
Cabinet

3rd April 2012

Report of the Cabinet Leader

Economic Infrastructure Fund – Governance and Initial Funding Decisions

Summary

1. This report sets out proposals for the investment and governance of the economic infrastructure fund (EIF) for the City of York Council.
2. A summary of key points is provided below:
 - The EIF is a strategic investment fund of £28.5m over 5 years which will be used to unlock progress toward Council Priority 1: Creating Jobs, Growing the Economy, and by extension, the York Economic Strategy, 2011-15. It also will seek to deliver against wider sub-regional objectives through the Leeds City Region (LCR) and York and North Yorkshire and East Riding (YNYER) Local Enterprise Partnerships.
 - The Fund will be administered in coordination with, although is a separate fund to, the Delivery and Innovation Fund (DIF). Processes for considering and agreeing business cases for funding may be aligned where projects span both.
 - The Fund will be used to kickstart critical economic infrastructure that otherwise would not be possible in the current risk averse climate.
 - The Fund will be used strategically to leverage as much external funding as possible, both public and private investment
 - The Fund will invest in the following ambitions as relates to the overall Council objective of creating jobs, growing the economy:
 - a. To ensure the infrastructure is in place to provide an environment for economic growth and job creation (***Get York Moving***)

- b. To facilitate a digital infrastructure and business capacity that would place York as the most digitally connected economies in the UK. (***Digital York***)
 - c. To facilitate a viable city centre as an asset for attracting high value investment (***Reinvigorate York***)
 - d. To unlock the potential of our communities by connecting them to jobs, skills and enterprise opportunities (***Economic Inclusion***)
 - e. To develop a sustainable local economy (***Sustainable Economy***)
- The Fund will be assessed against criteria measuring GVA/jobs created, value for money, strategic fit, impact on worklessness and sustainability.
 - The final decision on funding through EIF will rest with Cabinet. The process of developing and bringing forward projects will be managed by an officer group made up of the Chief Executive (as Lead for EIF), the Director of CBSS (in his capacity as S151 officer) and Head of Economic Development (in providing operational management to the Council's Priority 1: Creating Jobs, Growing the Economy).
 - The Council's Creating Jobs, Growing the Economy Programme Management Board will consider business cases for the projects identified and will agree which projects to go forward to Cabinet
 - Project funding decisions will be made throughout the year on a rolling basis
 - Most projects will be Council-led and managed, working with external partners where possible and appropriate. However, for the Economic Inclusion theme, the potential for calling for external projects is being scoped. Such an approach would enable the Council to invite innovative, potentially community-led projects to address the objectives of this theme.
 - Funding from the EIF of £2.5m has already been identified to support Access York activities, and funding has been earmarked for the Better Bus Fund (amount tbc)
 - Business cases are currently being prepared for a city centre action and investment plan under the Reinvigorate York theme; the potential for a pot of EIF to be ring fenced for the Council to invite external bidders to put forward projects under the Economic Inclusion theme; and a further business case for the Council's investment in an access to finance/business support project for local business.

- Funding of £430K over the five year project is sought at this initial phase to provide the level of officer capacity required for effectively managing the EIF and maximising the further investment the Council is able to leverage through strategic investments made. This officer capacity would also support the Council's internationalisation strategy and action plan.

Background

3. At its meeting of 23rd February, City of York Council agreed to the development of a fund of critical mass to enable projects of strategic importance to the city's ambitions for creating jobs and growing the economy.
4. The development of a fund of this nature responds to the need to act more strategically with regard to investment in the city's economic future.
5. The **Economic Infrastructure Fund (EIF)** will seek to ensure we maintain and grow our successful economy. With the partial re-localisation of business rates, improvement in our overall business rate levy will bring potential direct financial reward – for example total borrowing costs on £20m of debt are £1.8m – this is only some 2.2% of our business rates collected annually – if we can grow the economy, create jobs and investment, benefits may be realised that will exceed the debt costs in time. It is proposed that any gains from the localisation of business growth are used in the first instance to cover borrowing costs associated with the EIF – with a view to potentially the whole borrowing costs being covered from this additional income in time.
6. It will work alongside the **Delivery and Innovation Fund (DIF)** of £3.5m to be administered to support areas requiring one-off investment; support major project delivery; facilitate the development of new and innovative ways of working.
7. The EIF is only one part of the Council's total capital programme of £187m, and as such, is only one source for progressing the Council's priority for growing the economy and creating jobs. The lion's share of the fund - £20m – will be for capital spend, whilst £8.5m will be available for revenue spend.

