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

**24 September 2013**

Report of the External Funding Scrutiny Task Group

### **Draft Final Report - External Funding Scrutiny Review**

#### **Summary**

1. This report presents the findings and recommendations of the External Funding Scrutiny Review Task Group, and asks the Economic & City Development Overview & Scrutiny Committee to agree any required amendments / additions to the report prior to its future presentation at a meeting of Cabinet.

#### **Introduction**

2. At a meeting of the Economic and City Development Overview and Scrutiny Committee (ECDOSC) held in September 2012 Members received an initial briefing note (Annex A refers) on a potential scrutiny review that had been put forward by Councillor Semlyen. The basic premise for the suggested review was to unlock the potential of external funding for economic development and regeneration projects.
3. The briefing note said that *'At a time when Council budgets are being increasingly reduced, there is a real and growing need to attract new forms of investment – whether private or public. Whilst there may be less public funding available than in previous years, there remains significant opportunities in the form of European Regional Development Funding, Growing Places Funding and other opportunities such as the Regional Growth Fund...'*
4. In light of this the Committee suggested that any remit for the review should focus on identifying a more systematic approach to securing external funding and investment for York in order to maximise the amount received .

5. The Committee agreed that this review should go ahead and set up a Task Group to carry out the review on their behalf, comprising of the following four Members of the Committee:

Councillor Stephen Burton (Task Group Chair)

Councillor Neil Barnes

Councillor Andrew D'Agorne

Councillor Anna Semlyen

6. The Task Group agreed that any funding available should be accessed for York's top investment priorities and felt there was work to be done around the process of promoting York's key investment priorities within the Leeds City Region Local Enterprise Partnership (LEP) in particular.
7. In January 2013 The Task Group reported back on their initial findings and ECDOSC agreed a remit for the review together with a number of objectives. However, as work on the scrutiny review progressed, ECDOSC were asked to agree some minor changes to the objectives set, to allow the Task Group slightly more flexibility within their review. Work on the review then progressed based on the following remit and objectives:

#### Aim

To be more effective and systematic in securing external funding and investment for York

#### Key Objectives

- i) To assess how Leeds City Region are articulating investment priorities, including looking at the case of the LEP European Regional Development Funding Programme and broader funding priorities.
- ii) To assess what resources are available to City of York Council (CYC) to effectively identify and successfully secure funding (resources in this instance including CYC staff, additional or temporary staff, partnership staff, ability to provide match funding, up-skilling and training)
- iii) To develop a plan for presenting a strong case to attract funding for York's top investment priorities.

## Consultation

8. In support of Objective (iii) the Task Group held a meeting with external partners from Network Rail and Leeds City Region LEP, alongside colleagues from CYC Development Control and the Economic Development Unit.

**Objective (i): To assess how Leeds City region are articulating investment priorities, including European funding and broader funding priorities**

## Information Gathered

9. At Meetings in February and March 2013 the Task Group learnt that funding channelled through the Leeds City Region LEP was critical to the future economic growth of York.
10. The driving force behind all funding accessed through the Leeds City Region will be the **City Region Strategy** and **Investment Plan** through which there is currently a proposal to create a **Single Investment Fund** and most importantly a **Single Assessment Framework** - combining and aligning different monies (ideally including European monies) under one single 'fund of funds'.
11. Whilst Leeds City Region LEP has an overarching strategy already in place, the key point to note is that what sits beneath the current corporate plan is emerging and constantly changing. Leeds City Region LEP are refining their approach in response to the new European funding programme 2014-2020 and emerging Government initiatives such as the single local growth fund. As a result it is imperative that City of York Council moves with, and keeps track of, these changes - ensuring continuous alignment between the strategic priorities of the City and the wider LEP.
12. With specific regards to European funding the Task Group learned that the next tranche of the England's EU funding allocation from 2014-2020 will largely be distributed via Local Enterprise Partnerships (including Leeds City Region LEP) in order to ensure that European projects and initiatives are strongly aligned with local socio-economic needs and priorities.

