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7<sup>th</sup> May 2013

Cabinet

**Growing the York Economy – working with Leeds City Region Local Enterprise Partnership**

**Executive Summary**

1. This report sets out opportunities emerging from the development of a **Leeds City Region Local Enterprise Partnership and associated City Deal** for the city of York and initial steps for the city in taking advantage of these opportunities.
2. It is the first of three related reports – the second being a report on the West Yorkshire Plus York Transport Fund, and the third, a related transport governance review.
3. The city faces **unprecedented opportunity** with a major shift in the powers and levers available to local leaders and businesses to drive growth. There has been a move to push decision-making and investment in major policy areas like transport, housing and skills away from central Government to more local levels in the form of partnerships of local areas working together in the form of Local Enterprise Partnerships (LEPs).
4. These LEPs have been created to help determine local economic priorities and lead economic growth and job creation within sub-regional economies. LEPs are comprised of local authorities and private sector partners from across “**functioning economic market area (FEMA)**”s – i.e., the area in which economies operate, people commute to jobs, and businesses sell to customers and buy from suppliers.
5. This report sets out the progress made in recent years made by the city of York in its involvement in LEPs, and particularly the Leeds City Region LEP, where the predominant economic links are and potential for growth exists.

6. The report then sets out the detail of the Leeds City Region City Deal, of which City of York Council was a signatory and from which the city will be a beneficiary, and the next milestones and steps required for the city to continue to make progress on these agendas – including the decision to co-invest in the West Yorkshire Plus York Transport Fund, and to undertake the associated governance review required to ensure that the city is effectively involved in making decisions on where this fund and strategic interventions in transport are made in the city and wider West Yorkshire geography.
7. Together, these next steps, covered in detail by the next two reports on the Cabinet agenda, present the next milestone in a journey of creating better opportunity for a better economic future for York.

## **Background**

8. It is widely understood that economic activity – i.e. the ways in which people commute to jobs and businesses trade and buy from supply chains – does not operate neatly within administrative boundaries. However, strategic decisions made by the public sector in investing in transport networks, skills provision, development programmes, and the like tend to be made in relation to local authority boundaries, as this is where statutory responsibility for these activities lies.
9. More importantly, though, economies have evolved to rely more on knowledge and the connectivity of individual local areas to wider economic markets is fundamental to their economic growth potential.
10. As Northern Way research on city relationships in 2009 found, more complementary economic relationships, supported by improvements in transport connectivity, have the potential to generate higher levels of sustainable economic growth and development. It finds that neighbouring cities and towns can maximise economic benefits by focusing on how their distinctive assets affect their links
11. A recent report by Department for Communities and Local Government explains how this mismatch between economic boundaries creates problems for local business and residents:

*This gap between administrative and economic boundaries inhibits strategic decision-making and creates co-ordination challenges for economic policy-making, risking policies that are not in the wider regional or national interest or the loss of policy opportunities that could make all places better off.<sup>1</sup>*

12. At the same time, decision-making and investment with regard to major transport infrastructure, programmes to boost skills and employment and investment to kick-start housing have generally tended to be controlled by central Government, which again creates a mismatch between where funding is invested and local priorities for that spend.
13. Under both the previous Government and the current Government, there have been a **series of reforms to redress the resulting mismatch between the level at which the investment and policy decisions are needed and the level at which decisions and investments are controlled**. The aim with these changes has been to better ensure that economic development is undertaken in a way that responds effectively to rather than inhibits natural economic markets operating.
14. In June 2010 Government invited businesses and councils to come together to form **local enterprise partnerships (LEPs)** whose geography properly reflects the natural economic areas of England. In other words, they cover “functional economic market areas” – or the areas in which people commute to work, businesses operate supply chains, etc.
15. There are 39 covering England, and tend to be larger than traditional local authority boundaries but smaller than the old English regions (of which there were 9).
16. In one sense, these LEPs were intended to replace the previous Regional Development Agencies, which for York was Yorkshire Forward. These partnerships are intended to develop economic growth strategies and plans for their areas, and drive economic development in their areas.

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<sup>1</sup> CLG (2008), *Why Place Matters and Implications for the Role of Central, Regional and Local Government*, page 40.

17. Further, recent announcements by Government following the Heseltine Review, indicate that LEPs will be given control over decentralised funding in the form of **Single Local Growth Funds**, and allocated responsibilities for European funding. Although the detail of how this funding will be allocated is yet to be announced, there is a clear opportunity for local authorities working through LEPs to take greater control of critical decisions and investment in areas that are critical to the future economic success of their areas.
18. In addition to these single pots of funding being decentralised to LEPs, certain LEPs have been able to secure further devolution in the form of City Deals. Championed by the Cities Minister, Greg Clark and signed by the Deputy Prime Minister, Nick Clegg, these Deals provide a suite of new freedoms, powers and tools to help those city regions and sub-regions with the greatest growth potential to make a step change in achieving economic growth.
19. To understand the need and rationale for devolution to LEP level, it is first necessary to review the economic rationale for York's current LEP involvement.

