

18 June 2013

## **Economic and City Development Overview and Scrutiny Committee**

Report of the Chief Executive

### **Progress Report – Local Enterprise Partnerships**

#### **Summary**

1. This report provides an update on progress with the two Local Enterprise Partnerships (LEPs) in which the city of York had been involved to date: Leeds City Region and York/ North Yorkshire/ East Riding. It also outlines policy developments which are emerging which might affect the future focus and operations of LEPs.

#### **Background**

2. As Committee will be aware from previous update, Lord Heseltine published a report in October 2012, *No Stone Unturned in Pursuit of Growth*, which made several recommendations for LEPs, which has since this time, focused the activities of the LEPs in both LCR and YNYER.
3. Since the previous Committee update, there has been considerable progress made in the city of York's position in the LEP agenda.

#### **York, North Yorkshire and East Riding LEP**

4. Following conversations with Government officials on the detail of proposals to devolve funding pots to LEPs, the City of York Council has given its notice to withdraw from formal membership of the YNYER LEP.
5. **(This decision is based on an assessment of the risks that the city will face in accessing funding via two LEPs – which from dialogue with Government officials is clear will be challenging, and from the Heseltine Review is not recommended for effective LEP engagement.)**

6. However, the Council is pursuing a proposal to develop a new working relationship and collaboration with YNYER LEP to ensure continued progress on the small business support, visitor economy and agri-food agendas. This proposal may lead to a joint bid to a post-2014 European funding programme, which would draw down external funding for this activity, depending on the outcome of negotiations with Government on the workings of European funding in future.
7. The aim is to ensure that the relationship with North Yorkshire and East Riding economies is maintained, whilst ensuring maximum value from the new single pot arrangements from Government to the city.

### **Leeds City Region LEP**

8. The LCR LEP continues to make progress against the delivery of the LCR City Deal.
9. The below provides a full update on the City Deal – what it promises and latest progress, including the development of a Revolving Investment Fund, West Yorkshire Plus York Transport Fund and the Combined Authority.

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

10. 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

11. 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)**

12. 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.

13. 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>1</sup>

14. 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.

15. 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

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<sup>1</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.

- 16.** 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;
  - 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.
- 17.** 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).
- 18.** 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.
- 19.** City of York Council Cabinet agreed on 7<sup>th</sup> May to contribute £6.137mn to the fund subject to agreement of robust and transparent governance and appraisal framework, further details of which will be brought through a further Cabinet paper in due course. The York contribution is pro-rated based on its proportion of population of the total area covered by the RIF authorities.

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

- 20.** 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.

- 21.** 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.
- 22.** 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.
- 23.** The above powers will be devolved on the condition of the creation of the West Yorkshire Plus York Transport Fund and the creation of suitable governance in the form of a Combined Authority, which the City of York Council and West Yorkshire Authorities are currently developing jointly.

## **The West Yorkshire Plus York Transport Fund**

24. The fund is in the process of being created, and CYC has agreed at 7<sup>th</sup> May Cabinet to approve an initial contribution of £500K through the Economic Infrastructure Fund to kick-start the fund, alongside the contributions of the other participating authorities.

## **Development of a Combined Authority**

25. The Combined Authority: In order to take on the new powers and responsibilities that are envisioned through the LCR City Deal, and as signaled in the last report update to Committee, CYC is engaging in the development of the new Combined Authority for West Yorkshire, following a decision to do so made by CYC Cabinet in May.
26. As York does not share a contiguous boundary with the other West Yorkshire authorities (due to a small strip of land between Leeds and York), the Council will be invited to join as a non-constituent member initially when the new CA is created in April 2014. As a non-constituent member, CYC will be delegated decision making powers as appropriate by the full members, which will include the five West Yorkshire authorities.
27. Working with Government departments, Council officers are exploring the options for moving to full membership as and when legislation can be made to allow for this move.
28. CYC Cabinet will be considering the draft scheme for the CA and formal review for the creation of the CA at its meeting in July, ahead of the submission of the scheme to Government.

## **An investment plan for the LCR LEP**

29. An investment plan is being prepared by the LCR LEP which will see it making a case for investment through the new Single Local Growth Funds which Government plan to devolve to LEPs from 2014. In addition, there is a European Funding Prospectus in development in collaboration with the Leeds City Region LEP.

## **Consultation**

30. No specific consultation has taken place on the contents of this report, which reflects the on-going involvement of the Leader, Members of the

Cabinet, Chief Executive and senior officers in LEP Board and other meetings.

### **31. Options**

Options are not relevant to this report.

### **32. Analysis**

Not relevant.

### **Council Plan**

- 33.** The work of the LEPs should prove valuable in supporting the Council Plan priorities of creating jobs and growing the economy and also get York moving priorities

### **Implications (Financial/ Human Resources/ Equalities/ Legal/ Crime and Disorder/ Information Technology)**

The legal issues associated with a Combined Authority are highlighted above.

### **34. Risk Management**

Not relevant.

### **35. Recommendations**

The Committee is asked to note the content of this progress report.

Reason: To keep the Committee up to date with the work of the LEPS

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**Specialist Implications Officer(s):** Not relevant

**Background Papers:** None.