



House of Commons

Business, Innovation and Skills  
Committee

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# **Lord Heseltine's Report: No Stone Unturned in Pursuit of Growth**

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**Oral evidence**

***Tuesday 11 December 2012 and  
Tuesday 12 February 2013***

*Rt Hon The Lord Heseltine of Thenford*

*Ordered by The House of Commons  
to be printed 12 February 2013*

## **Business, Innovation and Skills Committee**

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

### **Current membership**

Mr Adrian Bailey MP (*Labour, West Bromwich West*) (Chair)  
Mr Brian Binley MP (*Conservative, Northampton South*)  
Paul Blomfield MP (*Labour, Sheffield Central*)  
Katy Clark MP (*Labour, North Ayrshire and Arran*)  
Mike Crockart MP (*Liberal Democrat, Edinburgh South*)  
Caroline Dinenage MP (*Conservative, Gosport*)  
Julie Elliott MP (*Labour, Sunderland Central*)  
Rebecca Harris MP (*Conservative, Castle Point*)  
Ann McKechin MP (*Labour, Glasgow North*)  
Mr Robin Walker MP (*Conservative, Worcester*)  
Nadhim Zahawi MP (*Conservative, Stratford-upon-Avon*)

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Jack Dromey MP (*Labour, Birmingham, Erdington*)  
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Rachel Reeves MP (*Labour, Leeds West*)  
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### **Committee staff**

The current staff of the Committee are James Davies (Clerk), Amelia Aspden (Second Clerk), Josephine Willows (Inquiry Manager), Peter Stam (Inquiry Manager), Ian Hook (Senior Committee Assistant), Pam Morris (Committee Assistant), and Henry Ayi-Hyde (Committee Support Assistant).

**Contacts**

All correspondence should be addressed to the Clerk of the Business, Innovation and Skills Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is [biscom@parliament.uk](mailto:biscom@parliament.uk)

# List of witnesses

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**Tuesday 11 December 2012**

*Page*

**Rt Hon The Lord Heseltine of Thenford**

Ev 1

**Tuesday 12 February 2013**

**Rt Hon The Lord Heseltine of Thenford**

Ev 9

# Oral evidence

## Taken before the Business, Innovation and Skills Committee

on Tuesday 11 December 2012

Members present:

Mr Adrian Bailey (Chair)

Mr Brian Binley  
Paul Blomfield  
Mike Crockart  
Caroline Dinéage  
Julie Elliott

Ann McKechin  
Rebecca Harris  
Mr Robin Walker  
Nadhim Zahawi

### Examination of Witness

*Witness:* **Rt Hon the Lord Heseltine of Thenford**, gave evidence.

**Chair:** We are slightly early, but given that we have only got you for a short time, I propose that we start now to make the most of the time available. Can I formally welcome you, Lord Heseltine? Thank you for agreeing to address the Committee and answer our questions. Of course you need no introduction, but for transcription purposes, if you could introduce yourself, that would be helpful.

**Lord Heseltine:** Yes, I am Lord Heseltine. I am a former Deputy Prime Minister in John Major's administration.

**Q1 Chair:** Thank you very much. I am going to open the questioning. Your report, I think it is fair to say, has been of huge interest. It has been reported as opening up a split in the Government between the "dominant centrists" and yourself, particularly in the context of the Growth and Infrastructure Bill, with tension between your approach, which is basically a localist approach, and the Growth and Infrastructure Bill, which is essentially a centralist approach. Do you think the two approaches are irreconcilable?

**Lord Heseltine:** No. I think that they need reconciliation, building on the relative strengths and priorities of both central Government and the local economic centres of our country. I do not find it any way difficult to see how to do that and, in detail, my report sets it out. There are things that only central Government can do—major roads, for example, airports, ports and railways—and there are things that would be better initiated at the local level and, again, my report sets out many of these things. They are not exclusive. In BIS, for example, you have sectoral responsibilities, which are national, and then you have the local economic initiatives, which have to fit in with the policies of central Government. We are talking about a sophisticated partnership process.

**Q2 Chair:** This was not in the Growth and Infrastructure Bill, but I know there was considerable concern that LEPs and the local business community did not have a formal say in the revised planning processes. Do you not think this heightens the tension and is something that needs to be remedied?

**Lord Heseltine:** I think that the essence of my report is that we need to stimulate economic activity

wherever we can, and that the more you can enthuse those who have local knowledge based on their experience on the ground in order to contribute to that process, the more you get choice and competition; the more you get enthusiasm; the more you get a relevance to local economic circumstances; and, put in rather general terms, the more you get like every other capitalist economy.

**Q3 Chair:** Do you think the Government is taking your recommendations seriously? There has been some speculation that is basically just going to be shelved.

**Lord Heseltine:** I do not think anybody could believe that after the Autumn Statement, when the Chancellor has explicitly said that he is going to move towards a single pot and, secondly, that there is to be a detailed and full response to my report in the spring of next year, which is three months away. If I may make a personal point, what is the point of asking someone like me to do a report of this sort if you are going to shelve it? It is not as though I arrived from Mars. I have been around for, many people would say, too long, and my views are well known; my approach is well known; it has been articulated in Government post after Government post. So in asking me to do it and then giving me a very talented team of officials—one from each Government Department—you are not exactly charting new ground. You know what will come out of the product.

**Chair:** I think you have articulated very well the sort of conundrum that we are trying to understand: that is why the Government did it whilst, at the same time, appearing to pursue other policies that are contradictory to it.

**Mr Binley:** My Lord, it is good to see you. We first met, would you believe it, in 1966, when you had just been elected in Tavistock and I was the Young Conservatives organiser in the West Country. That is a long time ago.

**Lord Heseltine:** It is miraculous.

**Mr Binley:** We are both still here.

**Lord Heseltine:** Here we are.

**Q4 Mr Binley:** Can I refer to that element of your report where you said that "The message I keep

11 December 2012 Rt Hon the Lord Heseltine of Thenford

hearing is that the UK does not have a strategy for growth and wealth creation.” Is the Government’s Plan for Growth fit for purpose?

**Lord Heseltine:** The Government are a bit cross with me for saying that, and I think they have some cause on their side, because they do have a growth strategy—it is set out in a document that has a green cover, and I suppose it must be a year-plus since it first appeared. In traditional terms, it deals with a lot of economic issues, fiscal policies and regulatory issues, and it would be seen legitimately by the Government as their growth agenda. It does not in any way undermine the fact that, wherever I went, people said there isn’t a growth agenda. Partially, of course, they are saying that there is nothing that meets what they want as a growth agenda; and partially, it reflects the fact that, to many people—and this would include myself—a growth agenda is much more comprehensive across all Government Departments than the traditional Treasury/BIS Department response. That is where the dilemma lies. I recognise the Government’s legitimate criticism in saying what they did about that observation, but I stand by the observation in the context I used it: that, in fact, I do believe we need, at central Government level, a growth agenda which is much wider and more comprehensive than the traditional approach that the Government had adopted.

**Q5 Mr Binley:** Does that suggest, then, that you think the Government has not done enough to communicate its vision with regard to the strategy for growth?

**Lord Heseltine:** If I was forced to say something about that, I would say that the Government has—well, not just the Government; there has generally been a different understanding of the dilemma this country faces. I think the Government’s first approach—the traditional one, which is what any other Government did or would have done—has not been able to satisfy the stark circumstances that we, as a nation, face. The traditional levers—even devaluation—have not really worked. Confidence in the economy has not been restored. How can it be when all our principal markets are either slowing or stagnant, and where confidence in the investing constituency is very limited and is likely to remain limited until the marketplaces they serve recover? This Government—and, I think, a much wider constituency—has looked over the brink of Britain’s future and realised there are some very searching questions one has to ask, and that led, summing it up, to the Prime Minister, in the City a month or so ago, saying he believed in an industrial strategy. I have not heard a Prime Minister in a Conservative Government use those words in decades.

**Q6 Mr Binley:** If you had been Chancellor, would you have attempted to inject more demand at an earlier stage, or do you think that that would not have been possible?

**Lord Heseltine:** I think that it was well summed up by the former Chief Secretary: there’s no money left. I accept that view. Where is it going to come from? You are either going to increase taxes, which has the

effect of choking off demand, or you are going to borrow more money, and that has the effect of increasing the debt, potentially increasing interest, and potentially increasing inflation. There are no easy ways out of this situation, but there is one way out which I do believe the Government has appreciated and which has a track record, and that is to get more value from the money you can afford. That, basically, is gearing.

If you look back to when we have done this, the proven success underlies the proposals that I made. It began with the urban development corporations of 1979. Coincidentally with that, there was the gearing associated with urban grant: for every pound of public money you got to deal with dereliction, you had to show what would be added to it by, for example, house builders. That led on to the more ambitious scheme called City Challenge, which was a scheme targeted at the most destitute parts of provincial England, and we got serious gearing: £5 of extra money for every pound of public money. The Regional Growth Fund has had exactly the same consequence: for every pound of public money, we have got £5 of private or additional money.

The whole philosophy that I have pursued over those 30 years is to say that, if you did that on a bigger scale, I would not say that the consequence would be proportionate, but it would have the same process of gearing in more activity and more economic investment. You take the central Government money that is already in the public expenditure accounts—I list something like £60 billion over the review period—and you say that, instead of allocating that functionally on a pound-for-pound basis, you create a competitive process where you invite the LEPs, in this case, to say, “If we get part of that £60 billion, this is what we will do locally to add to it.” That is where the extra cash comes from.

**Q7 Nadhim Zahawi:** I have just a couple of questions: one is about your view of the interventionist view versus the Lord Lawson view, which is just, “Lower corporation tax, get out of the way and let the market decide.” Where do you think the Government sits currently between those two views?

**Lord Heseltine:** Oh, I think that that is at the heart of the debate, and it would be misleading to say, “The Government sits in A, B or C position.” Each Member of the Government will have their own views and they will vary. Nigel and I sat in the same Cabinet for some considerable time and we would not exactly agree about this particular matter, but we were still part of the Cabinet, and the same position would exist today. Of course, he thinks I am wrong, and you will not be surprised to hear I think he is wrong.

**Q8 Nadhim Zahawi:** That is a very good non-answer about the Government’s position. Thank you very much.

Just one more if I may. You talk about having more engagement from Departments, so it is not just the usual response from BIS and the Treasury as to what that growth strategy or industrial strategy looks like. I understand that, so let us take the Department of

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 11 December 2012 Rt Hon the Lord Heseltine of Thenford
 

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Health. How do you really change behaviour within that Department among people who have a day job that is totally focused on what they have to deliver? How do you get them to start thinking about leveraging some of that money that they are spending on growth?

