

**LA7 LEADERSHIP BOARD**

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# **Governance Review**

**Undertaken in accordance with Section 108 of the Local Democracy, Economic Development and Construction Act 2009.**

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## Foreword

The LA7 Leadership Board shares an ambition to create the best possible conditions for growth in jobs, investment and living standards. We want to make the North East an excellent location for business, to prioritise and deliver high quality infrastructure, and to enable all the people we serve to raise their skill levels and benefit from economic growth into the future. The North East is a distinctive and beautiful place with a host of opportunities for the people who live and work here. Economic conditions, structural changes and funding cuts have each prompted us all to review both what we do and the way we do it.

We have undertaken a review of the current position to see if the enhanced structures, owned by our local authorities but working on behalf of all of them could bring mutual benefits. The LA7 Leadership Board think the report is clear. There is a case for change that will bring benefits to all the people we serve and will help us to achieve greater economic prosperity for the North East.

We would like to thank colleagues for their work in undertaking this review and in the preparation of this report.

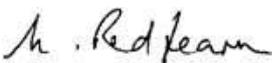
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### Executive Summary

- There is compelling evidence that the LA7 Area (the area covered by the contiguous local authority areas of Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland) forms a functional economic market area. A review of the evidence detailing the economic structure of the region shows high levels of economic integration, in terms of the labour market (and travel to work areas), housing markets and a number of the Area's key sectors. Further it shows a direction of travel towards further integration in the future.
- Economic analysis from the OECD demonstrates that strategy integration across key policy domains can deliver economic benefits at the sub-national scale in terms of sustainable economic growth and employment. It emphasises the importance of institutional capacity at the functional spatial level, a level which would be consistent with the proposed LA7 Area. This is supported by the recommendations of the recent North East Independent Economic Review. In short, a combined authority with appropriate resources offers the most beneficial option to enhance the region's ability to address its underlying economic challenges.
- The Combined Authority (CA) should be a streamlined and strategically focussed body, appropriately resourced to ensure more effective and efficient delivery of economic growth, skills and transport functions across the LA7 Area. It will be underpinned by strong research, intelligence and advocacy functions. It will deliver Area-wide functions around the co-ordination of funding streams, seeking investment and collective resourcing and other responsibilities devolved from central government and other agencies. As a result of utilising resources already held in the LA7 and the LEP, set up costs will be lower and will not undermine efficiency arguments.
- Coordination of economic development and transport is a central rationale for the statutory basis for a CA, and therefore fundamental to its creation in the area. The CA will be ideally placed to provide leadership and area-wide voice on key strategic transport issues. A Local Transport Plan (LTP), integrated within our economic strategy, will allow strong representation from the area on topics such as High Speed Rail, the East Coast Main Line, franchising of local rail services, aviation connectivity and the role of our ports and strategic road network.
- Transport is recognised as key to affecting real improvements and change at a strategic level and will be a core function of a combined authority for the LA7 Area. The 7 local authorities are in a unique position in bringing together the existing Tyne and Wear ITA with Northumberland and Durham in a single new transport authority and transitional arrangements will therefore be required in the short to medium term. As an aid to long term integration, key transport powers transferred to the Combined Authority can be exercised – through a carefully designed integrated governance model by constituent authorities on certain key issues.
- A Combined Authority would give legal form to the close working relationships that already exist between the LA7 Authorities (at a range of different organisational levels). The Combined Authority will be contiguous with the area covered by the North East Local Enterprise Partnership (NE LEP) - Durham, Gateshead, Newcastle, North Tyneside, Northumberland South Tyneside and Sunderland.

- An integrated governance model would ensure long-term effective engagement with the business and other sectors. Engagement and integration with the NE LEP board is likely to lead to more effective interventions and an improvement in the realisation of economic objectives.
  
- A new combined authority will:
  - facilitate closer partnership working and is consistent with the recommendations of the recent North East Independent Economic Review.
  
  - through a co-ordinated approach to tackling the Area's priorities, increase the effectiveness and efficiency of the relevant functions and improve outcomes for local people
  
  - through stronger centralised evidence collection and analysis functions, improve the exercise of statutory functions.
  
  - lead to an improvement in the economic conditions of the Area.

# 1. Introduction

## About this Report

This report has been prepared by the LA7 Chief Executives Group on behalf of the LA7 Leadership Board, which brings together the Leaders and Elected Mayor of the seven Local Authorities in North East England: Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland (the **LA7**).

The report sets out the results of a review undertaken in accordance with Section 108 of the Local Democracy, Economic Development and Construction Act 2009 (the **2009 Act**).

This report has been published as part of a consultation exercise with the area's key stakeholders and should be read together with the draft scheme included as an appendix to the report.

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## Purpose of this Governance Review

In accordance with Section 108 of the Local Democracy, Economic Development and Construction Act 2009 a governance review in relation to a potential combined authority must address the effectiveness and efficiency of: (a) transport within the area covered by the review and (b) arrangements to promote economic development and regeneration within the review area.

The purpose of this review is to determine the following:

- Whether the area covered by the local authorities of Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland (the **Area**), can properly be seen as constituting a functional economic area for the purposes under consideration in the review.  
**(Please refer to section 2 of this report)**
- Whether the existing governance arrangements for economic development, regeneration and transport in the area are effective or would benefit from changes.  
**(Please refer to section 3 of this report)**

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- To examine the options available and in relation to each option, to evaluate the likely improvement in:
  - the exercise of statutory functions relating to economic development, regeneration and transport in the area;
  - the effectiveness and efficiency of transport in the area; and
  - the economic conditions in the area.**(Please refer to section 4 of this report)**

Having examined these questions the report draws conclusions and makes some closing remarks about the nature of the Scheme the authorities might wish to consider.  
**(Please refer to section 5 of this report).**

## Context

### Legal Context

Part 6 of the Local Democracy, Economic Development and Construction Act, 2009 (the **2009 Act**) enables the creation of economic prosperity boards (EPBs) or combined authorities (CAs). These are new sub-national structures that have separate legal personality to the Local Authorities who come together to create them. The new bodies are available to support the effective delivery of sustainable economic development and regeneration and, in the case of CAs, transport.

The 2009 Act sets out the process for the creation of EPBs and CAs and establishes certain principles relating to their constitution and organisation. The legislation is not prescriptive however and the detail of how these bodies will operate and what their functions will be is left to be determined locally, subject to final approval by the Secretary of State.

### ***Delegation of Additional Powers***

The Localism Act 2011 (the **2011 Act**) contains powers for the Secretary of State to transfer powers between authorities<sup>1</sup> (including Combined Authorities<sup>2</sup>) and also to transfer ministerial functions to such authorities.<sup>3</sup> Property, assets and liabilities relating to those functions can also be transferred.<sup>4</sup> Notably, transfers and delegations of additional functions under this legislation can be made at any time and independent from the procedure to create EPBs or CAs.

### ***Transport***

A CA is differentiated from an EPB due to the inclusion of transport functions. There are intended similarities between Part 6 of the 2009 Act and part 5 of the Local Transport Act 2008 (the **LT Act**) which provides for Integrated Transport Authorities (ITAs). When a CA is established in an area where an ITA already exists, the ITA is dissolved and the CA assumes all the functions of the ITA for the Area.

Whilst there are differences, the process for review is broadly similar under both Acts. In preparing a scheme under the 2009 Act, regard must be had to the provisions of the LT Act as well as any guidance published by the Government relating to both pieces of legislation.

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<sup>1</sup> Localism Act 2011 Chapter 4, Section 15

<sup>2</sup> *ibid*, Section 20

<sup>3</sup> *ibid*, Section 16

<sup>4</sup> *ibid*, Section 18

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### ***The Three Steps to Creation of a Combined Authority or Economic Prosperity Board***

The process for creating an EPB or CA involves 3 main steps:

- First, a review of existing governance arrangements for the delivery of economic development, regeneration and transport. This must lead to a conclusion that there is a case for changing these arrangements based on real improvements;
- Secondly, drawing up a scheme for the new body upon which the authorities are required to engage widely to seek common support amongst stakeholders. All constituent councils are required to approve the scheme for submission to the Secretary of State for Communities and Local Government;
- Finally, the Secretary of State will consider the scheme and undertake a formal consultation. If he is satisfied with the proposals a draft order will be laid before both Houses of Parliament for adoption by affirmative resolution.

To approve a scheme the Secretary of State must be satisfied that (in accordance with section 91(5) (for EPBs) or 110(1) (for CAs) of the 2009 Act) that improvements are 'likely' if the scheme proposed is adopted.

### ***Flexibility and Control***

Once established both CAs and EPBs have wide general powers.<sup>5</sup> However, the mechanisms by which those powers can be exercised, the functions to be discharged and the resources available will all be determined by the parent local authorities (with the consent of the Secretary of State) through the drafting of the Scheme, which sets out the legal framework specific to each CA or EPB.

