

EU Exit Working Group Meeting – 18 October 2017

Transcript of Agenda Item 5: The Future of the European Structural and Investment Funds in London

Len Duvall AM (Chair): Now we have item 5, on the future of European Structural and Investment Funds (ESIF) in London. We are joined by a number of guests, if I can introduce them: Alex Conway, European Programmes Director at the Greater London Authority (GLA); Despina Johnson, Chief Executive of Enterprise Enfield; Lisa Redding, Acting Chief Executive of the London Voluntary Service Council; and Kris Krasnowski, Deputy Director of London and East Cities and Local Growth Unit at the Department for Business, Energy and Industrial Strategy (BEIS). We welcome you here. We will be joined by The Rt Hon. Lord Heseltine CH as we go through.

Gareth Bacon AM (Deputy Chairman): We were going to start with a national focus, which would obviously go to Lord Heseltine, but because he is not here we are drilling into London now. The first question, really, is to Alex [Conway], which is around the use of the ESIF in London. How much funding has been allocated for the current funding round, which I believe is 2014 - 2020, and how much does the ESIF support mayoral priorities?

Alex Conway (European Programmes Director, Greater London Authority): The programmes are worth about £600 million over those seven years. We typically talk about the programmes being worth well over £1 billion because they are matched by funding from other sources, which can be public or private.

Of that £600 million, the funding is split between two funds. There is the European Regional Development Fund (ERDF). That is the smaller one, worth about £160 million. Most of that funding has been committed. We have a call out at the moment, an open competitive process for which projects can bid, for about £20 million. If all of that funding is committed, that will be the end of it. We are about 85% committed for ERDF, where the funding is mostly committed through open competitive bidding rounds. We also have financial instruments, loan and equity funds. We will come on to that later.

The European Social Fund (ESF), the larger fund, is worth about £450 million. Most of that money goes to skills and employment programmes, which are match-funded by public sector bodies: the Education and Skills Funding Agency, the Department for Work and Pensions (DWP), the Big Lottery Fund, and Her Majesty's Prison and Probation Service. We have some directly funded projects as well, which we might hear a bit about later. Approximately half of that funding has been committed. That is where we would expect to be because, if this was a normal programme with no Brexit happening, funding is normally committed in three-year tranches. One key question for us now is whether these co-financing organisations will commit to another three-year tranche so that we can get all of the funding out of the door. It is not possible, or it would not be practicable, in London to give all that money out in penny packets. There is still a couple of hundred million pounds left to commit there.

Gareth Bacon AM (Deputy Chairman): With the outcome of the referendum last year, are you anticipating any problems in the co-funding taking place for the next three years? The first three years you have just described as being committed. Are you expecting any problems going forward?

Alex Conway (European Programmes Director, Greater London Authority): It certainly does not seem clear at the moment. Again, as you may be aware, the Government has said that we can commit funding until

the point of Brexit and so the end of March 2019. Whether that means in practice as 2018 progresses into 2019 that we will literally be able to sign gigantic contracts the day before we are due to leave remains to be seen, but that is what the Government has said.

In practice, we are seeing some problems now with co-financing organisations. The DWP is making attempts to encourage co-financing organisations to sign up again, and certainly it is the case at the moment that we are in the area where they are saying things like, "We can extend some of our current programmes a little longer", but it is not clear what the final outcome will be.

Gareth Bacon AM (Deputy Chairman): A question to Lisa and Despina, then. What type of European funding does your sector receive from the EU, whether it is ERDF or ESF, and how much is it worth in the current funding period for you?

Lisa Redding (Chief Executive, London Voluntary Service Council): I represent the voluntary community and social enterprise sector in London and our sector mostly gets the ESF. The ESF invests in education, training and employment support and it is specifically targeted at those most removed from the labour market. This includes young people, particularly those who are not in education, employment or training (NEET), the long-term unemployed, people facing complex barriers to employment, those suffering from long-term physical or mental health conditions, prisoners, prison leavers and ex-offenders. It is difficult to estimate exactly how much of the £422 million ESF allocated to London will reach my sector because of the way it is commissioned out. It is commissioned through a prime contractor model, where you have a prime contractor who holds a large contract and then they subcontract the delivery down to other organisations. I would find it very hard to estimate exactly how much, but it would probably be in the region of getting up to £300 million¹ (See footnote) of the ESF that will come down to the sector in some way or another.

Gareth Bacon AM (Deputy Chairman): Is that your sole source of funding?

Lisa Redding (Chief Executive, London Voluntary Service Council): No, the sector gets funding from a large variety of places. Local authorities are still one of the biggest funders of the voluntary sector. In London, we are lucky to have some big trusts and foundations that provide a great deal of support for the sector. Larger organisations are involved in public sector contracts and do public sector delivery of various types and there is also still a lot of individual giving which supports the sector. It is quite a broad range.

Some organisations that take on large ESF commissions do become very dependent on them. It becomes their primary business. To see the withdrawal of that funding is likely to have quite an effect on a number of organisations.

Gareth Bacon AM (Deputy Chairman): Is it possible to say within rough proportions how much that makes up as a proportion of overall funding going into the London Voluntary Service Council (LVSC)?

Lisa Redding (Chief Executive, London Voluntary Service Council): I could not do that, sorry. It is very difficult to get any kind of estimate about how much funding goes into the sector at all. London Funders, which is the membership body for funders of the sector in London, have been trying to get a figure for it for years and it is still very difficult to actually calculate who is giving what into the sector.

Despina Johnson (Chief Executive, Enterprise Enfield): In Enterprise Enfield, we have an allocation this year or in this round of £550,000 ERDF, which we are matching, and that is to run a women's programme. That is for helping women to start up in business in London and also to grow existing early-stage businesses.

¹ In the region of £125million – clarified by Lisa Redding following the meeting

It is particularly targeted at disabled women, women over the age of 50 and also black and ethnic minority women. It is quite vital for that kind of work.

Longer term, when we look back into our funding history, it has been quite vital for us. Over the last nine years we have been involved with five programmes and not necessarily with us as the lead. We have worked with other partners as well. There has been a total of £2.7 million ERDF that has been allocated through those programmes and they have helped us to work with businesses, to help with export, environmental management systems, raising finance and also to find opportunities in the retrofitting market, and so they have always addressed market failure. For enterprise agencies, it is quite a vital source of income for working with small and medium enterprises (SMEs) and particularly in the outer boroughs as well. We are able to work with those smaller SMEs that it is hard for other organisations to reach.

Gareth Bacon AM (Deputy Chairman): I asked Alex [Conway] in the opening question what he expected to happen in the next three years and whether there will be a sudden speeding up of spending of what is currently in the pot. Have you noticed any impacts in your sectors since the referendum last year in terms of assumptions, really, that your organisations and groups are making?

Despina Johnson (Chief Executive, Enterprise Enfield): The other enterprise agencies - I am part of a consortium called Business for London - are all really keen to have this funding. They are used to having ERDF for the work that they do. We are hoping that it is going to be replaced because, with Brexit coming, it is the challenges that businesses are going to have to face and they are going to have to start some really serious planning and making decisions, but they need information to do that. They are going to continue to need support.

Lisa Redding (Chief Executive, London Voluntary Service Council): I was going to say that one of the most important things, particularly for our sector, which always exists, is that we always find it very difficult to plan because we are never quite certain where our funding is coming from. One of the problems with this situation we have at the moment is just the lack of clarity about what is going to happen going forward and so it is very difficult to plan.

Of course, that also has the impact on all the people that our organisations support. What we also have to remember is the effect that losing this funding will have on the communities of London.

Gareth Bacon AM (Deputy Chairman): Are people making plans assuming anything, assuming that the Government will continue the funding or assuming that it will be gone?

Despina Johnson (Chief Executive, Enterprise Enfield): They are finding alternative sources of funding for this work. For us in the consortium, what we have tried to do is to work together more closely and start to find some areas that we feel are working very well and see if we can start talking to the boroughs about trying to fund projects because we all have a local reach and we want to make sure that we can work more closely with local authorities. If they value the work that we are doing, they will fund it. We are aware that local authority budgets are shrinking. There may be potential with areas like Section 106 [of the Town and Country Planning Act, 1990] if it is appropriate, but it is very difficult. There is very little money and there are a lot of competing priorities, but there still has to be investment in SMEs. That cannot be ignored.

Gareth Bacon AM (Deputy Chairman): Alex, which mayoral priorities would be most at risk if ESF funding was withdrawn and not replaced by the Government?