**Lord Heseltine:** Last night, I sat and watched a fascinating television programme in which the health service were working with 10,000 cancer patients on examining their individual DNA in order to work out if there was any correlation between certain types of treatment, as I understood the programme. I said to myself, "That is exactly what comprises a comprehensive growth strategy." I think, personally, I had given an example in which the client group within the health service I chose was the elderly—the elderly are more numerous and will be around—and it was looking how you could keep them in their own homes longer. That is good for them and good for the health service, and it potentially could involve the electronics industry in developing even more complicated systems of local and personal monitoring. That is another example, but there are two examples. The Moorfields Eye Hospital is a third example: why just Moorfields?

If you start thinking about that and say that each Government Department should just sit back and say, "We know what our day job is but are there things we could be associating with that? Are their partnerships we could be creating that could enhance the purpose of our Department?" my view, comprehensively, is that the answer is yes.

**Q9 Chair:** I am coming back to Brian now but, in the context of your previous reply about City Challenge, as a representative of a constituency that benefited from City Challenge, I suppose I should say thank you. Secondly, the point was made afterwards that, if we had had twice as much money for twice as long, the transformational effect in the area would have been absolutely incredible. It does underline the point you were making.

**Lord Heseltine:** If I may say so, Mr Chairman, you should be sitting here.

**Chair:** No comment.

**Q10 Mr Binley:** Your previous answer to my colleague, Nadhim, suggested that there may be a lack of ability to show initiative in the sense that you are talking about, and to go beyond the day job. Can I ask if Whitehall is shielded from the impacts of negative growth in a way that could result in inertia and a lack of urgency within the Government? Does the Government have the skill sets needed to develop the sort of additional activity that you are calling for? If it does not—and I fear it does not—how do we train Ministers? We expect them to do it almost without any training at all.

**Lord Heseltine:** There were quite a few questions rolled into that one, and each of them is important in its way. I would not answer the question just in terms of Government. The general approach that I think we adopt in this country is unlike that of any other capitalist economy that I know. It is too centralist and too amateur. It is amateur in the sense that the official

world is very largely a generalist civil service, without expertise and without experience outside their own activities. They are very hard working and very conscientious people and I have always found that you can achieve amazing things with them, provided they are led. That is absolutely the right way: we are not looking for a civil service to run the country; we are looking for Governments to do that, whichever mandate they happen to have. However, there is a great need, in my view, for much more professional expertise in the civil service.

Of course, Ministers collectively should have an all-embracing strategy that should, in my view, concentrate on growth—not to the exclusion of their day job but in addition to it. I set out in my report a machinery to achieve this, and basically it consists of Prime Ministerial leadership; without that, nothing happens.

**Chair:** We are coming to that a little later.

**Lord Heseltine:** Secondly, you need an overall statement of what your growth strategy is. Thirdly, you need a response from individual Departments as to how they will work into that national growth strategy. Next, you need a creative tension inside Government to make sure that each Department is doing what it said it would do—in other words, just internal management/creative processes of the sort that are built into any private sector company. Then you need the same professionalism in the localities upon which you are relying for greater input, and that takes you to look at the LEPs and it takes you to look at the chambers of commerce.

**Q11 Mr Binley:** One final question, my Lord, and I do thank you for your answers: you say in your report that "Whitehall is dysfunctional", and you alluded to that in your response to my previous question, but you also say it is "neutering local leadership". I wonder how you would change that situation. You have given me part of an answer to that but I wonder if you wanted to elaborate a little more. Do you shove more decision-making down the line? How do you do it?

**Lord Heseltine:** You do two things. First, you analyse the problem, and the problem to me is monopolistic functionalism. Once you get those words into one's mind, you realise where I am coming from. You think of the central Government Departments, and their names reveal all you need to know. They are doing health, they are doing education, they are doing transport, they are doing local government—whatever it may be. The real challenge to me is to ask: how do you build the economy of Manchester, Liverpool, Leeds, Newcastle or Plymouth? That question is not asked. The preoccupation and, indeed, the career structure of Ministers is how they can do well in their functional process. You start asking basic questions.

I can only ever remember one occasion in Government when I attended a meeting about place, and that was in 1981 after the riots in Liverpool; otherwise, they were all about Departmental monopolistic functionalism. I do not believe that that is the right way to stimulate local activity, and I believe it has a neutering effect, because such is the monopolistic power of those functional Departments that they are replicated in the municipalities as well;

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 11 December 2012 Rt Hon the Lord Heseltine of Thenford
 

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you have the Ministry of Transport and your County Surveyor; you have the Department of Education and your Chief Education Officer. The relationship is vertical, and at a municipality level, there is not this interrelationship of the sort we are talking about.

The way I suggest we move from where we are to where I think we should be is to build on the past experiences I have had—City Challenge is the easy one—and to simply say to the local people, however you define that, “We have this much money. You tell us what you would do and what you would add to it if you initiated where the money was spent, not us.” That is what every other advanced economy does and it is what I believe we have proved would work in this country. The trick, of course, is to do it, and then you do come back to the points that have been raised: who is in favour and who is against? You will not be surprised by the answer to that question: anyone who is losing money is against and anyone who is trying to get the economy moving is for. It is not rocket science.

**Q12 Mr Walker:** Lord Heseltine, you have run a number of Government Departments in your time, and you have also run very successful businesses. I was just wondering: in your experience of running large Government Departments, do you find their business plans were fit for purpose?

**Lord Heseltine:** They have not got business plans. No one knows what is going on in Whitehall. There is no way of finding out. It is as stark as I have said. Lord Browne, the senior non-executive director, ex-BP, has said similar things. It is absolutely right: you can find out how much the total bill is—of course you can find that out—but, if you want to know how many people are doing a particular function, what the objectives are, what the measurement of those objectives is and who set those objectives, it does not exist. You cannot cost objectives and output in the way you can in the private sector.

**Q13 Mr Walker:** You said to the Public Administration Committee last week that it was unacceptable that we have Ministers with no knowledge of great swathes of their Departments. What do you think could be done about that?

**Lord Heseltine:** You just put a management information system in and you have creative tension to ask questions about it, which I did. It is all in my report. I just set out the template for what you should do. Indeed, I’m pretty sure—in fact, I know I did—I set out a timetable in which it should be done, so it should. We did it, then every time I left the Department, it disappeared.

**Q14 Mr Walker:** I was going to ask: do you think there is institutional resistance in Whitehall to that?

**Lord Heseltine:** Yes, of course.

**Q15 Mr Walker:** Why do you think that is?

**Lord Heseltine:** Because the more that you know, the more criticism you can deploy and the more informed the debate. To oversimplify, if you have a Department that is responsible for, we will say, community welfare, that is a jolly nice thing to be doing—

everybody is in favour of community welfare. You say, “Let us have some cuts,” and before you know where you are, you will have the bleeding stumps of community welfare paraded across the national press—Government are villains, descending like Mongol hordes on the most underprivileged—and everybody will back off because they do not want to lose votes as a result of this villainous policy. If you could actually get to see what the people in the community welfare department are doing, you would find there would be lots of economists collecting figures and storing away facts and figures so that people like yourselves can ask parliamentary questions, and impose a huge cost on the public bureaucracy as a consequence, and you might come to the view that you did not need those answers in the first place, so you could do with fewer economists—but you cannot find that information.

**Q16 Mr Walker:** Would you also agree that there is a problem with different Government Departments working within their own silos and not working together? I am interested in your experience of the Regional Growth Fund and the newly created LEPs sitting between two Government Departments. Do you feel that that has hampered the ability of that organisation to do its job as well as it could?

**Lord Heseltine:** The Regional Growth Fund provided no such problem because, having agreed with Ministers the remit, which was that we would create private sector jobs in those areas most adversely affected by the cuts, it was left to the committee of which I am chairman to make recommendations and, indeed, to stimulate the bids across the country. It was completely within one framework of control. We made recommendations; then there was a team of Ministers collectively looking at those recommendations, and either adding or subtracting, as they saw fit. By and large they supported the recommendations we had made. I believe the system worked as well as it could possibly have done.

When you come to LEPs, that is a different story. Basically, having created the LEPs, the Government, at that stage, felt it had made a significant step forward towards stimulating local enterprise and local economic activity. In practice, when one started looking at the detail and started asking questions about the extent to which more responsibility could be moved in that direction, the inadequacy of the capability became clearer and, of course, it was a patchwork quilt: some LEPs had made significant progress; others had not made any progress at all. There were LEPs that actually did not believe in making more than minimal progress. This is not a criticism; they thought they could do the job perfectly well with a very light touch, using the resource of local authorities. If you take the more ambitious programme, which is now being pursued by the Chancellor, you really have to have a stronger LEP presence.

The story is exactly the same with chambers of commerce. For all my political life, this localism/centralism debate has gone on, and there are two vehicles: there is the private sector vehicle called the chamber; there is a public sector vehicle called local

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11 December 2012 Rt Hon the Lord Heseltine of Thenford

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government, to which you could devolve more opportunity, power and responsibility. Actually, central Government has done exactly the opposite over my lifetime, again. More and more, they have taken powers away or simply not given them to these organisations. The argument is always the same: “They are not up to the job. Therefore, we had better do it ourselves.” An example is the Housing Corporation in the 1960s under Keith Joseph. All the way through, you get this accumulation of central power—circulars, ring-fenced grants; they are all part of the same thing—on the basis that you cannot trust either the chambers or local government. And LEPs then follow into the same thing. That is precisely the wrong solution.

The right solution would have been to say, “We must make these organisations fit for the job,” which is what every other capitalist economy has done. Again, if you had the time to glance at the annex to my report—not the report itself, but the annex—which looks at the support for small businesses overseas, characteristically we are in an amateur world. The Prime Minister, visiting India and Brazil—two of the target economies—discovered there was not even one British chamber of commerce in those two growth markets. Just compare that with what the Americans or the Germans are doing and you will realise why I treat it so seriously. The big point, however, is that we have analysed a weakness and said we therefore need centralism. What no one ever does is then put a slide-rule over the central performance and see whether it is any better done centrally than it would have been done locally.

**Q17 Ann McKechin:** We have talked about the silo tendency within Government today, Lord Heseltine. We interviewed the Secretary of State about six weeks ago on his annual report and, when we asked him about the Growth Implementation Committee—one of the new sub-committees of Cabinet—he said that nobody in “Government or anywhere else would imagine that Cabinet committees drive economic growth”. You have made a number of suggestions about better co-ordination between Government Departments and how we try to break down the silo. Have you any other suggestions about what Government should be trying to do at Cabinet level, at No 10, in trying to drive that agenda?