A CA or an EPB is not a merger or a takeover of existing local authority functions. Instead they seek to complement local authority functions and enhance the effectiveness of the way they are discharged. In particular, it is the enhancement of decisions and information at a strategic level that are most frequently cited as the advantages of these statutory bodies.

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<sup>5</sup> See 2008 Act, section 113A (amended by the 2011 Act, section 13).

### Local Context - Our Ambition

The LA7 Leadership Board shares an ambition *'to create the best possible conditions for growth in jobs, investment and living standards, to make the north east an excellent location for business, to prioritise and deliver high quality infrastructure, and to enable all the people we serve to raise their skill levels and to benefit from economic growth long into the future'*.<sup>6</sup>

#### ***...a long tradition of working together...***

The 7 North East Local Authorities have a pivotal role in stimulating economic growth and are committed to achieving this together. Building on a history of successful joint working we share strength of ambition and a desire to bring about a step change in the area's prosperity. The Heseltine review recognised that local leaders are uniquely placed to understand the opportunities and challenges in local areas and offers an opportunity to explore stronger local governance and infrastructure where this will deliver growth.

In recent months the local authorities have agreed strengthened governance arrangements for Newcastle International Airport, developed new arrangements for the prioritisation of local transport funding through a North East Local Transport Body, and work is now progressing on a Growth Plan to provide a framework for investment across the North East. The Leadership Board has developed a close working relationship with the North East Local Enterprise Partnership (**NE LEP**) and the area covered by the seven authorities is contiguous with the area covered by the NE LEP. As discussed more fully in Section 2 of this Report, the areas are seen as having linked economic geography. The urban and more rural parts provide complementary strengths for the benefit of both residents and visitors.

#### ***...a real appetite for change...***

The North East LEP commissioned an independent review of the Area's economy. The North East Independent Economic Review (**NEIER**) was published in April this year. Lord Andrew Adonis, who led the independent review team, called the decision by the LA7 to pursue the idea of a Combined Authority as *'a breakthrough in vision. Capacity and dynamism to tackle future challenges in partnership'*.<sup>7</sup> The LA7 Leadership Board recognise the significance of the NEIER in supporting the realisation of economic potential.

#### ***...improving governance...***

The Government's response to the Heseltine Review cites the LA7's proposals to create a statutory body within the legislative framework of the 2009 Act and states *"the Government welcomes this development and looks forward to working with the new statutory body to devolve resources over time"*<sup>8</sup>

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<sup>6</sup> Creating the right governance for growth in the North East, LA7 Leadership Board, April 2013 p.2

<sup>7</sup> North East Economic Review Report, North East Local Enterprise Partnership, April 2013 p.3

<sup>8</sup> Government's response the Heseltine March 2013 p 48

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### Methodology for the Governance Review

A review team has been formed drawing together some relevant experts from each of the constituent local authorities. The team works directly to the LA7 Leadership Board and the Board has appointed a project manager to lead the project.

The **discovery phase** of the project was undertaken through the following concurrent activities:

- Review of economic evidence was undertaken to test the rationale for working across the LA7 geography as a functional economic market area and to assess the economic conditions across the area
- Desk Research was undertaken of the current structures. Where necessary these were supported by technical interviews with users of the governance structures to test how these were used in practice.
- Workshops were undertaken to collect views and evidence from key stakeholders in each authority, considering the functions or activities that would benefit from strengthened collaborative governance arrangements
- One to One Interviews with key external stakeholders were undertaken by the LA7 Chief Executives or their senior leadership team. These interviews were to collect views on draft proposals. As a second part of these discussions, interviewees were also invited to consider options for change.

In the **Analysis Phase**, the team analysed the data collected during the discovery phase which led to the production of this Governance Review Report.

Based on this work the team then began work on the draft scheme and the other documents necessary to implement the recommendations of the review – as a **Design phase**.

Finally once a draft proposal is available an iterative process of consultation will commence with key internal and external stakeholders. The proposed scheme and the supporting paperwork will also be published as part of a more wide-ranging consultation. This will form the **Test phase** intended to ensure that key stakeholders are fully and properly engaged in the process with the opportunity to feed in their comments and ideas before any submission to Government.

## 2. The Area: Review of Economic Evidence<sup>9</sup>

### Overview

An early step for the governance review was to underpin the case for change with the preparation of a detailed review of economic evidence. A report was produced and is summarised in this section to address the following key questions:

- How does local policy intervention contribute to securing sustainable economic growth at local level?
- What are the economic conditions in the Area and what is the rationale for policy intervention?
- Can the geography be understood as a 'functional economic market area'?
- Is there policy commitment in the area to address economic issues through collaboration at this scale?
- What do examples from elsewhere suggest as key issues for potential models for collaboration, both in terms of governance and operational structure, and in priority areas for joint intervention?

The report, which is available separately to this Review highlights that there is significant national and international evidence available evidencing the potential of the sub-national scale to promote and support the search for economic growth and resilience. Whilst local growth derives from both national and local factors, successful regional economic development, focused on local sources of innovation and entrepreneurship, levels of employment, quality of local skills and on local environmental factors which can support and encourage investment such as transport, housing and the wider economic environment, can have a significant impact. The OECD estimate that whilst national factors have a crucial impact on regional growth, regional factors largely determine the regions international performance and that in those regions which had seen an increase or decrease in their relative GDP performance, regional factors had been responsible for about 25% of the overall change.

The importance of institutional capacity at the right level to co-ordinate across these key factors, capable of recognising and responding to the distinctive economic circumstances of an area, is clear and there is a growing consensus that the right scale should be at a level at which the economy 'functions'.

One of the key functional scales is the labour market - which is the scale at which most day to day economic interactions take place and which lends itself to policy interventions in areas such as transport, housing and the provision of labour market support. But there is also recognition in the literature that there are other important forms and scales of functional economic linkage including the enabling of supply chains, the supply of natural resources, management of environmental risks such as flooding to parts of the economy, which also require co-ordination.

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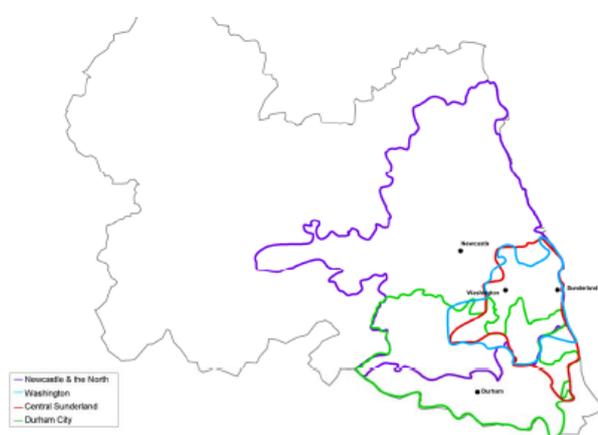
<sup>9</sup>The full review of economic evidence is available separately to this report. In using the terms 'North East' and 'Region' this paper is referring to the operational boundary of the North East Local Enterprise Partnership (NELEP) (and has the same meaning as Area, as used elsewhere in this report), unless otherwise stated

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The report goes on to assess the extent to which the LA7 can be regarded as a functional economic market area across a number of sectors of the economy. It concludes that whilst there is not a uniform pattern across all parts of the economy, including the labour market, the structure of industries and the supply of key enabling assets, these geographies have continued to evolve and there is compelling evidence that the geography functions as a 'functional economic area' with strong integration and connectedness in a number of these key parts of the economy. Further, it cites evidence suggesting that the direction of travel is towards more, rather than less, integration.

**The Labour Market:** Commentators have highlighted an element of polycentricity within the North East region as a whole. In their report for the Tyne & Wear City Region, EKOSGEN<sup>10</sup> describe a region with 4 overlapping functional labour markets (see below), with the Newcastle labour market as the largest, and more localised systems around Durham City, Washington and Sunderland performing different industrial roles. The reports which have reviewed as part of this work anticipate increasing integration as the structure of the economy changes, with concentration of more service sector jobs and growing interaction across higher level and industrial jobs.



EKOSGEN Illustration of 4 overlapping functional labour markets

**Housing Markets:** Work for the Tyne & Wear economic review, demonstrates how these labour market flows interact with housing supply and employment demand. The region in total provides a varied offer as would be expected in an area with a diverse settlement pattern, and supports a complex and changing set of spatial, social and economic relationships with strong linkages across the region. Once again, the future is expected to be characterised by more complex and integrated patterns as urban environments and the structure of the region's economy changes, with economic mobility prompting housing markets to expand spatially.