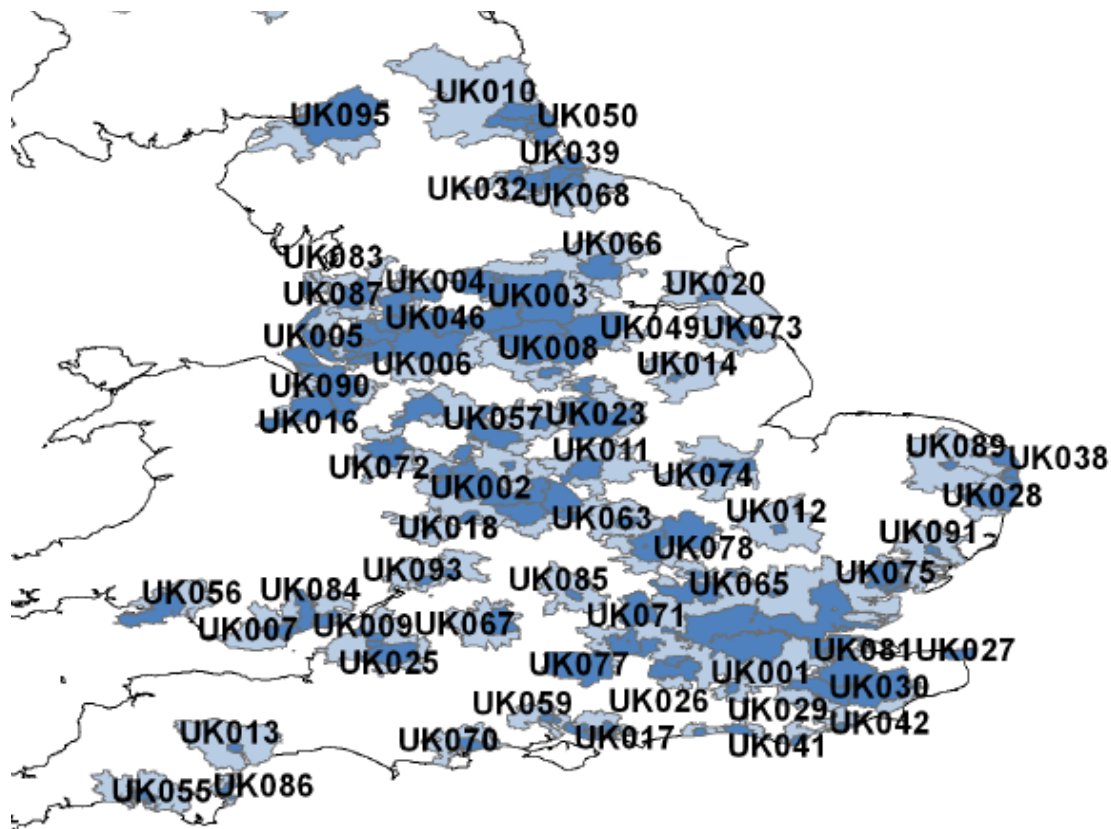
### **York's functional economic geography**

20. To date, the city of York has been member of two LEPs, given its complex economic relationships – both west and south, and north and east. Hence the city's membership in Leeds City Region LEP and York, North Yorkshire and East Riding LEP.
21. There is strong steer within the Heseltine Review that where devolution is made to LEPs, there should be no overlap between LEP boundaries:

*2.58 At present some LEPs overlap. These overlaps need to be removed so that there is a single partnership with clear ownership for economic development in every part of England. In the same way that neighbouring local authorities do not overlap, but come together on common issues, LEPs need to evolve to work to the same principle. This must be achieved as a matter of urgency to ensure that communities served by LEPs whose boundaries overlap are able to see a single vision and a compelling plan for their area.*

***Recommendation 6: The Government should invite LEPs to review their boundaries within a three month period to ensure they have a good match with their functional economic market area and that they do not overlap.***

22. The city's catchment for labour includes the **North and East Riding of Yorkshire economic areas**, with volumes of commuters travelling into the city each day for employment. In addition, there are reflecting a volume of in-commuters and certain strong supply chain relationships that exist to the North of the city – particularly in agri-food.
23. However, the city's predominant economic area, defined both by existing links and potential future economic potential, is the **Leeds City Region**.
24. The natural links between economic areas within the city region is strengthened by recent evidence produced by the OECD, *Redefining Urban: a new way to measure metropolitan areas* (2013).
25. In the following map, the research classifies York (UK066) as a medium sized urban area with a hinterland that fundamentally overlaps with the Leeds hinterland (UK003) (for information, Bradford is UK008 and Huddersfield UK 0046)



Source: OECD metropolitan areas database (MAD)