**Lord Heseltine:** My report sets out in very clear terms what they should do: a Prime Minister-led national strategy; an individual departmental strategy, compliant with the national strategy; a monitoring unit in Government, to make sure that what is promised is delivered; and then a significant shift of initiative to the LEPs, to get a place-based set of proposals rather than functionally imposed, individual proposals.

**Q18 Ann McKechin:** You have mentioned things being set up ad hoc by central Government to try to cope with gaps, rather than trying to resolve the problem at the local level. Would you see a model that is quite a consistent, long-term model within Cabinet?

**Lord Heseltine:** I think my model is based on many years of having been there. Of course, Government has to have ad hoc responses to unpredictable and

crisis situations—of course it has—but what it should not rely on is ad hoc-ery as a strategy.

**Q19 Ann McKechin:** Just very quickly, Annex F of your report sets out a management information system. I just wondered whether you think that the current implementation updates on the Government’s Plan for Growth match that standard, or do you think they need to be strengthened?

**Lord Heseltine:** I have not seen anything that matches the quality of management information system that I believe to be necessary.

**Q20 Nadhim Zahawi:** Lord Heseltine, we reported in November 2010 that a key test for the new LEPs will be “the extent to which they learn from both the successes and the failures of the RDAs”. Have LEPs improved on the work done by the RDAs? How do you recommend they do so in the future?

**Lord Heseltine:** I do not think they have had time to be judged. The RDAs came into existence because in the 1990s I persuaded my colleagues in Government that we would take the functional offices of central Government based, we will say, in Manchester, Leeds or Bristol, and co-ordinate them into a unified process. This was the attempt to try to get a place-based response as opposed to a lot of individual, functional responses. Colleagues agreed with that, and that is what we did. The next step—this is where it started to go wrong—was to try to turn what was essentially the eyes and the ears of the central civil service and the Government into a regional body, which it was never intended to be, and then to give it more powers of a grandiloquent nature, like strategy, spatial planning and regional this, that and the other. They got more and more powers, responsibilities and money, and the reaction was predictable: someone said they had to go.

I have no quarrel with that, as long as the baby did not go out with the bathwater. My preoccupation is that the local eyes and ears of central Government did go out—the baby did go out with the bathwater. What happened—and this is pure Sir Humphrey—was that, in an attempt to get rid of what was seen as this regional presence, the unified offices were closed. What then happened? They just went back to where they had been before. They just reopened 300 yards away from where they were, in individual offices, on a functional basis. It is pure Sir Humphrey.

In order to get the place-based policies that I am arguing for, you have to recreate the unified eyes and ears of central Government. You cannot have the LEP chairman moving through six different offices in order to try to get a view about what central Government wants. Please let me just make this point: these LEPs and all this localism—it is not a case of, “Here’s the money and goodbye.” It is a partnership; it is a sophisticated relationship that really bases itself on a SWOT analysis of the local economy. The local economy is defined by the LEPs, of which there are 39. If you sit where I sit, of course, it is Redcliffe-Maud of the 1960s, because this is what Redcliffe-Maud suggested. Just like all the things I am talking about—the trade associations and the chambers of

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11 December 2012 Rt Hon the Lord Heseltine of Thenford

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commerce—it is all in the Devlin report of 1972. It is not rocket science.

**Q21 Nadhim Zahawi:** You have said that a couple of times now. You recommend that LEP funding should be for a minimum of five years, starting from 2015–16. Why is that? Can you just explain to the Committee?

**Lord Heseltine:** My single pot is, in significant measure, a capital budget. The object of the exercise is not only to get local initiative but to get local gearing; in other words, you get the private sector, other public bodies or whatever adding money to what the Government can afford. You cannot have programmes that are based on capital in under, certainly, a five-year process, because the private sector just does not think like that—and quite rightly. I say a five-year process, and I say you cannot start it until 2015 because all the money that is currently in the provision of the public expenditure review will already be committed for 2013 and much of 2014. I chose a period when the existing money probably is not contracted and you can begin to use it in a different way.

**Q22 Nadhim Zahawi:** Do you welcome the Government’s announcement for the core funding for the LEPs up to 2014–15?

**Lord Heseltine:** There have been two announcements: one is for core funding, which I do welcome; and the second is, in response to my report, an additional £250,000 in 2013 and 2014 in order to help them to prepare their plans upon which the bids will be based. I recommended that for two reasons: first, if you do not do that, the work will all be done within the local authorities, and I wanted to preserve a dimension that was outside that; secondly, it seemed to me important that it was not just the local planners that got at it. It was the use of world-class planning experience which would have to be bought in from outside.

**Q23 Nadhim Zahawi:** That is evident in some of the LEPs, certainly in my region. Just back to that point of planning, the recently announced core funding that you just talked about is reliant on the LEPs being able to cash-match. Would you go further and allow the LEPs to be given formal fundraising powers?

**Lord Heseltine:** No.

**Q24 Nadhim Zahawi:** Why?

**Lord Heseltine:** They are not democratically accountable and, therefore, the local authorities have to be seen as relevant in that context. There might be ways in which you could be more imaginative in partnership with the local authorities and, indeed, the Government are doing this. They have come to an arrangement with Manchester, whereby they can anticipate rates increases and capitalise on that, so there are ways in which it could be done. I think I answered very quickly specifically about the LEPs. Of course, they are partnerships between the local authorities as well, so there may be ways—

**Q25 Nadhim Zahawi:** You would have to be cautious about it.

**Lord Heseltine:** You would have to be careful about the implementation.

**Q26 Nadhim Zahawi:** You recommend that the LEPs “review their boundaries within a three-month period”. The Minister, however, told us that he would not “promise a review of the map or anything disruptive like that”. Why do you think that a review of the boundaries is so important?

**Lord Heseltine:** At the margin, there are areas where there is controversy. I will give you the most obvious one: Kent. At either end—at the west and the east end—where they overlap with neighbouring authorities, there are arguments that say, “Go back to the Kent boundary.” Rather than have this issue constantly on the agenda, it seemed to me that it would make sense to give them three months to say, “We want to change this.” three months for the Government to agree or disagree, and then say, “No; from that moment on, the boundaries are as they are,” and any change would be in a normal Boundary Commission process running over time. I have given the example from Kent but there are others where there are overlapping boundaries, where a short, sharp, quick appraisal, in my view, would have been acceptable and would have got it out of the way, so I still believe it was the right suggestion.

**Q27 Nadhim Zahawi:** I suspect that most people would agree with you that “LEPs should ensure that their board has the necessary skills and expertise”, but we have heard of the difficulty of balancing board manageability. You manage a board and have sat on boards. Size does matter. Obviously, with different interests, all concerned bodies want to be on there. How do you recommend LEPs find that balance?

**Lord Heseltine:** That is part of their responsibility. A way I would recommend that would help would be to move to unitary counties. I am not recommending a prescriptive approach; I am merely at the moment saying that, if they wanted to go to unitary counties, they should be facilitated to do so. That would save £10 million to £15 million a county, and eliminate perhaps five or six members of the board and therefore make it possible to widen the composition.

**Q28 Chair:** Just before I bring in Paul Blomfield, Lord Heseltine, we only have 20 minutes or so. We have a lot of questions that we want to ask you and you seem to be enjoying answering anyway. At this point, to help me in my management of the meeting, would you be prepared to come back in January to have another session with us to follow up any unanswered questions?

**Lord Heseltine:** I would be very honoured. I am sorry but I am going to Tottenham, where they are launching a document on the riots. That is why I need to leave at half past, but I would be very honoured to come back in January.

**Chair:** That is very helpful indeed. It does mean that we can explore all the questions fully at this point and pick up any that are left unasked and unanswered in January.

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11 December 2012 Rt Hon the Lord Heseltine of Thenford

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**Q29 Paul Blomfield:** Lord Heseltine, having myself spent the last few weeks on the Growth and Infrastructure Bill Committee, which seems to be falling into precisely the trap that you described to us this morning of not trusting local decision-making bodies and therefore taking powers centrally, I am very much attracted by your passionate advocacy of localism. However, when you talk about “local leadership”, could you clarify to us who you think should be in charge of regional development?

**Lord Heseltine:** I am not arguing for regional development; I am arguing for place-based initiatives, starting with the LEPs. Of course, looking at a region, you have several LEPs in a region. If they wanted to create some sort of dialogue between the LEPs in an area, what possible argument could there be against that? Of course, the local offices of Government cover more than one LEP, so the presence of central Government would be wider than one LEP.

**Q30 Paul Blomfield:** If I could just pursue that a little—and I take the point you are making—I represent an area that has a reasonably well developed city region in Sheffield. Clearly, that is not replicated in other parts of the country. I wonder how you feel we get this balance right between business leadership and democratic accountability, given the patchwork of different models locally.

**Lord Heseltine:** My experience is that, in the real world, this balance is being pioneered and is successful. I do not think that it is a party issue anymore. I think using a vehicle where the private sector and the public sector work together is non-controversial. That is hugely advantageous. However, I think that the way to really make it work is to make it so worthwhile, and that is where you come to the bidding process. My experience, again, of City Challenge, which is where we pioneered this on the biggest scale, was that, once there was an incentive, like access to real money, the degree of co-operation became very worthwhile locally. People had perhaps been amazed, not just at elected level but at official level, at the coherence that was put into the process of bidding. One city region was up against another one. It worked.

**Q31 Paul Blomfield:** You said earlier that part of the problem was that the careers of people in this place were based on functional Departments. Is part of the side effect of that problem that there is insufficient political focus on having regional and local champions within our political structures? I know you argue for mayors, and both parties have explored that option, but in the recent referenda that did not seem to gain much public support. I wonder how you think we should provide that strong political local leadership.

**Lord Heseltine:** I do not have the slightest doubts about how we should do that. We should do what we have done throughout the history of local government, and that is to legislate to create directly elected chief executives. You can say, “That does not sound much like localism,” but I would say that local government is completely the vehicle created by Parliament over centuries, and I find it difficult to understand why we have suddenly lost our nerve at the last stage. You are

quite right to say there was limited public support, but that, to me, proves the point: that there is no interest and no one thinks that local government matters, because it has no powers that are not completely constrained by central Government. I was always convinced that the referenda would almost certainly be lost, because local councillors would become the dominant force in the argument and they would all argue for themselves, for their own powers and for their own positions, and so they did. If you followed, as I did, the debate at a local level, you cannot say it was exactly intellectually illuminating. It was pure self-interest.

I would go for a framework of unitary authorities and directly elected chief executives, properly paid. Then—you asked about this and, to me, it is just what everybody else does—that should be a ladder up and down for national politicians. We have just seen a presidential election in America where the battle was between ex-governors of states. That is a very common practice. They really do know about and understand local issues, how they have worked and how they run. You see this process at work. If you are Mayor of Shanghai, you have a pretty good chance you will become President of China. It is a well known journey.