Further, an assessment of the impact of these trends, in terms of economic benefits for people in constituent areas, is provided in the report. An analysis of the most recent employment data shows:

- employment opportunities in all parts of the area supporting different levels of employee and resident income
- that the urban centres of Newcastle and Gateshead supply employment opportunities for people living in the surrounding districts and counties
- that employment within these urban centres provides higher levels of earnings

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<sup>10</sup> Ekosgen (2010), Tyne and Wear City Region Economic Review: Economic Geography, Linkages and the Low Carbon Economy Executive Report

District	Labour demand	Employed Labour force	Earnings (by employment)	Earnings (by residency)
<b>Durham</b>	177,000	221,300	437.40	458.00
<b>Gateshead</b>	96,000	84,600	482.70	465.20
<b>Newcastle</b>	187,000	133,700	484.50	469.70
<b>North Tyneside</b>	78,000	90,000	454.40	454.40
<b>Northumberland</b>	124,000	142,500	439.10	462.50
<b>South Tyneside</b>	48,000	66,900	425.30	450.10
<b>Sunderland</b>	119,00	124,500	442.90	424.00

The report also highlights that the majority of the new employment opportunities which will emerge through either jobs growth or replacement demand in the region over the current decade are likely to take place in those sectors which are susceptible to these concentration trends, meaning that over time these integration trends are likely to strengthen.

**Sectors and supply chains:** Looking beyond the labour market, the report provides evidence of both complementary and differentiated patterns in key economic sectors.

Automotive: Automotive is the largest manufacturing sub-sector in the North East as a whole. The report demonstrates that there is a network of tier 1 automotive suppliers spread across the North East Economic Area, illustrating the benefits of the clustering effects and providing significant export capacity nationally and internationally. The cluster also provides an opportunity for linked sub-sectoral growth with the positive experience of Nissan in Sunderland reportedly contributing to the decision of Hitachi to locate in County Durham, creating similar opportunities for tier 1 and tier 2 supply chain development and the building of a wider cluster effect, complementing a number of specialist rail engineering companies in the area. The strength of advanced manufacturing and engineering particularly around the A19 corridor and a new National Advanced Manufacturing Park has been recognised in the developing City Deal being put forward by Sunderland and South Tyneside, with considerable potential for regionally significant growth over the coming years.

Pharmaceuticals: The region is home to a small cluster of globally significant manufacturing companies who are amongst the most productive in the world. Whilst the sector presence is predominantly manufacturing, pre-clinical research and development, full scale drug-testing trials, pilot stage manufacturing and packaging and distribution are all present. Estimates suggest that this is a significant region-wide strength with the North East responsible for 33% of the country's GDP in pharmaceutical manufacturing.

Low Carbon Energy Generation: There are significant opportunities for offshore wind energy generation off the North East Coast, with the industry seen as a good long term investment. With the combination of the recent Energy Bill in December 2012, and the anticipation of a positive "strike price" announcement this summer, likely to create a positive investment environment will be created. The North East as a whole is well positioned to take advantage of this with a number of opportunities in the supply chain and the wider development of the industry through assets located across the region, and a number of ongoing support needs.

*Tourism and culture.* The tourism and culture economy is a strong contributor, with an increasingly global reputation. It includes 10,000 businesses and employs over 60,000 people with significant assets including the World Heritage Sites of Hadrian's Wall and Durham Cathedral and Castle, the BALTIC Centre for Contemporary Art, the Great North Museum, Bede's World, a magnificent coastline and a host of other historic, natural, sporting and cultural attractions. Most of these assets are considered by Visit England as 'Day trip' sites so economic benefits from these attractions will derive from a clustering approach, combining the presence of sufficient critical mass of attractions and strong projection to incoming and indigenous visitors combined with a wider programme of cultural and sporting events based in the region as a whole. Events such as the Sunderland Air Show, Lumiere lighting events, the 2013 exhibition of the Lindisfarne Gospels, and sporting highlights such as the Great North Run and Test Cricket at Durham bring substantial visitor spend into the area.

*Retail and Leisure.* There is a strong concentration of retailing and leisure services in Tyne & Wear which service much of the North East and also draws in consumers from beyond. The main centres are the City Centre of Newcastle and the Gateshead MetroCentre, the only free-standing regional shopping centre in the North East Region. Retail patterns show significant flows to these two centres across the region, over and above the services provided by local high streets. In the area, Sunderland, Durham and to a lesser extent Hexham provide an alternative offer to the two main centres and more residents from the immediate area shop in these centres than travel.

Parallel patterns would be likely in industries not reviewed in this work. In health care and education, for example, the pattern is likely to be similar to those of other service sectors, but with key public sector assets spread across the region.

**In summary, this review of evidence demonstrates that there are strong functional economic linkages in the regional labour market and across a range of key industries in the area. Whilst it is not a uniform pattern there are strong interdependencies across local authority boundaries.**

Indeed, one of the key messages from evidence submitted to the NEIER is the increasingly complex structures and networks crossing traditional sectoral and spatial boundaries with crucial innovation opportunities likely to result through interactions across sectoral and spatial boundaries, as well as within them and a key role for public policy makers to seek to stimulate this type of development by creating opportunities for networking and on-going interaction.

The prospect of further autonomy for Scotland is stimulating a new interest in developing collaborations between the North East as a whole, Cumbria and Scotland. There certainly appears to be scope for joint approaches to economic growth based on both sector and place, and there are opportunities for policy co-ordination. There seem to be possibilities for the North East and Cumbria to come together to engage with the Scottish Government and other Scottish interests. There would be opportunities, too, for the North East, Cumbria and Scotland to develop a common 'voice' and influence the UK Government.<sup>11</sup>

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<sup>11</sup>IPPR North on behalf of ANEC (2013), Borderlands: can the North East and Cumbria benefit from greater Scottish Autonomy?

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# 3. Current Governance Arrangements and the Case for Change

## Introduction to this section

This chapter sets out the current arrangements in relation to the functions that are the subject of this review and seeks to establish if the formation of an EPB or CA to carry out these functions is **likely to improve**:

- (a) the exercise of the relevant statutory functions;
- (b) the effectiveness and efficiency of the relevant functions; and
- (c) regeneration and economic conditions in the Area.

In this context this chapter explores whether the opportunity of an EPB or CA is one that could lead to further improvement for the residents of the Area.

## Current Arrangements

This is a natural economic area based on a distinct and complex geography with a population approaching 2 million served by **7 contiguous Local Authorities – the LA7**. The area is one of the largest ‘economic centres’ in the north of England and contains natural, cultural, historic and industrial assets of national and international repute.

The Area demonstrates a diverse pattern of settlements, capturing city locations and their hinterlands, and a network of towns and smaller settlements including post-industrial, coastal and remote rural communities. Our city and urban areas, clustered in and around the River Tyne and the River Wear, are key business and employment locations, and are complemented by a strong network of towns providing strategic economic, social and transport functions along strategic transport corridors and rural and coastal locations.

From cross-sector partnerships within local areas to thematic or spatial joint initiatives between authorities, good practice in joint working exists at all levels and there is a strong sense of a shared ambition to provide collective leadership and a unified voice across the area. The 7 Local Authorities work together on a number of strategic initiatives that contribute to the economic growth of the North East and collaboration at a strategic level is primarily governed through the following arrangements.

The **LA 7 Leadership Board** was established in December 2012 and operates under an established terms of reference, formalising the existing close relationship between the 7 local authorities. The Board is responsible for a wide range of joint initiatives including shaping the strategic direction of Newcastle International Airport and for agreeing local major transport schemes and has a particular focus on economic growth. This new arrangement enhances collaboration between the authorities ensuring the strongest possible contribution to the leadership and economic development of the region.

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The **NE LEP** was formed on 27<sup>th</sup> July 2011, in response to the local growth white paper<sup>12</sup> LEPs are voluntary partnerships between Local Authorities and the local business community. The North East LEP is contiguous with the LA7 Area. The Board consists of 18 members (9 business sector/ 2 HE/FE sector/ 7LA Leaders/Elected Mayor) with a business leader as chair. Sunderland City Council acts as accountable body to the NE LEP and all NE LEP employees are employed through Sunderland (although the LEP is supported by some employees seconded from other LA7 Authorities). The NELEP has a vision to rebalance the economy and create “Europe’s premier location for low carbon, sustainable, knowledge-based private sector-led growth and jobs” The key roles of the NELEP are:

- to lobby Government on issues of economic importance to the North East of England;
- to act as an advocate and champion for business and community interests;
- to provide strategic economic leadership and local accountability;
- to demonstrate added value and efficiency; and
- to commit to working across local administrative boundaries

The **Association of North East Councils (ANEC)** continues to bring together the 12 local authorities across the whole of the North East – an area covered by the NE LEP and the Tees Valley LEP - on issues that concern them all and the communities they serve. The Association acts as a strong and coherent voice for its members and protects, promotes and supports their interests to make a real difference to the well-being of people living in the North East.

The 12 councils share a commitment to creating the conditions for economic growth and the LEP geographies work to drive things forward so that the North East as a whole can build on its strengths and assets. Working together where it makes sense to do so, both LEPs have a vital role to play in driving growth in our economies. Areas of joint working have been identified including access to finance, key sectors and transport.