13. However, officers advised the Task Group that the Government is still some way from determining precisely how the EU funding will be administered on a day to day operational basis. Whilst it appears LEPs will be ceded responsibility for strategy setting and delivery of outcomes, central government will retain responsibility as the ultimate managing authority. Further details are outlined at Annex B.
14. This throws up a number of pragmatic questions around where final investment decisions for European funded projects will be made / approved. Further guidance is promised during the course of 2013 which may potentially shed further light on this issue.
15. Clarity is also required from central government with regards to Leeds City Region LEP's notional European funding allocation. Without this it is impossible to begin any meaningful prioritisation of specific projects and initiatives.
16. The Task Group was also informed about future Government funding plans for the LEPs including the creation of a Single Local Growth fund from 2015 onwards. At their final meeting in July 2013 the Task Group received further information on the Single Local Growth Fund which had emerged as part of the June Spending Review i.e.:
  - Creating a Single Local Growth Fund (SLGF) with over £2 billion of budgets from skills, housing and transport for 2015-16;
  - Making a further commitment of £5 billion of transport funding in the SLGF from 2016-17 to 2020-21 to enable long-term planning of priority infrastructure while also committing to maintain the SLGF at a total of at least £2 billion each year in the next Parliament; and
  - Giving LEPs responsibility for how €6.2 billion (£5.3 billion) of EU Structural and Investment Funds is spent, bringing resources under the strategic influence of LEPs of at least £20 billion in the years to 2021.

## **Conclusions**

17. From the information and evidence presented above the Task Group concluded it was too early to identify specific projects to 'put forward' to Leeds City Region LEP for European or indeed other forms of LEP devolved funding.

18. An essential first step would be to develop a clear 'Investment Plan' for the Council and the wider City - identifying the top priorities for investment, innovation and business growth and translating those into viable investment propositions.
19. The Task Group agreed that York would have to identify its strengths, identify sectors where it already has a competitive advantage or where emerging strengths will provide a competitive edge in the future - developing capacity around key industry clusters for example.
20. Investment in hard infrastructure and development sites was regarded as another major priority. In York's case this included various sites across the City (not just council owned sites), including York Central, Heslington East, Hungate, Castle Piccadilly, Terry, Nestle South etc. Prioritising key sites, determining the most appropriate usage of those sites and assembling attractive investment propositions were very much seen as a precursor to securing LEP or indeed other forms of funding.
21. The Task Group concluded that once York's major investment priorities and projects had been clearly defined it would be essential that they dovetail with the strategic priorities of the City Region. This would ensure that York is in a strong position to influence their inclusion in the key strategies produced at the LEP level.
22. The Task Group therefore agreed to make the following overall **strategic recommendations**:
23. Recommendation (i) - EDU to develop and publish on the web an 'Investment Plan' that will highlight key growth priorities for CYC and wider City, and identify specific projects to take these priorities forward, and match them to the most relevant sources of finance (with an appropriate forward scanning function to achieve this). To be completed by December 2013.
24. Recommendation (ii) – To identify suitably ambitious measurable targets as part of the development of the investment plan in order to gauge its impact (those targets to be presented at a future meeting of the Economic & City Development Overview & Scrutiny Committee).

## **Objective (i) Recommendations**

25. Recommendation (iii) - The priorities of the City to be aligned with broader regional priorities, particularly those contained within the Leeds City Region LEP Investment Plan.
26. Recommendation (iv) - The Council to be proactive in engaging the Leeds City Region and other potential partners to ensure that York's key investment targets are prioritised effectively in regional and national investment plans by formally:
  - a) Submitting the council's Investment Plan to Leeds City Region LEP so that it may be included in their strategic Assessment Framework.
  - b) Developing the relationship between officer and Members at Leeds City Region level.
27. Recommendation (v) – Provide regular bi-annual updates to the Economic & City Development Overview & Scrutiny Committee on York's key investment priorities, including progress with specific bids to be communicated to Leeds City Region, Science City York and other relevant partners who either need or wish to be informed of specific bids.

**Objective (ii): To assess what resources are available to City of York Council to effectively identify and successfully secure external funding**

## **Information Gathered**

28. During the course of the scrutiny review the Task Group learned of an economic modelling tool - the Regional Econometric Model (REM) which was the key evidence gathering, economic modelling tool in use across the Yorkshire and Humber region, and nationally.
29. The REM allows subscribers to run a variety of 'scenarios of productivity'. In other words, it will predict the amount of value generated by a specific development site (e.g. were housing to be built on it or whether it be used for different industrial purposes) and therefore helps to identify the best outcome for York and the wider region in terms of GVA, FTE jobs etc. The cost of a REM licence is £4000 per annum, including training and on-going support for the duration of the subscription.