If I am absolutely frank, I think there are quite a few ex-Cabinet Ministers sitting in this place who would be much better employed running great municipalities in this country. I would think exactly the opposite: that for the younger guys coming up, making a success of X-shire would be a logical journey to becoming part of this place. This would all draw together the strengths of the country and create a degree of expertise that is not that common or widespread. I am completely clear that we should go for directly elected chief executives and see it as a vehicle to national prominence.

**Q32 Chair:** Picking that up, my concern is that you are making this an essential element of your growth strategy in the regions, yet all the history is, as you partly alluded to, that local government reform is incredibly contentious and time-consuming. Do you not think there is a very real agenda of, if you like, undermining a regional growth strategy by trying to transform the regional political structures?

**Lord Heseltine:** Mr Chairman, with respect, I have not made this a condition of my report; it is a recommendation, one of 89, and of course they interrelate. I felt that in doing this report I had to be as comprehensive as I could, and to have left this issue of local leadership floating around in the post-referenda experience would have been wrong—wrong for many reasons. One of them, of course, is that there is now a developing process in local government to create conurbation authorities, and I am attracted by that. If they want to do it, they could do it, with Government support; they could do it with a directly elected mayor, with Government support; and, as long as there was sufficient local support at local level, they could do it without a referendum. That, I believe, would be a very interesting step and one which is being very considerably discussed at local level between and by people in all parties. The option might

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 11 December 2012 Rt Hon the Lord Heseltine of Thenford
 

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be there to make progress particularly in conurbation-wide authorities.

On the point about controversy, I thought it might interest you to hear of my experience in Scotland. In Scotland and Wales, in 1990, I suppose it was, I got rid of the district authorities by prescription and central Government legislation, and created unitary authorities. I could not do it in England. I am, in the end, a loyal member of my party, and there was not a consensus on this subject—the understatement of the day. However, I set off for Scotland and I sat at a meeting with COSLA, which is the local government association in Scotland. There were all these councillors and I said, “Forgive me, but just help me: what happened as a result of the abolition of the districts? Would you like to bring them back?” I was expecting an interesting discussion on the subject, but the important point is that they did not know anything about the subject. I suddenly realised it was 20 years ago and this generation of councillors had no experience at all of two-tier Government. The idea of saying, “You can all have another tier underneath you,” was just mind-blowingly irrelevant to their thinking. It would certainly be controversial but, frankly, for whom? For the councillors. Let’s be big and grown-up about this: we know the problem that parties are having in finding councillors. You have to get someone to do it—“Come on, old boy.” That is not how you drive a sophisticated economy.

**Q33 Chair:** I think we are probably looking at another huge debate. I suppose the essential point I wanted to get across was the danger of one particular strategy being diverted by another debate, which, as you said yourself, was not absolutely essential in achieving the objectives of the core strategy.

**Lord Heseltine:** I have said it is voluntary. If they want to do it, you should not stop them.

**Q34 Ann McKechn:** I noted your comments, Lord Heseltine, but one of the arguments expressed is that we got rid of regional strategy in Scotland as a result of that local government reform, and we have ended up with a very fragmented local government service, with councils that are too small. There is also an argument for Europe, where they have micro-councils and regional councils; they have different layers of government, which work and do provide a localism agenda. I would just put it to you that there are different models and that, for some functions, it might be better to deal with it at a micro level—at a very small district level—but there are other sub-functions, including economic development, which work far better at a regional level.

**Lord Heseltine:** You could have another Royal Commission and you could come up with all sorts of models. You could probably come up with models that are different in different parts of the country, depending on whether they are urban areas or rural areas, whatever it may be. But if you are asked to do

a report such as I was asked to do, it seems quite important to start from where we are. This Government is committed to LEPs. LEPs broadly reflect Redcliffe-Maud of the 1960s. It is a workable model and the problems are urgent, so let us go from where we are, as opposed to trying to upset the whole thing, which would simply mean a complete delay in the urgency of implementation.

**Q35 Mike Crockart:** I would like to return to one particular aspect of what you were saying. Unusually, I had been agreeing with everything you said up to that point, but you seemed to be suggesting creating a political class that would rise up through the ranks, dealing with local government and then moving up to national Government if they were successful at that. Much of the criticism that comes and is levelled against many people in this place is that they have done exactly that, but they have gone through the researcher/special adviser role and ended up in Parliament with, effectively, very little knowledge and experience of business at large. How do you think that what you are proposing would differ from what has been the route for a lot of people in this place already?

**Lord Heseltine:** I think the criticism of the special adviser route is that they come out of university and they become part of a groupie culture centred on some national politician and, before you know where you are, they have a safe seat and they are in Parliament. That is not in any way compatible with what I am saying. The people I referred to would have gone into local government and become executives of a major economy, in public sector terms, and from there would move in to national Government, if they were successful. I do not think it follows that they would belong to a particular political party. I think the result in the referendum on the mayoralty of Bristol is quite interesting to all of us, as a matter of fact; there are some very interesting questions. On the other hand, there are 39 LEPs, which gives you a feel for the scale, and there are 650 Members of Parliament, so there are plenty of other routes in. It would professionalise the sort of person you are talking about if they came that way. Of course, they could still come the way they come now.

**Chair:** As somebody who cut their teeth in local government, I thoroughly agree with that approach.

I am not going to invite another question because we started early and I am conscious that you have another engagement, Lord Heseltine. I apologise to Members who have been sitting there with their questions. You will have priority in asking them the next time we have Lord Heseltine before us, in January.

Lord Heseltine, thank you for coming along today and sharing your thoughts with us, and I look forward to seeing you again in January, when we will continue on the themes that have been developed today. Thank you very much.

**Lord Heseltine:** I wish you a happy Christmas. Thank you very much indeed.

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**Tuesday 12 February 2013**

Members present:

Mr Adrian Bailey (Chair)

Paul Blomfield  
Rebecca Harris

Ann McKechin  
Mr Robin Walker

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**Examination of Witness**

*Witness:* **Rt Hon the Lord Heseltine of Thenford, CH** gave evidence.

**Q36 Chair:** Good morning, Lord Heseltine, and thank you for coming out for the second half. We very much appreciate you finding the time to do so. We all know you; I am sure everybody knows you, but for voice transcription purposes, would you introduce yourself, please?

**Lord Heseltine:** Yes. I am Michael Heseltine, Lord Heseltine of Thenford. I am very pleased to be back here before your Committee.

**Q37 Chair:** I will open with a few general questions. Your report wants to encourage competition between local enterprise partnerships. In the Autumn Statement 2012, the Government said they would increase the proportion of spending awarded through the single funding pot, based on the recommendations in your report. What would you hope to see from the Spending Review?

**Lord Heseltine:** I think it is a question of two parts: first, the scale of the transfer of resources from central decision in specific fields; and then the breadth of the subjects covered by the single pot. In my report, I am arguing for an extension of both those fields to the biggest practical extent.

**Q38 Chair:** We will explore that in a moment. Looking at the single pot, with no ring-fencing, a bidding process could mean that some areas—possibly highly deprived areas—might actually miss out on funding. Would you introduce any safeguards to avoid that?

**Lord Heseltine:** If you go for a bidding process, there are three categories that I can see, into which LEPs might fall. The biggest category would be those that do a good job and put in a respectable bid. There would be a category that do not do a good job and should have done. There is a third category—I think this is the one to which your question is directed—that, through no fault of the LEP economy, does not have the strengths inside itself to put forward a highly geared, competitive bid. In the classic process of Whitehall, they would just get their money. They would get a bit of housing, a bit of environment and a bit of transport, and the genuine underlying problem could remain untackled, decade after decade.

I believe that my proposals have a strength in revealing the genuinely economically weak LEP, because they should focus the Government's attention on the genuineness of the weakness and seek to do something about it. What my report does not cover is the very much larger sums of capital expenditure that are within the decision making of central Government on a regular basis—the roads programme, the airports

programme, the ports programme, the military establishments, whatever; there are huge capital expenditure programmes of an ongoing nature. If there were to be a genuinely weak LEP, it would, in my view, make sense for central Government to have that in mind as it makes its allocation of its major central spending programmes.

Let me give you an example. If you are building a major new hospital in a given part of the economy, in the nature of the scale of those hospitals today, a very high proportion of the patients are going to have to travel quite a long way, so where you put the hospital could be a matter of discretion, and locating it in an area of relative under-strength, economically, could be a very legitimate contributor to economic wellbeing, with all the consequences of having a major teaching hospital or specialist hospital, for example, close to such an economy. You can go on and on with examples of that sort. If I created a phrase, I would say it is “bending spending”. It is not more money; it is simply taking a national view about economic requirements locally, as part of the allocation of money.

**Q39 Chair:** Those are very interesting observations, if I may say so, Lord Heseltine, because it is self-evident that some areas may be weak economically because of their inability to put forward a case to develop.

**Lord Heseltine:** I am sorry to interrupt. It is not their inability to put forward a case per se; it is the fact that the case does not exist because the strengths of the economy locally are not capable of being exploited to a desired extent. It is a different point. The inability to articulate the case could be simply incompetence.

**Q40 Chair:** Yes. I accept that there may be such areas, but there may also be areas where there has been an inability just to get the act together to do something about it. I am sure I do not need to tell you, but my experience of local government is that there are variations of approach, capacity and capability within different areas.

**Lord Heseltine:** I agree with that, and they were my category 2. It is important that there should be a discrimination between those that are capable and those that are incapable. My experience, particularly of City Challenge, which is a mini-version of what I am talking about, is that in the second year, the ones who have failed to deliver effectively in the first year transform their performance.

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12 February 2013 Rt Hon the Lord Heseltine of Thenford

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**Q41 Chair:** That is interesting. May I explore the point you made about using national infrastructure investment to help compensate for those areas where there was an inherent economic weakness? Do you not think that that is in danger of running counter to the thrust of Government policy in using the public sector to stimulate the economy rather than having it private-sector-driven?

**Lord Heseltine:** I do not think that is the Government's policy. For example, I have advised them on the Regional Growth Fund, of which the whole concept is using public money to stimulate the difficult sectors of the economy. I could go on; there are endless examples of schemes of this sort. I personally believe that using public money in a competitive environment to attract gearing is a very sensible way to manage an economy, and I think the Government do too.