The objectives of ANEC are to:

- act as a strong and coherent voice for local government in the area;
- provide a forum for discussion by Representatives of the Constituent Authorities of any matters affecting the area or local government in the area;
- protect, promote and support the common interests of local government in the area;
- promote a high standard of public administration throughout the area;
- pursue issues of benefit to local government in the area;
- act collectively to represent the views of local government in the area at the regional, national and international levels including the Local Government Association, Government departments etc;
- facilitate the appointment of local authority Representatives to regional, national and international bodies; and
- secure, in pursuit of the above objectives, the maximum co-operation and co-ordination between Constituent Authorities.

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<sup>12</sup> Local Growth: Realising Every Place’s Potential, Cm 7961 Dated 28 October 2010 and a joint invitation from the secretaries of state for Business Innovation and Skill and Communities and Local Government dated 29 June 2010.

### Creating the right governance for Growth

The LA7 Leadership Board recognises its role in rebalancing the economy by creating the right conditions for sustainable economic growth and resilience, encouraging investment and promoting employment. The area is one of the largest 'economic centres' in the north of England, but with a distinct and complex geography. A wide range of issues must therefore be addressed across the area, recognising that activities and interventions need to respond to the specific characteristics and functional linkages within the economy.

As well as enhancing relationships between the seven local authorities, the strengthening of current arrangements for collaboration would provide an opportunity to clarify partner roles and functions within the existing architecture of organisations focused on growth in the North East as a whole. In particular, the LA7 Leadership Board is seeking to formalise an active and transparent role for private sector involvement through the North East LEP, alongside greater democratic legitimacy secured through local government leadership within a clear and coherent governance framework.

The review of existing arrangements has enabled the LA7 Leadership Board to consider the optimal arrangements to deliver its strategic objectives and to drive growth. This means bespoke arrangements that address the issues, challenges and opportunities that are particular to the North East.

### Economic Growth

The 7 North East local authorities share an overarching ambition to deliver growth across the area. Although the long tradition of co-operation between authorities has brought positive results, the informal structures that support it have developed into a complex web of layered committees and groups. This reduces the capacity for effective decision-making, with a lack of clarity about roles and responsibilities. The OECD<sup>13</sup> stresses the importance of strategy integration across key policy domains, emphasising the importance of institutional capacity at the right level to co-ordinate across key factors, capable of recognising and responding to the distinctive economic circumstances of an area.

A CA structure allows for a simplification of current structures, clarifying roles and aligning them with the CA's remit, powers and authority. This clarity and transparency will ensure a joined-up approach that will improve efficiency and effectiveness in delivering economic growth and transport functions across the LA7 Area.

### *Strategic Funding*

Significant changes to the economic development landscape and funding regimes in recent years have reduced institutional capacity to coordinate and align funds around wider economic priorities. Despite impressive growth before the downturn the North East as a whole is currently suffering the considerable effects of the recession which must be addressed. The creation of the North East LEP has brought a greater focus to economic development and there have been significant projects funded by both Regional Growth Fund and Growing Places Fund, as well as through the Newcastle City Deal. However with new funding opportunities and policies on the horizon, including the Single Local Growth Fund and the EU Structural and Investment Funds 2014-2020, there is an added impetus to ensure the Area is maximising the use of these new funds alongside

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<sup>13</sup> OECD (2009), How Regions Grow

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existing local resources, together with our understanding of the strengths and challenges of our economy.

In its response to the Heseltine Report, the Government commits to a Single Local Growth Fund from April 2015.<sup>14</sup> In the same document the Government agreed that the management of structural funds should be streamlined<sup>15</sup> and that the resultant programme will be notionally allocated to the Area.<sup>16</sup> The Government also commits to devolving resources and responsibilities where "...there is credible and compelling economic leadership".<sup>17</sup>

The creation of a CA with additional institutional capacity will allow the Area to demonstrate its capacity to take on more functions and responsibilities and provide the governance framework for a single approach to investment supporting economic growth across the 7LA geography.

The CA, working closely with the LEP, will take a strategic approach to funding in support of the economic growth ambitions of the NELEP area. A coordinated and efficient use of shared resources will deliver an economic intelligence and analysis function as a basis for strategic planning and coordination. In practice this will mean a seamless approach across all seven local authorities and the LEP for economic development spend and functions underpinned by a clear set of integrated priorities, an understanding of strengths and the area's competitive advantage and shared economic ambitions. A shared strategic multi-year plan for local growth will be developed with the NE LEP to take forward agreed economic priorities and the recommendations from the Adonis Review. A strong pipeline of projects will support the overarching vision and strategy. Investment decisions taken by the Combined Authority will fully reflect business views. These views, both in terms of shaping prioritisation and scheme design will ensure that public investment is targeted to maximise business benefit, which is key to economic growth.

Housing investment across the LA7 area will make a significant contribution to future prosperity and quality of life. The CA will collaborate on identification of strategic housing investment needs as a guide for HCA investment. The CA will work to ensure that future housing provision across the LA7 area fully supports the economic agenda.

The CA will utilise innovative financial mechanisms that can take forward a range of funding opportunities including Special Purpose Vehicles where appropriate to support additional borrowing, all helping to achieve the broad outcomes in the Adonis Review.

### Outcomes

The proposed strategic approach will deliver a flexible, responsive and joined-up approach to funding opportunities across the Area in order to drive growth. This will be demonstrated by:

- improved efficiency and an approach that reduces internal competition through robust and objective mechanisms for allocating funding to priority projects based around added value to economic growth
- greater clarity and alignment of priorities, deliverables and funding contributions of partners, e.g. Skills Funding Agency, JCP, HCA, etc which are in support of the area's economic ambitions
- greater alignment and matching of disparate funding sources when managed as a single fund in support of agreed economic priorities, including EU funding and Single Local Growth Fund.

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<sup>14</sup> Government's Response to Heseltine, page 37 at 2.4

<sup>15</sup> Ibid, page 50 (at 2.59 – 2.68).

<sup>16</sup> Ibid, page 50, at 2.61

<sup>17</sup> Ibid, at 2.5

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- greater prioritisation to support regionally significant projects and therefore effective use of reduced resources to support economic ambitions
- greater local determination and support of economic priorities
- Clarity on the role of strategic housing investment in supporting the economic development agenda across the LA7 area
- better forward thinking and confidence to pursue long-term projects as the approach provides funding stability to achieve those ambitions which are beyond the limitations of some current funding streams

### **Skills**

In the recent Green Paper - Rigour and Responsiveness in Skills<sup>18</sup> the government has highlighted its commitment to making the present skills system both simpler and more responsive both for the learner and the employer. The paper highlights:

*“the changes we have introduced so far have laid the groundwork for rigorous and responsive training. However, there is still some way to go to create a system that through its very structure creates rigour, and ensures that provision responds to the individual and the employer.”*

A comprehensive evidence review has recently been completed by Glasgow University to underpin the development of the North East Skills Action Plan

Whilst it recognises that over recent years there have been significant changes in the skills and funding landscape, with a shift in emphasis towards a more localised response, it describes the skills system in the North East as *“a complex interconnected web of institutions involved in designing, supporting, resourcing and delivering the improvement of skills”*.

It also suggests that the skills system *“remains overly complicated particularly for employers and learners”* and identifies that there are *“opportunities for better coordination of activities and initiatives to improve the information on which skills decisions are made, to get a better match between demand and supply”*.

The current system includes a wide range of organisations responsible for the development and implementation of policy and allocation of funding including the Skills Funding Agency, the Department for Business, Innovation and Skills, the Learning and Skills Improvement Service, the Higher Education Funding Council for England, Sector Skills Councils, the National Apprenticeship Service, the National Careers Service and the UK Commission for Employment and Skills. DWP funding for the delivery of employment interventions also contributes to this complex picture.

The skills system is predominantly driven by national policy and funding criteria. This centralised approach often inhibits the flexibility to respond to local priorities. There is little scope for strategic LA influence in the commissioning process and allocation of skills funding at a local level and no mechanism in place for local authorities to performance manage and monitor the effectiveness and impact of skills provision against agreed economic priorities;

There is no clear structure in place that allows employers to exert strategic influence on the skills system. This is a critical issue that needs to be addressed in order to develop a more effective demand led system.

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<sup>18</sup> Rigour and Responsiveness in Skills, DfE/BIS Green Paper April 2013

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The CA will provide a coordinated approach for skills collaboration that is underpinned by robust economic and labour market intelligence and places employers at the centre of design and delivery of the system. It will:

- Amalgamate all existing plans to develop one coherent skills plan. This will ensure that public funding for skills will be fully aligned with economic need;
- Be the accountable body for any agreed devolved skills funding, to ensure priorities are set based on economic needs, and focused on maximising impact and return on investment;
- Work with key stakeholders to co-design a skills commissioning framework to enable a stronger influence over how funding is allocated or awarded to providers delivering across the Area, including developing a local robust performance and quality management process<sup>19</sup>;
- Provide a simplified approach to long-term decision-making on the skills agenda - allowing clear investment decisions to promote sustainable economic growth across the North East.
- Develop a mechanism to support employers to articulate their current and future skills needs and ensure their engagement and influence in the design and delivery of the skills system;
- Ensure closer ties with the business community, utilising the private sector expertise within the NELEP Board to help champion the proposed new approach to skills and ensure an effective employer voice in the direction, design and delivery of future skills provision.

