

Cabinet Report

Purpose: For Decision

ISLE OF WIGHT COUNCIL

Date **8 FEBRUARY 2024**

Title **INTEGRATION OF LEP FUNCTIONS INTO UPPER TIER LOCAL AUTHORITIES**

Report of **THE LEADER OF THE COUNCIL**

Executive Summary

1. The purpose of this report is to provide Cabinet with information on the integration of Local Enterprise Partnership (LEP) functions into Upper Tier Local Authorities (UTLAs) and seek approval for the Isle of Wight Council (IWC) to work with Portsmouth City Council (PCC) and Southampton City Council (SCC) to jointly take on these integrated LEP functions and deal with the changes that result from this new approach.
2. This includes the creation of a joint Upper Tier Local Authority (UTLA) Board to take on these new responsibilities. This was proposed by the three unitary UTLAs in the integration pro-forma that was submitted to Government with proposals for taking this forward.
3. It should be noted that Portsmouth City Council (PCC) and Southampton City Council (SCC) will also be seeking similar approvals, but due to differing timeframes there will need to be work and decision making in parallel with the approval processes across the three authorities. The relevant recommendation (i) below allows for this to happen.

Recommendation

Cabinet is asked to:

- a. Note that subject to meeting certain conditions, the Government is looking to integrate a number of existing LEP functions into UTLAs.
- b. Note that to meet the conditions, and to maintain a focus on the Solent area, Isle of Wight Council (IWC) will need to work with Portsmouth City Council (PCC) and Southampton City Council (SCC) to take on these functions through the creation of a new joint UTLA Board.
- c. Agree that subject to the 3 Solent UTLA area being recognised by the Government

as an area for LEP integration, with appropriate due diligence, IWC should become a Member of Solent Partners, a company limited by guarantee, that is a successor body to the Solent LEP, to help drive economic growth in the sub-region. This agreement to be conditional on PCC and SCC similarly agreeing to become Members of Solent Partners.

- d. Agree that IWC should not appoint a Director to the Board of Solent Partners to ensure that there is no conflict of interest with the wider governance needed for the new LEP integration arrangements. IWC, along with the other two UTLAs will seek appropriate requirements within the articles of Solent Partners to ensure representatives of all three ULTAs are entitled to observe board meetings.
- e. Note the proposed draft governance structure attached as Appendix 1 that shows how IWC should work with partners to achieve our economic growth ambitions which will need to be outlined in an updated Solent 2050 Strategy.
- f. Agree that subject of the agreement of all three partners, PCC are confirmed as the Accountable Body for Solent Partners.
- g. Agree that any existing LEP funding disaggregated to the three Solent UTLAs can be pooled (subject to agreement with PCC and SCC) for the benefit of economic growth of the Solent region.
- h. Agree that IWC, as one of the three UTLAs, will work with partners to develop an agreement on how Solent Partners will deliver economic growth for the functional economic area.
- i. That delegated authority be given to the Chief Executive, and the Director of Finance and s151 Officer, acting individually or collectively in consultation with the Leader to agree the final details of the transfer of LEP functions to the UTLAs including future governance arrangements.
- j. Agree that IWC should seek to support the creation of a Solent Economic Partnership, inviting adjacent Districts and Boroughs, Hampshire County Council, and other key public sector stakeholders, to enable Local Authorities leaders and leaders within the business community to have a regular opportunity to discuss and support economic growth in the region.

Background

- 4. Local Enterprise Partnerships (LEPs) are non-statutory bodies that were created to promote economic growth and job creation. They are business led partnerships with additional representatives from local authorities, as well as academic and voluntary institutions. Thirty-eight LEPs were established across the Country in 2010-11 and the Island was part of the Solent LEP. The Solent LEP was based on the same geography as the Partnership for Urban South Hampshire (PUSH). now the Partnership for South Hampshire (PfSH) with the addition of the Isle of Wight. In 2018 LEP boundaries were reviewed and, as part of this, it was determined that a district or borough local authority could no longer be in two different LEPs. This meant that the Solent LEP geography could no longer mirror the PfSH geography and so the whole of the New Forest District Council was included within the Solent LEP and the parts of Winchester

City Council, Test Valley Borough Council and East Hampshire that were part of the Solent LEP were transferred to Enterprise M3 LEP.

