work in practice and in particular its implication in two-tier areas.

Business Increase Bonus Scheme/retention of business rates

19. The government has been developing proposals for a Business Increase Bonus scheme to reward those authorities where growth in the business rates yield exceeds a threshold by allowing them to keep the increase – up to a certain level. As the Spending Review has progressed however, the government has also been examining other options including enabling councils to retain locally-raised business rates.

20. This would go further than the Business Increase Bonus scheme, with, from a Government perspective, incentive effects likely to be stronger and more predictable over longer time periods. The Government considers that changing the system to allow retention of business rates would mean that many local councils' would be set free from dependency on central funding. There is little detail in the White paper on this proposal and this will be further explored in the government's 'Local Government Resource Review' to be launched in January following consultation on relevant proposals within the White Paper.

Tax Increment Finance

21. The Government announced that it will introduce new borrowing powers to enable authorities to carry out Tax Increment Financing (TIF), which will require legislation. The Government view is that in determining the affordability of borrowing for capital purposes, local authorities take account of their current income streams and forecast future income and that this does not factor in the full benefit of growth in local business rates income.

22. The Government believe that TIF will enable authorities to borrow against future anticipated additional uplift within their business rates base. Councils can use that borrowing to fund key infrastructure and other capital projects, which will further support locally driven economic development and growth. The costs and risk of this borrowing will need to be managed alongside wider borrowing under the prudential code. Depending on responses, in particular the retention of locally raised business rates, the government anticipates that TIF would, at least initially, be introduced through a bid-based process. How and if TIF would be applicable to the County Council will require further investigation and will include the need to understand relevant changes to be proposed under the Local Government Resource Review.

The Business Growth Fund

23. The Business Finance Taskforce announced 13 October that it would be establishing a bank equity fund to help ensure better business access to finance. The 'Business Growth Fund' will be £1.5 billion, built over a number of years, to provide capital for viable businesses which want to invest and grow. It is expected that the Regional Growth Fund will be used to complement the Business Growth Fund as the position on bank equity develops.

Other support changes

- The creation of a UK-wide Green Investment Bank that will be capitalised with a £1 billion spending allocation and additional proceeds from the sale of Government-owned assets. It will be used to catalyse significant additional investment in green infrastructure.
 - £200 million a year by 2014-15 to support manufacturing and business development, with a focus on supporting potential high growth companies and the commercialisation of technologies.
 - The New Enterprise Allowance scheme will give an unemployed person entering self-employment specific support. This will include Job Seekers Allowance equivalent for up to six months and mentoring and access to loan finance of up to £1,000. The aim is to support the creation of 10,000 new businesses. The government is also working with mentoring organisations, business groups and banks to develop and implement a national business mentoring strategy to increase awareness and access to business-to-business mentoring.
 - The establishment of 'growth hubs' which will provide access to specialist advice, coaching and mentoring to firms with high growth potential. Growth hubs will bring together firms with high growth potential with finance and equity networks and other professional and knowledge services. Growth hubs will work closely with Technology and Innovation Centres (see below). In order to target firms that have the greatest potential for growth, growth hubs will need to be delivered by specialist business support providers operating across the areas covered by LEPs.
 - A network of Technology and Innovation Centres will also be established; these would complement existing institutions and focus on where the UK already holds a technological lead with good market opportunities. The Technology Strategy Board would oversee their creation, management and long-term funding. LEPs will be given opportunities to make proposals in relation to other innovation infrastructure in which RDAs had a financial stake.
24. The government will shortly be setting out its skills strategy and response to its recent skills consultation. Within this, a refocused network of business-led Sector Skills Councils and National Skills Academies will work with employers to ensure skills provision is tailored to employers'

needs, and that learners have timely and relevant information to make career choices.

25. The government's approach to policies for growing the green economy will be based on the following elements:

- low carbon and green innovation, including strategic central investment for example in relation to research;
- green infrastructure – LEPs will need to consider what local infrastructure issues they can address to enable growth in this area, for example ports infrastructure (for renewable energy manufacture);
- stimulation of supply chains; the government will look to provide LEPs and industry with information and support to ensure that businesses throughout the country are made aware of emerging business opportunities.
- green Low Carbon Clusters – it will be for LEPs to make the most of their areas of strength or comparative advantage. To include a co-ordinating role, bringing together industry with local partners such as skills bodies, planning, and business.

26. Government will also invest in measures to address market failure in capital markets – debt and equity markets for growing SMEs. As this is a national market failure, and as equity funds and debt instruments need to have a significant size and expert management to attract investors and provide value for money, this activity will be led and managed at national level – whilst ensuring that interventions are available in every part of the country.

27. Broadband Delivery UK is leading a national programme to deliver the best superfast broadband network in Europe by 2015, ensuring at the same time that virtually everybody has access to a decent level of broadband connectivity. There could be a role for LEPs to provide local leadership of projects and interventions working in close partnership with communities and local agencies as well as with the private sector.