8. Where possible, the Council should work with private sector partners in developing the fund and maximising the leverage achieved through coordinating the fund with other financial mechanisms, as well as in setting the parameters for the Fund.

Rationale

9. The rationale for the fund is based on the potential for the Council to enable investment in critical economic infrastructure to create the conditions for growth, and in so doing also supporting wider investment in the local economy.
10. In the current economic climate, the appetite for risk is low and investment both by the private and public sectors is constrained – meaning the development of such infrastructure has stalled. The Council's EIF will enable the local authority to facilitate this investment strategically – providing strategic investment to infrastructure to create both the environment for growth but also kickstarting that growth in the business base and employment base.
11. The EIF will be used to kickstart both supply and demand in the local economy – in other words, both the supply of the space and infrastructure (both hard and, where appropriate, soft) for the economic growth and jobs creation we seek; as well as stimulating demand through the attraction and support of new business investment and economic activity in the local economy.
12. In facilitating strategic intervention, the EIF will be used to invest in 'market stewardship', creating market resilience, and preventing and responding to market failure. It is likely to focus on:
understanding and stimulating demand, in the short and long term;
building economic resilience for the city to ensure that the city is in a position to benefit quickly from future economic growth;
anticipating and providing the conditions to create new markets;
and influencing supply to meet demand and need.
13. Funds of this nature have already been developed in Manchester and Bristol, and a similar fund has now been launched in Sheffield. These funds generally focus on funding major transport as well as other infrastructure related investment, but generally always share a focus on economic growth. A similar fund is being explored at Leeds City Region (LCR) Local Enterprise Partnership.

Principles

14. The Fund will be administered to the following principles:
- The EIF is a strategic fund – all other funding options should be explored where possible, and this assessment of other funding options demonstrated by project sponsors
 - Where possible, the EIF should be used to leverage in further funding – whether from private or public sector investment
 - The Fund will be strategic and fundamentally aligned to the wider city strategy for growth – as identified through the York Economic Strategy and sub-regional strategies as set by the Leeds City Region and York and North Yorkshire Local Enterprise Partnerships.
 - The Fund will seek to provide a “return on investment” although this return on investment will be measured not necessarily in repayment to the Fund but in the form of investment in the city’s economy.

Headline objectives and ambitions

15. The Economic Infrastructure Fund (EIF) will be developed and invested to achieve the following objectives:
- To support the Council’s Priority 1: Creating Jobs and Growing the Economy, which in turn will enable the Council’s contribution to the city’s economic growth ambitions as set out in the York Economic Strategy. By extension the Fund will also support the city’s contribution to sub-regional ambitions as set out by both the LCR and York and North Yorkshire and East Riding Local Enterprise Partnerships (LEPs).
 - To ensure maximum value for money for the city in utilising the latest funding opportunities and flexibilities
16. The Fund will invest in the following specific ambitions as relates to the overall Council objective of creating jobs, growing the economy:
- To ensure the infrastructure is in place to provide an environment for economic growth and job creation (**Get York Moving**)

- To facilitate a digital infrastructure and business capacity that would place York as the most digitally connected economies in the UK. (***Digital York***)
- To facilitate a viable city centre as an asset for attracting high value investment (***Reinvigorate York***)
- To unlock the potential of our communities by connecting them to jobs, skills and enterprise opportunities (***Economic Inclusion***)
- To develop a sustainable local economy (***Sustainable Economy***)

17. These ambitions are fundamentally aligned with the Council Plan and the York Economic Strategy. Detail of these ambitions are set out in **Appendix A** to this report.