5. A further review was undertaken by the Government between early 2021 and the publication of the February 2022 Levelling Up white paper. This led to the ministerial letter proposing LEP integration: 'Integrating Local Enterprise Partnerships into local democratic institutions, 31 March 2022'. On the 4 August 2023, the Government issued a letter which confirmed their support for UTLAs and combined authorities to take on the functions currently delivered by LEPs.

'Where not already delivered by a combined authority, or in areas where a devolution deal is not yet agreed, the Government expects these functions to be exercised by upper tier local authorities, working in collaboration with other upper tier local authorities over Functional Economic Areas (FEAs) as appropriate.'

6. A letter was sent from Government, the Department for Levelling Up, Housing & Communities published guidance (Guidance for Local Enterprise Partnerships (LEPs) and local and combined authorities: integration of LEP functions into local democratic institutions, 4 August 2023). In the guidance the Government state that the geography for integration of functions should either be a whole County area or a functioning economic area that has a population of at least 500k (and for some functions at least 22k businesses in the area). The Government have been clear that they will no longer fund LEPs with core funding from April 2024 and that the UTLAs will be responsible for:

- **business representation** and in particular to *'create or continue to engage with an Economic Growth Board (or similar) made up of local business leaders and relevant representative bodies to (a) provide the view of local businesses as part of regional decision making and (b) work with local leaders to create a broad economic strategy for the area'*
- **strategic economic planning** - areas will be expected to produce, or continue to update, economic strategies to support local decision making, building on the plans currently developed and overseen by LEPs. The Government expects areas to publish their (existing, new, or updated) strategy within six months of receiving funding and if PCC is the accountable body for future arrangements (see paragraph 4.1 below) then it will need to be published on the PCC website. There will be a need to review, update and adopt the Solent 2050 Strategy and ensure that this is an appropriate strategy for the agreed geography. The guidance also states that areas bidding for local growth funding in future may be asked to demonstrate how a proposal fits into their local economic strategy.
- **responsibility for the delivery of government programmes where directed**. Currently these programmes would be the Growth Hubs and the Career Hubs. The Government expects these functions to be exercised by UTLAs (working in collaboration with other upper tier local authorities as appropriate) where there is not a devolution deal or a deal in the offing. Initial views from Government suggest that they envisage the current Growth Hub to be commissioned on a county wide basis although with the possibility that there could be a Solent front-end for businesses. Further guidance has however suggested a need to ensure the delivery of government functions is coterminous with the FEA for

economic strategy and business representation so further guidance is needed. This would need to be discussed and agreed with the other UTLAs across Hampshire and the Isle of Wight (HIOW).

7. Whilst the Government have stated that their expectation is that the area for integration is a county area or FEA they also state that the starting point for consideration of an appropriate area should be the existing LEP geography.
8. The proposed Solent geography recognises that the two cities of Southampton and Portsmouth drive the growth of the region and have clear links to the Isle of Wight including through ferry routes. There are also key synergies across the area on key economic sectors including advanced manufacturing and the visitor economy and also on key challenges association with deprivation and coastal areas. The three Solent UTLAs working together, meet the thresholds required by the Government and have sent an integration template back to Government on this proposed geography. This report takes forward what was in the integration template. Assuming this approach is supported by the Government, and there has been no indication that this will not be the case. There will need to be strong and positive working relationships with Hampshire County Council who will be operating in the wider Solent area for the parts of the Solent LEP area that comprises the districts and boroughs.
9. In response to the envisaged changes to their operating environment, the Solent LEP decided to look again at their role and how they operate and decided to set up a new company limited by guarantee called Solent Partners. As Government thinking developed on the future role of LEPs it was decided by the Solent LEP Board that Solent Partners would be a good successor organisation to the Solent LEP that would enable the delivery of the functions that were being devolved to the UTLA alongside any remaining LEP functions. The benefit of this approach is that this enables a focus to be maintained on the Solent which will be to the benefit of local businesses and communities. It also means that should the Government position on devolution change, before or after the next general election, then the area will be in a stronger position to make the case for devolution to the Solent area.
10. As noted in the Director of Finance's comments below, in parallel to the integration of functions from the LEP there is a need to consider the disaggregation and transfer of assets from the LEP to the UTLAs. The amount to be disaggregated between HCC, PCC, SCC and IWC remains to be agreed between the LEP and PCC, acting as the Accountable Body. It is currently intended that any funding received by PCC as the AB on behalf of the three UTLAs will be pooled for the benefit of economic growth of the region. This will be subject to further agreement between the three Solent UTLAs.
11. In response to the envisaged changes to their operating environment, the Solent LEP decided to look again at their role and how they operate and decided to set up a new company limited by guarantee called Solent Partners. As Government thinking developed on the future role of LEPs it was decided by the Solent LEP Board that Solent Partners would be a good successor organisation to the Solent LEP that would enable the delivery of the functions that were being devolved to the UTLA alongside any remaining LEP functions. The benefit of this approach is that this enables a focus to be maintained on the Solent which will be to the benefit of local businesses and communities. It also means that