Alex Conway (European Programmes Director, Greater London Authority): Quite a few, I would say. If you look at the programmes managed from City Hall relating to skills, employment, enterprise, environment, low-carbon schemes, they all receive substantial amounts of EU funding both for projects managed by the GLA and organisations and the GLA family like London & Partners and organisations like Despina's and those represented by Lisa. Going back a few years you had Regional Development Agency funding. When that was abolished, there have been local enterprise partnership (LEP) funding streams. Some of the work Lord Heseltine did with the last Government recommending more funding for those has helped to pick up some of that slack.

However, while it is important - we should maybe say this from the start - from the EU's perspective, European funding is always considered as additional to that provided by governments. It is not the job of EU funding to fund hospitals, schools and other things seen as essential but for these important additional areas of funding. However, what we have seen over time in London and perhaps the United Kingdom (UK) more widely is a bit of an erosion of the sources of match funding for this EU funding and now the EU funding itself is at risk.

Gareth Bacon AM (Deputy Chairman): It is highly likely that when we report at the end of the work of this Committee, we will be making a recommendation to the Government that the Government replaces the funding that would be lost as we leave the EU. Have you been doing work building that up on behalf of the Mayor's office?

Alex Conway (European Programmes Director, Greater London Authority): Yes. There is a lot of work going on with this and, if you have been keeping an eye on the Mayor's press notices and so on, you will see repeated calls for devolved replacement domestic funding of at least the value of the current EU programmes and at least a level of devolution of the current EU programmes. There was a meeting last week of the Mayor and council leaders, the congress, and one of the outcomes of that was that the Mayor and London Councils will be writing jointly to the Government with a paper setting out our views on how that future funding could look and there is an advance draft of that knocking around now. This has been an increasing focus of attention on the eighth floor here and that is going to continue.

Gareth Bacon AM (Deputy Chairman): We are going to be seeing the Mayor tomorrow and so we will do a bit of a deeper dive with him at that time.

Len Duvall AM (Chair): Thank you very much. Can I welcome [The Rt. Hon.] Lord Heseltine [CH]? I understand you have been experiencing the -- I would not say the joys of London traffic in terms of getting to City Hall. We fully understand that.

I have a set of questions, but I just wanted to say that even though we are in different political parties, you are one of the few national politicians who has influenced my thinking, my practice and my actions in some of the work that you have done over the many years when you were in public office and national Parliament. I just want to say thank you for that because I do not normally get an opportunity to say that to you and I want to say that because some of the work that you did around, not just grant regimes, but partnership working and issues around how councillors behave in leadership at local and regional level has impacted on a whole host of my colleagues and peers. I want to place that on record.

That is why we have you before us: because of the experience that you have had in some of those programmes and in some of those issues around delivery mechanisms and thinking about regionalism and localism and, at this important time not just for the country but for us in London, thinking what happens if we leave Europe and what happens to these sources of funding. My set of questions really concentrates on the national picture

and what it means in terms of the relationship to London, but please feel free to comment on other questions as well in terms of your views.

Regional development, if we start from that point, has a long and varied history in the UK and many of the programmes now depend on European funding, apart from the [Good] Growth Fund and the London Economic Action Partnership (LEAP), which you have commented on. In your view, how has ESIF really benefited the UK and London? What is your perspective on that?

The Rt. Hon the Lord Heseltine CH: Thank you for your generous remarks. You will perhaps understand if I urge you to keep quiet. You do not do me a lot of good in the Conservative Party.

Len Duvall AM (Chair): It will not do me much good in my party, either.

The Rt. Hon the Lord Heseltine CH: I agree. We probably have a mutual self-interest of destruction in this context.

Well, it is more money. My understanding of what has actually happened with the European funding is that the Europeans wanted an implementation strategy that was extremely local. That did not suit Whitehall and so they parcelled it up amongst the functional departments of Whitehall and used it as another lever to run the domestic economy. I personally do not approve of that.

The devolution agenda, which is now moving and in some ways is impressive, is at a very early stage. My whole approach to Brexit or non-Brexit is not conditional on the devolution issue. We should have done the devolution issue a long time ago and we should do it now on a much bigger and faster scale.

If there is a replacement for the ESIF, there are big issues about that: whether London needs them, whether they should go more to the more deprived or underperforming parts of the economy. These are big issues which the Government will have to determine. My guess is that certainly outside London there will be a replacement of the European funding, but my whole interest in the subject will be about what specific use is made of the money and by whom.

If I can give you an example of something that I covered in a speech in spring this year, in the 1990s I created a framework to involve tenants in the management of public sector housing. It made some progress but not much. Today we need to cost the public-sector programmes that apply to deprived communities and involve those communities in the debates as to whether this is the right use of the money. The money is functionally divided. There are social workers, there are police, there are educationalists, there are experts on this, that or the other, and they all have their package of money. However, those people who are administering the package never meet and there is no one in charge and so there is no co-ordination and no one ever talks to the tenants. I believe Westminster has done some interesting work in this field.

What I would like is to have a real debate saying, "This is the money that is flowing into these areas. Is it being used in a way that you, the tenants, think is more likely to improve the conditions?" The language I would use is 'create ladders of aspiration' because most of the problems are dealt with by sticking plasters, "This is a problem. We will put money into that problem". What is not sufficient is asking how you raise the whole morale and ambition and opportunity of people living in these circumstances, which would happen with more local involvement and with a more co-ordinated approach.

That is just one example of why, when we talk about any of these big global funds, my interest immediately goes into what happens when the money is actually spent, by whom, where, and with what results.

Len Duvall AM (Chair): Thank you for that. You mentioned that you thought definitely there is going to be a programme outside London. London receives about 11% of the English share of ERDF and ESF. You have, in other past reports, talked about how London's prosperity should not be at the expense of the rest of the country but, equally, London should not be held back.

In terms of the grant regime of the future, what would that look like in terms of the nature of London and the southeast and in terms of generating tax dollars in the UK economy? Can you see a case where London should not be part of this grant regime or does it need a specific grant regime that may be different from the rest of the country?

The Rt. Hon the Lord Heseltine CH: What is beyond question is that London has some of the most acute areas of deprivation in the country and so there is undoubtedly a need for public sector intervention. The issue is whether London itself is so much more prosperous than the rest of the country that it could afford that without a redistribution mechanism of national resources or, in this case, European resources. That is a very legitimate debate.

Probably, from my knowledge of the circumstances outside London, there is an argument saying that London should be able to finance its own social remedial programmes, but this is a highly controversial political judgment which will depend on calculations about marginal seats and goodness knows what.

Len Duvall AM (Chair): Very much so, and also that the opinion-formers live in London in many ways because that affects the outcomes and programmes of the Government as well. Would you say that?

The Rt. Hon the Lord Heseltine CH: It is true, but I am not sure that it is quite the logical explanation. I may not be using the right words. You have to look at these functional departments and you have to think about the careers and the interests and the commitments and the genuine intention to do well of the people who are ministerially responsible and who work as officials in those departments or serve in the quangos surrounding them. They want to do the very best they can within the function that they operate.

What they do not like is any suggestion that their functional budget should be shared with, or watered down for other functional departments. There is not a culture of co-operation. There is not a culture of cross-fertilisation or analysis wider than the function.

You are perfectly right that, by and large, the people who make these decisions are in London, but I am not sure that being in London is the condition that makes them think the way they do. It is the human nature of the individuals. Quite rightly, they want to do well. Their career depends on doing well. They want to serve properly. The fact they are in London is almost incidental.

Len Duvall AM (Chair): In 2012 with the publication of *No Stone Unturned*, you put a lot of faith in LEPs. There has been a National Audit Office (NAO) report that you will no doubt be aware of about issues around the capacity of those partnerships and we have seen a response from the Government giving some extra funding or creating a Growth Fund around that.

What is your view about the effectiveness? It is LEPs outside London; we might talk about the LEAP inside London, but it is the same mechanism. What do you think about their effectiveness and where do you see their development going in the future? Particularly, what needs to change if we were to leave or are to leave the EU in terms of their work?

The Rt. Hon the Lord Heseltine CH: My view is that Brexit is irrelevant to the opportunity for the LEPs. We should have had something like this years ago. I did try creating the Business Links, but, like so much in this country, there is a party-political process which looks at what a Government is doing and, if it hears criticism, reduces or abolishes the particular criticised body. My slight problem in this is that I have created so many of these things which my party has then gone on to destroy.

You can see this in the regional process, I was involved very significantly in creating the Government Offices for the English Regions in the 1990s. The regional offices of Government were not rocket science. Several of the major Government departments had their regional offices largely in Manchester, Bristol or wherever it was, the sorts of places you would expect them to be, but they all sat in different offices doing their transport jobs or their water jobs or their Home Office jobs or whatever it was and they never met. These were the outposts of central Government. They were the listening posts. They were the shops where you could go locally without having to get on a train to London. I created a very simple little process of saying, "Look, we will put you all in one building and we will choose a civil servant from one of those outposts to be the chair". At the time, I deliberately made sure the chairs came from different Government departments because I did not want it to be seen as a land-grab for my power or ambition and so they came from different departments to spread it around.

