



Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:
Overview and Scrutiny Management Board
Cabinet

3rd February 2011
7th February 2011

Sub Regional Economic Development Review

Report of the Strategic Director Development, Culture and Regeneration

1. Purpose of Report

- 1.1. To update members on the development of a new approach to support economic development in the Leicester and Leicestershire sub-region, including the establishment of a Local Enterprise Partnership and a Single Delivery Vehicle (combining Prospect Leicestershire and Leicestershire Promotions).

2. Recommendations

- 2.1. Cabinet is recommended to:
- a. Approve the establishment of a Local Enterprise Partnership for Leicester and Leicestershire (LLEP).
 - b. Approve combining Prospect Leicestershire and Leicestershire Promotions into a Single Delivery Vehicle (SDV) for Leicester and Leicestershire, to be a jointly held company between the City and County Councils.
 - c. Delegate authority to the Chief Executive, in consultation with the Leader, to finalise all matters relating to the establishment of the LLEP and SDV.
 - d. Make financial provision, as set out in the report, for the establishment of the LLEP and SDV, taking into account any associated liabilities from the existing delivery bodies.

3. Summary

- 3.1. This report summarises the background to the new sub regional economic working proposals and highlights the changing funding context. It recommends establishment of a Local Enterprise Partnership and a Single Delivery Vehicle (SDV).
- 3.2. The SDV would combine Prospect Leicestershire and Leicestershire Promotions into one body, jointly held by the City and County. The new body would be focused on tourism, place promotion and inward investment into the sub region.

4. Report

Background

- 4.1. New sub regional economic development bodies were established by the City and County Councils in 2009 following reforms carried out by the previous Government:
- i) A sub regional partnership focussed on programme management and the preparation of strategy and commissioning of economic development activity. This has been supported through the shared staffing unit hosted by the City Council and funded through partnership contributions.
 - ii) An Economic Development Company known as Prospect Leicestershire Ltd. This replaced the Leicester Regeneration Company that had focused solely on the city. The Prospect mandate covered the delivery of physical regeneration of key strategic sites, inward investment and aspects of business support across Leicester and Leicestershire.
- 4.2. The City Council, County Council and other partners have also been supporting Leicestershire Promotions Limited for some time. This company has a focus on boosting tourism throughout the sub-region. It was also previously responsible for inward investment activity prior to the establishment of Prospect Leicestershire Ltd, at which point the function transferred to the new company.

Changed context

- 4.3. The change of government and the current focus on deficit reduction has substantially reduced the availability of resources for regeneration, business support and housing related programmes of investment. In particular emda will be abolished and its sub regional funding programme ended in 2011/12. Homes and Communities Agency (HCA) resources will also be substantially reduced. This funding situation is anticipated to continue for at least the duration of the Comprehensive Spending Review.
- 4.4. The economic recession has also impacted greatly on the development industry where activity has reduced substantially over the past two years. This has been particularly noticeable on regeneration sites, many of which require public sector gap funding that is no longer available.
- 4.5. The new Government's Local Growth White Paper advocates a new approach to economic development in localities. In particular it supports the abolition of the Regional Development Agencies and the establishment of new Local Enterprise Partnerships (LEPS), through which public, business and third sector partners can coordinate economic regeneration activity. The new LEPs are promoted as the preferred vehicle to draw down national funding, including the Regional Growth Fund, and also coordinate local and national funding sources. They are seen as the means to bring local influence to bear on nationally commissioned activity such as the Work Programme and Business Support packages.

A new approach to Sub Regional Economic Development

Leicester and Leicestershire Enterprise Partnership

- 4.6. Responding to the new Government agenda, the current Sub Regional Leadership Board agreed to pursue the establishment of a Leicester and Leicestershire Local Enterprise Partnership (LLEP) to refocus economic development in the area and ensure the City and County were well placed to access and coordinate new (albeit more limited) national funding resources and to influence national commissioning activity affecting the area.

- 4.7. A bid was submitted to Government for the LLEP which proved to be one of only 24 agreed at this stage. This gives the sub region a distinct competitive advantage in accessing new resources for instance.
- 4.8. The main role of the LLEP will be to set strategy and prioritise and commission economic development activity in the Sub Region with the resources that are potentially available to the LLEP. This will include priority projects being submitted for the recently announced Regional Growth Fund. The body will also help to coordinate economic development activity in City and County, for instance, including cross boundary transport and planning infrastructure strategy and delivery. It will also lead dialogue with other public and private sector organisations that can assist the delivery of the economic development strategy e.g. in regard to skills development and tackling worklessness.
- 4.9. Support funding to meet the costs of staffing and running the LLEP is not however to be provided by Government and this cost will need to be met locally. The funding currently available to the Sub Regional Support Unit is as follows in 10/11: City Council - £80k; County Council - £80k; District Councils - £80k; emda - £204k – Total £444k. emda and HCA funding for 2011/12 is budgeted to be £50k per body related to the completion of existing programmes of work, after which funding will cease from these two bodies. The City, County and District Council's contributions are expected to be reduced in 2011/12 by 30% to £56k as part of current budget reviews.
- 4.10. Work is underway to establish the LEP Board, planned to have around 15 members with at least 50% of members from the private sector. The City Council would be represented by the Leader and Cabinet Lead for Regeneration, Transportation and Highways. A Chair will be appointed from the private sector and a recruitment process is now under way for that position.
- 4.11. Cabinet is asked to formally approve the establishment of the LLEP and delegate responsibility to the Chief Executive in consultation with the Leader to finalise arrangements relating to the governance and funding of the new body and the necessary support staffing arrangements.