should the Government position on devolution change, before or after the next general election, then the area will be in a stronger position to make the case for devolution to the Solent area.

12. Whilst Solent Partners can enable the delivery of LEP functions across the Solent area, it will be the UTLAs that will be held accountable for delivery of the functions and economic growth in the area. The governance arrangements detailed below recognise this reality and so are based on a model where the three UTLAs commission Solent Partners to deliver functions on their behalf assuming that Solent Partners is able to demonstrate that it is providing best value services. Whilst the Government guidance states that after the 1st April any arrangements will need to be commissioned in line with normal practice, in reality this is also the case for any arrangements before the 1st April. How this may apply to work commissioned through Solent Partners will depend on the specific governance and function of that company in that period and the funding mechanism chosen by the three UTLAs.

Solent Partners and proposed governance

13. The successor body to the Solent LEP, Solent Partners, is a Company Limited by Guarantee (as is the Solent LEP). It has been proposed that the Members, and therefore owners, of the Company will be the three UTLAs. This is different to the Solent LEP where PCC is the only Member and has this role as the accountable body for the Solent LEP. Hampshire County Council has made it clear that they do not wish to be part of Solent Partners. PCC has also agreed to be the Accountable Body for Solent Partners and / or the joint UTLA Board.
14. Alongside the Members there will be a Board of Directors of Solent Partners. These directors will be appointed in line with best practice for the appointment of Directors and currently it is envisaged that it will comprise:
 - An independent Chair, Vice-Chair and non-Executive Director from local businesses
 - A Higher Education (HE) representative
 - The chairs of the Solent Skills Advisory Panel, the Solent Business Forum, the Solent Cluster and Maritime UK Solent
 - The two Solent Partner Executive Directors

The requirement for representatives of the three Solent UTLAs to have the opportunity to observe meetings of the Board of Directors of Solent Partners will be sought to ensure clear oversight.

15. As the Accountable Body (AB) for the Solent LEP PCC has a role to make sure that the LEP Integration Process is undertaken properly and that any decisions around existing assets and liabilities are in accordance with regulations and guidance. The AB role is different to the role in relation to the decisions and wishes of PCC, and as the AB will need to work in partnership with the Isle of Wight Council and Southampton City Council to make sure that LEP Integration works successfully for the Solent region and the communities and businesses that are within our geography.
16. With Solent Partners set up to deliver functions previously undertaken by the LEP for the three UTLAs, there will be a need to set up a commissioning body that comprises the 3 unitaries. To achieve this requirement, it is proposed that a joint UTLA Board be set up that comprises the Leader and Chief Executives of

the three UTLAs. This Board would commission and hold Solent Partners, or any other future delivery partner, to account for delivery of the programmes and functions assigned to them to support the economic growth agenda across the three unitary authority area. The terms of reference would need to be set so that the limit of the influence is on the areas of joint work so that the sovereignty of individual authorities is recognised, whilst also allowing for wider work that supports the devolution ambitions of the area. This Board should be set up, at least in Shadow Form, as soon as possible. The Board would also need to work with Hampshire County Council (HCC) to try to ensure as much alignment as possible. With the proposal that the Leader and Chief Executive are on this Board it would not be appropriate for the councils to have a Director on the board of Solent Partners Board, as currently constituted, so that there is no conflict of interest with the wider governance needed for the new LEP integration arrangements.

