

D2N2 Annual Conversation 2017

Location: Derbyshire County Council, Matlock

Date: 29/11/17

Time: 10:00am

Attendees:

Cities and Local Growth Unit

Tony Bray (TB)	-	Director Cities and Local Growth Unit West Midlands and South West (Chair)
Justin Homer (JH)	-	Cities and Local Growth Unit, EMSEM
Vicky Wheelwright (VW)	-	Cities and Local Growth Unit, EMSEM
Louise Clare (LC)	-	Area Lead, Midlands and South West Team, DfT
Rachel Dickenson (RD)	-	Private Sector Growth Policy Team, DCLG

D2N2 LEP

Peter Richardson OBE (PR)	-	LEP Chair
David Ralph (DR)	-	LEP Chief Executive
Cllr Barry Lewis (BL)	-	Leader, Derbyshire County Council & Chair, D2N2 Infrastructure & Investment Board
Matthew Wheatley (MW)	-	Growth Plan Manager and ESIF Lead
Kevin Hopkinson (KH)	-	Project Manager
Sajeeda Rose (SR)	-	Senior Manager, Growth Deals & Capital Prog.
Tom Goshawk (TG)	-	Capital Projects Manager

Accountable Body Section 151 officers

Peter Handford (PH)	-	Derbyshire County Council (s151, LGF)
Laura Pattman (LP)	-	Nottingham City Council (s151/GPZ and EZ A.B.)
Mark Taylor (MT)	-	Derby City Council (s151/LEP Core Funding A.B.)

WELCOME AND INTRODUCTIONS

TB – Welcomed everyone and acknowledged the importance of the Annual Conversation. He also emphasised the importance of LEPs and how they function in the context of recent Industrial Strategy announcements. The particular importance of accountability, transparency and scrutiny was also highlighted; drawing attention to the recent Ney review and recommendations, and how important it was for LEPs to take action on these.

It is important for Ministers to be assured that the LEPs are the right model going forward to administer and lead on growth strategy and funding; and it was also emphasised that the Annual Conversation was a two-way process, providing the LEP an opportunity to raise issues for Government to consider further.

PR – provided an opening statement from the LEP, noted that, following the 2017 annual conversation, it had taken steps to be a more robust organisation, with

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strengthened governance. This is reflected in the broader attendance at this years' annual conversation, including the section 151 officers from each Accountable Body and the Chair of the Infrastructure and Investment Board (IIB). The LEP understood the need to ensure new board members received the required training and context to fulfil their roles and behave in line with the Nolan Principles. David Ralph (DR) had also put in place a strengthened executive function over the last 12 months, which demonstrates a stronger focus on outcomes and delivery.

BL – Welcomed all attendees to Derbyshire and stated how the IIB scrutiny and decision-making processes had been made more robust since he had been appointed as Chair.

DR – Noted that the LEP would make a short presentation on each of the three themes of the Annual Conversation process (i.e. Governance, Delivery and Strategy). He confirmed that the LEP's Annual Conversation response/submission had been discussed at the most recent IIB board and had been circulated to all IIB Board members ahead of the Conversation. He also noted the particular complexities and the diversity of the D2N2 area – as well as its assets, such as three universities, and mix of cities and rural areas.

1. Governance

DR – confirmed that the LEP governance framework, while strengthened over the last year, was in need of further updating in the light of the Ney Review and forthcoming Government guidance.

It was noted that the Joint Leaders Committee had ceased to operate at the decision of local authorities; with particular discussions also taking place on how to take forward the Employment and Skills Board.

DR explained that the financial/delivery responsibility of the LEP has grown to a budget of around £500m, with a constant focus on how best to govern this.

In terms of governance, the LEP had taken the Ney review very seriously and are acting on it. It has an up-to-date local Accountability Framework (AF), with a great deal of work carried out around transparency earlier in the year, which has put us the LEP in a good position. Nevertheless, there is clear recognition that the LEP can do more.

“Buddy” arrangements had been put in place with two other LEPs to review the website changes and to support each other on governance; and the LEP was waiting in particular for further Government guidelines following the Ney report before it confirms its next steps on further strengthening its governance arrangements.