26. The existing links to the Leeds City Region economy are well rehearsed in the Leeds City Region Partnership's economic research and intelligence developed over the almost ten years since its establishment, but is reviewed in greater detail here.
27. Measured on the basis of commuting links, the city's relationship with LCR has been growing over recent years.
28. Although research in 2009 found that the city of York was a **fairly self-contained labour market**, there have been increases in recent years in commuting outward to West Yorkshire economic areas. At 2010, 9% of York's workforce commuted to destinations in West Yorkshire, with 7% commuting to Leeds alone.
29. Although the figure has fallen back somewhat in 2011 data, the fact remains that economic links are growing between York and West Yorkshire, and the wider Leeds City Region.<sup>2</sup>
30. In terms of in-commuting, APS data shows that as of 2011, 3.84% of commuters into York originate in West Yorkshire, with 3.1% of those travelling from Leeds. This is a slight increase from 2010 data of 3.1% in total commuting from West Yorkshire.
31. Viewed from West Yorkshire's perspective, Axciom data show that 7% of West Yorkshire out-commuters travel to York for employment, whilst York residents account for 3% of those working in West Yorkshire.<sup>3</sup>
32. In total there are current flows of over 6,100 York residents to West Yorkshire, and an inflow of 4,100 West Yorkshire residents to the city of York.
33. More importantly, however, are the **existing supply chain links and potential opportunities** for greater links between York's and the Leeds City Region's growth industries.

### *Financial and business services*

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<sup>2</sup> Annual Population Survey (2010, 2011).

<sup>3</sup> Based on Axciom data (TBC)

34. There are natural economic links between the city's and wider city region's **financial and business services** sectors – the latter of which is the UK's predominant location for the sector outside London, and acts as a hub in the North of the country. The city region's financial and businesses services sector generates over £13 billion (21 bn USD) every year. Despite the global economic downturn, the sector is projected to grow by 51% between now and 2022, offering stable, secure investment opportunities.
35. The city region employs over 250,000 people in this sector, giving both indigenous investors and inward investors access to the best talent at competitive costs. 30 national and international banks are based in Leeds City Region, including the Bank of England's only note-issuing centre outside London.
36. Within this critical mass for the industry, there is a high degree of geographically concentrated specialisation across the city region, which includes specialisations in:
  - **Accountancy** – There are over 150 accountancy firms in Leeds alone, including the world's Big Four, PriceWaterhouseCoopers, Deloitte, KPMG and Ernst & Young. Nine of the top 10 UK practices also operate out of Leeds City Region, with audit services a particular strength
  - **Banking** – National and international banks based here include Lloyds, HBOS, Santander, Barclays, HSBC, Yorkshire Bank and RBS
  - **Wealth management and stockbroking** – We're home to several stockbroking firms including TD Waterhouse, Fortis Bank, The Pensions Trust, Brewin Dolphi and AWD Chase de Vere
  - **Equity and venture capital** – We're the headquarters for the UK's largest provider of risk capital to small businesses, YfM. A number of private equity firms also operate across Yorkshire.
  - **Processing and customer contact** – We have the largest concentration of call centres in the UK with Direct Line, HSBC, Alliance & Leicester, First Direct, Thomas Cook. Freemans Grattan and Barclays all operating processing and customer contact centres here; and
  - **Insurance** – here, York benefits from specialisation with the location of Aviva, CPP and boosted most recently by the decision by Hiscox Ltd to locate a major northern office in the city. Across the wider city region, players like Royal Sun

Alliance, Praxis Partners, and Engage Mutual are among the leading insurance providers with their headquarters or significant sites in the wider city region – which together with the York firms, create a powerful proposition and draw for further investment in the industry.

### *Healthcare and medical technologies*

37. In addition, there are existing but also growing links between the city of York's biosciences expertise and high end enterprise in technical design and the LCR's growing **healthcare and medical technologies sector**.
38. The Leeds City Region is home to the National Health Service (NHS) Executive, the largest teaching hospital and the largest cancer care centre in Europe. Further, the city region will soon become one of two commissioning hubs for the NHS, offering even greater access to one of the largest buyers of health and medical care globally.
39. The Leeds City Region labour market offers business investors a ready supply of workforce across the full range of skill sets required in key sub-sectors of the industry. Around 143,000 people are currently employed in our health and life sciences sector (10% of the total Leeds City Region workforce), and our universities produce close to 9,000 graduates in medicine, dentistry and related subjects every year.
40. Within this, the city of York offers a professional and scientific employment base of over 3,400 FTE currently, that is set to grow a further 2,400 by 2030.
41. The city region offers a significant and well-connected network of support for innovation and R&D from across the region's universities, including one of the strongest bioscience innovation offers in the UK, which includes the Bioincubator at Leeds Innovation Centre and Bradford Bioincubator, along with York's own Biocentre, which together provide 9% of all dedicated bioincubator space in the UK.
42. Over the last decade, the city region has seen considerable growth in innovation-led, high-value sub-sectors such as biotechnology,



advanced surgical instrumentation, pharmaceuticals, regenerative medicine, telehealth and nutraceuticals.