**Q42 Chair:** Personally I agree with you; I am not sure if that is exactly the Government's position on this. It would seem to me that if you have got an area with a weak private sector, and then you put in, say, a hospital or whatever there, it is public sector investment and almost by definition it will be the major employer, as in fact the public sector is in many areas of the country. The whole purpose of transferring the economy from being public-sector-driven to private-sector-driven would be defeated by that.

**Lord Heseltine:** Regardless of the definitions, which we could discuss, the fact is if you take HS2, which is public-sector-driven, a principal argument being deployed by the Government is the economic regeneration that it produces. I do not think there is this doctrinal distinction any longer; I think that all Governments recognise the interrelationships between the two.

**Q43 Chair:** So you would underline the relevance of public sector investment in stimulating private sector growth.

**Lord Heseltine:** Certainly.

**Q44 Chair:** On the issue of the single pot, the figure of £58 billion has been quoted. The *Financial Times* has written about the departmental obstruction to allocating part of their budgets to it—a fairly predictable reaction, I think. Do you think it is really possible to get that sort of figure?

**Lord Heseltine:** I am delighted, for the first time, to reveal a mistake in the report "No Stone Unturned", because just last week, to my horror, somebody rang me to tell me that there had been a mistake in the figures. From my long experience in politics, I thought we had grossly overstated the figure and were about to be in some difficulty. The truth is the reverse; we had understated the figure. The figure for local authority capital was included at £4 billion over the period; actually, it is £4 billion per annum over the period. So, the figure you quoted is £12 billion understated in terms of the potential pot. I hope that figure is now right, but I thought it was worth just making the point.

The substance of your question is: will there be resistance? Of course. Almost the last paragraph of my report says it would be naive of me not to anticipate the battle that will take place. This is what human beings do—what I have, I hold—and so the moment you say to somebody, "I would like to make adjustments, and you will have less money, less power or less influence because we are going to give it to someone else," you can be sure there will be resistance. The answer to your question is: this is for the Government to determine. They have accepted the principle, but for the scale and the breadth we will have to wait until, I understand, a further statement around the time of the Budget.

**Q45 Chair:** Do you feel that there is the political will to deliver on it within the Government?

**Lord Heseltine:** Yes.

**Q46 Mr Walker:** On this point of pooled funds, I was amused to see there was a House of Commons research paper looking at pooled funds that went all the way back to the 1990s. You will be aware that the history of the idea goes back a lot further and things like Total Place were debated in the 1970s. These things have been tried before, particularly in what is now the CLG area of Government, and they have often run into institutional challenges; they have been broken down by Government Departments fighting their turf wars, and also on the question of accountability. How do you feel that this approach—having a pooled fund for which LEPs can bid—will work differently and will be able to resist those pressures that have stopped pooled budgets working in the past?

**Lord Heseltine:** I agree that the history is of experimentation in this direction, but that experimentation has, in my view, reinforced my judgment to continue to argue for devolution of the sort that I have, because wherever I have been involved in experiments or pace-setters of this sort, it has delivered certain very clear results. The most clear is gearing; you get much bigger expenditure as a consequence of the incentivisation of using public money to attract private money. But in the way of politics, with new Governments, new ideas, new Ministers and changes, there is always the overhanging argument: "They are not up to doing it, and we know how to do it." The arguments of that sort of centralism always have the last word; that is where the advice to Ministers in the end comes from. Is there a difference this time? I think that I can point to some differences. First, the Chancellor is committed to the single pot, and I cannot think of another Chancellor who took so active a role in that sort of political-economic activity. That is a change. The second change is to be found wherever I go talking to groups of people from the local areas; the understanding that we have got to change is very widespread and held across all parties, and there is a thirst for the opportunity. The third factor is that the length of this recession has shaken many people who had views as to what should be done. Not many of these rather simple ideas have worked. So, there is a hunger for change; there is a recognition that we

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12 February 2013 Rt Hon the Lord Heseltine of Thenford

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should run ourselves much more in parallel with every other advanced economy. We are the only economy that has this centralism of the sort we have here. All the others are devolved into what you can loosely call economic sub-areas. This, of course, is what Redcliffe-Maud recommended in the 1960s and I believe his analysis was right.

**Q47 Chair:** I just want to cover inward investment. Many countries have an almost bespoke package for would-be foreign investors in their area. How do you think that foreign companies looking to invest in this country are going to manage to deal with potentially 39 LEPs and their bids for their particular investment?

**Lord Heseltine:** First of all, no one is suggesting other than that UKTI should remain the lead point on this matter, and my guess is that in the vast majority of cases a significant investor would go to UKTI and say, "We are interested in coming into the UK. Let's have a talk." That is right; that centralism should be there. That would mirror what happens in other countries. But we may not be talking about big investments. We might be talking about quite small investments and we might be talking about ideas and initiatives that are locally grown from the strengths of a particular economy. If you have a prime company in an area, trying to create a supply chain could be very much more a local initiative than a national inward-investment initiative. I think you need both. Instead of one central point, you need to give every incentive for the local people, where they have got strengths, to exploit them. I will give you an example, which perhaps will not surprise anybody, which is Liverpool. I went to Shanghai, to the World Expo, to see what? A pavilion from Liverpool. I think that is fantastic. I do not know what the consequences will be, but I know that the Liverpoolians believe that it was a very, very successful initiative on their part. I do not think we should think in terms of exclusivity. We should have the highly professional UKTI, but incentivise anybody that has got a role to play at a local level as well.

**Q48 Chair:** That is very interesting again, because one of the accusations made against the regional development agencies, and one of the reasons for scrapping them, was the way they seemed to duplicate each other in bidding, particularly abroad and through an expensive process, to attract foreign investment. On the basis of what you have said, do you not think there is a very real danger that you might get this many times over?

**Lord Heseltine:** I personally doubt it, because if it is done, for example, through the single pot, which is what we are focusing on, the single pot is not a process whereby central Government says to LEPs, "Here is the money; get on with it." Localism is about a partnership, and so you have got to have a mechanism that relates the ambitions of the LEP with the policies of central Government. This will be, in the context of my report, the creation of local offices of government—call it what you will, but in Manchester there will be a group of officials who are effectively civil servants from the London spending Departments, but they will work together on a

place-based concept. In order to bid for the central pot, there will be a dialogue between that influential civil service base and the central decision-making process. It will not be possible for them all to say, "We are all going to be whiz-kids in aerospace," for example, because the sectoral analysis of Government will actually have decided where the opportunities in aerospace are.

**Q49 Chair:** May I just clarify in my own mind? What you are saying is that with a single pot, in effect, LEPs will bid to the Government rather than any particular foreign investor, and UKTI, or Government Departments, will determine what is the most appropriate allocation from that pot.

**Lord Heseltine:** You are not drafting, I understand, but I think your words are too precise. There will be a dialogue and, within that dialogue, the policies of central Government will be taken into account. If I can talk from my own personal experience of visiting so many of these LEPs, if you sit round a table like this, you will find that you have got the chief executives of major companies, you have got the vice-chancellors of universities, you have got people running the skills councils, and you have got people who run the local authorities, either politically or at executive level, and they are the people who are speaking for the local economy on a place-based concept. They are talking about Manchester, Birmingham, Liverpool or wherever it may be. In the present system, if you look to see what sort of people make the decisions today, first of all, there is no place-based mechanism in central Government, so what you have is functional teams of officials trying to work out the best way to distribute functional money to—in the case of local authorities—hundreds of local authorities. If you think about it in personality terms and in functional and place terms, I am arguing that we should create a local dynamic that is a big influence—not a deciding influence, because it is a partnership with central Government—in designing how the local economies benefit from public support money.

**Q50 Chair:** Do you not think you are advocating, basically, a regional government bureaucracy that could be quite expensive?

**Lord Heseltine:** Before we use language like that, we should look at the cost of the existing bureaucracy. We are not comparing a vacuum in central Government with new bureaucracy in the provinces; we are just looking as to where the bureaucracy should be, how it should work and whether the balance is right. At the moment, the LEP area has a challenge in working out how it administers itself and bids for a single pot. That reveals a lacuna in our desire to stimulate the local economies.

Over a very long period of time, you have massive central bureaucracies making the decisions without reference to the local partnership, because there is no mechanism for that reference to take place. It is a question of where the bureaucrats are, what the nature of the bureaucracy is, and whether you need to have a central bureaucratic structure administering a very large number of small sums of money. If you get hold

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12 February 2013 Rt Hon the Lord Heseltine of Thenford

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of the list, there are endless schemes that Governments use to support some particular—often popular, fashionable or urgent—aspect of society. What we don't do is to see all those schemes in the round and let the local people say, "Well, look, frankly, we would be much better off if you just trusted us to make the right recommendations as to how the money should be spent and see what we would add to it." My report is not a revolution; it is a big switch in emphasis to involve local people in the decision-making process and to encourage them to add extra resources, largely from the private sector, to that which the Government can afford. That gearing is a very, very important part of the concept.

**Q51 Chair:** We have touched upon infrastructure investment. In your report, you said, "The Government must have a clear long-term plan that sets out how our future large scale infrastructure investments will meet the needs of business to deliver growth". The Government has got a National Infrastructure Plan. Do you think it will deliver on the aspirations that you have set?

**Lord Heseltine:** There is no black-and-white answer. You can spend as much on infrastructure as you can afford, and many of the areas where you need to spend money are deeply controversial. You have only got to mention wind farms, nuclear or airports for politicians to say, "Yes, let someone else take the decisions," but of course no one else can take the decisions. You cannot take politics out of this and you never will be able to. For my money, I think that the Government does understand the need for enhanced infrastructure. It has got a very difficult economic constraint position, which is not going to change in the immediate future. To the extent that you can use what Government can afford to attract other people—the private sector, sovereign wealth funds, pension funds; whatever it is—to add to the money available in Government, the more economic growth you will get. My plans are all designed to attract extra money from outside the public sector into the infrastructure field.

**Q52 Chair:** I quite understand that, and I agree with the principle. However, the Government's National Infrastructure Plan is actually quite heavily weighted to London and the South East, so do you think it can deliver a regional dimension to growth?

**Lord Heseltine:** They can do what they like with it. It is entirely a political decision as to where the weight of the money is spent. But there is a danger we must not lose sight of—that there will be those articulate and with powerful slide rules, arguing that if you want the fastest growth from your money, spend it in the South East. Personally, politically, I do not believe that is desirable or practical, but are we looking at this as politicians or as economists? Basically, the answer to your question, and my analysis, is that this is what politics is all about.

**Q53 Chair:** So, there has to be the political will to invest in the regions.

**Lord Heseltine:** There have to be political priorities; there is no escape from that.

**Q54 Rebecca Harris:** I wanted to ask you about your views on changing procurement practices, and the main changes you would like to see and the main obstacles, as you see it, to achieving them at the moment, in terms of delivering growth.