Work had also been undertaken on strengthening decision-making through the IIB, which was now more robust on investment decisions.

On its Local Growth Fund (LGF) programme the LEP felt it had a particularly strong relationship with its Accountable Body (AB), and was working on this with their our two other ABs.

DR noted a strong governance framework for the main LEP Board, in line with the Nolan Principles with emphasis given on declarations around any conflicts of interest.

A recent “away day” workshop held with the Board was also summarised, which had been held to discuss how best to take forward a recent internal Board review, the recommendation of the Ney report, and the references to LEP roles included in the recent Industrial Strategy. This has made clear all Board Members commitment to be an influential, strategic LEP that demonstrated best practice, beyond “compliance”. After the Annual Conversation the LEP will be producing a specific action plan with regard to the Ney recommendations and further refreshing its Assurance framework, once the guidance is published.

Finally, **DR** recognised the issues around conflicts of interest at Board level and the complexities of having 3 ABs. The LEP’s Service Level Agreement (SLA) with Derbyshire County Council as AB for LGF is up for renewal in March 2018, which provided an opportunity to re-examine how best to proceed with the current multiple AB arrangements and possible combination.

The following was raised in discussion, following DR’s presentation:

TB – Asked who takes decisions, overall, for the LEP as this appeared quite difficult to see, with multiple ABs? Is the loss of the Leaders’ Board something that makes the LEPs work more complicated? What is the role of the main LEP Board in the context of the IIB and other structures?

BL – Confirmed there were “D2” and “N2” arrangements in place separately, but emphasised a clear interest in strengthening local authority collaboration at the full LEP geography and suggested further discussions should be held on how either a formal or informal joint capacity could help the LEP interact more effectively with local government.

PR – Emphasised that the LEP Board sets overall strategy and makes the decisions in a final capacity, following recommendations from the other boards/governance structures. It is very much an inclusive board, between private and public sector interests.

PR also recognised the strains that can emerge because of sectoral, political and geographic complexity; and emphasised the role of the Chair to keep this balanced. There is a priority to secure larger private sector firm presences on the Board (the recent appointment of a representative from Rolls Royce was part of this). Though it was noted that the LEP’s previous experience of a large firm appointment to the Board (from Boots) had been mixed – providing increased influence and voice, but alongside the individual struggling to have the capacity to fully engage alongside their company obligations.

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It was also noted that Local Authority Board representatives can also bring their own business/private sector experience and expertise.

DR – Recognised the informal constitution of the LEP, in that it is not legally incorporated, which can add to difficulties. He clarified that the LEP Board makes all decisions apart from those invested in the IIB, which deals with LGF through a scheme of delegation. However the LEP Board can intervene, call-in or indeed be referred on these decisions, as required. The LEP CEX is formally responsible for authorising these decisions with evidence in place that Board decisions have been taken.

DR added that the LEP's commitment to partnership and collaboration has become more difficult without the joint Leaders committee to help communicate their work across LAs. For example, current scrutiny work on the LGF programme could have been better supported through such a joint Leaders structure.

TB – Noted the importance of good relationships between political leaders in the effectiveness of LEPs and this seemed a particular area for the LEP and council Leaders to re-examine.

BL – Confirmed that, in terms of the LEP, all Members were clear on their shared objectives, but acknowledged the potential to further improve political relationships across the area.

PR – Added that the Board clearly recognised that the LEP is part of something bigger. It works to join up the North and South of the county and is determined to be an effective partner in the implementation of Midlands Connect and the Midlands Engine Strategy; driving economic growth and also working to support “left-behind” communities. Recent electoral changes, bringing Cllr Lewis and Cllr Cutts on to the Boards from each of the Counties had strengthened this ambition by adding two new and influential voices. PR also outlined a strong LEP commitment to collaborate with other LEPs and Mayors, including WMCA.

BL – Confirmed that, while all Leaders will want more investment to better their own local area, there is also a clear understanding that they have to work more strategically as a larger geography, and all were fully committed to this.

JH – Raised the issue of current board vacancies, noting that the difficulties in filling these roles had been raised in last year's Conversation. What is the LEP's strategy around the two vacancies?