43. Within this wider medical and health technologies offer, the city of York is positioned well to benefit from the growing demand for research and expertise, as well as facilities for this growing industry. Specifically, the city of York has a critical mass of expertise, knowledge and skilled workforce in the biosciences and technology design – at the higher end of the value chain in the sector – which benefits from and will continue to benefit from the growing links to the city region’s medical institutions and advanced manufacturing base – which actually produces and uses the technologies.
44. The city is home to around 130 organisations involved in or connected with the biosciences industry – including major international companies, start-ups, large government agencies and SMEs as well as the research bases at the University of York and the Hull York Medical School.
45. The city of York has particular specialisms in disease management and tissue technologies, and a potential for growth in the telecare/telehealth industry – for which there is already a significant base in the city region.

#### *Digital technologies and creative industries*

46. As a well-established hub of creative and cultural industries in the North of England, the **city of York benefits from a growing connectivity with the wider creative and media arts industries are across the LCR**, and there is still further potential for these links to grow. The complementary relationship between the city and wider City Region is clear and set to grow, as the wider city region digital and creative industries continue to grow.
47. In fact, business growth in our digital and creative industries has outstripped that of other UK core city regions. LCR employment in digital and creative industries is higher than Manchester or Bristol. Growth in business numbers has been particularly strong in software, computer games and electronic publishing (an increase of 78% between 2005 and 2009) and radio and TV (a 66% increase). This growth is set to continue, thanks to our proximity to

Media City in Salford – just 40 miles from Leeds – which offers lucrative new business opportunities.

48. The sector is supported by vibrant industry networks, university excellence and various creative business hubs, including dedicated media centres in Leeds, Huddersfield and Barnsley. Within this wider network of centres across the city region, the city of York holds a unique position as a cultural hub, and a network of support on offer for fledgling and growing dynamic new companies. Within York, the sector's position as the fastest growing in the city reflects the inspirational character of the city's unique historic and characterful fabric of place and the way in which this translates to enterprise.
49. York's two universities and two Further Education colleges now offer more than 160 courses in the creative and media arts, with over 5,000 students taking these courses at any one time. Together, the institutions have invested more than £100m in media arts facilities and resources in the last ten years, providing the city with cutting-edge facilities and attracting national and international attention and business interest.
50. Work on a 'Cultural Quarter' (embracing York St John University, York Art Gallery, York Theatre Royal, the Yorkshire Museum, Explore Centre and the National Railway Museum), is actively shaping investment strategies in the city.
51. Other spaces available for both early start-up and more established creative businesses in York are the Ron Cooke Hub on the University of York's new campus development and The Catalyst, also on the same campus. Located within the Ron Cooke Hub is Springboard, an exciting new pre-incubation space for start-up companies and entrepreneurs. The Catalyst is designed to support the growth and development of early stage companies in the creative, IT, digital and media sectors. Both Springboard and The Catalyst offer exciting opportunities for collaboration between the businesses themselves and with academic departments at the University.
52. With the greater market integration possible through the City Deal, the city of York stands to grow the market for creative and media arts industry business into the Leeds City Region.

## The case for further market integration with Leeds City Region

53. The case for further market integration with Leeds City Region is based on the city's ambition for economic growth, and the vision of becoming a top 5 UK city economy and a top 10 European city economy, with ultimate ambition to be the best small city economy possible in which to work and live. To achieve this level of ambition, however, the city will need to enhance its market opportunities in a way that requires stronger integration with wider markets.
54. Relative to other cities across the UK, the city of York is a relatively strong Northern economy with tremendous "people" potential with the 7<sup>th</sup> highest skill proportions in the country in the latest Cities Outlook rankings, and having ranked number 1 for Human Resources according to the Local Futures Municipal Journal Inward Investment Guide to England, and number 2 for talent in the Santander Towns and Cities Index, 2013.
55. However, in order for the city to achieve the level of prosperity and competitiveness that is set out in the York Economic Strategy, the city needs to address several key issues:
  - It is ranked 26<sup>th</sup> of 64 cities in Cities Outlook for **productivity** (gross value added (GVA) per capita) indicating that despite its high skills and research capacity, the city is not maximising the translation of these knowledge assets into high value business investment
  - The city has a **lower than average rate of patent production** than its city comparators according to the latest Centre for Cities, Cities Outlook 2013 rankings – at 56<sup>th</sup> out of 64 cities – despite its two higher education universities and high graduate-level skills base.
  - The city's **housing crisis** means that there is a limit to the workforce the city can supply to the kinds of business investors it is looking to attract – again ranking 54<sup>th</sup> of 64 cities on housing stock change from 2010 to 2011, and 17<sup>th</sup> of 64 cities on the affordability ratio in the latest Cities Outlook rankings.
  - More widely, there is a **persistent mismatch between the level of demand for commercial space**- both for business to start and grow in the city as well as inward investing business to locate in the city. This mismatch is down to a

lack of the right quality, size and tenancy of space required by businesses at these various stages of the enterprise lifecycle.