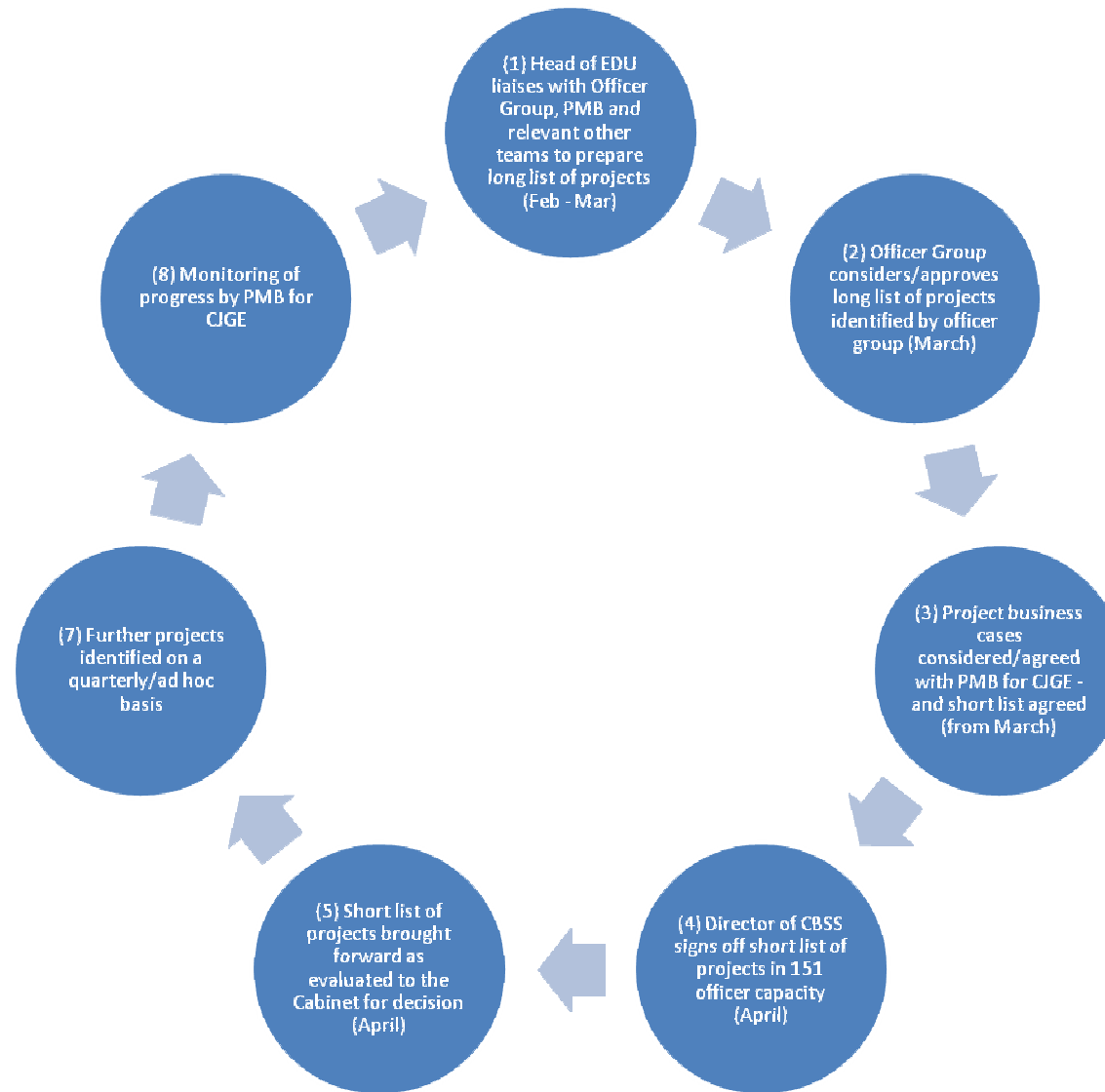
Criteria for the EIF

18. EIF funding will be awarded on the basis of greatest impact to the creation of jobs and/or GVA, and will be assessed against simple assessment framework. This framework will be based on five broad criteria:
- **GVA and jobs created:** Green Book appraisal techniques will be used to estimate the net GVA and jobs a project creates. It provides information of low, medium and highly-skilled jobs created in the short, medium and long-term, including supply chains. By including indirect job creation and growth, the potential differential between higher value added and lower value added activities will be taken into account.
 - **Value for money:** the Framework provides guidance on the expected total return on investment per pound spent – both public and private.
 - **Strategic fit:** this measures the project alongside York's agreed strategic objectives, as set out in particular within the Council Plan, and by extension the York Economic Strategy.
 - **Impact on worklessness:** this will measure how jobs to be created are connected to the workless population, in terms of transport and skills. It also considers local sustainability

issues, and takes into account associated training (including apprenticeships), at various skill levels.