30. Having identified that CYC was currently commissioning work externally from other authorities who subscribed to the REM (at a cost of £700 per day), the Task Group discussed the benefits of the REM for the Council and City as a whole.
31. The agreed that the REM's ability to assist in calculating scenarios of productivity, job growth etc dependant on the proposed usage of a particular development site would significantly strengthen and lend weight / credence to the development of 'oven ready propositions' to put to funders.
32. It would also help support their scrutiny review, having been advised that it would be very difficult, both time wise and financially to achieve an outcome without accessing REM. The Task Group acknowledged they could commission some external work and spend £700 doing so; however they agreed it would not be cost effective.

## **Conclusions**

33. The Task Group concluded it would not be viable or sustainable to continue commissioning externally. And, if CYC were to hold a licence for the REM directly, then it could quite quickly make considerable savings.
34. In regard to objective (ii) of the review, the Task Group agreed that there was a gap in the resources the Council had for undertaking that type of work and therefore recommended to ECDOSC that they contribute their £1000 allocation from the scrutiny budget to the in-year purchase of a REM licence.
35. The contribution of £1000 from the scrutiny budget towards the cost of the REM was subsequently agreed by the Economic and City Development Overview and Scrutiny Committee at their meeting held on 26 March 2013.
36. As a test case, the Economic Development Unit was able to use the REM to develop their bid for the council's York Central project. Although that bid proved unsuccessful, the REM has since been used to develop figures for other key sites which will be fed into the council's Investment Plan.
37. The Task Group also concluded that if CYC were to hold a REM licence on a longer term basis it would bring ongoing benefits in terms of

maximising the future productivity of the economy, and future FTE growth. They agreed that calculating economic impact in that way would significantly strengthen and underpin future funding applications – providing a strong, solid evidence base of need and demand.

### **Objective (ii) Recommendations**

38. Recommendation (vi) - CYC to continue to subscribe annually to the REM licence and budget for it as a core expenditure, in order to utilise the REM to evidence the overall economic impact of every project or initiative (where a clearer understanding of the broader economic impact forms part of the bid criteria) thereby clearly articulating and strengthening the evidence base for all funding applications.
39. Recommendation (vii) - CYC to explore, under the licence agreement the benefit of, using the REM and sharing the data produced by the REM – and how we involve/engage citywide partners in making the most of the modelling software. Aim to produce an agreed REM user plan by December 2013.

**Objective (iii): To develop a plan for presenting a strong case to attract funding for York's top investment priorities**

### **Information Gathered**

40. Discussions at the Task Group meetings in February and March outlined the importance of developing a clear 'Investment Plan' for the Council and the wider City - identifying the top priorities for investment, innovation and business growth and translating those priorities into viable investment propositions. The importance of aligning York's priorities with those of regional partners such as Leeds City Region LEP was also identified.
41. Following on from previous meetings the Task Group felt there would be merit in scrutinising officers' efforts to develop 'oven ready' investment propositions for specific schemes, namely the York Central site and the proposed Digital, Media and Creative Centre.
42. In April and May 2013 the Task Group therefore met again to consider detailed information on the top two priorities that the authority would be putting forward to receive funding from the Leeds City Region LEP and other sources.



43. York Central: Phase 1, Queen Street Quarter

The Task Group learnt that York Central is a 37 hectare brownfield site adjacent to York City Centre and the City's rail station. The site is largely owned by Network Rail, who are currently rationalising its current uses to allow for redevelopment. The first phase is a 2.9 hectare mixed use development accommodating 40,000m<sup>2</sup> of new and converted floor space including improved transport interchange facilities.

44. On completion it is estimated that the redeveloped York Central site will create in the region of 1663 gross jobs (plus 580 temporary construction jobs), by March 2016 – producing £69m GVA (Gross Value Added) per annum thereafter. In addition, the first phase of York Central will set in motion the potential for two further phases of development. In total the site offers the potential, on completion of the three phases, for an additional c. £247m GVA per annum and a net 4,750 jobs.
45. York Central is therefore clearly a major strategic project for the city and the wider region. However, there are considerable barriers and obstacles to development, largely associated with abnormal infrastructure costs. Key issues involve the reclamation and re-assembly of land that is partly used as an operational rail/freight site, and obtaining site road access. In phase one the 'stacking' of an existing car park into a multi storey facility is also a necessity to gain access to the site.
46. In May 2013 the Task Group held a specific meeting with some key representatives involved in the redevelopment of the site, both within CYC and externally. External partners at the meeting included representation from Network Rail and Leeds Local Enterprise Partnership, alongside colleagues from CYC Development Control and the Economic Development Unit.
47. CYC officers provided a brief presentation on progress to date regarding the development of a Masterplan for York Central, and the submission of a £9 million bid to the Regional Growth Fund.
48. Councillors asked questions in order to identify the most effective, efficient process by which to secure future investment in the site and bring the development to fruition.
49. Evidence presented at the meeting indicated that the timescales involved in turning a site such as York Central into a viable investment proposition

were substantial (i.e. fully developing and costing a masterplan, liaising with investors and partners etc).