- Although the city has a lower than average worklessness rate than most cities, the **issue of worklessness has risen in particular neighbourhoods** with 50% of Job Seeker claimants living in the city's 5 most deprived wards of Westfield, Clifton, Tang Hall, Acomb and Hull Road. In fact, there is an unemployment rate of 30% within the 8 most deprived 'lower super output areas' in York which are home to around 13,000 people, just under 7% of the York's population

56. In order to tackle these challenges, the city of York will need to tap into new market opportunities that will both connect York residents and businesses to wider markets, but also will bring new investment to the city as it becomes more attractive as a link to a wider supply chain, labour market and network of enterprise and research expertise.

*The general case: the benefits of bringing markets closer together*

57. Through greater connectivity with the city's functional economic market area, the city will benefit from both general benefits of a larger market, but also the specific benefits of connectivity with Leeds City Region and specifically the Wes Yorkshire conurbation.

58. The **general benefits of bringing economic markets closer together** (referred to in the academic literature on the subject as the "*economies of agglomeration*") refer to the "positive externalities that arise through the spatial concentration of economic activity."

59. In other words, by locating in close proximity to one another, firms can derive benefits such as those that arise from larger labour markets, greater opportunity to share knowledge, and greater opportunity for firms to specialise. Communities themselves benefit from greater choice in where individuals live and work, and the indirect benefit of the prosperity that is generated from the business benefits.

60. Simply put, the city of York benefits from proximity to the wider the Leeds City Region economy, which in total comprises 3m

population and £52bn – an economy larger than 9 European countries.

61. Research into the exact benefit of closer market integration has found that there is a direct correlation between working across local authority boundaries and economic growth. Specifically, a 10% increase in agglomeration or connectivity between economies can result in a 1.25% increase in productivity overall in a given economy.
62. Service sectors on average tend to benefit more from these benefits, given the predominance of these sectors on knowledge. The 2009 Northern Way study of the Leeds City Region found that **the city of York employs more of its workforce in these service sectors that are “agglomeration sensitive”** and less people in sectors that do not benefit from agglomeration than Leeds – sectors such as financial and professional services and the knowledge intensive sectors such as the biosciences, creative and digital technologies.
63. In addition to the generic benefits of agglomeration, there are benefits that could be achieved based on the **very specific existing and potential economic complementarities between the city of York and Leeds City Region markets**, should greater connectivity between them be achieved.
64. Historically, the West Yorkshire economic geography has been shaped by its manufacturing heritage and the textile industry, with Leeds and Bradford being at the heart of the Industrial Revolution in the UK, whilst the city of York evolved from a centre of Government, to religion, to trade and later the confectionary and railway industries. As such, the city of York is less integrated with the traditional manufacturing structures of West Yorkshire, although the development of the knowledge economy in Leeds and York, as well as the surrounding city region economies, have seen more modern supply chain and labour market links developing.
65. These links are most heavily concentrated between York and Leeds, although beyond the labour market there are strong supply chain links via the financial and professional services, creative and digital technologies and advanced manufacturing industries across the wider West Yorkshire sub-region.

66. Developing as they have from different historical trajectories and more recently as centres of knowledge intensive industry, the cities of York and Leeds are economic centres in their own right within the wider Leeds City Region conurbation. Both rank at the top of the region for productivity, although both perform less than the national average on this measure, and historically, both cities have been net contributors of business rates. Further both ranked in the top 10% nationally in the Ekosgen Index of Economic Resilience (2011).<sup>4</sup>
67. For its part, the city of York is unique as a net supplier of high level skills (over 30% of residents have NVQ 4 skills and above, vs. the LCR average of 24%), and distinctive research and knowledge strengths derived from the city's two universities and two further education colleges, along with a growing business base in the knowledge economy sectors of biosciences, creative, digital technologies and financial and professional services.
68. In fact, recent growth forecasts by Oxford Economics shows that the city of York has the potential to grow at a rate that outstrips not only the region but also the national economy: the city's GVA is set to grow by 63% (adding £2.482m) to 2030, compared to the Yorkshire and Humber region at a rate of up to 54% and UK at a rate of up to 59%; its employment is set to grow at 13% (adding 14,471 jobs) versus the regional average of 7.5% and national average of 8.7% .
69. However, in order to fully capitalise on this potential growth, the city also has a persistent issue with underutilisation of skills – both high level and lower level skills, and a growing issue with the availability of housing and commercial space – as evidenced by a recent study undertaken to inform York's local plan. The study by Driver Jonas Deloitte and Ekosgen has identified the need for approximately 1090 to 1250 homes per year and 164,000 sq.m. commercial space to 2030.<sup>5</sup>

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<sup>4</sup> Ekosgen (2011). *Strengthening local economies: index of economic resilience*.