17. Alongside the joint UTLA Board there is a desire to set up a Solent Economic Partnership. This would cover the wider Solent geography and Hampshire County Council and the districts and boroughs within the Solent area would be invited to be part of this partnership. It would comprise Leaders and Chief Executives, or their representatives, and will enable a discussion to take place on the wider geography and hopefully ensure that there is alignment across the wider geography. Other key stakeholders, such as Solent Transport and the Office of the Police and Crime Commissioner could also be included in this Partnership. Clearly this Partnership would only be set up if there was a desire from other authorities to be part of this arrangement. With appropriate funding the partnership could also commission Solent Partners, or another delivery partner, to undertake specific related packages of work.
18. It is envisaged that Solent Partners will be commissioned by the joint UTLA Board to:
 - ensure that the Solent Functional Economic Area that comprises the three unitaries meets the requirement for business engagement such that local businesses and their representative organisations are influencing relevant decision making on the economic growth agenda.
 - review, update and help prepare a new Strategic Economic Plan for the three unitary functioning economic area and help ensure it is aligned with the Hampshire County Council plan and their expectations for the parts of the wider Solent area that they are responsible for, as far as possible.
 - subject to Government funding being available for the Solent area, deliver the CEC contract to run a Solent Careers Hub but ensure that it is also delivering in line with the joint UTLA Board's expectations,
 - promote, and potentially run, the Growth Hub for the wider Solent area,
 - deliver any other programmes or activities that the joint UTLA Board wishes it to deliver.
19. Subject to legal advice, the joint UTLA Board will set out a clear commissioning plan before the start of each year and this will be used to set the LEP Integration work programme for SP. Meetings will be held quarterly to performance manage this commissioning plan. The joint UTLA Board would be in a position to change the approach, or the delivery partner, if the plan is not being achieved, subject to an agreed notice period. Informal steering groups, under the joint UTLA Board and directly engaging business representatives through Solent Partners and other stakeholders can be formed to provide guidance to key work

commissioned such as Strategic Economic Planning and the work of the Careers Hub.

20. Solent Partners will also be commissioned by PCC as the AB to monitor and report on existing programmes that have ongoing monitoring arrangements, which would otherwise fall to the AB to undertake in line with current guidance.
21. Solent Partners, as an existing private company already undertakes some other current and planned activity outside of the LEP core functions which are being transferred. They have been successful in securing central additional government funding (awarded independently) to deliver relevant economic growth programmes in the region in the 2024/25 year and would continue therefore to do so.
22. The Solent LEP also undertakes some functions outside of the core functions described above. They have set up two companies to deliver specific economic aspirations in the region. The Membership of *the Solent Cluster Ltd* has agreed to be transferred to Solent Partners and it is anticipated that *Maritime Solent (UK) Ltd* will similarly transfer its membership, subject to its own internal agreement. These two companies have been provided revenue funding by the Solent LEP to operate until March 2026 and thereafter the intention is that they will move to a self-sustained ownership and financial footing. The governance connection between Solent Partners, and its Local Authority Members, and these separate companies will require further discussion.
23. The Solent LEP has also provided start-up revenue funding for the Solent Maritime Innovation Hub, providing support to March 2026. What role Solent Partners may have in this Innovation Hub during and after that period will also require further discussion and agreement.
24. Solent Partners also have a desire to take on roles in and with other bodies and panels, the most notable of these is the Skills Advisory Panel, which was set up by PUSH before transitioning to the LEP. It seeks to be a steering group for the Local Skills Improvement Plan (LSIP), a Department for Education funded plan, for which the Hampshire Chamber of Commerce is the designated employer representative body. As economic strategies are disaggregated between Hampshire and the Solent, further discussions will be needed in respect of this Panel.
25. One of the issues that is outstanding at the time of writing this report is what to do with existing LEP assets and resources and the associated implications on LEP staff. Government guidance is clear that any reserves and assets built up using public funds will remain within the public domain (i.e. transferred to the relevant local authority or authorities). All LEP employees are employed by PCC and there may be TUPE or redundancy issues that will need to be considered depending on discussions that are underway with Hampshire County Council about how programmes are delivered. PCC as the AB, working with the LEP, has to agree how to split public funds that are currently held by the LEP between the UTLAs.
26. The Solent LEP Board believe that because the funds were given for the benefit of the Solent area, they should remain in the Solent area and that the best way for this to happen would be for all of the existing funding to transfer to the three

Solent UTLAs for the benefit of Solent Partners for them to work across the existing Solent LEP Geography. An alternative approach would be for Hampshire County Council to commit to spending the proportion of the existing funding, relating to the Solent districts and boroughs, across the same geography. This latter approach is the preferred approach of the three UTLAs. Discussions regarding the disaggregation method of the existing assets are ongoing with the AB seeking to agree the disaggregation of funds with the UTLAs over the coming months.