A Single Delivery Body

- 4.12. In response to the changed financial circumstances referred to above, the Sub Regional Leadership Board instructed a review of the delivery of economic development activity currently delivered through Prospect Leicestershire (PL) and Leicestershire Promotions Limited (LPL).
- 4.13. In light of the funding position the Leadership Board agreed to explore the feasibility of a single organisation for tourism and economic development activity across the sub-region, effectively being a combination of the above two companies.
- 4.14. Review meetings have been held with Prospect Leicestershire, Leicestershire Promotions, the Business Council, the Chamber of Commerce and District Chief Executives well as the County and City Councils. The outcome of these discussions has been reported through the Leadership Board on November 4th 2010 and are summarised below.
- 4.15. The Leadership Board agreed that the following outcomes should be the core focus for a single organisation:

- increased visitor numbers and spend
- increased net investment in the economy
- increased recognition of the place

A performance framework will be developed to manage the delivery of the outcomes and ensure value for money from the new body.

- 4.16. It was concluded that physical regeneration activity had reduced substantially and related physical delivery will continue to be much less intensive owing to the reduction in grant funding and private sector investment. As a result it was concluded that leading the delivery of this activity should be moved in-house to the respective local authorities and other bodies who would then need to contract in specialist support as required.
- 4.17. It has been proposed that a single organisation would need to evidence a sustainable business model featuring:
- a provided budget of about £1m.
 - staffing costs at about 66% of total budget
 - executive costs at about 15% of total staff costs
 - increased 3rd party income
 - minimum back office services and accommodation costs
 - ring-fenced marketing and project costs
- 4.18. Discussions have recently taken place with the Chief Executives of the City and County Councils and the respective Leaders at which it was further agreed that :
- the ownership of the SDV should be jointly held between the City and County Councils
 - the likely budget and responsibilities of the SDV will be confirmed and in doing so the City and County Councils will consult with the Chair of the LEP Board when appointed;
 - the City and County Councils will aim to recruit a Chair for the SDV by the end of January 2011;
- 4.19. Contributions for PL core running costs in 2010/11 are: emda - £225k, the Homes and Communities Agency (HCA) - £225k, City Council - £250k, County Council - £250k and District Councils - £125k. The PL core budget for 10/11 was £1.539m taking into account other raised income.
- 4.20. In respect of LPL core funding contributions for 2010/11 were £1.392m comprising City Council £546k, County Council £279k, emda £313k and other private sector contributions.
- 4.21. The known reductions in funding from contributors that would impact in 11/12 are in excess of £1m for Prospect and approx £500k for Leicestershire Promotions. It is proposed to reduce the current PL and LPL contributions from the City Council by 30% from 11/12, reducing the combined contribution for the SDV down to £557k. The City Council's budget should however be set at £614k for the years 11/12, 12/13 and 13/14 to allow for any outstanding liabilities to be met by the Council should they arise (see 4.24 below). It is expected that the County Council will also reduce their contribution by 30% resulting in a contribution to the SDV of £370k. The Districts position is yet to be confirmed.
- 4.22. Liabilities have been considered for both organisations. Leicestershire Promotions Ltd is a member owned company. Information provided indicates that company reserves would be able to cover any incurred severance and contract liabilities.

- 4.23 Prospect Leicestershire is owned by the City and County Councils. Shared liabilities for the City and County Councils would include any ongoing staff costs during the conclusion of decision-making on creating a single body, severance costs, legal costs of merging the two bodies and accommodation costs. It is understood that staffing/severance liabilities can be accommodated within available resources this year and a number of staff have been made redundant to this end. An additional one off sum of £120k in 2011/12 has also been included in the budget proposals to cover any other residual liabilities, transitional costs and fees associated with creating the body.
- 4.24 The ongoing costs of Prospect's existing accommodation, which will no longer be required by the new body, could create liabilities beyond this financial year. These could total £343k over the next three years if the accommodation was not re-let. This cost would be shared between the City and County Councils. The City Council will work closely with County property colleagues, who are responsible for the tenancy, and Prospect (and thereafter the new single delivery body) to find new tenants to offset this liability. However it is recommended that the Council makes budget provision, as set out in paragraph 4.21, to absorb its share of any remaining liability on the accommodation until the lease arrangement can be terminated in 2014.
- 4.25 Since the Leadership Board meeting on November 4th the Chief Executives of Prospect Leicestershire and Leicestershire Promotions Ltd have met several times to consider how to generate a detailed proposal for the new body that would fit the parameters set out in paragraph 4.20 above. These discussions have been positive and agreement has been reached to establish an interim board for the SDV to continue the process of bringing together the two delivery bodies.
- 4.26 It is recommended that Cabinet delegates authority to the Chief Executive, in consultation with the Leader, to finalise arrangements for the proposed single delivery body.