<sup>5</sup> Driver Jonas Deloitte (2013). **XXXXXXXXXX**

## Comparison – building the York and West Yorkshire Story (Cities Outlook 2013)

| Indicators  | York | Leeds | Bradford | Wakefield | Huddersfield |
|---|------|-------|----------|-----------|--------------|
| High level skills (NVQ4+) 2011 (%)                    | 40.8 | 33.4  | 22.3     | 18.9      | 28.7         |
| No skills 2011 (%)                                    | 6.8  | 8.9   | 16       | 13.8      | 15.8         |
| Employment (2011/12) (%)                              | 75.9 | 66.8  | 63.3     | 69        | 67.2         |
| JSA Claimant 2012 (%)                                 | 2.2  | 4.8   | 5.9      | 4.3       | 4.7          |
| Private sector employment growth (2010-11) (% change) | 2.4  | 3.4   | 1.8      | 1.3       | 6.3          |
| Private to public sector employment ratio             | 2.4  | 3.0   | 2.1      | 2.6       | 2.6          |
| Business start-ups per 10,000 population              | 33.1 | 38.8  | 30.0     | 25.4      | 35.1         |
| Patents per 100,000 population (2011)                 | 1.5  | 3.7   | 2.7      | 0.6       | 3.8          |
| Growth in housing stock                               | 0.3  | 0.5   | 0.4      | 0.7       | 0.5          |

*\*Red - significantly below national average; amber – near national average; green – at or above national average.*

70. The city of York currently has a problem of **under-utilisation of skills**, with a trend of high level skills in relatively low skilled jobs, whilst West Yorkshire faces a starkly opposite problem – low level skills without job opportunities. However, there is a growing industrial base and complementary research facilities and

expertise in West Yorkshire from which York's asset base could benefit significantly.

71. These very specific relationships and the unique complementarity of the York and West Yorkshire economies mean that by connecting more effectively the economic markets comprised, the potential exists for greater resilience to be built into the two sets of economies.
72. Together, the **WY plus York economic geography comprises a strength of supply chain, research and labour market assets** in key industries including the healthcare and medical technologies sector, the financial and professional services, digital technologies and creative and media arts industries – which if better connected, could enhance the productivity of the city region as a whole and the individual performance of York and West Yorkshire economies.
73. Given the above economic imperative and potential future economic growth from the greater physical connectivity provides a strong rationale for removing any artificial barriers of governance – political and otherwise – between the West Yorkshire authority areas and the city of York.

### **Using the Leeds City Region LEP and City Deal to achieve economic growth**

74. With the establishment of LEPs, the Government has enabled greater market integration and taking decisions and making investments in economic development activity at a functioning market level.
75. The Budget announcement from March 2013 signalled the creation of Single Local Growth Funds, which will bring together major tranches of economic-development related funding at a LEP level, aligned with LEP growth plans, and the move toward notional allocation of European funding to LEP areas, again aligned to LEP-led programmes.
76. Within this wider context of devolution to LEP level, some LEPs have succeeded in garnering more advanced “deals” for devolution. These LEPs, which initially covered the Core City Regions (largest city regions in the country), although further City Deals amongst second-tier LEPs have been announced earlier this



year. These Deals will see those LEPs taking on further devolved decision making and further opportunity to work in new and innovative ways to generate investment into their local areas.

77. In fact, the Leeds City Region LEP and York within it signed one of the first City Deals, with potentially significant opportunities for new ways of working with regard to a wide range of agendas as detailed in the next section.

### **City Deal for Leeds City Region: Opportunity for York**

78. The City Deal for Leeds City Region LEP offers participating authorities greater control over decisions and investment made in transport, skills, and other related agendas. The full detail of the deal is set out in the Appendix to this report, but roughly, the City Deal includes the following powers and devolution:
- a £1 billion fund to improve public transport and the highways network, with the potential to create 20,000 jobs in the medium term
  - an additional £400m fund to strengthen infrastructure across the City Region
  - the creation of a 14-24 apprenticeship academy in Leeds, giving young people and local employers access to opportunities and training
  - the development of an 'Apprenticeship Hub' network, aiming to generate 15,000 new apprenticeships in the next four years
  - initiatives to increase overseas trade and inward investment activity, which could bring 7,400 jobs by 2018
  - ultra-fast broadband for 88,000 homes, and over 16,000 businesses, with the intention to roll this out across the City Region by 2015
79. Of particular note are the first two of these which arguably produce the greatest added value to the city of York and other partners.

## The City Deal: The Economic or Revolving Investment Fund (RIF)

80. At the heart of the Leeds City Region City Deal is the ambition to create a fund of critical mass that will enable investment in infrastructure to kick start growth in the city region economy. This fund, the Economic or Revolving Investment Fund (RIF) is, as the name suggests, a fund that is intended to generate an ongoing pot of money that will invest in commercially viable projects that produce a return that will be reinvested into the fund – creating further opportunity for the fund to be invested in further projects in the future.
81. The City Region’s aspiration is to create a Fund of up to £500 million that could be invested in projects that support economic growth, with financial returns being reinvested on a revolving basis. Based on the impact of investments made by the Regional Development Agencies, such a Fund might be expected to support regional Gross Value Add growth, over time, of up to £3billion.<sup>6</sup>
82. The Fund would enable the city region to kick-start investment in the city region’s key infrastructure priorities, as well as help city region authorities lever in still more funds from private sources.
83. The Fund will only invest in projects that can offer a commercial return. The Revolving Investment Fund will therefore operate alongside a wider range of funding mechanisms (including the Transport Fund) that can support other investments needed to grow the economy which cannot be funded on a commercial basis
84. The RIF is being developed in respect of the wider context in which it will operate. That context has been built on a number of key principles, including:
- Strategic governance across the City Region will set, monitor and manage a common economic strategy and its supporting priorities;

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<sup>6</sup> Based on Pricewaterhouse Coopers analysis of £500m Fund, attracting leverage at a ratio of 1:3 from the private sector – creating £2bn initial investment capacity. Assumes Fund is “revolved” three times to deliver investment of £6bn. Estimated impact of £6bn investment, increase in GVA of up to £3bn.