Reasons for recommendations

27. The Government have stated that all core funding for LEPs will cease and that a number of LEP functions will transfer to democratic control. The Government have set criteria for the return of these functions and the recommendations in this report enable an appropriate mechanism to be put in place to achieve the Government's policy requirements.
28. While current guidance is clear that LEPs can continue in a private capacity, the Solent LEP has confirmed that they intend to cease operating as soon as possible after 31st March 2024 and have set up an alternative company, Solent Partners, with aspirations to continue to support the economic development agenda in the Solent. This report therefore notes that assets and resources built up with public money will need to be retained and transferred into the public domain.

Corporate Priorities and Strategic Context

Provision of affordable housing for Island Residents

29. The provision of housing, including affordable housing is a key component of a successful regional economy. The three UTLAs will be able to make use of the economies of scale of these new arrangements to support the delivery of housing solutions on the Island.

Responding to climate change and enhancing the biosphere

30. The new working arrangements between the three unitaries and in partnership with the district councils in Hampshire will enhance the benefits generated through economies of scale to ensure environmentally sustainable economic growth that also safeguards the valuable natural assets of the sub region including the Island.

Economic Recovery and Reducing Poverty

31. Under the new arrangements the UTLAs will be expected to produce, or continue to update, economic strategies to support local decision making, building on the plans currently developed and overseen by the LEPs. The new arrangements will support the 3 unitary authorities commission Solent Partners to deliver economic development functions on their behalf assuming that Solent Partners are able to demonstrate that they are providing best value services.

Impact on Young People and Future Generations

32. A thriving sustainable and the resultant shared prosperity across the economic area of the Solent are key to the well being and life chances of our young people and future generations.

Corporate Aims

33. A thriving economy is a key area of activity within the council's Corporate Plan 2021 – 2025 and will be one of our main areas of focus for the lifetime of this plan which will need to be central to everything we do as a council.

Consultation and Engagement

34. Consultations have taken place with all unitary and district councils and key business and public sector stakeholders in the sub region in the formulation of the agreements set out in this report.

Financial / Budget Implications

35. Acting as the Accountable Body for the Solent LEP, PCC has an important role in agreeing the disaggregation of assets held by the LEP as at 31 March 2024 and as part of this have been working with the Solent LEP and the four UTLAs to agree a disaggregation method that is in line with the guidance published by the Government.
36. The guidance sets out that it is for the LEP and the Accountable Body to agree this method and the Accountable Body will make its judgement having reviewed the formal representations made by each of the UTLA's.
37. Fundamentally, the Accountable Body's judgement will be based on the balance of the following:
- i. The rationality of the decision in the public interest
 - ii. That decisions are taken in line with the National Assurance Framework, adhering to proper governance and due diligence
 - iii. That decisions are made in accordance with the intent and spirit of any Government Guidance
38. Following a review of the submissions and any necessary further consultation with the Solent LEP, the Accountable Body may ultimately agree or disagree with the LEP's position. In the event of a disagreement then the LEP and Accountable Body will engage with the Government to seek their view.
39. Acting as the Accountable Body for Solent Partners, PCC will ensure that any disaggregated LEP funding received is pooled, held on a separate area of its balance sheet, and used for the benefit of economic growth of the region subject to the agreement of the three UTLAs.

Legal Implications

40. The contents of this report outline the current position within the construct of the Guidance and the current disaggregation plan. What is also clear is that there will be beyond the noting stage of this process a number of legal challenges which whilst as yet to crystallise are in summary (as set out within the body of the report) the following:
- It is recognised that the Solent Partners is of itself an independent company. The company will have a legal share membership from each of the 3 UTLA's.