DR - Outlined the work carried out to strengthen the private sector voice on the LEP and supporting Local Authorities to engage directly with business. . The Industrial Strategy now provides an opportunity to engage potential private sector interests in a more meaningful way and becoming more sector focused.

PR – Added that there is a need to ensure that the LEP has successful business leaders that have influence across networks. The LEP continues to work on this

and to create an economic plan that works across the area, but this is a journey and will take time and investment.

TB – Returned to the issue of the multiple accountable bodies, asking how the LEP received sufficient assurance that this provides coherence across representation, governance, scrutiny and delivery. Does this make the LEP's ability to "blend" programmes more difficult and is there an approach to simplifying this?

DR – Clarified the ACs' roles in providing the compliance function for the LEP, which is where it worked most closely with them. It was acknowledged, however, that the arrangements with 3 ABs was sub-optimal in terms of time/resources and being able to join up programmes. The LEP will re-visit this ahead of the SLA on the LGF Accountable Body (Derbyshire) coming up for renewal in the spring of 2018.

MT and **LP** – Noted the need to balance an accepted level of bureaucracy in working with public funds, with opportunities for simplification which could be achieved by closer working together across the ABs.

PH – Added that, while there were some issues the ABs could work together on, the overall steer on this should come from the Board, which is best placed to see the impacts of separate ABs.

TB - Noted the importance of ABs working closely, and the Board looking at its funding as a more integrated process that supports growth. This would support D2N2 in wanting to be a LEP of best practice, as the area has a critical economy with great potential.

DR – Agreed the need to review the ABs, also noting the challenges of dealing with contracts already in place and associated delivery risks, which would work against a simple consolidation in a single AB in the short term.

Action – LEP to review how the ABs work and how this could be more effective ahead of the SLA renewal/expiry for Derbyshire CC in spring 2018.

JH – On a further part of governance, asked how the was LEP dealing with the EZ conflict of interest, given correspondence with DCLG stretches back to 2015 on this matter; and when this situation would be resolved. Also noting the need for the LEP to look at the transparency around the paperwork following assurances given to DCLG in terms of the main LEP Board making EZ decisions.

DR – Confirmed that all EZ decisions should be clearly referred to the LEP Board, so would work to ensure papers properly reflect this.

PR – Clarified that, from a process perspective, the LEP was committed to providing greater clarity on EZ governance, and to ensure robustness around how discussions are recorded. He confirmed the Board was satisfied that the perceived and direct EZ conflicts of interest were effectively managed, but there was a clear need for these to be appropriately minuted. The Boots EZ issue is complex, and

meetings have taken place with the MD of Boots to confirm commitment and promote progress.

PR stated that he was confident that the Chair of the EZ Steering Group conducted himself appropriately at meetings but had also stated that he would move on from this role at the right time. Hence the LEP was looking at how best to lead the development of the Steering Group following this.

Action - LEP to address the way the Board records decision-making on EZ issues and ensure a transition to a new EZ Steering Group Chair role.

TB – Concluded the Governance discussion by recognising the efforts that D2N2 had made to engage with MPs and Ministers to get them to understand the LEP's work. This was a difficult issue for LEPs across the country, and work should continue on this, particularly following the Industrial Strategy announcements about LEP roles. He also acknowledged the very positive contribution that D2N2 is making to the Midlands Engine and Midlands Connect work, which should be recognised.

Action – The LEP to ensure that MPs are engaged regularly as an ongoing action, with appropriate support where needed from CLoG to do this.

Delivery

KH – Noted that the D2N2 geography was an excellent area for investment, with the M1 corridor and borders to Sheffield, Manchester and the south. It was acknowledged, however, that it also has significant areas of deprivation and a skills shortage issue, and that the LGF programme reflected all of these challenges and opportunities.

The LEP feels LGF has worked very well and the completed projects are starting to deliver outcomes. There is now a robust monitoring process in place that reports to the Boards (LEP and IIB) on a monthly basis. The LEP recognises that they have issues with some of their larger projects; an example of this is the Nottingham City Hub which has been a major delivery risk but is now delivering and showing an impressive turn-around.