5 FINANCIAL, LEGAL AND OTHER IMPLICATIONS

Financial Implications

- 5.1 The main financial implications arise in respect of liabilities associated with Prospect Leicestershire Ltd. Prospect Leicestershire is a company jointly owned by the City and County Councils.
- 5.2 Severance and contractual liabilities have been reported to the Prospect Board by the Prospect Chief Executive as being capable of being absorbed by Prospect Leicestershire Ltd from resources available in the current year 2010/11 apart from the accommodation costs described below.
- 5.3 There remains a substantial liability with regard to the Prospect Leicestershire Ltd offices at Colton Square. A ten year lease agreement is in place for occupation with a break clause available after 5 years in May 2011. The liability (shared with the County Council) to May 2014 is £308k with an additional £35k penalty payable if the lease is ended giving a total maximum liability of £343k. It would be feasible to significantly reduce this liability if alternative occupiers can be found for the Colton Sq offices. This is therefore a priority action. The budget 2011/12 proposals include an allowance for these additional liabilities over the 3 years to 2013/14. An additional one off sum of £120k in 2011/12 has also been

included in the budget proposals to cover any other residual liabilities, transitional costs and fees associated with creating the new body.

- 5.4 The details of the support requirements for the LEP have not been finalised. The Support Unit budget will be £168k (£56k from County, City and Districts) from 2011/12.

Martin Judson, Financial Services

Legal Implications

- 5.6 Prospect Leicestershire is a company limited by guarantee owned by its members (Leicester City Council and Leicestershire County Council) although the Board of Directors is representative of all sectors) The company specifically operates SSP funding and its powers and objects reflect that, although in my view the introduction of a further object of encouraging tourism to the sub region should not prejudice this. Both Councils have powers to encourage economic well being (section 2 Local Government Act 2000) and to encourage visitors (s144 Local Government Act 1972).

LeicesterShire Promotions is also a company limited by guarantee and work is currently underway to establish the current membership.

Both bodies are therefore legal entities in their own right

The report envisages setting up a body – the SDV – and that there will be a physical transfer of functions. The main implications of this – for the companies – will be the “breakage” costs and funders requirements; the main implications for the part receiving the functions will be TUPE and pensions issues. Detailed legal advice should therefore be sought as to the transfer arrangements and the due diligence required, as well as to the constitution of the new body and the contracting/funding arrangements to be implemented, particularly bearing in mind the funding plan.

Joanna Bunting, Head of Commercial and Property Law, 296450

Climate Change Implications

- 5.7 This report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council’s climate change targets.

Helen Lansdown, Senior Environmental Consultant - Sustainable Procurement

5 Other Implications

OTHER IMPLICATIONS	YES/ NO	Paragraph/References Within the Report
Equal Opportunities	N	
Policy	Y	4.8
Sustainable and Environmental	N	
Crime and Disorder	N	

Human Rights Act	N	
Elderly/People on Low Income	N	
Corporate Parenting	N	
Health Inequalities Impact	N	

6 Risk Assessment Matrix

Risk	Likelihood L/M/H	Severity Impact L/M/H	Control Actions (if necessary/appropriate)
1 Vacant space at Colton Sq creates significant liability	H	H	Active marketing to secure alternative occupiers. Budget to cover liability.
2 Reduced resource for Support Unit impacts on ability to drive LEP	M	M	Rationalise existing Support Unit structure and / or maintain existing contribution level
3 Reduced capacity to support physical regeneration	H	M	Review existing Council regeneration arrangements to prioritise activity

7 Background Papers – Local Government Act 1972

- 8.1 Sub Regional Arrangements For Economic Development Cabinet paper dated 8th December 2008
- 8.2 Establishment Of Sub-Regional Economic Development Arrangements And Economic Development Company Cabinet paper dated 9th March 2009

9. Consultations

Co-ordination Group , Leadership Board and Lead Cabinet member

10 Report Author

Andrew Smith, Director of Planning and Economic Development

Key Decision	Yes
Reason	Is significant in terms of its effect on communities living or working in an area comprising more than one ward
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)