- The current model does not espouse that within Solent Partners that the UTLA's will have any director status (this is subject to a current piece of work being dealt with to look at how the independence of Solent Partners sits within the concept procurement and the PCR's.)
- The paper alludes to the UTLA's being able within some form of construct to, amongst themselves set the "tone and focus" for how Solent Partners (or indeed any organisation that the UTLA's might wish to align) should deliver key objectives. That can be achieved via some form of "Board structure" which self-governs probably via some form of MOU.
- There will be TUPE issues as currently the LEP staff whilst PCC paid will be subject to a material change that will engage the Regulations and potentially some restructure that may or may not lead to redundancies arising.
- There is a need to maintain clear channels of decision making and facilitation separating as far as practicable the respective roles and functions.

41. It is also worth noting that the current disaggregation model (assuming that it is agreed) will within the Solent Region provide a finite funding and a limited amount of existing loans as already lent to small and medium sized Enterprises (SME's) within the proposed area. Beyond the above the current range of recommendations are within scope, they are competent and are limited risk beyond seeking to inform and progress, set as against a fairly changeable landscape.

Equality and Diversity

42. There are no direct equality and diversity implications associated with this report.

Property Implications

43. There are no direct property implications associated with this report.

Options

44. Option 1: Cabinet is asked to:
- a. Note that subject to meeting certain conditions, the Government is looking to integrate a number of existing LEP functions into UTLAs.
 - b. Note that to meet the conditions, and to maintain a focus on the Solent area, Isle of Wight Council (IWC) will need to work with Portsmouth City Council (PCC) and Southampton City Council (SCC) to take on these functions through the creation of a new joint UTLA Board.
 - c. Agree that, subject to the 3 Solent UTLA area being recognised by the Government as an area for LEP integration, with appropriate due diligence, IWC should become a Member of Solent Partners, a company limited by guarantee, that is a successor body to the Solent LEP, to help drive economic growth in the sub-region. This agreement to be conditional on PCC and SCC similarly agreeing to become Members of Solent Partners.
 - d. Agree that IWC should not appoint a Director to the Board of Solent Partners to

ensure that there is no conflict of interest with the wider governance needed for the new LEP integration arrangements. IWC, along with the other two UTLAs will seek appropriate requirements within the articles of Solent Partners to ensure representatives of all three UTLAs are entitled to observe board meetings.

- e. Note the proposed draft governance structure attached as Appendix 1 that shows how IWC should work with partners to achieve our economic growth ambitions which will need to be outlined in an updated Solent 2050 Strategy.
 - f. Agree that subject of the agreement of all three partners, PCC are confirmed as the Accountable Body for Solent Partners.
 - g. Agree that any existing LEP funding disaggregated to the three Solent UTLAs can be pooled (subject to agreement with PCC and SCC) for the benefit of economic growth of the Solent region.
 - h. Agree that IWC, as one of the three UTLAs, will work with partners to develop an agreement on how Solent Partners will deliver economic growth for the functional economic area.
 - i. That delegated authority be given to the Chief Executive, and the Director of Finance and s151 Officer in consultation with the Leader to agree the final details of the transfer of LEP functions to the UTLAs including future governance arrangements.
 - j. Agree that IWC should seek to support the creation of a Solent Economic Partnership, inviting adjacent Districts and Boroughs, Hampshire County Council, and other key public sector stakeholders, to enable Local Authorities leaders and leaders within the business community to have a regular opportunity to discuss and support economic growth in the region.
45. Option 2: That the new arrangements be formed on a county wide basis of Hampshire and the Isle of Wight (including the PCC and SCC city areas).
46. Option 2 was not supported by the three UTLAs as in their view it ignores the clear Functioning Economic Area (FEA) across the Solent sub region which has consistently been recognised by Government (e.g. the creation of the LEP or the Solent Freeport) and as such the three unitaries are keen to work together to bring about the integration of the LEP functions on a Solent geography that comprises the three unitary authorities.

Risk Management

47. The governance arrangements detailed in section 4 of this report are based on a model where the 3 unitary authorities commission Solent Partners to deliver the economic development functions on their behalf assuming that Solent Partners are able to demonstrate that they are providing best value services.

Appendices Attached

48. Appendix 1. The Proposed Governance Structure for LEP Integration

Background Papers

49. Section 100D of the Local Government Act 1972

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