**Lord Heseltine:** The Government have recognised that procurement is not as it should be, and they have created their procurement executive, which has looked at the scale of procurement and recognised, as I understand it, that there is a limited number of schemes that they can assume responsibility for. That is now led within the Treasury and is, I think, a sensible thing to have done. But what I think that body has also recognised is that there is a very, very large number of procurement schemes, which is, frankly, beyond their ability centrally to control away from the spending Departments. If you couple that with—as I remember the figures—the Government statistic that 60% of our procurement programmes run over time or over budget, there is obviously a problem. Perhaps oversimplifying it—but, in my view, not by much—the problem is who is in charge. The expertise to negotiate and administer procurement programmes in individual Government Departments I do not think is sufficient.

So what do you do? I made some enquiries as to what the going rate of the job of running procurement for a Government Department would be in the private sector. As far as you can make comparisons, I was advised a figure of about £300,000 a year; that is what the job is worth. But under the constraints of the public expenditure difficulties, the grade levels of that sort of person in the civil service would be about a third of that figure—about £100,000. I make no criticism of those people; they have never been trained to take on the private sector in the ruthless business of procurement—we all know the significance of it to the private sector companies. I made a recommendation that the only effective way to deal with this problem is to recruit professional procurement executives from the marketplace. I made it also with the proviso that that should not bust cash limits on wages, because the danger is you bring in one or two highly paid people from the private sector, and before you know where you are, the whole pay scale has gone up.

**Q55 Paul Blomfield:** Just to follow up on a specific area where procurement could have an impact, last December you told the Public Administration Committee that you agreed that public procurement could be used to encourage firms to take on apprentices, and that is something that we had also raised in our report on apprenticeships, but the Government fairly flatly declined our recommendation, saying that "apprenticeships in public procurement contracts need to be flexible and proportionate, need to deliver good value, and must not be overly prescriptive". Do you agree with us that that is an example of—it is a point you have made on a number of occasions—central Government inflexibility, and that we really should be looking to Government, both nationally and locally, to insist on contractors taking on apprentices?

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12 February 2013 Rt Hon the Lord Heseltine of Thenford

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**Lord Heseltine:** I could have gone along with the words the Government used, as long as they are not interpreted at official level as, “We do not care about this.” I would not personally be attracted by a detailed prescription as to how many apprentices, in what circumstances, what grade, what pay level and that sort of thing, which setting targets can so easily lead to. But what I would like to see as best practice is the pursuit of apprenticeships as widely as is possible within the LEP bidding process.

I have to stand back a bit, in order to give you a feel for where my thinking goes. In order for these bids from the LEPs to take place, there has to be a Government statement of policy. This is not, “You get on with it,” as I said before; the Government has to say what its policy is about a range of big issues. The range in itself is fascinating, because the more you include, the wider the pot. When they come to doing their statement of policy, I would expect there to be some reference to apprenticeships, but within the context of skills, within the context of education and, indeed, within the context of unemployment, all of which, in my view, are linked, but they are not linked in any way in the mechanism with which we operate this country. What I ideally would like is for the Government statement to say, “We will not tolerate sink schools, and we want to know what you are going to do about it.” We believe that the work being done in DWP is absolutely essential and would be strengthened if the local authority procurement programmes—not just their procurement, but their social programmes—were involved in the administration of that.

On the skills agenda, I think central Government should say, “We believe that the local employers should play a significant role in determining the training priorities of the skills in that community.” Against that background, then you get the bids. Each LEP would be saying to itself, “In order to win, it is quite obvious apprenticeships are an important feature”—quite rightly so. They then talk to the employers and they say, “What are we going to do about apprenticeships?” They talk to the people responsible for the skills agenda and say, “What are you going to use your money for in order to attract more apprenticeships?” That sort of dialogue would follow from the bidding process.

**Q56 Paul Blomfield:** From your discussion with Government, do you expect them to give that political lead, specifically on the issue of procurement and apprenticeships?

**Lord Heseltine:** This is the question that the Government have to answer, and have said they are going to. In principle, if you look, as I am sure you have, at the Autumn Statement, that is a very encouraging first step. It indicates a breadth of the single pot that is exciting, but the dialogue about how big, how much, as I understand it is only getting under way.

**Q57 Mr Walker:** Lord Heseltine, you were saying the Government needs to give a lead on certain policy areas, and one of those would be industrial strategy, which I think you backed as an idea. Do you think the

sectors that the Government has highlighted there—advanced manufacturing, knowledge-intensive trading services and enabling industries—are the right ones to focus on for industrial strategy?

**Lord Heseltine:** I think it started principally with the Automotive Council and the aerospace council; now they have added new councils to that concept, and I am totally supportive of that. I only have one important addendum, which I tried to address in my report. In the work I am doing in Birmingham on the implementation exemplar of my report, this point will be there again. The temptation is to look at certain industries and feel that they are the winners of tomorrow. The easy one is to say that we have got to boost the manufacturing base. I am all in favour of boosting the manufacturing base, but it is about 10% of the economy and in the wildest dreams of the attainable, what are we talking about? 11%? 12%? 13%? 14%? 14% or 15% would be miraculous, but whatever figure you choose, 85% is not within the manufacturing base. I am very keen on arguing the case that if you are really going to look for a transformation in the national economy, you have to look at the whole of the national economy.

In our report, we have set out where Britain works today—the whole lot—and where, on some reasonable estimates, it might be working in 10 years’ time. Of course, broadly, it is going to be working in 10 years’ time where it is working today: logistics, tourism, the construction industry, you name it; they are all going to be there—huge employers. So, looking at your strategic objectives, it is very important to see what you can do properly across a much wider field than simply some of the important sectors.

**Q58 Mr Walker:** Roger Carr at the CBI said we need “a strategy that doesn’t pick winners, but supports sectors”, and that very much feeds in to what you have just been saying. How do you feel your recommendations pick up on that and enable that?

**Lord Heseltine:** I do pick up on the language of picking winners. I am not 100% sure what we are supposed to be picking. You only have to ask the question the other way round: “So what should we choose? Losers?” Of course we should pick winners. That is not the same as saying that you go round the country picking individual companies and individual projects, and saying, “You are in” and “You are out”. It is to say that you take a broad view as to where you can more effectively help, support, encourage and invigorate the economic infrastructure you want to develop. All Governments do that on a massive scale. If you get a list of the schemes of central Government, they are all about trying to improve performance. What that actually means is helping a climate where winners emerge. You can redefine it any way you like, but in the end it is about priorities. It is about priorities set by central Government; it is about taxpayers’ money; and it is designed to push the money where success is. We could have a great semantic dialogue about all of this. I call that picking winners. Take the Regional Growth Fund, on which I advised the Government. Every single decision we made was

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 12 February 2013 Rt Hon the Lord Heseltine of Thenford
 

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meant to be about a scheme that would work. I call that picking winners.

**Q59 Mr Walker:** You have mentioned a number of different sectors. Last week we heard from the Secretary of State; he was very proud of industrial strategy and wanting to push hard on his industrial strategy. He did not feel that there was scope for the Government to do too much more on the retail front. You also talked about where Britain works. We have got 4 million people working in the retail sector. We have huge changes going on there. Do you think there is scope for more activity on that front and for some of the recommendations of your report to feed into that sector?

**Lord Heseltine:** I have never studied the retail sector. People tell me it is very good. If it is very good, there may be a terrific opportunity to increase it. But certainly, I would think that there should be a sophisticated understanding in Government of the strengths, weaknesses and opportunities of that sector and others. The conclusion may be that there is nothing to be done. That might be the right conclusion, but someone should draw that conclusion in a positive way, rather than just leave it unasked. Tourism is another one of the same sort. It is not rocket science to work out that, as the living standards of Asia rise, more of them are coming here. That is something we should think about and go for. The whole nature of our country is changing at a pace that perhaps, here in Whitehall, we do not fully take on board. London is 50% ethnic today; Birmingham will be 50% ethnic in a relatively short period of time. There is a huge potential strength in those statements, and we have to recognise it and, in my view, embrace it.

**Q60 Mr Walker:** Picking up on that point about the growth of Asia and the opportunities there, I will be running back to my constituency this afternoon to host a summit on trade with China, and I noticed that your focus in the report on UKTI is mainly on inward investment and that side of things, but clearly the export side of things is an enormous opportunity, and that is something that the Government have put quite a lot of political weight behind in recent months. How big a focus do you think there needs to be on that area, and how big a part of UKTI's role should that be?

**Lord Heseltine:** UKTI is making significant improvements in the way it goes about exports. Its principal initiative at this moment is to have done an analysis as to what Britain's infrastructure looks like in the emerging economies. It has come up with some pretty devastating discoveries. In India, for example, there is not an effective British infrastructure private sector organisation. It would be called the British Chamber of Commerce. I have seen the report they published; they are now setting out the targets and dates to make sure that Britain has, basically, a chamber of commerce network in these emerging economies, so that that infrastructure can provide the welcome, the advice, the encouragements and the contacts of companies who want to become exporters. I wholly support that initiative, led by the Minister, Stephen Green. I add to it that we should take exactly

the same approach to building the chambers of commerce in this country, because we do not have an in-depth representation of the private sector in order to conduct the dialogue with Government and to conduct the relationships of the private sector locally. That relationship, in my view, is critically important. A figure in my report that stands out is the huge proportion of British companies that export because a foreigner rang them up and asked if they could do so. Building the chamber network is a fundamental step to putting Britain on all fours with our competing economies, whether it is, as you asked me about, the export market or the provision of services to the private sector internally.

**Q61 Paul Blomfield:** You have said that stability, particularly in our relations with the rest of Europe, is an essential precondition for the competitiveness of the UK economy. Does the prospect of treaty renegotiation and the possible referendum undermine that stability, in your view?

**Lord Heseltine:** I am not going to get involved in the European debate. Everyone knows my views. It has been controversial for 50 years. The interesting thing to me, having lived through those 50 years, is how circular the arguments are. The arguments today are very much the arguments we heard at Messina in the 1950s. I hesitate to raise the subject, but I can remember a Labour manifesto that talked of leaving the European Union. It is all circular, and there are, as the Prime Minister has said, very powerful arguments for consolidating our relationships with Europe. As he has demonstrated very successfully in the last few days, powerful leadership within the European structure can achieve amazing results.

**Q62 Paul Blomfield:** I certainly share your view in terms of the circularity of the arguments. It is perhaps just interesting to see different people in different positions making them at different times. I wonder if I can follow up on something fairly specific. In the debate around repatriation of powers, there has been—and it has not been confined to the current Government—an argument about repatriating regional policy and structural funds. I wondered what your view on that would be.