### Outcomes

The CA proposition will deliver a coherent and effective skills system in the long term that will meet the needs of the North East economy, enabling investment in the skills that will deliver our growth aspirations. It will:

- Reduce ambiguity and overlap of roles and responsibilities through the development of one co-ordinated skills plan which will improve cost effectiveness and avoid duplication;
- Improve efficiency in the skills system by developing a co-ordinated and cohesive approach to delivery across the functional labour market;
- Create a more flexible incentivised system which encourages learning providers to develop new and responsive learning opportunities which will supply a skilled workforce to maximise economic growth;
- Develop a strengthened framework for improved choices by individual learners, ensuring that individuals have better access to information advice and guidance to make sound career decisions and have appropriate access to skills provision which reflects existing and future labour market opportunities;
- Significantly improve the involvement of employers in the design and delivery of skills programmes which will improve the articulation of demand, to ensure that current and future workforce needs help to drive up productivity and competitiveness;
- Stimulate employers investment in skills alongside publicly funded provision;
- Improve the rate of return of investment in skills for the individual, the employer and the economy.

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<sup>19</sup> This framework could then be utilized for any other devolved funding opportunities that the CA wants to influence and that may become available post April 2014 e.g. DWP funding.

### ***Inward Investment and trade***

Inward investment is of key importance to the North East Economy as a whole and the area has been successful in attracting both foreign and UK based inward investment over recent years. Working closely with partners in the Area, Local Authorities play a significant role on Inward Investment through a range of bodies (NGI (Newcastle and Gateshead), Make it Sunderland, Business Durham, Arch (Northumberland) Invest North Tyneside and Invest South Tyneside). NE LEP has established protocols in relation to UKTI enquiries from foreign investors however this is at an early stage.

The area has performed well in inward investment and undoubtedly has further untapped potential for growth. Sector strengths and opportunities for attracting further investments can be realised but those sector strengths very often cover a wider geographic area. In offshore and energy, for example, the 3 rivers can offer a complementary proposition in terms of supply chain linkages, skills and site suitability. Moving forward it will be important to co-ordinate and streamline the approach to investment enquiries across the area to ensure an effective response that converts investment leads into economic growth.

The area has renewed and strong challenges from neighbouring areas for mobile investment ie the Scottish offer has high profile, is well articulated and is very attractive. To the south the Tees Valley area is served by a single point of contact covering 5 Local Authority areas with some similar sectoral priorities.

There is a current gap in the information held across a wider view of an area - the inward investment business proposition and sectoral approach does need to be kept current and fresh. There is a lack of coordination and a variable quality of provision and level of service across the area leading to potential confusion for the client and missing of opportunities.

The proposal to coordinate inward investment activity through a CA will make the North East more competitive with other regions nationally and internationally.

The CA will provide an 'Investment Gateway' resourced within the CA and including a high quality website to handle and broker incoming enquiries and promote a key proposition for investors that has a clear focus on key sectors. It will support strengthened relationship/information flows with UKTI, including with national, international and specialist functions and operate a CRM system to link partner activity.

The 'Gateway' function will ensure co-ordination with and support for local authority Investor development and support teams, agents and business. It will facilitate information exchange about incoming proposals and harness Private Sector Market Intelligence.

As the model develops it will extend to pro-active lead generation, co-ordination with other key stakeholders and explore the case for public sector relocation. A co-ordinating role through the CA on trade and exporting is also being explored around an intelligence function and support for strengthened relationship and information flows between key partners.

### **Outcomes**

The new approach will draw on the significant skills of the LEP through the ambassadorial and sector-led expertise of the business members of the Board. It would also enable all the key partners such as Universities, property agents, developers and other key intermediaries such as CBI, NECC, FSB etc to play a more significant role and engage with one point of contact and enable a more comprehensive offering with ease of access for clients.

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The new 'Investment Gateway' will add strategic capacity for enquiry handling and relationship building while playing to the strengths of the Local Authorities. The CA will collate wider demand and help local authorities to bring forward the right environment and infrastructure including skills – to support investment attraction.

Engagement with UKTI and other Government stakeholders will be more streamlined and efficient with clear accountability for responding to enquiries and articulating the area's inward investment proposition.

It will importantly allow a combined and more cohesive offer and promotion of the area, using our significant assets and strengths and avoiding duplication of effort.

### Transport

**“Good transport equals good economics. That’s how you generate growth and put people back to work. That’s how you make Britain’s competitive edge razor sharp.”**

- The Rt Hon Justine Greening MP, Secretary of State for Transport, 18th January 2012

The LA7 Leadership Board recognises the importance of the link between transport provision and wider economic growth and views transport as a core function of a Combined Authority for the Area. Responsibility for transport functions across the area is currently divided between a number of different bodies outlined below. There is no single body with a strategic overview and responsibility for transport and the majority of transport functions are vested in a different body to those with responsibility for functions that drive economic growth.

The Tyne and Wear Integrated Transport Authority (the **ITA**) is a strategic and policy-making body acting for and on behalf of the five local authorities in the area it covers. The ITA is responsible for significant transport assets including the Tyne and Wear Metro System and the Tyne Tunnels and has been responsible for overseeing major development projects<sup>20</sup>. The majority of the ITA's funding<sup>21</sup> is generated from a transport levy on the five Tyne and Wear councils (based on population size). Newcastle City Council currently acts as lead authority for the ITA.

Nexus is the Tyne and Wear Passenger Transport Executive and administers funds and delivers services on behalf of the ITA. A proportion of the levy and income from advertising and ticket sales are invested in service delivery.

Durham and Northumberland (both Unitary Authorities) each have their own transport strategies and plans<sup>22</sup> and are individually responsible for the delivery of services. All 7 local authorities have individual responsibility as highways authorities.

The 7 local authorities are the majority shareholder in Newcastle International Airport and the LA7 Leadership Board has a key role in shaping the strategic direction of the Airport agreeing a £300m

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<sup>20</sup> Between them, the metro all change project and second Tyne Tunnel represent the biggest inward investment in transport infrastructure ever achieved in Tyne and Wear.

<sup>21</sup> 2011/12 – 73.792M

<sup>22</sup> Durham LTP3: [http://content.durham.gov.uk/PDFRepository/LTP3\\_TransportStrategy.pdf](http://content.durham.gov.uk/PDFRepository/LTP3_TransportStrategy.pdf) and Northumberland: <http://www.northumberland.gov.uk/default.aspx?page=7846>.

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refinancing package in 2012. Earlier this year the Board also developed new arrangements for the prioritisation of local transport funding through a North East Local Transport Body.

The challenges in passenger transport service delivery are quite different in areas that have a diverse spatial geography (due the differing needs, distances, population densities and demographics) than those compared with the urban core, however Durham and Northumberland face similar challenges in relation to some of their transport issues. Stakeholders recognise that delivery at Local Authority level may be most efficient for many transport services, however, it is recognised that transport is a key driver of growth and the strategic alignment of transport within economic growth strategies emphasises a clear link between transport and skills, housing and economic prosperity.

A CA will ensure political leadership at the highest level on strategic transport planning, set within the context of the wider economic strategy for the area. It will provide the certainty to enable difficult decisions to be taken within a long-term investment programme and ensure the most efficient use of the combined transport resource across the LA7 Area.

The transport function within the CA will be underpinned by a joint Local Transport Plan for the 7 local authorities in order to co-ordinate and prioritise strategic transport investment, and best align with the area's wider economic development objectives. This joint plan will be discharged via the use of separate implementation plans delivered at local level.

The CA will be an Integrated Transport Authority (ITA), and assume all the statutory powers and functions associated with this role. The CA will therefore assume strategic transport responsibilities currently governed separately in Tyne & Wear, Northumberland and Durham. The Tyne & Wear ITA will be discontinued and replaced by a new ITA with a wider geographical footprint. Managing this transition is the key challenge in establishing the new body. New governance arrangements for transport need to be in place for the commencement of the Combined Authority in April 2014. Transition arrangements for finance and delivery will be necessary beyond this point, and will need to continue with some Tyne & Wear legacy functions embedded within wider Combined Authority governance for all seven local authorities; particularly those related to the Tyne & Wear metro. In addition the final scheme for a combined authority will devolve appropriate transport functions to Northumberland and Durham to enable local delivery arrangements to continue during the period of transition.