That was so innocuous and sensible as a management innovation that it was difficult to make it controversial, but of course we then had a change of Government and onto this process was added layers of political activity, leading in the end to the referenda for regional devolution. My party was very agitated by that and the first thing they did when they came back into power in 2010 was to abolish the whole lot. What I could have told them is that that of course is not the way the civil service works. Instead of, if you like, sacking all the people involved, which was getting rid of the whole apparatus, which is the implication of the policy, what happened is that the civil servants simply took offices just like they had had before. Having all moved into one building, they all moved out of the building back into those separate offices.

In order to make this policy make some sense so that it could be defended, they created the LEPs. Because I was working for the Government at the time, I knew these LEPs very well and they would say to me, "Look, it is fantastic; it is so cheap here. There is just me and the secretary", and I felt that really that was not quite adequate for the task, but it was a psychological gesture. They are costing nothing, they are not doing any harm and so let them alone. Systematically, I was able to help certain Ministers find some money to start rebuilding the Business Links.

The really interesting thing about the LEPs - and it sounds incredible now - is that I was part of the Conservative front bench that had to deal with the Redcliffe-Maud Report of 1969. There were 1,400 authorities in this country in 1969 and Redcliffe-Maud came up with a Martian view, saying that there should be 61. The joke of politics and the LEPs is that if you look at the Redcliffe-Maud Report and the 61 authorities, which made economic sense, and then you put alongside it the map of the LEPs, guess what? They are virtually the same. Any intellectual, neutral analysis of the way this country should operate actually comes up with about 60 authorities. For me, they would be democratically governed and there would be an elected mayor, just like everywhere else in the world.

Anyway, over the last few years, we have managed to get more and more money into the LEPs and, so far, it has been an incremental process and much to be admired. It has not yet started producing the 'anti' movement which could lead to challenging it, but where it starts invariably is that there will be some LEPs which are not so good and so the opposition party will pick up the grumbles and say, "No, these things are not working". Next step, policy formulation and we have to have something new to say: "Get rid of them".

However, the solution is not that at all. The right solution and the simple solution is to say, "If they are not working, who is in charge? Change the person in charge. Get better people. At the same time, make the job more worthwhile by devolving more powers". Let me give you the most classic example. The skills agenda is run by the Department for Education (DfE). Why not devolve the colleges of further education (FE) to the LEPs? The LEPs are a partnership between the third sector - including academia (the vice chancellors are there), and the private sector because they share with the public sector the three partners. The one certainty is that all those three will actually employ the local people, the kids now in schools. That is where the jobs are coming from. They know what demands they want and what standards they should have and they should be deeply involved in training the kids or the young people for the jobs that will be available, not some Government department. That is a classic example.

If you do that, you will be able to say to the local industrialists, "Look, we know you are running a major international company and it is a hell of a strain, but it is worth your while to become involved in this devolved process because you are going to get the best people out of that process". The truth is that all over the country there are first-class companies today that are doing just this. Our problem is not trying to create excellence in this country; it is trying to spread excellence deeper down the chain.

Len Duvall AM (Chair): In moving on to new regimes, then, and meeting the new challenges that we face, whether it is Brexit or just the continuing challenges in terms of economic growth and development and spreading it and making sure it goes deeper in terms of the different sectors. You alluded earlier on to the single pot, and how the real challenge is in getting these existing budgets that are already there. Are they being used rightly and appropriately? You were telling us that the LEP is probably the delivery vehicle that needs to be built on.

What other nudges do we need in terms of some of the work that you have done in the past around what those future grant regimes would do? You talked about skills. I get the skills bit. I understand that. We have done some scrutiny work here in the London Assembly around devolvement of skills and so I understand that. What other nudges would you like to see?

The Rt. Hon the Lord Heseltine CH: Forgive me for being frank but you have asked me the question. If I was in your position, I would choose the three, four or five most effective competitor economies and I would send study groups to each of them with the remit to come back and say what support systems exist for the companies that operate in France, Germany, Singapore, Korea, Japan and America. I would then look and ask myself, "Do we need to replicate any of this here?" Frankly, you would be appalled by the reports you had back.

I am actually this afternoon finishing a report on this for my own purposes that I am going to publish and I have included some of the researching that I have done into the sorts of questions that I have suggested, but you are so much bigger and more important than me. You will find that all the other capitalist economies are way out ahead in terms of the support that they give their companies.

One fact: the London Chamber of Commerce and Industry has 20,000 members; the Paris Chamber of Commerce has 300,000 members. Multiply that all over the place.

Len Duvall AM (Chair): Just in terms of your experience of establishing grant regimes - say the City Challenge or the Single Regeneration Budget (SRB) - in terms of commissioning of that, take any of your regimes that you are involved in. How long did you take you from concept to practical implementation?

The Rt. Hon the Lord Heseltine CH: Days. It started in Liverpool in 1979. Peter Shore [Baron Shore of Stepney PC], who was the Labour Secretary of State for the Environment before me, had done an interesting innovation. He had created partnerships with some of the cities with deprived communities in order to involve his ministerial team directly. He had taken responsibility for Liverpool. He was the chair of the partnership. I was asked if I wanted to continue that and I said, "Fine".

The second piece of information I already had. One of the most effective ministerial colleagues I ever worked for was Peter Walker [Baron Walker of Worcester MBE PC, former Secretary of State for the Environment]. He had created in the 1970s a grant mechanism to get rid of the coal tips and the soil tips and all the detritus of yesterday's manufacturing processes and he had grant mechanisms.

In 1979 I was faced with two questions: did I want to continue the partnership and what was I going to do with this grant mechanism? I thought, "I do want to keep the grant mechanism and I do want the partnership, but I am going to move the grant mechanism into the cities", because Peter's job had more or less been done; the green fields had been restored, and so I had this - I have forgotten what it was called now - grant mechanism. In one of my first meetings, long before the riots in Liverpool, I said, "Look, I am going to have this grant mechanism and it is going to be available to clear derelict land in the cities", and Liverpool was not short of derelict land. I said, "There are only two changes I am going to make. The first is that I am going to look for contributions from the private sector in partnership. If I have £1, I want to know what you will contribute - private sector - for my £1. Secondly, I am going to do it in competition so that this will not be an entitlement".

One of the problems of the public sector is entitlement. People say, "There are 10 of us and we have a certain problem and, therefore, we are entitled to a tenth of the 100 in the country". That is a very logical and human approach, but it is the wrong approach. The way to get standards up is to say, "Yes, you have a problem. Show us what you will add and show us the results you will achieve and then distinguish between those who do better and those who do not".

That took no time at all. It was just an instinctive way that it could get better results and it worked significantly. The obvious thing is, "Look, here is an acre of derelict land. I will take the negative value out of it". It was 6,000 acres of derelict land just over there. "I will take the negative value out of it. You have to build houses." We were building 2,000 houses a year within a year and a half, or something of that sort, in east London.

That led onto City Challenge, where I was in 1990. I had proved, to my satisfaction, that derelict land you could deal with: by then the development corporations were achieving remarkable results and were getting over ten private pounds for every one public pound. Even in Liverpool at the bottom of the market, £1.50 of private money for every £1. Therefore, it worked, but then I faced deprived communities, and that of course is a wholly new ballpark because you are dealing with people.

I took a chance. I said, "We will take 30 authorities". I am afraid they were virtually all Labour authorities. I said, "You have some very deprived communities. I have some money. You bid me". I had 10 packages of £35 million. That was £7 million a year spread over five years. "I have 10 packages. There are 30 of you. You come up and show me what you will do, how you will do it, who will run it, but only 10 of you are going to win". Of course, there was an outcry because this was deprivation and this was competition and this was terrible capitalist economic thinking. However, I laid down one of two conditions: not just that there had to be discrete management - a team of people who worked together under one leader to deal with this, but they had to talk to the tenants and the local community and they had to get buy-in.

The result was that of course the 10 did win. There were some who made some quite unpleasant noises about the process, but the next year it was transformational. All the 20 zoomed in on the 10 and the standards rose; it was unbelievable.

I will give you one example. I was very fond of a guy called [Sir] Dick Knowles. You have probably met him. He was the Labour Leader of Birmingham. When coming to the determination of these packages, my ministerial team and I did it. I did the Birmingham one. I knew Dick quite well and we got on well. In his bid to win, I asked the questions and I said, "Dick, this is very interesting. What do the head teachers in this area think about the proposals?" He said, "We will tell them". That was the moment when he lost because he had never asked them. He then said some quite uncomfortable things, but the Wolverhampton team, who won, from again another Labour authority - came to my defence saying, "No, he lost because he did not do a good enough job". I treasured the press release.