50. Although still early in the masterplanning process for York Central, potential sources of finance were outlined to the Task Group - these included:

- The Leeds City Region Local Economic Partnership (LCR LEP) – Funding channelled through the LCR LEP is critical to the future economic growth of York. The driving force behind all the funding accessed via the Leeds City Region will be the City Region Strategy and Investment Plan through which there is a proposal to create a single Investment Fund combining and aligning different monies (ideally including European monies).
- Central Government – Regional Growth Fund – The government's main financial instrument for investing in private sector and public/private projects that will stimulate growth and create additional employment. It is another key funding avenue that is being actively explored at present. CYC and Network Rail have submitted a bid of £9 million to support site infrastructure and enabling works for Phase 1 of the York Central site.
- New Models of Loan Finance – The most likely forms of future public sector funding (particularly to support infrastructure schemes) are likely to include various forms of loan finance – including Tax Increment Finance and the potential issuing of local authority bonds.
- Developer Finance – The majority of external funding and investment (particularly around key infrastructure sites) is likely to flow from private sector finance such as commercial and residential property developers.

51. The Task Group also received further detail around potential funding sources to support York's Key Investment Priorities - see Annex C.

52. York Digital, Media and Creative Centre (DMCC)

The Task Group learnt that the establishment of a Digital, Media and Creative Centre is a major ambition for the City. The intention is to provide a new home for growing creative, digital and technology companies within York. Its creation has been a long-time ambition for the City of York. York is already a creative and digital hub for Yorkshire with inspiring architecture and a heritage that inspires creative talent.

53. Creative and digital companies in the City would greatly benefit from a central nucleus within this inspiring environment to grow their businesses and community. The intention is for the DMCC to provide around 20,000 sq. ft. of managed office accommodation for small to medium sized enterprises (SMEs) within the creative, digital and technology sectors, and to encourage and support the growth and development of these sectors within York.
54. In particular the DMCC aims to increase the capacity of the city to provide flexible space and to increase opportunities for retaining and networking talent and enterprise across the city. The centre could provide high quality office space with offices ranging from around 58 sq. ft. suitable for sole traders, up to circa 1500 sq. ft. which will house companies of around 9-12 employees each.
55. The Task Group was informed that an outline feasibility study had been undertaken by Science City York investigating several possible sites and the challenges associated with each. They also considered some more specific information on the York Central site and a proposal for the DMCC to be sited on a specific site. However, that information was classed as exempt under paragraph 3 of Schedule 12A to Section 100A of the Local Government Act 1972 (as revised by The Local Government (Access to Information) (Variation) Order 2006) and is therefore not included within this report.
56. In regard to the DMCC, the Task Group learnt that an outline expression of interest for £2 million Growing Places funding had been submitted to the Leeds City Region Local Economic Partnership (LCR LEP). Also that further bids were planned, but prior to that it is likely that additional resource will be required to employ an officer to fully develop the business case for the DMCC.
57. The Task Group noted that as with York Central, the timescales involved in developing a detailed business model for the Digital, Media and Creative Centre would be substantial and resource intensive.

## **Conclusions**

58. Evidence presented at the above meetings led members to conclude that in an effort to achieve the council's priority to 'create jobs and grow the economy', considerable resource / officer time would be required to

develop key flagship projects and business cases of suitable robustness, to attract significant funding and investment.

59. For each individual project the financial, economic, social and environmental return on investment must be carefully calculated and concisely presented, in order to make projects relevant to a range of audiences and potential investors.
60. Since the majority of external funding and investment (particularly around key infrastructure sites) is likely to flow from private sector finance, the Task Group concluded that raising awareness of key sites in York such as York Central, and highlighting their potential to a range of private sector developers and investors, was essential. Members also concluded that actively reaching out to commercial and residential private property developers was also of vital importance.