Whilst recognising the challenges in bringing together transport arrangements that include established delivery structures, differing levels of local infrastructure and the associated costs and levy, the overall strategic co-ordination under the direction and oversight of the CA board from its inception will ensure that local needs and interests will not be overlooked during the consideration of opportunities for enhancing economic prosperity of the Area as a whole.

### **Outcomes**

Coordination of economic development and transport is a central rationale for the statutory basis for a Combined Authority, and therefore fundamental to its creation in the LA7 Area. The Combined Authority will be ideally placed to provide leadership and a region-wide voice on key strategic transport issues. A Local Transport Plan (LTP), integrated within our economic strategy, will allow strong representation from the area on topics such as High Speed Rail, the East Coast Main Line, franchising of local rail services, aviation connectivity and the role of our ports and strategic road network. This will form the basis for engagement with others including Tees Valley.

Internally, greater co-operation will allow improvements to the region's public transport network, including possible changes to the regulatory regime for bus services, increased opportunity to address congestion on the local road network, and a step change in information and ticketing provision for the travelling public. The inclusion of Northumberland and Durham within an Integrated Transport Authority will provide particular benefits for cross-boundary transport, including commuter routes into our primary urban centres.

A CA provides the best framework to maximise, and manage, devolution of transport funding from central government. Aligning the geographical footprint of transport governance across a functional economic area will improve the efficiency of the transport system, and create a framework for more effective decision-making on transport in the context of wider economic objectives.

### **Other issues and improvements**

#### ***Being Seen and Heard***

Institutional capacity across the Area will inevitably increase the visibility of the area to governments in the UK and EU as well as potential inward investors. It will allow the Area to engage directly with key decision makers for the benefit of the Area. A smaller number of priorities designed to have the greatest transformative economic impact can be presented with greater effect. The Area can engage directly with the EU, the devolved administrations and other national bodies.

This is also true of national bodies. The CA would have a much stronger voice in discussions with bodies such as the Highways Agency, the Homes and Communities Agency, the Skills Funding Agency, Department for Transport and other Whitehall departments.

#### ***Sourcing and Shared Services***

There is already a clear call for enhanced institutional capacity with centralised research, intelligence and advocacy functions.<sup>23</sup> There are also a number of informal arrangements in place across the Area in connection with the sourcing of specialist goods and services. The new body would retain flexibility to explore formalising these arrangements in future.

#### ***The Relationship with the NE LEP***

The LA7 are committed to working with the NE LEP for the benefit of the Area. Through the integrated governance mechanism discussed in the concluding chapter, the LA7s relationship with business can be cemented into a long-term partnership to focus on the area's needs and economic growth. This governance arrangement can ensure those connected with experience of the challenges facing business are able to use that experience to ensure that initiatives will work in practice and are delivered effectively.

#### ***Duplication and set up costs***

Combined authorities are designed to enable local authorities to deliver improvements in economic growth and transport across the area. Better coordination of interventions under a shared strategic approach to growth will reduce duplication across the constituent local authorities and ensure greater efficiency and effectiveness in delivery. A core principle in establishing a combined authority for the LA7 Area is that any costs incurred in establishing new arrangements would be offset by efficiency gains achieved through the new body can be met through existing resources

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<sup>23</sup> NEIER p.14

and utilising the skills and capacity that already exist within the constituent local authorities. The following measures can be considered to ensure efficiency is maintained:

- all functions will be discharged by the CA utilising existing capacity within the constituent local authorities
- a service ethos will be maintained at all times. The CA is not intended as a superior body instead it is a streamlined centralised function – focussed on communicating the benefits it brings to the constituent functions
- the CA could take over responsibility for other area-focused activities (that are currently delivered on a portfolio basis) where efficiencies can be demonstrated by doing so

### Summary - The Case for Change

In each of the functional areas considered above there is a strong case that co-ordinated action against agreed priorities across the Area will bring improvements. This is particularly the case when the public and private sectors work together in design and implementation. With a detailed understanding of our local areas, their opportunities and challenges, the 7 local authorities are uniquely placed to shape the strategic direction as well as support delivery of the key interventions that will deliver growth and prosperity. The proposal to create a Combined Authority across the Area would provide a stable and accountable platform for devolution of resources and powers from central government.

Economic data, the recent North East Independent Economic Review and the Government's response to the Heseltine Report provide a strong evidence base in support of the case for single, co-ordinated strategic approach through a combined authority.

The current arrangements for collaboration across the LA7 area are based on a strong but informal partnership between the seven local authorities. Establishing the LA7 Leadership Board was an important step in formalising these arrangements, however recent experience of establishing the Local Transport Body has illustrated their limitation. Only by the establishing statutory arrangements for collaboration will the LA7 Leadership Board be able to fully achieve its shared ambition for growth.

The overarching benefits that would be delivered by a Combined Authority over alternative governance arrangements are considered below:

- Strong and visible collective leadership of the Area recognised by government with greater democratic accountability and transparency
- A unified and influential voice to have a single conversation with government, national agencies and business leaders in the development of local growth policy, strategic interventions, securing a greater share of national resources and influencing national decision making
- Alignment of decision-making on transport, skills and economic growth at a strategic level under a coherent strategy and investment programme, maximising the opportunity of all available levers to assist growth
- A stable and accountable platform underpinned by statutory powers to access significant devolved powers and funding delegated from central government to enable locally devised interventions that are delivered in a coherent and planned way. A single politically accountable body will take a holistic view of the area and the likely economic impact of decisions for greatest impact across the Area.

- A more robust governance framework to make decisions, manage risk, set strategy, manage delivery, assess performance and report on progress giving confidence of a strong advocate for the area and effective local leadership in driving economic growth
- An integrated governance model that formalises an active and transparent role for private sector involvement through the North East LEP
- An opportunity to draw together a range of funding sources including EU funds and a devolved single local growth fund, enabling a holistic approach to tackling shared priorities and driving growth
- Closer working across the wider public sector on integrating functions and services and providing innovative solutions to the challenges of reduced budgets
- Strengthened capacity through a combined and co-located resource supported with better information and analysis will improve effectiveness. Addressing issues once rather than multiple times will be more efficient.
- Reduced potential ambiguity, duplication and overlap of decision-making in relation to strategic functions. The strength of shared intelligence and analysis will provide a basis for more efficient and robust decision-making.

## 4.Options Analysis and the Anticipated Improvements

### Introduction to this section

This section analyses each of the options available

### Options Analysis:

Option	Evaluation Reasons
1. Do Nothing	 <p>Doing nothing fails to create the institutional enhancement most likely to address the underlying economic needs of the Area. It leaves the LAs with dispersed and inadequate research, intelligence gathering and advocacy capacity. The Area remains less visible to National and European Government and is less able to co-ordinate, prioritise and seek funding.</p>
2. Create and/or Enhance Informal joint working arrangements	 <p>Quite sophisticated joint working arrangements already exist. They cover strategic joint working (on issues such as this review); the sharing out of lead (accountable body) responsibilities for Area-wide initiatives and operational issues, such as co-ordinated procurement, aggregated sourcing and sharing of best practice. Establishing more formalised partnership arrangements such as a Joint Committee of the seven local authorities and the ITA (Under Section 101 of the Local Government Act 1972) would further strengthen the position however the functions, duties and powers which the constituent members are able to delegate to a Joint Committee would remain limited with a requirement to refer key decisions in many cases back to the individual authorities to authorise.</p> <p>Enhancements made would fall short of being a single body acting solely for the benefit of all the parent bodies and would effectively add, rather than remove, another layer of bureaucracy. Opportunities for funding and additional functions would also be missed. The issues of national and European visibility remain unaddressed.</p>

<p><b>3. Establish an Economic Prosperity Board for the LA7 Area</b></p>		<p>Establishing an EPB does address many of the structural benefits of having a single, legally constituted body and would enable co-ordination at a strategic level on transport. The implementation of a new transport authority to include Durham and Northumberland could be addressed in the longer term. This option would improve on existing arrangements but misses the opportunity to fully achieve real and transformative economic benefits - as transport linkages are significant for the proper functioning of the economic area. Strategic co-ordination of economic growth and transport functions would enable significant enhancements for residents and visitors alike. The Area has strategic priorities which are less likely to be 'heard' or addressed unless they are included in a CA.</p>
<p><b>4. Establish a Combined Authority for the LA7 Area</b></p>		<p>A Combined Authority creates the institutional enhancement most likely to address the underlying economic needs of the Area. It does this by providing a stable, legally independent and accountable body for devolved powers and funding. It will enable strategic decision-making that aligns economic growth and transport to happen in once place, and is better informed through shared information and analysis. It allows the creation of single expert functions, which all authorities can draw upon, increasing effectiveness and capacity and ensuring better strategies for the co-ordination of initiatives. Through some shared services and operational co-ordination, efficiencies may also be achieved.</p> <p>The ability to directly link transport decisions to economic development, skills and regeneration initiatives gives the opportunity for real, transformational change, improving access to economic, skills and employment opportunities and creating improved links for leisure and tourism.</p>
<p><b>5. Seek additional functions for either an EPB or a CA over time</b></p>		<p>Consistent with the government's commitment the CA should seek devolution of responsibility for the allocation of a Single Local Growth Fund and act as the accountable/receiving body or potentially seek ITI status in relation to the EU SI Funds Growth Programme for the Area from 1/4/2015, taking a transfer of asset, resources (and liabilities). This will ensure funds deployed from all sources, strategy and the local authority resources and delivery are aligned to create the greatest economic impact for our Area.</p>

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from 1/4/15

### 5. Conclusions and Closing remarks

The creation and operations of a statutory body for the Area offers significant opportunities to accelerate the economic development and effectiveness of the North East. Bringing together key functions and legal powers and allowing full, meaningful involvement with all leaders - regardless of sector and specialisms - can bring expertise and resources and create real change to advance the interests of the Area and its people. Put most simply, everything we do together will be coordinated to aid economic growth and prosperity. The new body would allow a co-ordinated, sustained, long-term attack on economic challenges in the determined pursuit of growth.