**Lord Heseltine:** My report looks at that, and it is a very interesting example of the European debate, because the way we use European funds in this country is not the way Europe wants us to use European funds, as I understand it. What they want is place-based fund allocation. What we do is divide the fund into functions, so that individual Government Departments, with their functional responsibilities, get their bit and then siphon it off. The single pot is much closer to what the European people think we should do with that element of our funding that comes back from Europe. If we could achieve that it would be a major step forward, but achieving it is not about Europe; it is about us. We just need to reorganise the mechanism that we have created here. They will not stop us; they will encourage us.

**Q63 Paul Blomfield:** I say this as somebody who represents Sheffield, in the heart of South Yorkshire.

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12 February 2013 Rt Hon the Lord Heseltine of Thenford

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We talk about the UK as being a net contributor to Europe, but I think if we looked at it regionally, probably South Yorkshire and many other parts of the country would be seen as net beneficiaries of European funding. Given your passion for investment in the regions, I wonder if you would speculate on what the consequences might have been over recent years if structural funds had been repatriated 15 years ago.

**Lord Heseltine:** I have no idea. No one has any idea. You cannot make a figure. There is no rational basis on which you could begin to do that calculation.

**Q64 Paul Blomfield:** If I could just ask you in a different way, looking forward, do you think the North and other regions of the UK would benefit from or be damaged by repatriation of structural funds?

**Lord Heseltine:** It depends on what central Government did with the money that was released.

**Q65 Paul Blomfield:** What would you expect central Government might have done?

**Lord Heseltine:** I cannot forecast what future Governments of an unknown coalition or party composition will do.

**Q66 Paul Blomfield:** May I turn to research and development, which you highlight in your report? You will be familiar with the Advanced Manufacturing Research Centre that the University of Sheffield has pioneered with Boeing and Rolls-Royce. What do you see as the main obstacles to improving knowledge transfer from universities to business?

**Lord Heseltine:** It would be preposterous for me to have a view of that sort, but usually, questions of that sort come back to dialogue and relationships. One of the arguments for the single pot is that it draws into one forum the strengths and the people of a locality, in order to make the bid. Knowing that the quality of the bid is a determining factor, if you bring the people involved—the universities, the industrialists and the knowledge-transfer agencies—into a process where they have to deliver excellence and coherence to win, you are much more likely to get the sort of output you are talking about, in my view, than if you leave it to disparate committees of functional officials in London. It is people; it is dialogue; it is simply working together against a brief from the Government. I have referred to this Government policy statement. It would be perfectly legitimate, in talking about the role of universities in the local community, that they should talk about knowledge transfer and what they are doing. They are doing an awful lot; let me say that. We have all been to see what is going on.

The virtue of the pot and the bid is that they would focus people's attention on winning at the first stage and then, having won, at the second, so that best practice is out there in front; everybody can see it, and then—as in my experience with City Challenge—they copy it. The process drives quality and encourages people to catch up. It exposes the issues and the opportunities.

**Q67 Ann McKechin:** Might I probe you a little bit further on this issue about research and development? If you look at higher education research budgets in the UK, most of it is currently on basic research, rather than applied research, and it is controlled through the research councils. Are you envisaging, in terms of applied research, that that funding should be removed from research councils and there should then be an open bidding process?

**Lord Heseltine:** No, I do not think we said that. I talked to the research councils. I think that they do an important job. I would argue that it is the relationship with the local people that we need to improve—the local industrialists. It is invidious for me to give examples; it is so complex and you just talk too easily about an idea that you have not tested on the ground, but you can think of a major employer of high technology who feels that if they were able to influence the research budgets, more of it might go into applied research, to the benefit of the local economy. That debate should take place. I am not saying that you should automatically presume to move, but it is whether the dialogue takes place that preoccupies me, and I do not think it does.

**Q68 Ann McKechin:** One of the issues, I think, for UK companies is that their own research and development budgets are quite often lower than their competitors'. Most research and most product development occurs in R and D within companies, not externally. How do you think that this move to a more regional economic approach could try to encourage more firms to focus greater attention on their own R and D budgets?

**Lord Heseltine:** It is a rather similar answer to the last one I gave: it is about the dialogue. Do those companies get involved in determining what happens to the money? The thesis behind my report is: not to the extent they should, and not to the extent that they often do overseas. Creating a framework where the local input is driven by people who are actually out in the workplace—whether it be in academia, local government or the industrial world—is an important rebalancing of the economy. If you do not have that input, then you are left with committees of civil servants. I happen to be a fan of civil servants, but I do not think they should have a monopoly role in economic guidance.

**Q69 Ann McKechin:** Earlier you made some comments about chambers of commerce, and you have made some very interesting recommendations about the need to engage with a much greater sector of private industry, because a lot of SMEs are just nowhere near any official organisation. When your suggestion came out, there was quite a firm riposte from one or two of the existing trade organisations who are not chambers of commerce, who seem to be against any degree of compulsion or statutory basis. Are you basing your comments on the fact that the UK is unique in being so poorly organised within its private sector?

**Lord Heseltine:** It is pretty unique; I know you cannot qualify unique. There was a sub-report, which we did not distribute on a wide scale, looking into the whole

12 February 2013 Rt Hon the Lord Heseltine of Thenford

issue of chambers of commerce and international comparisons, including the Small Business Administration in America. The conclusion, which in my view was right, is that we just do not provide our wealth-creating sectors with the sort of support that other economies do. This is not just about the public law status of France or Germany; if you look at what Hong Kong does through the banks and at the Small Business Administration in America, which of course is statutory, you find these remarkable and comprehensive support systems for the private sector, from the smallest companies to the largest. We do not have anything like that.

There were various reactions when my report came out. First, there was a rejection of continental public law status, which means that every company has to join. That is not going to happen. I was told it nearly did happen under the last Government, but it is not going to happen under this Government, so I never recommended it; I merely set it out as an option. The second reaction was from representative bodies who felt that they had a role to play, rather than the chambers of commerce, or that they should all have a role to play. I have no complaint about that observation, because it is what I knew they would say; it is what everybody would say in their position, and that is the argument for doing nothing. I personally do not accept the argument for doing nothing. I think that having a powerful, private-sector-led representative organisation is of help to very large numbers of companies. I must then say that the British Chambers of Commerce is now working very constructively on models in order to show how this could happen. In the two projects in which I am involved—one in Birmingham and the other on Humberside—the British Chambers of Commerce is looking at what a model of a local chamber could look like under the new regimes. I personally attach very substantial importance to that.

**Q70 Ann McKechin:** It is good to hear that people are already looking at it. I wonder to what extent you feel the Department for Business, Innovation and Skills grasps this issue.

**Lord Heseltine:** There are two aspects to it. There is Lord Green, who has pioneered the development of the British chamber of commerce movement overseas and is making great strides. There is the second side, which is the domestic side, which will presumably let its views be known when the Government reports on my report.

**Q71 Ann McKechin:** We await that with interest. We are talking about growth and trying to increase regional economies. One issue that has been raised about our current economic position is that we have more and more people who are over-skilled for the jobs that they currently occupy. A decade ago about 29% of the work force were over-skilled and now it has increased to 39%. We seem to have a sort of curve shape in terms of jobs. We have got skilled jobs at the top and unskilled jobs at the bottom, but in terms of craft jobs, which allow people to migrate from different sectors, we have got relatively few and a decreasing number. To what extent do you think that

it is important that any shift to regional policy tries to look also at increasing the number of jobs in the economy that are better paid?

**Lord Heseltine:** I am just wondering what I would say if I was sitting in a LEP to see what I could do about that. Better-paid jobs—tick the box; they must be desirable. How do you get them? You have to create the companies that make the money that can afford them, so you are back to the main point, which is economic growth. Energising, improving and supporting the private sector are all ways to improve the number of better-paid jobs. Without saying that I disagree in any way with your analysis about the bulge—a sort of pear shape—that is not what they are talking about out there. What they are talking about is that they cannot get the skills. If I talk about Humberside, which I know a bit about, they have got very exciting prospects of inward investment, but they know that there is not the skill supply, so it will come from somewhere else. It will come from Europe, Asia or wherever, but it is not there on the ground at the moment, so they have to do something about it. In engineers, there is a very serious shortage of skills, but how long does it take to train an engineer? That is where the real anxiety is out in the economies that I go to visit. They want more control over the agenda for producing skilled people—trained people.

**Q72 Rebecca Harris:** Leading on from that, your report recommends that the funding for skills and FE should go to the local area, which implies the abolition of the Skills Funding Agency. We have all heard anecdotal stories about hundreds of people being trained in beauty and hair-care who are chasing only half a dozen vacancies in areas where there are jobs that people could apply for but do not have the skills for. I just wanted to ask you how you think devolving this downwards would necessarily solve that problem.

**Lord Heseltine:** Your question reflects the comments that one gets. The thing that impresses me is that, whether the jobs are in the public or private sector—this is jobs we are talking about and there will always be a lot of public sector jobs—there is not a dialogue, effectively, about what training should take place, by whom, in which institution. There is a £4 billion budget in BIS, which is constrained by central views, and it would be much more likely to reflect local opportunities if the people who create the local jobs played a definitive role in determining the allocation of funds. In my view, it is a very much wider issue than simply the funding of skills. If I was trying to design a single pot, I would start with the unemployed, and go right through the education system including the skills, because I think they are all interrelated. If you think of the various organisations that are involved, DWP has 98,000 employees dealing with the unemployed across the country, but trying to find jobs should involve the local housing, the local procurement and the local industrialists and commercial people, and there is not that close interrelationship between the people who have the jobs or create the jobs or need the skills and those who administer the unemployment benefit process. We all know about the need for better careers

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12 February 2013 Rt Hon the Lord Heseltine of Thenford

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advice in schools and the need for better access for employers to get in to excite and enthuse the kids at an early age. We all know the need for governors who have an experience of the workplace, etc. You cannot exclude that before you get anywhere near the point at which people have left school, but in their last stages in the training fields, again, it is the same thing: if you are producing from the schools inadequately numerate and literate children, you are not going to get them suddenly to catch up with the skills. So, there is an interrelationship, and I do not see myself a forum in the locality addressing the coherence of those issues, including local procurement.

**Q73 Rebecca Harris:** But you think it could. You have explained quite well—I am grateful—about how interrelated these things are, but there is a concern from the Association of Colleges that if we devolved the funding streams, it would add complication and add to bureaucracy. Do you think that they are right to be concerned about the implications of that?

**Lord Heseltine:** Preserving bureaucracy was not one of my priorities. Any change is resisted by those administering the status quo, but that is not a good argument.