### **Objective (iii) Recommendations**

61. Recommendation (viii) - CYC to draw upon relevant officer expertise, and ensure that sufficient officer time and resource is made available to build and develop business cases of suitable robustness, in order to maximise significant funding and investment into those major flagship projects featured in the Investment Plan .
62. Recommendation (ix) – CYC to develop a plan for the ‘yorkmeansbusiness’ website in order to fully integrate it into York’s business network.
63. Recommendation (x) - CYC to develop a clear inward investment menu or offer on the ‘yorkmeansbusiness’ website, setting out the various support services available to potential investors. This should draw on the support made available as part of recent successes in attracting inward investment e.g. Hiscox. The development of an initial webpage to be completed by October 2013.
64. Recommendation (xi) - CYC to maintain a presence at the relevant high profile international events to attract developer and investor finance for key sites in the City. Every lead from such events should be followed up and invited to York to meet with relevant senior CYC officers.

## Options

65. There are no direct options associated with the recommendations in this report. Members are asked to consider the report and its associated recommendations and indicate any amendments they may wish to make prior to them being submitted to Cabinet for consideration.

## Council Plan 2011-15

66. The work on this review and its arising recommendations support the *'create jobs and grow the economy'* element of the Council Plan 201-15.

## Implications

67. **Legal – There** are no legal implications
68. **Financial** – Recommendations vi has financial recommendations for the Council if it were to be accepted i.e. the Council's commitment to subscribe annually to the REM licence (at a cost of £5,000 per annum) and to budget for it as core expenditure.
69. It should be noted that the Council already incurs significant costs each time it wishes to use the REM by commissioning work externally from other authorities who subscribe to the REM (at a cost of £700 per day).
70. It should also be noted that without regular access to the REM modelling software the Council may be unable to adequately calculate scenarios of productivity for key development sites. This in turn could affect the ability to develop 'oven ready' funding applications, ultimately resulting in fewer successful bids and a potential financial loss to the authority.
71. Furthermore, it will be possible to generate income from the REM software by charging other partners in the City for the usage of the model.
72. Recommendation viii (CYC to draw upon relevant officer expertise, and ensure that sufficient officer time and resource is made available to build and develop business cases of suitable robustness) could have financial implications for the Council.
73. It is not possible to clearly define the financial implications at this stage. On some occasions CYC is likely to be able to achieve this through more effective management and reallocation of existing resources. On other

occasions, it may be the case that this objective cannot be met through existing budgets - and that additional financial resource may need to be made available.

74. Recommendation xii (CYC to maintain a presence at relevant high profile international events to attract developer and investor finance for key sites in the City) also holds financial implications, although it is not possible to define to precise implications at this stage. It should be noted that the lack of a Council presence at these high profile events could mean that CYC misses valuable opportunities to attract developer finance to key infrastructure sites in the City, which and could again prove financially detrimental to the authority in terms of missed funding opportunities.
75. **HR –** Recommendation viii (CYC to draw upon relevant officer expertise, and ensure that sufficient officer time and resource is made available to build and develop business cases of suitable robustness) could have HR implications for the Council. On some occasions this objective could be met through the more effective utilisation of existing staff. On other occasions (depending on the nature and complexity of the project in question) it may mean that the Council needs to recruit for the relevant resource – on either a temporary or permanent basis.
76. **Other Implications** – There are no other implications associated with the recommendations arising from this review.

## **Risk Management**

77. The risk associated with the Council failing to attract significant levels of external funding and finance is it will be unable to deliver against the priorities and strategic projects as defined within the Investment Plan.
78. The review have identified that this risk could be mitigated by careful horizon scanning and targeting of appropriate funding opportunities, supported by drawing together skilled and experienced project teams to develop 'oven ready' business plans and submit well prepared and funding applications – supported by a strong evidence base.

## **Report Recommendation**

79. Having considered the information provided in this report and its annexes, Members are asked to endorse the draft recommendations arising from this review i.e.:

- Two strategic recommendations shown at paragraph 23 & 24
- Recommendations in support of Objective (i), shown at paragraphs 25-27.
- Recommendations in support of Objective (ii), shown at paragraphs 38-39.
- Recommendations in support of Objective (iii), shown at paragraphs 61-64.

Reason: To conclude the work on this review in line with scrutiny procedures and protocols and to enable this review final report to be presented at a future meeting of Cabinet.

## **Contact Details**

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**Report Approved** ☒ **Date** 17 July 2013

## **Specialist Implications Officer(s)**

### **Wards Affected:**

**All**



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

**Background Papers:** N/A

## **Annexes**

**Annex A** – Scrutiny Topic Proposal

**Annex B** – Future of European Funding Programmes 2014-2020

**Annex C** – Potential Funding Sources to Support York's Key Investment Priorities