- **Environmental sustainability:** this considers carbon use and other relevant standards that projects will be familiar with and anyway need to consider, such as energy efficiency and the use of resources.

Decision process



Source of projects

19. As the Fund is managed by the Council and the Council is the accountable body, most projects undertaken through the EIF will be led and managed by the Council working with partners where possible and appropriate
20. However, an opportunity is being scoped as to whether we can ring-fence an amount of £500K to £1m under the **Economic Inclusion** theme to allow external bids from communities/social enterprise and/or the private sector to deliver projects that meet this objective.

Forward planning

21. In order to ensure that the Fund is administered in as strategic a way as possible, the Council will develop a forward plan of investment for the Fund, referring to the delivery plan for Creating Jobs, Growing the Economy.
22. By extension, this Fund will enable the Council to deliver its responsibilities and role in the city-wide York Economic Strategy and Investment Plan – thereby aligning activity with wider partners to unlock the growth potential of the city – both in terms of GVA and jobs – and/or target those communities facing the greatest challenges in terms of deprivation and worklessness.

Rolling assessment process

23. The Fund will operate on a rolling basis, with project being brought forward as and when appropriate business cases are developed.

Developing business cases

24. A small **officer group** consisting of the Chief Executive, the Director of Customer & Business Support Services and Head of Economic Development will coordinate management of the Fund.
25. The Head of EDU will be responsible for identifying an initial list of projects, working with the **Programme Management Board** for Creating Jobs, Growing the Economy and relevant teams from across the Council. Where appropriate/ necessary to the delivery of a Council priority, identify any externally-managed projects as appropriate.

26. This list will be considered/agreed by the Officer Group, and the list prioritised as appropriate.
27. Business cases for priority projects will be presented to the Programme Management Board. The Board will shortlist those projects deemed best value for money, producing an evaluation/scoring matrix to be considered alongside the shortlist of projects by Cabinet.
28. In his capacity as S151 officer, the Director for CBSS will sign off project proposals which are then put to Cabinet for a decision.

Due diligence

29. Although most projects will be Council – led and managed, there may be occasion to provide assistance to projects led and/or managed from outside the Council. In these cases, the Finance Team will undertake the necessary due diligence to ensure that funding decisions made in these cases are sound.

Current forward plan for the EIF

30. Funding from the EIF has been allocated to Access York in the amount of £2.5m and further funding allocated to the Better Bus Fund (exact amount tbc).
31. The current forward plan for future projects to be proposed for EIF funding, include the following, which will be brought to Cabinet as and when the business cases have been assess through the PMB:
 - A package of projects through Reinvigorate York – identifying critical investment through the city centre action and investment plan being developed with retailers and other businesses from across the city centre to future-proof and develop the economy of the centre.
 - A proposal for an amount of EIF to be ring-fenced for external bids to be made under the Economic Inclusion theme.
 - A proposal for investment in a project to improve access to finance and support for start-up businesses in the city

Capacity for management of the Fund

32. In order to effectively administer the fund, there will need to be a suitable virtual team in place to support the development of bids and to ensure connectivity/coordination with the work being done in the city to attract private sector investment – thereby maximising the overall value for money to be generated by the Fund.
33. As such, it is proposed that at a minimum, the following officer support be secured from the Fund:
- a new post to project manage and coordinate relevant proposals for the fund, as well as the internationalisation agenda for the Council; and
 - a new post for coordinating funding more generally and seeking out further external grant funding, working with funding providers where possible to either match or supplement the EIF investments where possible, and supporting a city-wide approach where possible to accessing funding to support the YES Investment Plan.
34. Given the remit of these officers, it is estimated that the total cost for this capacity per annum will be in the region of £86K (pending job description, evaluation and grading). Thus, an allocation of £430K will be required over the life of the five year fund.
35. This officer capacity is considered the minimum required to effectively maximise the value of the EIF to the Council and city. The potential to use EIF to match and/or attract further investment into the city from private or public sources provides a strong value for money case for allocating this investment to this capacity.
36. As a target, it is intended that this officer capacity will be set a target of generating approximately £1 in cash and in kind contributions for every £1 of EIF invested, with the anticipation that this target is reviewed each year. The rationale for consistent review of the target is that the officers in question will need to develop a foundation and contacts for generating this external funding.
37. These two officer posts will be part of the Economic Development Unit (EDU) but will fundamentally work across the Council's Directorates and external partners.