**Q74 Rebecca Harris:** Do you think there is any risk, from having a more localist approach, that one will become a victim of one's postcode, in effect? If you are an adolescent growing up in an area where there are only a certain selection of jobs, that is all you are going to be offered; we are not, therefore, creating the widest pool of potential future engineers because people do move around. Is there a risk of too localist an approach to "what is available locally," meaning that is what you are going to get?

**Lord Heseltine:** I think that the reverse is the case. The status quo—what we do today—encourages the postcode phenomenon, because the parents who are the most ambitious and the most interested move to where the schools are better. If you do that, employers can read the signs; they know where the brightest kids are coming from. If you have got to locate your business, why not locate it nearer those schools? My own approach is a different one. I think that we should identify where the weaknesses are, rather than allow them just to deteriorate as people who work out the problems move. We should redress the weakness. That is why I personally hope that on the single pot, sink schools will be on the agenda. I also believe that sink housing estates should be on the agenda, because they are the opposite end of the postcode lottery; they are the ones that get left behind. It is so easy; there is a compounding process. This is the way it is; nobody does much about it. The brighter kids get moved by their parents off to the suburbs, and the process is patched up with a little bit of public money and all of that.

I did City Challenge precisely to tackle the wrong end of the social problem—that end of it—and it had a very significant effect. Of course, it only lasted a couple of years before someone else changed it, but it was very successful in hitting the real problem. I just think you need to put the local community into a much more influential position and then expose them

to the uncomfortable questions: "Where are the sink schools? Where are the sink housing estates? What are you going to do about it? Bid for the single pot." You also do the skills agenda, the infrastructure, the wealth creation and all of that—all the big issues of public policy are vital—but you do not let anybody say, "It is all too difficult," and you make people sit down and talk these issues through locally so that it is all out there in the public domain. I cannot see how anyone can resist so obvious a process.

**Q75 Ann McKechin:** If you transfer skills strategy and skills-training funding to the LEPs, how do you think we would hold them to account, in terms of quality and value for money, if they were successful in achieving an award over a three or five-year period?

**Lord Heseltine:** We would do it how we did it with all sorts of different schemes. We did it with City Challenge; we did it with the development corporations; we do it with the Regional Growth Fund. They bid against targets. They say, "This is what we will do;" you say, "Fine, that is what you will do. Tell us what it amounts to, when you will do it and how much you are going to add to it." That is how you do it. That is how we do it now. It is exactly the same, because if you get housing money or road money, you cannot get it by simply saying, "Send me the cheque;" you have to say, "We are going to build this road at this cost in this area now"—or "then". Ditto housing money. It is all controlled in the most minute detail by the bureaucracies of existing Governments—of all Governments. What I am really saying is that, instead of just doing that functional allocation and monitoring it, you do a community or an economy allocation and monitor that. That will change the nature of the bureaucracies and it will mean that there will be much smaller central bureaucracies and a more significant local bureaucracy, but in aggregate I think that they will be smaller.

**Q76 Ann McKechin:** When you came before us in December, you stated that LEPs should not be given formal fundraising powers as they were "not democratically accountable". Should this now be addressed, particularly if the Government were minded to give them much more substantial control over many other pots of money?

**Lord Heseltine:** I have given a lot of thought to this issue of democratic accountability, and I think it is a mixed picture; we have to be up-front about it. First of all, no LEP can bid without local authority agreement, because they are a partnership; that is how the system works. Although the LEP has a majority of non-local-authority people, a bid that said, "We have voted this through 11 to nine, private sector against public" would not win; it would make no sense. So they have got to agree. Therefore, the democratic accountability exists at a local level.

Secondly, Governments have got to approve, and so the democratic accountability exists at national level. I have therefore persuaded myself that the democratic process is actually alive and well in this process. If one was thinking more widely, the quangos today are as near autonomous as you can expect. Of course there

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12 February 2013 Rt Hon the Lord Heseltine of Thenford

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is a Minister who is accountable, but the idea that Ministers actually run and control the quangos is really not realistic, and nor could they be expected to; the detail and scale is simply beyond that degree of central control. There is an element of language about democratic accountability. The more you probe beneath the realities, the LEPs are okay.

**Q77 Ann McKechin:** If there are one or two local authorities within the LEP area, it is quite clear to see where their direct input is. I suppose in some of the LEPs, there are multiple smaller local authorities involved and it might be more difficult for the local electorate to work out, if something goes wrong, to what extent their own council has been culpable in allowing it to happen under their watch.

**Lord Heseltine:** I gave an answer earlier that deals with something of this sort. This is a partnership between local and central, and so the dialogue that will go on will deal with that sort of issue. I have to say that I think the creation of conurbation authorities is a logic of the LEP process, and I think that Manchester has moved significantly in that direction.

**Q78 Chair:** I have a couple of questions to finish off. I do not think you covered this directly in your report, but there are elements in your report that are relevant to this question. Given the fact that British universities are generally very highly regarded, carry out high-quality research and are increasingly getting involved with business and knowledge transfer partnerships and so on, do you feel there is a role for universities in driving economic growth, particularly in the regions? Of course, many of our best universities are in areas that historically you would describe as under-privileged.

**Lord Heseltine:** Absolutely, and they are doing it. My only preoccupation is to encourage them to do more and to spread best practice, but I have been very impressed by the role of academics in the LEP process. I am repeating myself, but I see these vice-chancellors sitting in these LEPs and I then say to myself, "Well, that is one way of doing it. The other is to have officials in London doing it." I know where my money would be if I was talking about Liverpool, Manchester, Newcastle, Birmingham or wherever it may be. I would back the local initiative. It would not have absolute control, but the local initiative needs a bigger stake.

**Q79 Chair:** Given the fact that higher education is funded through a completely separate funding stream but, as you have just outlined, it potentially has a significant role in driving regional economic growth, do you see any potential for providing additional funding for universities through the single-pot mechanism?

**Lord Heseltine:** I do not see the mechanism I have outlined providing additional funding for anything if it is public sector funding because, to coin a phrase, there is no money left. We are looking at additions from the private sector in the context of anything I have recommended.

**Q80 Chair:** If I may just pursue this, you are talking about money being transferred from central Government Departments to fund this pot for LEPs. Do you think that a project involving the local area and its university or higher education sector could then qualify for money from this central pot, over and above the money that higher education will be getting through its existing funding streams?

**Lord Heseltine:** I think the answer has to be yes, because the whole object is to give flexibility in the use of the same level of funding, so that it can be used in a different way. If that benefited the university, that would be perfectly acceptable.

**Q81 Chair:** May I come on to a totally different subject? In your evidence to the Public Administration Committee last December, you said it is of "fundamental" importance that the Prime Minister chairs the proposed new national growth council, because without him, progress will be delayed and bypassed. Do you not think any other Minister could fulfil this role?

**Lord Heseltine:** I remain of that view: that in order to coalesce the whole force of Government together, the Prime Minister has an opportunity that reflects, in my view, the view of virtually every Prime Minister I have ever had anything to do with. They feel that they want things to happen, they pull a lever and nothing happens. This mechanism, which I have dealt with in some detail, is designed to use their authority to make sure things do happen.

**Q82 Chair:** Do you not think that the Prime Minister's portfolio of responsibilities is so great that no Prime Minister would be able to devote the time necessary to follow through his or her inclinations, in terms of pursuing economic growth?

**Lord Heseltine:** I have a huge respect for the British civil service. If you tell them what you want and you are determined to get it, I have never known them let me down, though I can only talk personally. In my report, I make the point that on the national growth council there should be representatives from outside the public sector who are used to monitoring process. That would merely be an extension from the non-executive directors that now exist in all Government Departments; I have simply shown a mechanism of giving them more influence over what is happening. I think the national growth council would use the new ex-Olympics Minister who has come in as the focal point of administration—the chief executive of the process—and I have not the slightest doubt that a machine could be built around that to serve the national growth council. The Prime Minister would preside in the way that he does over a whole range of other activities; he would be there to unblock, speed up and take the decisions, as opposed to micromanage, which of course he could not do.

**Q83 Chair:** What you are saying is that, such is the quality of civil servants, given clear leadership on this, they will see that it is delivered. However, we have already talked at considerable length about departmental obstructionism and so on. Do you really

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12 February 2013 Rt Hon the Lord Heseltine of Thenford

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think that, within the existing civil service structure, that is realistic?

**Lord Heseltine:** No, not within the existing structure, but with the existing people.

**Q84 Chair:** You think it could be done with the existing people.

**Lord Heseltine:** I have made suggestions about how there could be more interchange between the public and private sectors, and I do believe that. Forgive me, this sounds rather arrogant, but the report that we produced was produced by civil servants—basically one from each Department—and it does not read like a Government document. It sets out in detail answers to longstanding questions and it was done by a team that, over a period of months, came to see the purpose and, in my view, behaved brilliantly.

I have fought so many of these battles. Take the urban development corporation battle of 1979. Officials in my Department were totally opposed to that; they used every known device to obstruct it, because they saw themselves as the custodians of the interests of local government and the UDCs were taking powers away from local government. They lost, frankly. They lost because, in the end, I went to the Prime Minister, who supported my views. They then carried out my views brilliantly. It can be done. If I look back on perhaps the most stretching of my political experiences, the Liverpool riots of 1981, I had a taskforce of civil servants who worked for me in Liverpool for 18 months. People have been very generous about what happened, but all I did was turn up and encourage them. I have just seen what civil servants can do if Ministers make it clear what they

want and behave as managers, putting in the systems that achieve results.

**Q85 Chair:** So, if there is clear and strong leadership, you are confident that there is within the civil service the capacity, and there would be the inclination, to deliver on this agenda.

**Lord Heseltine:** Absolutely.

**Chair:** On that note, I think we can finish. May I thank you, Lord Heseltine? We are starting just with a report on LEPs two years on, but your report has added quite considerably to the areas that we need to consider, and it will form a very valuable part of it. If we feel that there are any questions that we should have asked you that we have not, then I hope you will be kind enough to accommodate us if we write to you again. Similarly, if there is any way that you feel that you would like to elaborate on any of the responses that you have given or answer a question that we should have asked but did not, I should be grateful if you would submit that evidence to us. Thank you very much.

**Lord Heseltine:** Thank you. I would draw your attention to what we are doing in Birmingham, because we are looking at all these issues that you have raised to see how they could work in practice. We are doing a report; we hope a first stab will be available in two months' time.

**Chair:** We will look at that with great interest. Of course, representing a constituency six miles from Birmingham city centre, I will have a particular personal interest in it. Thanks very much.

**Lord Heseltine:** Thank you very much.

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ISBN 978-0-215-05728-0