Len Duvall AM (Chair): You have painted a picture about the LEP and you have given us some ideas about a grant regime and some of the features we should be looking for if the Government creates one. In terms of capacity, I really want to press you on the capacity of LEPs or structures here in London. Do you have any comment on the current structure of local and regional government in London around the delivery of future challenges this country faces or London faces in terms of those grant regimes?

The Rt. Hon the Lord Heseltine CH: You have too many London boroughs. It is so easy for me to say that because I do not have to do anything about it, but doing anything about it would be stretching.

I had the marvellous privilege of looking at the East Thames Corridor. We would by now have produced a report if events had not gone the way they did. Here is a fantastic opportunity for your authority. You cannot do it on your own, but you are the central part of it. Picking up the pieces that were very close to being finalised when I left is something that is absolutely vital regardless of Brexit. The one thing for sure is that that wedge there is going to develop significantly over the next 10, 20 and 30 years. There is no way you can stop it and you certainly should not want to, but there are huge questions about how. Basically, they come down to a very simple question: do you want the gradualism field by field because that is the easy way for the politicians, "Do not block any hopes, just take the housing field by field"? However, if you really want to do something that you can be proud of and your children will be proud of because you will not all live to see the completion of it - I certainly will not - then you have to have a much more imaginative view. The report that we would have produced by now would have taken the high road, the imaginative route, which would not have been about urban sprawl and one more line of identikit housing.

We have to create communities, places where people want to live, places where people can get and are happy to be there and broadly represent exciting and stimulating communities. We have to build on local strengths and opportunities. It is not rocket science; it is just politically difficult.

In the present situation, the administrative arrangements are quite inadequate when you get there. You see you have the GLA, you have the boroughs, you have two counties, you have dozens of districts and you have all sorts of quangos. Quangos are a very interesting part of this mix because they ... well, I had better not get going on quangos.

Sian Berry AM: I wanted to ask a little bit more about LEPs. A lot of the money outside of London that is going to LEPs is transport money, but that is in contrast to the LEAP in London, which has a high proportion of its money coming from European funding for skills and that sort of thing. Do you have a comment on this? Is there a difference between the LEAP in London and LEPs across the rest of the country? Is it a better LEP

in that it is more focused? Is it better because it works alongside a devolved government that does other things?

The Rt. Hon the Lord Heseltine CH: I have no experience of how good or not good the London arrangements are. It is interesting that that is my case except for the East End commission [Thames Estuary Commission], my work was broadly in trying to achieve devolution outside London. I had very little to do with the London arrangements.

Caroline Pidgeon MBE AM: You have talked a little bit about City Challenge and then you had the SRB programme after that. Then, when Labour came in, they brought in New Deal for Communities? Do you have any commentary? Is there anything out of that that could be looked at going forward with the new funds that we may have to replace European funding?

The Rt. Hon the Lord Heseltine CH: I do. There was absolutely no case for not pursuing City Challenge. It is a classic example that new people need new labels on the doors and City Challenge was a model of its sort. Look, you would expect me to say that, but all sorts of people who have said that to me - not from my party but from the Labour Party, largely - have told me that it is one of the best things that ever happened. Bring it back. The machine is there. The machinery to devolve power to local tenants is there. It does not work particularly effectively and it has not spread anything like as widely as it should, but the machinery is there.

Again, I was doing two things. David Cameron [MP, former Prime Minister] asked me to become joint chair of his 100 deprived estates and that, again, I am no longer doing. I was very interested in that and all the things I have said to you were built into the approach that we were taking, but there were two additional things that we were doing, which I found very interesting and I hinted at them earlier. The first was to do a costing of what these deprived communities are costing. No one should be against that. Of course, people say, "He is only looking at the costs because he wants to cut them". That is not the case at all. What I want to know is the cost of sustaining deprived communities. I want to know it because I want to find out if the money is being effectively spent and whether it could be spent more effectively.

That immediately links you to the second thing that I was doing beyond this investigation and I said that Westminster has done some work on this. The second thing is, when I got the costing, which we were quite well advanced in getting because some earlier work had been done and we had already chosen the estates, we were going to go to the tenants and say, "Look, this is what is coming into this estate every year from these sources. What do you think?"

I made a speech in the unusual background of the Chelsea Flower Show this year, which was all about horticulture as part of urban renewal. The first reaction was to think I had gone off with the fairies, but, actually, if you start thinking about some of the most acute problems of urban deprivation, it is mental stress. Do you treat them as people with a mental problem? No. Why not find out why they have stress? You find out they do not have a job and no prospect of a job. You find out that they do not know how to pay their rent at the end of the week. All these stresses, as they sit doing nothing because they have no job, add up to a mental condition, which is a very understandable thing.

Supposing you could find ways of enthusing them into some local activity. Then you start thinking about urban horticulture as part of the process of rebuilding communities. Then you start thinking about city farms and the remarkable effect they have had on young kids who have never experienced that sort of relationship. You build all this into a pattern of intercommunity relationships. If somebody is responsible for helping Mrs Jones who is 82 to look after her garden, which is not a very skilled job, and if they do it well, a mile away there is Mrs Williams who is 82 and can afford a gardener but cannot get one. You start getting into all of this.

You can think of endless permutations on what I have said, but only will you get there by getting to the local people, sitting them in a room and saying, "Look, how can we do this better?"

That was the theme and it all is part of the same thing. If you really want to make devolution work, you have to get down to a level where it can have an impact. You have to talk to the people who are involved and who are doing it. They are the frontline, not the people sitting on committees 200 or 300 miles away.

Caroline Pidgeon MBE AM: Thank you.

Sian Berry AM: I wanted to ask about the Shared Prosperity Fund. Kris from BEIS, we wanted to ask you about the UK Shared Prosperity Fund. This is the proposed fund that might replace some of the European funds. Can we ask you first of all from a London perspective? We are all concerned whether London will get the funds replaced that we currently receive. Is the Government committed to doing that?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): I should start by saying that I cannot speak on behalf of Ministers; I can only talk about where we have got to so far in the process. You will appreciate that the challenges of negotiating the UK's exit from the EU are large and current and consistently moving and so our ability to design a new programme partly relates to the extent to which we negotiate our exit from the EU. We should bear that in mind in what I am about to say.

Firstly, we can say that the Government is committed to using European structural funds money that comes back to the UK after the departure from the EU to create a UK Shared Prosperity Fund. We have made that commitment. That was a commitment in the manifesto and it has since been made by the Government. The aim for this future fund will be looking at some of the major challenges that we face in this country, including productivity and reducing economic inequalities across all four nations of the Union. The new fund as it is developed will present a fresh opportunity to think about how we can redesign, and potentially extract, some of the complexities that were in the existing funds into a model that works for the UK and for the places in the UK that will be implementing these funds, rather than those set by EU priorities that had been agreed by both the UK government and also the EU. That is an important point. The manifesto is clear that this is the direction of travel and that we will commit to consulting and discussing our plans as they develop with places across the devolved administrations and also the city regions, local authorities and LEPs as part of that wider consultation, which we plan and will be set forward in the future once our plans are a bit firmer.

Sian Berry AM: You have mentioned productivity and you have mentioned reducing inequalities across the four nations. Have you settled on measures of how you will distribute the funds? We have proposed, as an Assembly, for example, using indices of deprivation and inequality measures as opposed to overall prosperity of the region because London does have that. Are you assessing those parameters up at the moment?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): There are a few things that we need to think about in the context of this. Partly the parameters of the fund and its scope, etc, partly the design and the detailed implementation. These are valid points that we need to think about and work up. We have not set a particular position as of yet. If you look at the past programmes that this Government and the previous coalition Government had developed, there are lots of different mechanisms of distributing funds, some which Lord Heseltine will be aware of around competitive processes. Some are around distribution models based on equity and indices of deprivation. There are lots of different models that we can look at and all of those options will be on the table. It is up to officials, Ministers and places to decide on which ones are the most

appropriate to deliver the outcomes that we want around increasing productivity and reducing those economic inequalities.

Sian Berry AM: Are you talking to the GLA? Are you talking to the LEPs about their record to date of distributing funds? Are you asking them for reports?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): As part of my day job, I cover 11 LEPs across the country, including London, and we speak quite regularly with colleagues in LEPs and in local areas about the types of interventions that work and the things that really deliver for local communities and drive local growth. We are in regular contact and consultation about what works and what does not.

In indirect regards to where we get to on the UK Shared Prosperity Fund, we have yet to launch our consultation. Whilst we will be open to discussing where we get to on that, we have not embarked on a whole host of open dialogue with places. However, that does not mean that places could not approach us with some of their ideas for what they think a future Prosperity Fund should look like and what the best and most appropriate mechanisms are for distributing that fund, including the types of outcomes that it seeks to deliver. We are open to a conversation.