- Public sector funding, to deliver the City Region economic strategy, is pooled under the control of the overarching strategic governance arrangements;
  - Attracting additional private sector investment into the City Region to support growth; and
  - Recycling returns (whether directly from projects or indirectly via increases to pooled resources such as business rates) to be redirected via the strategic governance arrangements to support further projects.
85. The fund will be created initially by the pooling of business rates by participating local authorities. The LCR Business Rates Pool is made up of Bradford, Calderdale, Harrogate, Kirklees, Leeds, Wakefield and York. The Pool was designated by the Secretary of State on 14 December 2012.
86. Private finance will be sought to co-invest at revolving Fund and/or project level. A consequence of drawing in private finance is that investment decisions will be made on an independent basis (in line with a Fund investment strategy that has been agreed via the strategic governance arrangements).
87. The income generated from the LCR Pool (from levy savings) will be used to support the LCR Infrastructure Fund. Latest estimates suggest that the Pool could generate around an additional £1m for the Fund in 2013/14.
88. **Details of this fund and the next steps for York in agreeing its co-investment in the Fund are covered in detail in the EIF funding recommendations made later in this agenda.**

### **The City Deal: The Transport Deal**

89. The Leeds City Region City Deal includes a commitment by Government to grant unprecedented freedoms to build, manage and sustain a local £1bn WY Plus Transport Fund to drive economic growth, subject to establishing a Combined Authority (CA) governance arrangements to oversee the operation of the Fund. The freedoms and funding will include:

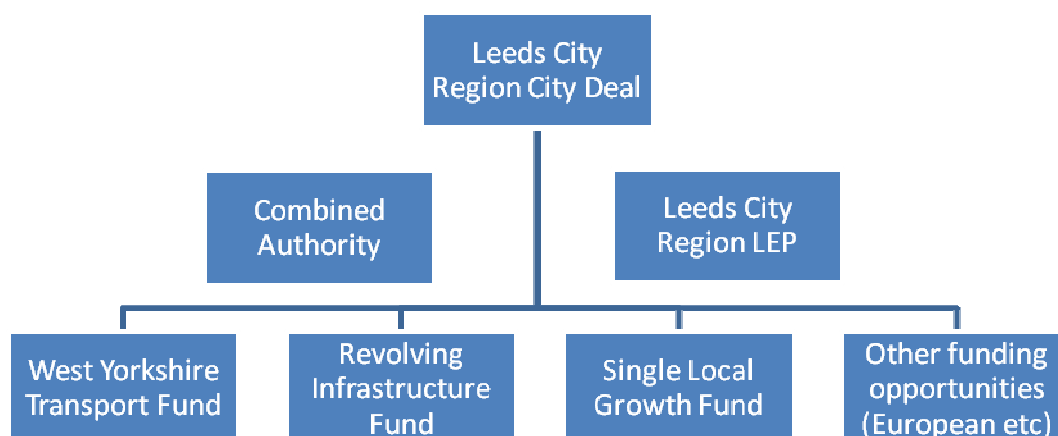
- a. a ten year £182.8m post 2014 major transport scheme funding allocation devolved to WY and York as part of the £1bn WYTF, and in return for dealing with DfT's compliance requirements (Local Transport Body - LTB);
- b. consideration by HMT in the next Spending Review of an additional programme of strategic local schemes;
- c. revenue funding as part of the ten year allocation, enabling a broader range of high profile sub regional social and economic issues to be tackled, including subsidising travel to help NEETs and disabled people into employment, education and training;
- d. devolved funding paid in advance of incurring costs locally, creating flexibility in sequencing delivery of WYTF schemes;
- e. working with HMT to increase the associated local share of public spending for re-investment to create a self-sustaining Fund; and
- f. locally determined prioritisation based on a 'Green Book' compliant Strategic Appraisal Framework.

90. In addition, Ministers will also be considering the expressions of interest submitted by West Yorkshire, Greater Manchester and South Yorkshire to take on the Northern and Trans Pennine rail franchises in 2014. In addition to transforming local accountability, the devolved operation of these franchises would deliver a step change in the economic impact, service quality, and efficiency of rail operations in the North. However, putting in place sufficiently strong, stable and visible local governance such as a CA is considered a prerequisite to forming a credible and accountable pan Northern franchising counterparty.
91. Further, a compact will be put in place, for example, with the Highways Agency and DfT Rail to ensure that the national strategic transport network, including the Motorways and rail network, support rather than stifle, local productivity growth.
92. In order for the above to be devolved by Government, the authorities involved must (a) agree to co-invest in the creation of the West Yorkshire plus York Transport Fund (WYYTF) and (b) establish a CA.