As part of the work done around robustness of monitoring, the LEP is confident in turning projects away if they do not meet requirements around outcomes/outputs and delivery.

The LEP has five Enterprise Zone (EZ) sites, all at different stages. The Markham Vale EZ is also in the D2N2 geography, but managed by SCR LEP, which is a strongly performing site from where the LEP is taking lessons and putting them into practice on the other sites to bring them forward.

The Growing Places Fund (GPF) had experienced a slow take-up at the start of the programme, though had now been strengthened.

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Following expansion of its delivery-focused staff the LEP now have a strong team working on delivery and are working closely with their ABs and promoters – offering technical advice at the start of project development to ensure the robustness of business cases from the outset. The LEP holds meetings with the ABs and local authorities regularly to ensure that any issues that arise are clarified and worked-through as soon as possible.

It was noted that the current year has been challenging one for LGF, with a number of large projects having slipped; including the Nottingham City (Skills) Hub where the processes for the two colleges to merge and the land exchange had taken longer than originally anticipated. The A52/Wyvern had also experienced difficulties owing to the number of partners and a Compulsory Purchase Order to contend with, though this was now being resolved by all the stakeholders working jointly.

Reflecting on last year's delivery, the LEP had resolved a large proportion of the identified underspend by bringing forward some robust projects that would deliver within a short time-frame.

The LEP had also undertaken a lot of work around project assessment and have a risk register to monitor this. This register is reported to the IIB, with recommendations for the IIB to consider all high risk projects on a monthly basis; and covers both risks against spend and outputs

It was confirmed that year-end spend will be a challenge, with significant underspend forecast, but the LEP is confident that this can be managed across its wider portfolio with capital flexibilities through the AB. The LEP was giving emphasis to ensuring projects are fully ready at the early stages, before any investment is agreed/made.

In further discussion, following the presentation, the following was raised:

MT – Noted that the Infinity Park project was a key strategic priority (an EZ site and LGF support), but stakeholders were experiencing the impact of Brexit on potential investor confidence, which was also impacting on the outputs profile.

PH – Asked if there was any option, from Government's perspective, for increased, longer-term flexibility/mitigation across the programme?

TB – Stated that LGF is subject to an annual spend profile and this remains the Government position. It is important in this regard for all LEPs to have a robust pipeline that can help mitigate the impacts of spend shortfalls.

DR – Noted that the LEP had been trying to bring forward other projects to support the underspend, however, there were limited possibilities within the current programme.

KH – Provided specific assurances that the City Hub project would now spend its profiled allocation this year, reducing some of the further underspend risk.

DR - Asked for clarification over whether other LEP ABs could absorb this underspend, rather than pass the risk on to just a single AB, as he was aware this may be a strategy in other LEP areas, and could support a more strategic approach to getting funding into the local economy.

Action – CLoG to check with central team on the rules with regard to LGF underspend being shared across multiple accountable bodies.

TB – Confirmed that Government recognised the difficulty for all LEPs in managing annuality, and appreciated that this may mean some underspend each year. It was critical, however, for any underspend to be kept to a sustainable level and the current forecasts risks for D2N2 by year-end did appear high.

KH – Stated that the LEP discusses delivery acceleration with project promoters on a regular basis. The LEP does also have a pipeline, but if they utilise this on annual underspend it would be to the detriment of the existing programme.

PH – Again noted that the existing, annual funding regimen does not encourage new/alternative projects to come forward easily.

MT – Also acknowledged that it is a good idea to have projects in a pipeline that need some development and could be readied quite quickly in case of schemes dropping out.

DR – Emphasised that the LEP had demonstrated a strong approach on ensuring the option to take funding away is acted upon if projects are not viable; that that, given there is an existing LGF pipeline, they were reluctant to call for further projects at the current time, without clarity on any future funding rounds.

TB – Stated that the LEP must remain mindful that there needs to be a reasonable, sustainable limit on the use of the AB to absorb underspend.

LC – Confirmed that there were no particular concerns from a DfT perspective on the programme, other than points already made around underspend; and offered support to help move projects forward if that would be helpful.

TB – Asked what the processes were around projects that have had received funding but did not deliver outputs.