In conversations that the Secretary of State for Communities and Local Government has had with the Mayor as well as the other Ministers across Whitehall, they are keen to encourage the Mayor and the GLA and London Councils to write to us on the types of plans that they think need to be delivered to make this programme work in London. As I say, we are yet to make any direct decisions on how this fund is operated or what it constitutes, but we need to have those conversations and we are open to dialogue.

Sian Berry AM: What is the urgency for you? You say that people need to write to you. Will your consultation put forward proposals or will your consultation be quite open-ended at that point? When will it be launched?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): Yes, we would need to factor in -- it is quite a complex arrangement and so, obviously, there are European funds that exist. There are also potentially other funds that could be in scope that ought to be thought about as well and there is quite a close link to devolution and the wider types of activity that have been going on in the past over the past Government's approach and this Government's future approach to devolution. There are a range of things that need to be included.

The consultation phase that we create will enable us to take on board comments and design features as well as then implement them in time to be live from day one of the UK's exit from the EU. It is that transition that we need to make sure happens effectively. The time it takes will depend on the type of scope that we are looking for, but our commitment is to make sure that from day one we have a scheme in place that takes over from the European funds that have been lost as a result.

Sian Berry AM: Great. Can I just check again, though? When will the consultation come and how much will it be a proposal and how much will it be asking for views?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): It will be a combination of some ideas on where we might go plus some views on priorities, structures, etc. The timing is partly dependent on what Ministers see as the immediate priorities. There is an interaction between what we might do at a devolved administration level as

well as then what we do on an English level. There are elements that we would need to consult on. Ministers have yet to decide the point at which this consultation would be launched, but we have done some work internally to think through what some of the key questions might be and what we should be asking places in order to get the right outcomes back so that we can integrate those into the development of the programme.

Sian Berry AM: You mentioned other funds that might be brought into this. Do you have an idea which of those are in scope that you might give us an indication of?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): We look at this in the round. The transition from a European fund into a domestic fund enables us to think more creatively about the types of objectives that a fund might have. Those funds that might have previously been aligned to the types of activity that this could drive in the future at a local level could be repurposed or we could design a slightly bigger fund that captures some of those and dissolve some of the previous funds. It is an open-ended conversation on the types of outcomes that we are looking for with the fund and the best means in order to drive those. We would want to not impose too many huge restrictions on the different component parts of a fund in the same way that the European priorities were developed with multiple drivers, multiplying outcomes and multiple ways of operating. We want to keep it as simple and as effective as possible, driven by those two big objectives around driving productivity and reducing social inequality.

Sian Berry AM: Generally, then, this Committee and this Assembly should be writing in as quickly as possible with ideas and including ideas of other funds that could be brought in?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): Yes, I would encourage you to write in to us on how you think we should drive local growth and those productivity and reducing social inequality challenges across London. There will be a formal consultation as well and we would also encourage you to respond, but there is no reason why people cannot write in today. Certainly, we have had some representations from organisations willing to drive some of our thinking and so we would encourage places, as we would any LEP that is interested in trying to influence where we go next on these funds.

I would encourage you to write straightaway and also to respond to the consultation when it happens. Our teams are willing, once the consultation goes live, to come out and do sessions both in London and around the rest of the country to facilitate that dialogue and also get the best possible outcome for places.

Sian Berry AM: Great. My final question: in general, the Government has preferred to devolve more capital spending rather than revenue funding streams. Are they in scope as well? Will the things that are currently funded by the European funds that are revenue funded continue to be revenue funded? Can we bring in other revenue funds, if we are making suggestions? What do you think the balance is?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): Yes. We need to factor in both revenue and capital expenditure when we have funds that are driving, to use an example, employment outcomes. Much of those are revenue-related and so we would encourage places to think about those. It is both the big infrastructure and things that we care about in terms of driving both big and small infrastructure, as well as then the human capital-related interventions around people and how they get jobs, increase their skills, etc, which are similar to the types of schemes that exist already. It is both capital and revenue-related and so, essentially, think about it in the context of what you do to make places grow. You invest in people and you invest in those places and it is the means to do that that you need to think about.

Caroline Pidgeon MBE AM: Kris, I do not think you really answered Sian's question. You said that there are other funds in scope. Can you just give us an example, a name of a fund or several funds that might be the sort of thing you are looking at, just so that we can get a clearer picture?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): There are other funds in scope to be thought about in the context of a devolution-type conversation, plus what we do post the UK's exit. If you take the Local Growth Fund, for instance, that has been driving lots of the local investment that the LEP makes in terms of small local growth initiatives. Given the drive on productivity and reducing inequality, you can certainly see a link between something like that being connected to this type of intervention going forward. That would be one example and there will be others that cut across a range of different things. I guess it partly depends on how we think about place in the context of this.

Caroline Pidgeon MBE AM: I would just assume that this new UK Shared Prosperity Fund is going to at least match what we were getting from these EU funds, but if you are going to roll in some of those others, could those be included so that it is a reduction overall in funds for regeneration and --

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): Not necessarily. The commitment that has been made is the commitment that will continue to be met and there are also options. I do not want to talk about quantum because I cannot. However, if you are thinking about the commitment that has been made that no place will lose out as a result of this transition and then if we thought about additional funds on top of those to drive the types of outcomes that we are looking for, then I would not just see this as a binary: this is the EU funds and then this is the transition. There might be other funds that come to the table in addition to the types of funds that were there previously. I would not see this as a single set of discussions.

Caroline Pidgeon MBE AM: OK. This is something that we could potentially watch there.

Len Duvall AM (Chair): Our working assumption should be that we could, depending on what the situation is, take the existing European funding as a working draft and there could be other funds on top of it. It does beg the question, say, on the skills debate. Is it just your department or is it Government-wide departments involved in developing this fund?

We have ambitions here in London around the skills agenda. We thought we had a deal. We nearly had a deal around FE colleges. It did not quite happen and was changed. There may be a different appetite in the Government in terms of post-Brexit. I agree with Lord Heseltine that it should not really be about Brexit or not; it should be about what we want to deliver.

Who is holding the ring on skills and driving that forward in this part of the grant regime? Is it your department or another department?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): I should make clear that my department covers two departments, both the Department for Communities and Local Government (DCLG) and BEIS, as part of the Cities and Local Growth Unit. My job here is also, in part, to help implement the devolution memoranda of understanding (MOUs) and deals that have been signed between the Government and London over the past few years.

Just specifically on the adult education budget (AEB) point that you make on skills, that commitment has been made that from 2019/20 those funds will be devolved. Do not think that we are renegeing on that deal. That deal is going to happen. The timing has taken slightly longer than we would have hoped, but that is in place to go forward. Just to make that point.

Secondly, this is a cross-Whitehall operation and there are lots of different departmental interests in all of this. Whether you think about air quality environments or whether you think about jobs or growth or infrastructure, there are lots of different interested parties. Our unit is leading on some of that work across Whitehall and we are sharing papers with Ministers across Whitehall so it is a joined-up Government approach to this, which is not too dissimilar from a lot of the conversations that we have had around devolution, which is why I point to what we are thinking about skills. With the devolution of the AEB, there is a question as to how this future fund might link in with some of the outcomes of that skills budget that has been devolved and will be operational in 2019/20 is then delivered. These things in the past have intersected quite regularly.

If I give an example to make it a bit clearer, on the AEB, some of those funds are used to unlock skills investment through the ESF, for instance, and so there are discussions about how those two things fit together going forward. You can apply that to DWP funds; you can apply that to other types of initiatives that exist. It is a cross-Government set of approaches with working groups and all of the necessary papers.

Ministers are not yet at a point where they can say definitively how the fund will be structured, but we intend to do that and we intend to do it in plenty of time to enable us to switch this new fund on from day one after leaving.

Len Duvall AM (Chair): In terms of some of this thinking going on, let us go back to the issues that Lord Heseltine raised around leadership capacity and delivery. That is what we want, is it not? Who is delivering? What is the current thinking at this stage around those three issues in terms of any new funds? We have a NAO report saying that, actually, LEPs are quite good but there is a capacity problem in terms of delivery. Is that something on your radar or is that something at this stage that you think, "Hold on, these are the structures I am dealing with now. This is what we need to do"? I am not asking for ministerial views but civil servant views. You have been working with these groupings. We have new challenges. There is a bit of thinking about the future and what those challenges look like and who can deliver.

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): Yes. We have been thinking about that for quite a long time and, for all of the schemes that we design, we think about the way they are led, how they are delivered and the extent to which they deliver outcomes. That is something that we have taken into account and will continue to take into account.