#### A Combined Authority

The value of the public and private sectors working together is clear. There are also clear benefits in bringing transport functions, together with the other proposed functions into the body, to create a Combined Authority. The inter-relationships of skills, transport, economic growth funding and inward investment are clear. The fact that the Area operates as a functional economic market area is also clearly established through the evidence base.

The 7 local authorities are in a unique position in bringing together the existing Tyne and Wear ITA with Northumberland and Durham in a single new transport authority, and this challenge cannot be underestimated. The transport needs in areas with a diverse spatial geography are quite different to those of the densely populated urban centres. The ownership and operations of the Tyne and Wear Metro and the second Tyne Tunnel are particular issues to be addressed in practical implementation alongside the differing methods of delivery across the Area. However, the opportunities created by including transport with the other functions and powers that can aid economic growth and prosperity are significant.

It is likely that, as the bodies become more familiar with working together, they will naturally wish to integrate further. As such the governance arrangements that the CA puts in place should allow the relationship to evolve over time.

Having reviewed existing governance arrangements in the context of the shared vision and ambition of the LA7 Leadership Board there is a clear case for strengthened governance. A range of potential options have been considered, however establishing a Combined Authority will be the most beneficial to address the areas needs and strategic ambitions. A new combined authority is likely:

- to facilitate closer partnership working and is consistent with the recommendations of the recent North East Independent Economic Review
- through a co-ordinated approach to tackling the Area's priorities, to increase the effectiveness and efficiency of the relevant functions
- through improved strategic planning and decision-making based on stronger centralised evidence collection and analysis functions, to improve the delivery of the relevant statutory functions
- to lead to an improvement in the economic conditions of the Area.

### **An Integrated Governance Model**

The Area's governance is simplified and clarified if the functions come together in single legal body – the combined authority. To achieve this the LEP board joins forces with the Combined Authority through an integrated governance model.

The Governance arrangements should also be designed to ensure that the business (and other sectors) can be engaged with effectively over the long term. The CA gives us the opportunity to design a governance structure that creates a stable relationship, where all sectors can constructively engage. It works on this, simple premise:

- The public sector is the right place for public assets to be held and managed. Elected members must play a key role in scrutiny and decision making to reflect the ultimate beneficiary, the public. Similarly, the government must have trust and confidence that the assets are being managed in a manner that is consistent with national obligations and plans.
- The business sector needs to have the influence and opportunity to input knowledge and expertise into designing the solutions and how they are implemented on the ground.

The governance, designed correctly, will enable strong and positive engagement recognising the skills, needs and interests of both sectors underpinned by appropriate powers and responsibilities to achieve and maintain an effective and sustainable balance. These same governance constructs can help the CA to overcome some of the difficulties in the integration of the Transport functions.

Section 90 of the 2009 Act specifies that a CA must be controlled by its members, a majority of whom must be elected members. The key to creating an effective governance model for an LA7 Combined Authority is to recognise that there can be a distinction between where the powers are held and who has the rights to exercise those powers.

Detailed governance arrangements will be contained in a comprehensive set of standing orders which can only be changed with the consent of all members. In accordance with the standing orders the powers held by the CA may be exercised only on the recommendation or with the consent of various bodies.

The detail of the integrated governance model can be agreed between the authorities after the submission of the scheme to government in line with a high level set of principles agreed before submission.

# Appendix 1: Scheme for the establishment of a combined authority

## Section 1 – Intention to Establish Combined Authority

### Establishment of Authority

1. A combined authority (CA) will be established pursuant to section 103 of the Local Democracy, Economic Development and Construction Act 2009 (“LDEDCA”). It shall come into existence on 1 April 2014.

### Area of Authority

2. The CA’s area shall be the whole of the following seven local government areas:-

Durham  
Gateshead  
Newcastle  
North Tyneside  
Northumberland  
South Tyneside  
Sunderland

Each of the above authorities will be the CA’s “constituent authorities”.

### Dissolution of Tyne and Wear Integrated Transport Authority

3. The Tyne and Wear Integrated Transport Area and the Tyne & Wear Integrated Transport Authority (TWITA) will be dissolved pursuant to section 91 of the Local Transport Act 2008 (LTA)

### Name of Authority

4. The name of the CA will be the **North East Leadership Board**<sup>1</sup>

### Membership of the Authority

5. Each constituent authority will be represented by one member of the executive who will be the Leader or Elected Mayor.
6. The executive of each constituent authority will appoint another of its members (“substitute member”) to act as a member of the CA in the absence of the member appointed under paragraph 5. The substitute member must be drawn from the executive of the constituent authorities.

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<sup>1</sup> Within this scheme ‘North East’ refers to the area covered by the 7 local authorities of Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland.

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7. Each member will act in the best interests of the North East as a whole, taking into account all relevant matters. Any substitute member will have the same decision-making authority and voting rights as the person whose place he/she is taking.
8. The executive of each constituent authority may at any time terminate the appointment of a member or a substitute member appointed by it to the CA, save for the elected Mayor.
9. Where a member, or substitute member, of the CA ceases (for whatever reason) to be a member of the constituent authority which appointed them, the member will cease to be a member of the CA, and the executive of the constituent authority will appoint a replacement member as soon as possible.
10. The CA will appoint a Chair and Vice Chair from amongst its members.
11. The CA may co-opt additional, non voting representatives onto the CA. Any decision to change the membership or co-opt representatives must be a unanimous decision of the CA itself.
12. An independent panel will be established to examine existing and future Special Responsibility Allowances, travel and subsistence, in order to determine what is appropriate.

### Voting

13. All constituent members of the CA will have one vote. The Chair and Vice Chair will not have a second or casting vote and members will not be able to abstain from a vote.
14. Subject to the provisions of any enactment the CA will aim to reach decisions by consensus. If, exceptionally, it is not possible to reach consensus on any matter on which it is necessary to reach a decision, the matter will be put to a vote which will be decided by a simple majority of the members of the CA present and voting.
15. The following matters will require the unanimous support of all 7 members of the CA for approval:
  - Adoption of growth plan and investment strategy
  - Adoption of local transport plan
  - Approval of the CA's annual budget
  - Setting of the transport levy
  - Allocation of local transport plan funding to the individual constituent authorities
  - Approval of key growth schemes including the local major schemes devolved funding
  - Approval of borrowing limits, treasury management strategy including reserves, investment strategy and capital budget of the CA
  - Agreement of functions transferred to the CA
  - Such other plans and strategies as determined by the CA
  - Approval of specific proposals for individual co-optees to the CA
  - Use of the general power of competence beyond the powers provided within the Local Democracy Economic Development and Construction Act 2009

### Executive Arrangements

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16. Executive arrangements (within the meaning of the Local Government Act 2000) shall not apply to the CA. However, the discharge of the functions of the CA will be subject to scrutiny arrangements set out in paragraph 19.

### Transport

17. A new model for transport will be established that takes in both ITA (policy) functions and executive (PTE) functions, fully integrating transport strategy and operations across the 7 LAs. The model would, however, devolve the creation and implementation of public transport solutions to the local areas, working within an overall strategic framework for the LA7 area.
18. The Combined Authority will fulfil the role of a Transport Authority for each of the seven local authorities, replacing the existing Tyne & Wear Integrated Transport Authority. Individual authorities will continue to exercise some delivery functions, for example in respect of highways management, but will operate within an agreed framework and plan established through the Combined Authority. The Passenger Transport Executive will continue during a transition phase, working on behalf of the Tyne & Wear authorities, but within the context of the Combined Authority. Following the conclusion of a transition phase, delivery arrangements will be established which operate across the geography of the Combined Authority as a whole, recognising the distinctive needs of urban, suburban and rural communities.