BL – Confirmed that the LEP was committed to clawing back funding if a project fell short of its committed outputs. This is considered for any LGF project delivering 10% or more below its agreed outputs.

JH – Noted that the LEP had mentioned the expansion of the team, which was positive for delivery; but how were the problems with project sponsors' delivery capacity being resolved going forward?

DR – Confirmed that the LEP had identified that the main issue with delivery is the poor quality of business cases, and that the LEP had identified a small amount of

money to support sponsors with this. However, the LEP would like more revenue funding built into the LGF capital programme to do more on this.

TB – Noted this was a common issue across LEPs and that CLoG would take that message away and feed in to wider considerations.

Action – CLoG to raise the issue around capital vs revenue within the LGF programme, to support delivery, with central colleagues.

KH – Added that the LEP had learned lessons early in terms of project preparedness and are now working with sponsors proactively on this; managing to accelerate projects as a result of this learning.

TB – Commented that the LEP's increasing focus to secure outputs was positive.

KH – Confirmed that, on EZs, progress was being made but there have been difficulties with completing enabling infrastructure. The Boots site infrastructure is nearing completion, and the LEP are confident over site success, having been prudent about where they have invested grants. At the Infinity Park site the iHub is open now and is 60% let, but the take-up on remainder of the site has been slow (due to maintaining a clear focus on high end investors, as well as delays in road infrastructure). Work is ongoing to address this.

RD – Asked how the LEP was linking both the residential and commercial opportunities on the EZ sites, to further support their attractiveness for investment.

KH – Confirmed the LEP is looking at ensuring the EZ sites work well within the scope of mixed use developments, also recognising the need to do more marketing and promoting of the sites; **DR** – adding that the residential element was especially important around the Boots site as it cannot proceed without the housing investment. In addition the LEP is working on a review of their assurance framework to ensure it is robust but works effectively for businesses.

KH – Explained that the GPF had been challenging, and take-up has been disappointing despite the number of funding rounds. To combat this the LEP have now looked at alternative options, including how they can utilise it alongside LGF.

TB – Acknowledged the issues around GPF and stated that, if the process isn't working, it was right to look at new ways it could be used.

DR – Confirmed that the review was now taking place, which would report in the New Year; and the LEP would then make some recommendations on how best to use the fund going forward.

Action – The LEP to complete the review of the use of GPF and set out its recommendations in early 2018.

Strategy

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MW – Provided a presentation on the LEP's strategic focus and thinking; noting that the current D2N2 Strategic Economic Plan (SEP) is currently working, in terms of what it set out to do, but the LEP is now reconsidering its areas of focus and looking at doing things differently to deliver better results.

The SEP currently has five over-arching themes and eight key sectors, with targets set to respond to the economic challenges at the time it was written, but economic conditions have now changed.

The LEP has been monitoring economic conditions of the area during 2017, following the Board decision to review the SEP in late 2016. Brexit is an important consideration, alongside incorporating industrial strategy and tapping into UKSPF; and particular focus has been given to the drivers of productivity and more "inclusive" growth.

Positively, the LEP has achieved its 10-year target on jobs growth in just 3 and ½ years; and there is strong growth in the economy. However, there are still underlying challenges around increasing productivity, with D2N2 10-12% behind the UK average.

In-house data analyst capacity at the LEP has been enhanced and it has been collaborating with the CBI and University of Nottingham to review the area's underlying issues, planning solutions around this new analysis. Work was also taking place to aligning D2N2 strategy with the Midlands Engine and Midlands Connect strategy.

MW – concluded by noted that D2N2 has all the elements it needs to produce the refreshed SEP and is committed to starting to work rapidly on how this local work can become the LEP's own "industrial strategy".

PR – Also confirmed the LEP Board's full committed to the SEP refresh work and support for ensuring it becomes the focus of a D2N2 industrial strategy.

TB – Clarified that Government policy is still forming on what "local industrial strategies" will be, but the D2N2 work is very positive in the context of the Industrial Strategy. The LEP should be encouraged to continue with this analysis and SEP clarification while decisions are made, in consultation with local partners, on what the local versions of industrial strategy will be.

BL – Noted the need to clarify how Government would be involved in local industrial strategies.