We are still at quite an embryonic phase in terms of setting those top-level priorities and then what interventions come beneath those in order to drive those priorities. Once we have a better understanding of those and we reach agreement across departments on what those should look like, then we will get into what tier should these be delivered at and the types of processes and mechanisms we will use to deliver those, taking into account all of our experience across multiple years of delivering these types of schemes and looking at past evaluations to make sure that we are designing the thing that works best.

One of the areas that we are particularly keen to probe is the extent of the 'local works best' maxim that lots of places tell us and what evidence there is that that does represent the best value for money in these cases.

Len Duvall AM (Chair): I am a localist. When local government works in London, it can be superb. Equally, in terms of grant regimes, it is too small a unit to deliver and you need to work in partnership with other boroughs and other sectors in terms of delivery. What is your thinking about that? If London was there, where would that come into it or not?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): It is probably not appropriate for me to say exactly what I think about London and how it delivers. I would say --

Len Duvall AM (Chair): Let us talk generally. What is a viable unit in terms of delivering a grant regime down around money? I can apply the London issue to other parts of the country in some ways and what might be a suitable delivery mechanism and how it works.

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): We have not made decisions on the most viable delivery units. There is a strong emphasis on the importance of LEPs to these conversations going forward and functional economic areas being something, we think, where you can drive the best value for money, have the biggest impact and get that business and civic leadership as part of those proposed tiers.

In London, it is slightly different because of the complexity of London, its size and scale, and so we probably do need to think a bit more sophisticatedly about how to deliver across the capital city both at a pan-London level and also at tiers below that. Having worked in London at a sub-regional level, there is quite a strong case for thinking about sub-regional interventions in this context, although I would argue that some of this is the type of thinking that London needs to do for us.

Picking up on your point, this is bigger than just boroughs and it is important that borough leaders come together to think of the best and the most appropriate tier to have these discussions in that context. I would probably look at that, I would say.

Len Duvall AM (Chair): Thank you.

Sian Berry AM: Just one final thing about the timing and the consultation. It seems like you are waiting for word from above. Are you talking to people like Despina [Johnson] and Lisa [Redding], the people who are dependent on these funds? They seem quite anxious about what might be happening. With the timing of the consultation even very vague in what you were saying earlier, it seems like reassurance for those people is going to be a long time coming. Are you talking to them in the meantime and is there anything more you can say about timing and when we might have this sorted out?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): Yes. People are having conversations. I am not having direct conversations with people, but the people in the team who are looking at these challenges are thinking about it and are having conversations and will be approaching LEPs and other bodies to facilitate conversations and direct contacts.

We recognise that there will be some challenges associated with this, as there were challenges associated with the transition from the previous European programmes into a new programme as well. There is always transitional angst, I would say, and so we are conscious of that.

The commitments that the Government has made are that we will underwrite future funds when we go forward from day one so that the transition will be clear and the new fund will be ready once the old fund has stopped. We need to make a decision on what point we exit that past fund. Is it at the point of exit or is it not? Ministers will make those decisions in the coming months. I expect there to be more guidance and support for places once Ministers have made those decisions but we are not currently at a stage where I can tell you today, "This is the time the consultation is going to go live and this is the scope of it", because I just cannot do that.

Sian Berry AM: OK. We will hang on, then.

Len Duvall AM (Chair): Let us move on to Caroline with the final set of questions.

Caroline Pidgeon MBE AM: I wanted to try to look at opportunities here. It is quite hard for some of us, but I am trying to think about opportunities. If the Government is simply, as we are hearing, going to replace the European funds with a like-for-like fund, does it matter that we are losing those European funds? What opportunity does it give to target the expenditure more perhaps for London's priorities or nationally looking at other cities' and other areas' priorities?

Alex Conway (European Programmes Director, Greater London Authority): In the world of ERDF and ESF, these ESIF funds, does it matter? I do not think it does. If the Government took a decision tomorrow that said, "Your funding is not going to be European anymore; it is going to be domestic and it is going to be much less bureaucratic and you can spend it on what you like", we would all be quite happy.

I was thinking back to when I started in the civil service working on some of the things that Lord Heseltine pioneered around the City Challenge, the SRB and so on. Those bigger, flexible, pots were always a welcome thing. That is one issue.

I should maybe just draw the Committee's attention to two other pots of funds that may be at risk regardless of that. One is the so-called transnational funding. One that has had a lot of publicity and the Mayor has been talking about is Horizon 2020. These are funds where you get together with people from other member states and do innovative research and those kinds of things. It is no surprise that London's universities and research institutions benefit hugely from these funds. The Government has recognised recently that there probably would be some merit to continue to contribute to those programmes post-Brexit like the likes of Norway and Switzerland do and that is something you will want to strongly encourage. Maybe you will find there are a few other transnational streams like Erasmus, the student exchange programme, or culture or creative programmes that we would also want to continue to participate in. That is a point that we would endorse.

The third, which maybe gets a mention in some of the material you have seen, is around the loans funding we receive from the likes of the European Investment Bank (EIB), the European Commission's bank. Again, the point there is that you can borrow money from all kinds of people and the EIB, again, lends to countries that are outside the EU. The Mayor has written very recently to the Government to ensure that we get the match funding we are expecting from the EIB for some of our forthcoming funds to help small businesses and energy efficiency. We think that should be OK but London has benefited to the tune of several billion-pound loans from the EIB for things like Crossrail and big infrastructure schemes and it is important that some sources of funding are available. Again, it is not quite clear where the Government is going with things like the Green Investment Bank, which was recently sold to the Macquarie Group. Some assurance about this funding, through either the EIB itself or parallel UK institutions, is going to be important for London given the scale of transport infrastructure developments here.

Caroline Pidgeon MBE AM: Can I just pick that up with you, Alex? I have always been quite obsessed by the EIB and this whole debate. The EIB chief has basically said that Britain will have to leave the EIB after Brexit even though the Treasury wants to stay and, even if we do still find a way to have access to the funds, it is not going to be at such preferential rates that we get now.

Alex Conway (European Programmes Director, Greater London Authority): That may well be the case and there is a whole gnarly issue around the UK's stake in the EIB and how that is unwound. That is one for the wonks. Our immediate concern is that we have some deals in the pipeline with the EIB now, our working relations with EIB colleagues are very good and we just want to make sure that we are not tripped up by some failure of process as Brexit approaches.

Caroline Pidgeon MBE AM: Your plea from your point of view is that it does not matter if the funding is there and it does not matter if it is not European, but you want - as the LEAP has proposed - a much simplified model, one that ensures rigorous management but without some of the restrictions to allow innovation. Is that it?

Alex Conway (European Programmes Director, Greater London Authority): That is what we have been saying. Building on some of the points that Lord Heseltine and Kris [Krasnowski] were making earlier, it may be worth highlighting - and Sian [Berry AM] asked a question about how the London LEP is perceived - as Lord Heseltine was saying earlier, one thing to remember is that London is both a region and a LEP area and that is quite unusual. It used to be that we were a smaller region. Now we are by far the largest LEP. Some of our neighbouring LEPs in Hertfordshire or wherever are very small and they do not need a high level of resource. We are lucky that here in City Hall, the LEAP, we have a dedicated secretariat; you will find all the papers online and everything is very transparent and open. What I am told by Government colleagues is that, by comparison with other LEP areas, things are done to a pretty high standard. That is something that we should be using as leverage in our discussions with the Government about (1) devolution is a good thing anyway and (2) the LEP in London is an effective means of doing that.

Despina Johnson (Chief Executive, Enterprise Enfield): Thinking about opportunities, there has always been something that we should have invested in for SMEs and that is capacity building for them to be able to tender so that they have gained the accreditations and the knowledge about how to get onto the procurement list so that they can tender for public sector contracts, but they will want to get onto private sector supply chains as well. There are still not enough SMEs accessing that kind of work and that is really important for them because it is longer-term work and it also means that they can employ local people and sustain their jobs.

As well, the added side to this is that, with the change with Brexit, there might be a change in the rules around procurement anyway. It is making sure that businesses are on the front foot about this and understand if there are any opportunities and whether we should start talking to them about how they can start preparing for that. This is all part of the ongoing communication really about what is happening with the discussions.

Alongside that as well is helping businesses with e-business. It is about modernisation and making them aware of all of the business tools that are out there that they may not be using. Are they connected to the cloud? There is cloud accounting and data storage. There is also ecommerce and, again, that is connected to Brexit because, if you do use ecommerce, what happens once we do go through Brexit? There will be changes and people need to be aware of that. If we are encouraging them to do that, they are going to have to deal with some challenges further down the route.

There is export as well. Again, what are the export opportunities for our SMEs?