38. In addition, the following capacity will be secured from existing resources:

- additional support in the form of capacity from the EDU to provide research and intelligence support for evaluation of project impacts and monitoring of performance
- administrative support from the Finance Team to coordinate administration of the Fund

Composition of the Fund

39. The Fund will be comprised of the amount received through the New Homes Bonus (min £8.5m) as well as a further £20m to be borrowed by the Council

40. Sources of funding would include:

- **New Homes Bonus** – all of the NHB could be allocated to this fund– estimated £8.5m – this would allow for an overarching consideration of the priorities to which this money could be put.
- **Prudential Borrowing** – profile to vary per annum in line with expenditure patterns over a 5 year period totalling c£20m.
- Any **external funding** that can be matched to schemes The new Park and Ride schemes are included in the EIF and include significant external finding
- **Capital receipts** from strategic review of assets
- **Potential Business Rates gains** from localisation of business rates

41. The fund would be a mix of capital and revenue funding to allow flexibility. It would look as follows:

	12/13 £m	13/14 £m	14/15 £m	15/16 £m	16/17 £m	Total £m
NHB Grant (indicative only)	1,300 *	1,800	1,800	1,800	1,800	8,500
Prudential Borrowing	2,000	4,000	5,000	5,000	4,000	20,000
Total	3,300	5,800	6,800	6,800	5,800	28,500

Consultation

42. The decision to create the EIF was taken at Full Council on 23rd February.
43. The development of (a) the governance for the EIF and (b) the forward plan and initial funding decisions outlined in the above report has been developed in consultation with the Programme Management Board for Council Plan Priority 1: Creating Jobs Growing the Economy.
44. This Board includes the Chief Executive, the Director for CBSS, the Assistant Directors for Economic and Asset Management (City Strategy), Planning (City Strategy), Transport and Integrated Strategy (City Strategy), Education (ACE), Lifelong Learning and Culture (CANs), and Office of the Chief Executive (OCE); as well as the Housing Strategy Manager.
45. The report is also being circulated to CMT for comment and input.

Options

Options on Governance

46. The options for the governance of the Fund include the following:
 - a. **An open EIF governance process.** The first option would be to put out an open call to projects for the Council to fund through EIF. This would mean including external bidders from the outset and inviting a competitive bidding process.
 - b. **A Council-only EIF governance process.** The second option would be to only consider Council-led and managed projects.
 - c. **A mix of Council-led and managed projects and externally managed projects.** The third option would be to manage a majority of the funding through Council-led and managed projects, but to scope the option for ring-fencing a part of the EIF for external bidders to put business cases forward where it makes most sense for projects to be led from outside the Council, as in the case of Economic Inclusion.

Options on Capacity for Management of the Fund

47. With regard to options for capacity for management of the Fund, the following options are available:
- a. **No change to existing officer capacity.** It could be decided that the Fund should be managed with existing officer capacity, split from between the EDU and the Finance Team.
 - b. **A funding team.** In other Councils across the UK, there are teams of officers dedicated exclusively to identifying and bidding for external funding, and managing use of that funding. For CYC, a team of this nature could be used not only to manage the EIF, but to identify and bid for funding against which the EIF could be used as match. This option is additional capacity to the previous option.
 - c. **Additional officer capacity to supplement EDU in project managing the Fund.** The provision of additional officer capacity to the EDU would enable relatively minimal cost to achieving not only coordination of the EIF with other funding streams and maximising the ability of the Council to match EIF money invested against other external pots of funding, but also support for the wider work of the Council to attract not only public but private sector investment through EDU—either by existing businesses or inward investors.