### Scrutiny Arrangements

19. The constituent authorities of the CA will establish joint overview and scrutiny arrangements to exercise scrutiny functions over the CA and any sub-boards and structures. The CA may co-opt additional representatives to the joint overview and scrutiny arrangements as necessary.

## **Section 2 - Functions, Powers and Duties of the CA**

### **Functions – Economic Growth**

20. The primary focus of the CA is to manage a significant programme of investment in transport and economic infrastructure, and to influence and align with government investment, in order to boost economic growth. The related interventions will have differential spatial impacts across the CA area but should aid delivery of key growth projects in the emerging and future local plans of constituent councils. Having regard to the duty to co-operate, effective alignment between decision making on transport and decisions on other areas of policy such as land use, economic development and wider regeneration will be a key aim.
21. By virtue of sections 99 and 102A of the Local Transport Act 2008 (LTA) the CA will have broad well-being powers to promote economic growth which can be exercised in conjunction with the general powers granted to it by section 113A of the LDEDCA (as amended by the Localism Act 2011).
22. Unless otherwise stated, these powers will be exercised by the CA on a concurrent basis i.e. no powers have been ceded to the CA from the constituent authorities. It is proposed that the CA will be focused on economic growth issues that could include, but are not restricted to, functions such as:

- Setting the growth plan and investment strategy for the North East
- Economic intelligence and analysis as a basis for strategic planning and coordination
- Acting as the accountable body for a range of devolved funding e.g. local major transport schemes, Single Local Growth fund, EU Structural & Investment funds, Skills Funding Agency funding
- Strategy and decision-making on the skills agenda across the North East
- Coordinating inward investment activity through an 'Investment Gateway' working with local authority economic development teams

23. There may be further advantages in also securing the use of the General Power of Competence under Section 1 of the Localism Act 2011 which will enable maximum flexibility in dealing with economic development and regeneration issues. Accordingly the CA requests that the Secretary of State exercises his power and to provide that the CA has been delegated General Power of Competence under section 1 of the Localism Act 2011.

24. In addition to the above, the CA will have the following specific powers exercisable concurrently with constituent authorities. These are viewed as complementary to the broader powers to address economic development and regeneration identified above:

- The duties under section 15ZA, 15ZB, 15ZC, 17A, 18A (1)(b), of the Education Act 1996 and the power under sections 514A and 560A of that Act (duties and powers related to the provision of education and training for persons over compulsory school age).
- It is considered appropriate that the CA is designated a local authority for purposes of section 84(2) of The Apprenticeships, Skills, Children and Learning Act 2009 (duty of the Chief Executive of Skills Funding to co-operate with local authorities in relation to apprenticeship training).
- The Power under section 144 of the Local Government Act 1972 (the power to encourage visitors and provide conference and other facilities).
- The duty under section 69 of the Local Democracy, Economic Development and Construction Act 2009 (duty to prepare an assessment of the economic conditions of the local authority's area).

### **Functions - Transport**

25. All the functions of TWITA and the Local Transport Authority functions of Northumberland and Durham will be transferred to the CA. All functions conferred or imposed on TWITA by any enactment relating to functions of Tyne & Wear Passenger Transport Executive will be exercisable by the CA in relation to its executive body.

26. The following operational transport functions will be devolved to Northumberland and Durham to enable local delivery arrangements to continue during a period of transition.

- Information Provision
- Infrastructure Delivery
- Commissioning/procurement of subsidised bus services
- Concessionary Travel

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27. The CA will exercise any function of the Secretary of State delegated to the CA by the order of the Secretary of State pursuant to section 86 of the Local Transport Act 2008 (LTA) and section 104(1)(b) LDEDCA. Such functions will be exercised subject to any condition imposed by the order.

### **Section 3 - Funding, Transfer of Property, rights and liabilities.**

28. The CA as a levying body under section 74 of the Local Government Finance Act 1988 shall have the power to issue a levy to its constituent authorities in respect of the expenses and liabilities of the CA which are reasonably attributable to the exercise of its functions relating to transport.
29. The significant differences in the transport responsibilities and the cost of transport services between Tyne and Wear, Durham and Northumberland mean that a single transport levy would not be appropriate. The Combined Authority will issue a levy on a differential basis that will accommodate the differentials in the cost of delivering transport services in County Durham, Northumberland and Tyne and Wear.
30. The core principle is that the total contribution from each authority of funding transport services for the year does not exceed the equivalent cost for the year as it would have been calculated under previous arrangements.
31. The costs of the CA that are reasonably attributable to the exercise of its functions (including start up costs) will be met by its constituent authorities. Such costs shall be apportioned between the constituent authorities in equal shares. The CA will agree an annual budget for the purpose of expenditure.
32. On the abolition of TWITA its property, rights, assets and liabilities will be transferred to the Combined Authority. These would be ring-fenced under the terms of the Combined Authority agreement to the Tyne and Wear area and will not be the responsibility of Durham and Northumberland.

### **Section 4 – Substructures and Internal Scheme of Delegation**

33. The CA will be the local transport authority for the area and act as the strategic decision making body. The CA and the constituent councils will establish a joint committee under section 101(5) of the Local Government Act 1972 to be called the Transport North East Board. The Transport North East Board will be a sub-committee of the CA providing advice on transport policy matters and will be responsible for the discharge of specified transport functions delegated by the CA.
34. The CA may establish further joint committees or sub-committees and delegate powers and functions as considered by it to be appropriate.

#### **Engagement with NELEP and Wider Business Community**

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35. The establishment of a Combined Authority represents a major opportunity to have a strong, shared voice for the region and to make a step change in our collective efforts to drive the economic prosperity of the area. Effective engagement with the NELEP and the wider business community is critical to the delivery of this ambition.
36. The relationship between the LEP and the Combined Authority will be seamless and will engage the wider business community, ensuring that all partners play to their strengths in contributing to a wider ambition for more and better jobs.
37. The Leaders/Elected Mayor of the seven constituent authorities are members of the LEP and the Chair of the LEP will have observer status on the Combined Authority.
38. A shared economic strategy will be developed and agreed building on the findings of the North East Independent Economic Review.
39. Investment decisions taken by the Combined Authority, for example major transport schemes, will fully reflect business views. These views, both in terms of shaping prioritization and scheme design will ensure that public investment is targeted to maximise business benefit, which is key to economic growth.
40. The CA and the LEP will ensure that executive and staff resources are used in the most effective way to deliver the shared economic strategy.
41. The Combined Authority will act as the Accountable Body for the LEP.

## Appendix 2 - Glossary

<b>A</b>	
2009 Act	The Local Democracy, Economic Development and Construction Act 2009
2011 Act	The Localism Act 2011
ANEC	The Association of North East Councils, representing the 12 Local Authorities In the North East and Tees Valley LEP areas: Darlington, Durham, Gateshead, Hartlepool, Middlesbrough, Newcastle, North Tyneside, Northumberland, Redcar and Cleveland, South Tyneside, Stockton, and Sunderland
Area	The area covered by the contiguous local authority areas of Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland
<b>B</b>	
BIS	The Department of Business Innovation and Skills
<b>C/D</b>	
CA	a combined authority as defined the 2009 Act
<b>E</b>	
EPB	Economic Prosperity Boards as defined by section 88 of the 2009 Act
<b>F</b>	
FoIA	The Freedom of information Act 2000
<b>G</b>	
Government Response to Heseltine	The Government's Response to the Heseltine Review, March 2013 Cm 8587
<b>H</b>	
HEFCE	Higher and Further Education Funding Council for England
Heseltine Review	Report entitled "No Stone Unturned- in Pursuit of Growth', The Rt Hon the Lord Heseltine of Thenford CH, October 2013
<b>I, J, K</b>	
ITA	The Tyne and Wear Passenger Integrated Transport Authority ( <a href="http://www.twita.gov.uk">http://www.twita.gov.uk</a> )
ITI	Integrated Territorial Investment (ITI) is a new flexible tool/mechanism to deliver territorial strategies with structural funds, introduced by the Commission under the regulations for the Common strategic Framework (CSF) funds 2014-2020.
<b>L</b>	
LA 7	The Local Authorities for Durham, Gateshead, Newcastle, North

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## LA7 LEADERSHIP BOARD

	Tyneside, Northumberland, South Tyneside, and Sunderland
LA7 Area	The area covered by the contiguous local authority areas of Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland
LT Act	The Local Transport Act 2008
<b>M, N</b>	
NEIER	North East Independent Economic Review Report (April 2013) commissioned by NE LEP
NE LEP	North East Local Enterprise Partnership
North East Economic Area	The functional economic market area covered by the LA7 local authority areas of Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland
<b>O, P, Q, R</b>	
OECD	The Organisation for Economic Co-operation and Development <a href="http://www.oecd.org">http://www.oecd.org</a>
<b>S, T, U, V, W, X, Y,Z</b>	
SAP	Skills Action Plan
SFA	The Skills Funding Agency