93. **The West Yorkshire plus York Transport Fund and the associated governance review are covered in separate reports on this agenda.**

### **How it all fits together and next steps**

94. In order for the city of York to take advantage of these significant new powers, however, there is a need for the city to commit to accountable, transparent and robust decision making and governance, which has been made a clear condition of some of the more significant elements of devolution in the City Deal with the Leeds City Region.
95. Where authorities are to benefit from the devolution indicated by the City Deal, there is an expectation that there will be a level of local co-investment to match devolved funding pots, and that the appropriate governance will be in place
96. This translates to a need for the city to agree co-investment in the Revolving Investment Fund (RIF) and the West Yorkshire plus York Transport Fund, and in the case of the latter in particular, a sufficient and robust governance to be in place to manage and take sustainable strategic decisions.
97. The below graphic shows roughly how the Leeds City Region City Deal looks in terms of funding and governance:



## **Recommendations**

98. Members are recommended to:

- Note progress to date on the development of the Leeds City Region City Deal
- Consider the associated WYYTF and Governance Review reports, and the associated calls for funding in the EIF recommendations on this agenda.

Reason: To keep Members updated on progress with the development of the Leeds City Region Deal and emerging opportunities.

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**Wards affected: All**

**For further information please contact the author of the report**

**APPENDIX - The Leeds City Region City Deal**

## APPENDIX. The Leeds City Region City Deal

99. Below are set out the detail of the Leeds City Region City Deal in full:
100. **Transport:** Government will grant unprecedented freedoms to build, manage and sustain a local £1bn WY Plus Transport Fund to drive economic growth, subject to establishing WY CA governance arrangements to oversee the operation of the Fund. The freedoms and funding will include:
- a ten year £182.8m post 2014 major transport scheme funding allocation devolved to WY and York as part of the £1bn WYTF, and in return for dealing with DfT's compliance requirements (Local Transport Body - LTB);
  - consideration by HMT in the next Spending Review of an additional programme of strategic local schemes;
  - revenue funding as part of the ten year allocation, enabling a broader range of high profile sub regional social and economic issues to be tackled, including subsidising travel to help NEETs and disabled people into employment, education and training;
  - devolved funding paid in advance of incurring costs locally, creating flexibility in sequencing delivery of WYTF schemes;
  - working with HMT to increase the associated local share of public spending for re-investment to create a self-sustaining Fund; and
  - locally determined prioritisation based on a 'Green Book' compliant Strategic Appraisal Framework.
101. Ministers are considering the WY, GM and SY expression of interest submitted for local areas to take on the Northern and Trans Pennine rail franchises in 2014. In addition to transforming local accountability, the devolved operation of these franchises would deliver a step change in the economic impact, service quality, and efficiency of rail operations in the North. Putting in place sufficiently strong, stable and visible local governance such as a CA is considered a prerequisite to forming a credible and accountable pan Northern franchising counterparty.
102. A compact will be put in place, for example, with the Highways Agency and DfT Rail to ensure that the national strategic transport network, including the Motorways and rail network, support rather than stifle, local productivity growth.

103. **LCR Revolving Investment Fund:** LCR partners (including WY, York and Harrogate) will create a Revolving Investment Fund backed by £200m of pooled local resources, including CIL, retained Business Rates, EU, RGF, GPF and EZ receipts. Investments in scope will include economic infrastructure to promote housing growth, low carbon and flood alleviation, based on a shared investment strategy and the proposed Single Appraisal Framework. Key features of this fund will also include:
- a shared investment programme with the HCA, and conclude discussions about how their assets can contribute to the Investment Fund; and
  - working with HMT to increase the associated local share of public income for re-investment to create a self-sustaining Fund.
104. **Trade and Investment:** The City Deal seeks to close the LCR Balance of Payments gap. This will be achieved through a joint City Region Trade and Investment Plan committing LCR and UKTI to form a new joint Board which is backed by enhanced delivery capacity drawn from local and national resources.
105. **Skills and Worklessness:** LCR will offer a Guarantee to the Young, supporting its long term ambition to become 'NEET free'. New initiatives will include a 14-24 Academy and Apprenticeship Hubs. As part of the City Deal, LCR will also take on a leadership role on skills more generally in order to align the skills investments of Government, employers and individuals with real growth sectors in the LCR economy.
106. **Business friendly planning:** Local commitment to delivering an effective and business friendly planning system that promotes and accelerates e.g. housing and employment site development and growth, whilst safeguarding the area's natural assets (as per the Planning Charter).
107. **Local Carbon:** LCR will deliver the Low Carbon Pioneers programme in collaboration with DECC, alongside a range of other steps to deliver a low carbon built environment.