The last one is something that really is an issue now that I am aware of. SMEs are not really aware of how they can utilise the apprenticeship levy. I know they are not paying it, but they are able to get 10%. Is it 10% that they have to pay towards their apprenticeship training? They can upskill staff. So few of them are taking advantage of that. Again, as we go forward and we may have less choice in the selection of people coming into the country, it is another area and we should start making SMEs aware that there is this resource there and there are these people around - not necessarily even young people now - that they could be starting to consider taking on and developing.

Caroline Pidgeon MBE AM: That was very helpful. Thank you. Lisa?

Lisa Redding (Chief Executive, London Voluntary Service Council): A lot of the points that have just been made apply to the voluntary community and social enterprise sector. We desperately need investment in our infrastructure, for capacity building, for the same kinds of things, entering into the contracting market and upskilling around technology particularly, but also infrastructure to make sure our charities are healthy and are sustainable so that we can support our communities.

On opportunities, I was very much struck by what Lord Heseltine has been talking about on asking communities what they want the funding to be spent on. That is absolutely critical to have that engagement with our communities, not just throwing money at what we think they should be doing but engaging with communities properly to find out what they need.

Caroline Pidgeon MBE AM: Which probably ought to feed into Kris, and the work you are doing.

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): The main point for me, I guess, would be that this is a fresh opportunity to really think about our priorities and what we want to do with the money that will be returned and the new money that will be created as a result. It is for us to think about what really works and for places to come up with the best possible answers for that. This is probably a once-in-a-lifetime opportunity to do that and so we should maximise it and utilise some of the great thinking that has gone on across the country over the past few years to implement that. With the great things that are happening in London, we build on those that do work and we stop doing those things that do not.

Caroline Pidgeon MBE AM: Did you have anything to add on that, Lord Heseltine?

The Rt. Hon the Lord Heseltine CH: I start from a rather different position. You see, Whitehall should be the quality controller of the country's performance. It should do the minimum and exert the maximum influence. It should be obsessed by excellence. It should be totally committed to Britain's competitiveness on the world stage in all the fields in which it has direct responsibility. It should devolve virtually everything else.

This is so countercultural to the way we start and the whole debate I just listened to is a fascinating example of that. What you are asking questions about is the new fund. Why do we need a new fund? Why do we need a fund at all? Why can we not just get, in your case, you into a position where you make these decisions? You do not have funds; you have resources on a wide scale and you have to satisfy the Government that you are - let us take the first and obvious example - pursuing a policy of excellence in every school. You have the money; they are going to hammer you if you do not deliver excellence.

Actually, the truth is that London has done rather well in improving its educational standards, which is very interesting for all sorts of reasons. It proves that there are no reasons against raising standards. You have some of the most deprived communities and the most racially mixed communities. All this and the standards

have been jacked up very excitingly. I could take you to parts of the country where the reverse is the case and they will say they do not have a fund or they do not have the money and it is all someone else's fault. It is not. It is simply that they do not have the right people exerting the right pressure.

That is partially the fault of the DfE. We were talking about skills and I heard very much what Kris [Krasnowski] was saying. Why does the DfE need a £4 billion fund for skills? Who in the DfE really knows about what in Manchester or Bethnal Green their skills requirement is? If you think of the process where they will find out, they will do a huge survey and they will come up with a million different solutions because there are no simple generalised solutions, but they have to put them all into a package and they will therefore generalise and synthesise until they get a common approach and the fund will be about the common approach, but actually the common approach when you get to Bootle does not mean anything. Why not start by becoming quality obsessed and the execution right out there where the people who eat, breathe, dream, sleep are. That changes the whole thrust of what you have been talking about, but that is what you should be talking about, in my view.

In fairness, I have to then qualify that. There is not really a great appetite in local government to do this because local government, in my humble experience, has resisted every serious reform since the Redcliffe-Maud row broke out in 1969. I was in Cambridge the other day. There is excellence on a world scale, but you should see the local administrative ...

Caroline Pidgeon MBE AM: The issue surely there is - and I absolutely understand what you are saying - that there is no appetite nationally to devolve anything from HM Treasury. We have been calling for fiscal devolution for some time to London and various other quite modest measures and it is impossible to get any buy-in up there. When we do, we get two steps forward - we think we have transport devolution, we are going to get the metro rail services, we are going to get the skills funding - and then we go back.

The Rt. Hon the Lord Heseltine CH: I have heard what you have said about skills.

Caroline Pidgeon MBE AM: With a change of Secretary of State and a change of mind, we go back. It is national as well as perhaps local.

The Rt. Hon the Lord Heseltine CH: Do you see? You are talking about my preoccupation with the deference culture. People accept it. I believe we need a peasants' revolt. The local people across the country, who are amongst the most talented, the most energetic, the biggest wealth creators, simply doff their forelocks to Whitehall. They should not but they do and their Members of Parliament (MPs) let them because of their career and business. It is not rocket science. The MPs' career structure is up the Whitehall parliamentary channel and so trying to push power back out is not what they are about. It is all human nature, but that does not stop you being difficult.

Caroline Pidgeon MBE AM: Absolutely. Kris, you wanted to come in?

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): Yes, just one point, I guess. I was also in Cambridge yesterday seeing some of that, but I will not express my personal view on that matter.

However, there is probably something I would say, which is going off my brief and having worked in London government a bit and having worked around devolution for probably 12 years or so. There is partly a gap between the types of things that people are asking for and the quality in which they present their arguments that is not met and therefore does not convince people of its merits. That is something that people should

definitely think about. It is not just good enough to say we should do a thing like this, but we also need to think about how we implement that, how it is going to work in practice, and to give people that confidence.

To a certain extent, I would probably agree with you on fiscal devolution, but would also argue that there has been quite a lot of devolution to London over the past decade or so, if not longer, and there have been some serious changes. The establishment sitting here today is quite a big change and there is a vehicle to deliver some of this, but it is really important that the message you send is clear, articulate and sophisticated because my sense is, having met with lots of officials from lots of different parts of the country, often, that is the gap that is never met. If you cannot convince not just me but Ministers and people in the Treasury, then you are not going to get those things.

I do agree that there is a step change that is required and given that I work on cities and local growth and have played a major part in delivering some of the devolution ambitions of Secretaries of State, there are people in Whitehall that do believe in this but sometimes we just do not get the right presentation back, which makes it more difficult for us.

Caroline Pidgeon AM: That is helpful. Alex, did you want to come in on this?

Alex Conway (European Programmes Director, Greater London Authority): It was a reflection of what you were saying. Both the previous Mayor and the current Mayor have promoted fiscal devolution measures. We would not need to be having the conversation around how Government must replace the EU funding with our funding if we had some level of flexibility and of course, as you all know, the UK does operate one of the most centralised and relatively inflexible local government finance systems in the world. I take Kris's point, however, I also just think it is so hard when you just compare ourselves with other countries, the UK is way off and I, like Kris, have worked on all sides, including in the regional offices that Lord Heseltine mentioned, and I have negotiated on both sides. I know how maddeningly slow and impossible it is to get even the most modest measures, no matter how great your argument, because that starting point [of centralised funds] is so high.

Caroline Pidgeon AM: Then my final question that leads on from it is: what should the Mayor and the Assembly do to really, given where we are, either promote the case for replacement funding for London or make the case for the idea of fiscal devolution so that we can stand on our own feet? However, in the meantime, if that is going to be too big an ask, how do we counter this idea that London does not need support? As we said, yes, there are pockets of London that are doing very well but, as we know, there are huge pockets of deprivation, some of the most deprived parts of the country. How do we make the case? Whitehall and Westminster, across all the political parties, have an anti-London feeling and it grows and grows. How do we counter that?

Alex Conway (European Programmes Director, Greater London Authority): Some of this came up when we were talking to the Mayor last week at the LEAP on precisely that point that you make. There is one bit, which is that we are exactly on the same side when it comes to talking to people, but we certainly have a shared view that EU funding needs to be replaced and that is something that we can all work together on.

Just on the point that Sian [Berry AM] made there around this index of multiple deprivation (IMD), the draft paper that is going to the Government shortly, you will not be surprised to hear, leans heavily on the fact that gross value added (GVA) is not a realistic measure of need, but IMD is much more reasonable.

Another basic fact people often forget is that London's employment rate is below the UK average. That is why London receives so much employment and skills funding in the first place from the EU and that needs

reminding all the way up the line. There are large amounts of people in London who are not in education, employment or training (NEET). That is a message we have to hammer home along with the IMD. That is understood in Whitehall; it is just very important, as Kris said, that we make that case loudly.