Analysis of Options

Analysis of options on governance

48. **Option 44a** would have the benefit of encouraging partners and the community to come forward with projects for the Fund, but the challenge this option presents are prohibitive. By opening up a competitive bidding process, the Council would require a level of capacity that the organisation does not have and would occupy large amounts of time for both Council officers, members and more importantly, those external bidders that would be spending time assembling business cases. In addition, as the Council is the accountable body taking on risk for the prudential borrowing in the Fund, the Council has a responsibility to manage the risk of the Fund delivering against its objectives.
49. **Option 44b** would have the benefit of being the simplest option in governance terms by restricting the consideration of projects to

those being led and managed by the Council. It would allow for the most direct management of risk. However, there are projects that may be appropriate to the Fund's priorities that are best led from outside the Council in which this option would not allow for external partner involvement.

50. **Option 44c** achieves a balance of managing risk and capacity for effective investment of the Fund, whilst allowing for external bids where projects are best led/managed from outside the Council. There is some additional capacity that will be required for managing this option (see options on capacity for management of the fund), and officers with this task will have the challenge of engaging effectively with external bidders/partners.

Analysis of options on capacity for management

51. **Option 45a**, whilst the lowest direct cost to Council, would ultimately lead to a lack of effective coordination of the Fund and significant missed opportunities in the form of funding streams that might otherwise have been tapped into with additional capacity. Both the EDU and Finance Team are already stretched to capacity for their current work programmes, and any additional call on their capacity will detract from their priorities.
52. **Option 45b**, whilst ideal in terms of providing maximum officer capacity and focus on the management of the Fund, is prohibitive in terms of costs in the current budget climate.
53. **Option 45c** provides the minimum additional officer capacity required to achieve coordination of the Fund, effective project management for those projects selected for EIF funding, and more importantly, maximisation of return on investment in the form of funding leveraged from external funding streams and other sources of investment. That this additional officer capacity would be managed within the existing EDU minimises the overall cost of this capacity to project management support. There is funding required from the EIF for these posts for the five years of the Fund of £430K, but the potential for these posts to generate additional funding should more than justify this cost to the Council.

Council Plan

54. The Fund will support the delivery of Council Plan Priority 1: Create Jobs Grow the Economy directly by providing strategic

funding to projects that will facilitate new jobs and economic growth.

55. The Fund will indirectly support the other Council Plan priorities through the development of strategic transport connectivity (as per Priority 2: Get York Moving), and economic inclusion initiatives that will connect individuals to job opportunities (as per Priority 3: Build Strong Communities).

Implications

Financial

56. The development of the EIF has already been agreed by Council, although the financial implications of the Fund are relevant to the current report. The Fund will be comprised of the amount received through New Homes Bonus (minimum £8.5m) as well as a further £20m to be borrowed by the Council.

Human Resources

57. The implication of the funding sought for officer capacity will have the implication of recruitment to two new posts, funded to 2015/16 within the Economic Development Unit.

Equalities

58. There are no equalities implications arising from this report.

Legal

59. There are no legal implications arising from this report

Crime and disorder

60. There are no crime and disorder implications arising from this report.

Information Technology

61. There are no information technology implications arising from this report.

Property

62. There are no property implications arising from this report.

Other

63. There are no other implications arising from this report.

Risk Management

64. There are no known risks arising from the report.

Recommendations

65. Cabinet is recommended to:

- Approve the proposed objectives, priorities and governance for the EIF
- Note progress to develop business cases for projects to support the Reinvigorate York theme and the scoping of the opportunity to open the Economic Inclusion theme to external parties
- Approve £430K as recommended for officer capacity to deliver the Fund over 5 years (i.e. £86K per annum)

Report author

Katie Stewart
Head of Economic Development
(01904) 554418
katie.stewart@york.gov.uk

Ian Floyd
Director of CBSS
ian.floyd@york.gov.uk

Lead officer
Kersten England
Chief Executive
(01904) 552000
kersten.england@york.gov.uk

Wards affected: All

For further information please contact the author of the report

Appendices:

Appendix A. EIF Objectives and Detail of Funding