TB and RD – Confirmed that work was now taking place to scope such local strategies and would be discussing proposals (including data, evidence and analytical requirements) with LEPs. Delivery of local strategies would be on the basis of "co-production", but with LEPs in the driving seat.

PR – Emphasised the need to deliver local strategies in partnership with other LEPs and Government, as business does not operate in line with local boundaries/areas and LEPs must look outwards.

TB – Agreed that LEP collaboration would be key, Government will be engaging with LEP networks in the New Year to look at what needs to go into local strategies, to recognise how best to unlock the potential of local areas and support economic opportunities.

DR – Confirmed that the recent LEP Board away day had also confirmed full commitment to continue with the strategic focus on the full D2N2 geography. This had been positive in the face of alternative economic geographies and clarifying both private and public sector commitment to making the LEP geography work, as far as future strategy development was concerned.

JH – Asked about the LEP's ongoing commitment to its "sector groups", in the context of the Industrial Strategy.

DR – Confirmed that providing support to these groups has been a funding and capacity issue; and the LEP was now looking on how best to support these in the context of SEP refresh etc. (including whether they should be streamlined/re-prioritised).

DR – Concluded the LEP presentation by emphasising the commitment to reviewing Governance further in the light of the Ney report; and also summarised the LEP's key asks of Government which would enable stronger governance, delivery and strategic focus, these were as follows:

- Year on year rollover of capital funding
- Revenue funding to support pipeline development
- Agree 3 year core funding
- Support to progress Boots EZ including PWLB
- Funding for HS2 Delivery
- Support a clear dialogue across government to deliver a whole place approach

TB – Summed up by noting the positive work of the LEP and the importance of the local partnership in working with Government to devise and deliver local solutions. There is accepted work to do around tightening D2N2 governance further and addressing underspend risks and programme flexibility; as well as further strengthening the partnership through filling current vacancies and aligning leadership to its new, strategic priorities.

TB - Concluded by thanking everyone for their commitment to the LEP; noting the need for ongoing feedback on the relationship between LEPs and Government.

Action Points

1. Governance:

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- i. Further work should now be pursued on formally re-establishing the Local Authority “committee” arrangements at D2N2 level
- ii. Government guidance will be issued shortly to provide clarity on conflicts/accountability/transparency issues; following which the LEP will review its local Accountability Framework and associated policies again
- iii. The LEP would be prioritising recruitment to the 2 private sector vacancies to provide leadership on its strategic priorities
- iv. By spring 2018 the LEP will reach a clearer view on its Accountable Body arrangements, on the assumption that moving to a single AB is the direction of travel to ensure robust assurance and provide greater opportunities to align different programmes (e.g. GPF, LGF)
- v. The LEP will ensure MPs are engaged on a regular basis as an ongoing action
- vi. The Chair committed to addressing the persisting conflict of interest issue with regard to the EZ Steering Group chair role in the coming weeks; while also committing to further tightening up governance and transparency its decision-making processes

2. Delivery:

- i. Aim to clarify formal Government position on use of multiple ABs to support underspend flexibilities
- ii. The LEP needs to work proactively to clarify its expected underspend by end of year – current formal forecast is an under-estimate, with clarity needed on what this should be expected to be by year end; and, alongside this, the LEP/ABs to confirm steps required to ensure a sustainable investment and funding model (as opposed to an increasing AB “buffer”)
- iii. Govt to again consider, in discussions with other Departments, opportunities for a [e.g. up to 5] % provision for delivery capacity as part of spend programmes and to seek examples of good practice from LEPs that can be shared.
- iv. GPF will be reviewed to establish a new model to unlock greater impact

3. Strategy:

- i. A wish to see close working and “co-production” with Government on a D2N2 “Local Industrial Strategy”, from the point when the policy framework should be clearer (currently expected by the New Year)
- ii. Meanwhile, the LEP will continue its work to produce a refreshed SEP in the New Year, based on its new analysis of its key economic and sectoral challenges (aligned to the Industrial Strategy themes)
- iii. The LEP will look again at its sector groups and consider whether support to these could be re-instated if appropriately streamlined/prioritised (in the light of SEP/LIS thinking)