The Rt. Hon the Lord Heseltine CH: It is the same problem. They should devolve the unemployment budget. There is no experimentation; there is very little experimentation in how to get people back into work. This is a very acute problem. I do not need to tell anyone here that. However, it is run with a huge centralised machine. It should not be. There should be opportunities to free up the regimes locally so that we can see what happens when imagination enters the ring. There are lots of things happening, some in London, some across the country, particularly with very enlightened employers who are creating special opportunities. There are the urban schemes that I was talking about and there are all sorts of things, but these are at the fringe. I personally believe that if you were to involve the LEPs in the employment problem, just like the schools and the skills, you might be amazed what would happen. However, it cannot be more difficult than it is today.

Just one silly thing - well, it is not silly, really - with Albert Bore, Labour Leader of Birmingham. We were talking about this problem and I said, "Look, Albert, my anxiety is that there are all sorts of people doing these things in charge and they never meet". We agreed that we would choose one of his estates and we would call these people together and we did call them together and they never had met, some police and the county and this that and the other. It completely proved my point.

However, the thing that came out of it that I described wrongly as silly was the fact that I said, "Where is the Jobcentre?" because this area had high unemployment. "Two miles away." I said, "What is the bus fare?" "£2." Now, psychologically, to get someone to get on that bus, £2, when they are not going to be that much better off, even if they got a job, not that much better. I was in a local authority building with plenty of empty space, I said, "Why can the Jobcentre not come here?" It is so silly to have to ask that question as to be almost unbelievable, but it would have been the first thing that I would have done if I had called a committee of the people concerned. We do not need any more money; we just want once a week someone to come so that we can say to little Willie, who is a bit of a scrounger, "You are going to turn up here Monday morning and it is not going to cost you anything".

Multiply that into the enormously interesting schemes that some employers run to create jobs, but we do not do anything like that; it is all 'bompf'.

Alex Conway (European Programmes Director, Greater London Authority): Just to emphasise Lord Heseltine's point and something that Kris referred to earlier, in London one of the things we are doing with EU funds, is setting up employment programmes at a sub-regional partnership level. With the Work and Health Programme, it was an enormous amount of effort to get a tiny bit of devolution from the DWP to run things sub-regionally. We are waiting to see the results -- those programmes have just been procured now. What we do know is that under the previous programmes, employment programmes run by London boroughs and by the London Development Agency had consistently outperformed the national programmes of the DWP and the Skills Funding Agencies and so we are looking for more good results.

The Rt. Hon the Lord Heseltine CH: Port of London Authority, do you control that? No. The Port of London Authority, from here to the sea, is one of the great historic commercial waterways. Can we get tunnels? Can we get bridges? We have 29 bridges there; we have three here. The job creation potential of the Port of London Authority is huge. Some of it has happened. However, the disparity between the local authorities and their local plans and the national plan is not how you drive employment in an area that has plenty of unemployment.

Kris Krasnowski (Deputy Director, London and East Cities and Local Growth Unit, Department for Business, Energy and Industrial Strategy): Just to say, the Work and Health Programme, the sort of devolution that we were able to secure at the last MOU that will go live soon is something that I worked on personally quite a lot and was keen that would happen. To pick up on Lord Heseltine's point, to put a bit more innovation back into the system, I probably would also say, and it picks up on some of the work around the Thames Estuary Commission, but I used to support Lord Heseltine on some of these things, and it is a bit about ambition. It is about being bold and setting ambition differently. When we were looking at some of the data, if you exclude Tower Hamlets from a lot of that data, then that area looks as much as like any other part of the north.

There are some peculiarities around the data in London that makes you think differently once you exclude them and that sophistication probably, to a certain extent, is understood at one dimension by the Government, but when we design programmes it is probably less understood and so we tend not to really focus on it. I have been in lots of meetings where people have talked about GVA in London and in fact London, talking about how strong it is in terms of growth, and forgetting to mention there are pockets of deprivation, huge pockets of entrenched worklessness. To Alex's point, in a local economy that is really driving UK productivity, to have an employment rate that has lagged the UK average for three decades is just astounding and people do not understand that. Yes, we have lots of high skills, but where they are attracted to this economy, we also have lots of people with no skills and less chance of getting on in work.

Therefore, there are definitely big problems and some of those issues are not understood and it begs the question as to at what spatial level or geography should you be designing programmes. That is the kind of question that lots of people are tussling with and at a city region-wide level you might think you ought to be slightly better at doing that. Government policy changes over time and with favours, but individuals will have their own views. Certainly, in our part of the world we have been pushing this devolution agenda at city region level. We think it makes a lot of sense and you can tackle a lot of the problems in the round strategically and hopefully in the future we have more opportunities to do that. That is certainly something we would support as a department.

Len Duvall AM (Chair): Lord Heseltine, while we have you with us, we were just wondering whether you want to just give us some views on the wider issues around the EU exit situation that we face not just here in London but across the country in that sense. I caught a little bit of your interview and subsequently read the transcripts from Leading Britain's Conversation (LBC) a couple of weeks ago. Do you have any comments? We are seeing the Mayor tomorrow around these issues and I do take what you said: that we should be talking about this. It does not really matter whether we are leaving the EU or not; we should be talking about reforms and reviews to make things better for different approaches that give us outcomes. It just seems to me that as the EU Exit Working Group, we need to accelerate on some of those thoughts, because of the challenges we may face, the unknowns of leaving the EU and the challenges it presents, not just here in London, but to the rest of the country. Do you want to just comment, because you are a leading commentator on this?

The Rt. Hon the Lord Heseltine CH: I hate to impose my views on you, but given that you have explicitly asked for them, I can let you have them. The thrust of everything we have been saying today has been borne in on me over the last 40 years in public life. All the sort of schemes I have initiated and policies I have created have been designed to try to stimulate economic activity and social activity by the involvement of people, the use of competition, the incentivisation of available money, and all of that.

Therefore, Brexit did not enter into any of the thinking behind it. However, of course the Brexit dimension adds to the urgency. I put it in a simple sentence: Brexit is the worst decision taken by this country in my political experience. There is no upside and endless downsides, and I hope it can be stopped and anything I

can do to stop it I will do. However, I am fully aware of the limitations of my ability to do that, but I will argue for the supremacy of Parliament until the last dot and cross has been put on the i's and the t's. If I can stop it I will willingly do so.

However, that does not change the fact that we are not a well-run country. We are a badly run, over-centralised, functionally divided country and missing out because of that. If one thinks of stop/go, stop/go, that has been the economic phenomenon of the last five, six, seven decades. What it really meant is that London was overheated and everybody got a lot of go, however the moment that London got overheated you had to stop, probably before the benefits got to the more extreme parts of the country, which never had a go position. It was run for the benefit of that concentration of resource and political power in the southeast, which certainly spread to the Midlands and to Bristol in the west and that sort of thing. However, if you start going around the periphery, there was never any of these boom-time conditions.

Therefore, it is all part of that same functional concentration in London and many ideas we have talked about here today, and there are many more we could talk about, all pushing in the same direction. If you want the most obvious example, show me another country that runs itself the way that we do, and there is not one. All the advanced capitalist economies, and all the advanced economies are capitalist, are devolved. The essence of the capitalist theory is devolution, it is all about individuals and choice and competition and people. You have to regulate the market, the market knows no morality, but using the market as a vehicle for the purposes of wealth creation is the standard way in which economies serve their people. The issue is where you regulate, not about whether you have something to regulate.

That is my view and London is in many ways a classic example of this in microcosm because I can think of richer cities, I can think of more powerful cities, but I cannot think of a city that so combines world influence, history, culture, academia, money, as London. It is the preeminent world city. It has huge things going for it, but, beneath it all, there are these areas to which this beneficial world has not spread. We all today know how to do it. I do not know, I may be quite wrong, but I do not have any things that I would like to try that are new. There are lots of things we have tried that I would like to try more and deeper, but I cannot think of a new idea that is missing. Perhaps it comes with someone of my age, however my limited experience and what I have seen here and overseas tells me we know how to deal with the problems of inequality and all that. It is just a question of having the will to do it.

Len Duvall AM (Chair): Thank you. Thank you for those comments, and thank you to the rest of the guests for the way that you have answered our questions.

We will be looking at the transcript. We will certainly be writing to the Mayor formally about the issues that have been raised in the discussions. We might come back and clarify one or two issues with you and particularly if we want to directly quote you. Rest assured, even though this is webcast and we take running commentary minutes in that sense, we also work with the devolved bodies of Scotland, Wales and Northern Ireland, and we will share this work with them because they share their work with us. We think this is quite important that we do that and we will continue to do so. Thank you once again for the way that you have addressed our questions.

The Rt. Hon the Lord Heseltine CH: There is one point. If you are talking to devolved authorities, my report, *No Stone Unturned*, did not cover them. I went to see them but I am not sufficiently involved to be able to talk about it. However, my feeling is that devolution to Scotland, Wales and Northern Ireland is devolution to Edinburgh, Cardiff and Belfast.

Len Duvall AM (Chair): That is a very important point. Thank you once again.