

CITY AND COUNTY ECONOMIC DEVELOPMENT
COMPANY

Draft Report for Consultation

May 2008



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1 Introduction

1.1 City / County Economic Development Company – Draft Report

This draft report has been produced by Genecon and Eversheds to look at the potential of establishing a New Economic Development Company across Leicester and Leicestershire. Section 1.3 onwards details the development and findings of this work.

Final comments on this draft report are required by **11th June 2008** and are to be issued to joanne.ives@leicester.gov.uk. We are particularly interested in receiving comments in relation to the following areas:-

- Proposed functions of the Economic Development Company
- Linkages between other existing structures
- Make-up of the specialist panels
- Make up of the Strategy and Performance Groups

A final report will then be presented to the City and County Cabinets following this date.

1.2 City / County Economic Development Company

GENECON and Eversheds were commissioned to work alongside a project Steering Group led by Leicester City Council and Leicestershire County Council and EMDA to consider options for the establishment of an Economic Development Company (EDC) to lead economic development activity in the sub-region.

The initiative follows the principles promoted under the Government's Sub-National Review of Economic Development which has placed greater emphasis on the delivery role of principal local authorities alongside an increasingly strategic role for the Regional Development Agencies. The principle of greater devolution of funding and delivery responsibility to the local authorities is supported by emda, on the basis that effective delivery management capacity and associated governance structures are put in place at city / sub-regional levels. This approach has implications across the economic development governance and delivery landscape in Leicester / Leicestershire and the current work has sought to identify appropriate arrangements in response to the opportunities for streamlining and enhancing economic development activity across the sub-region.

The structure of local government in the sub-region introduces particular challenges and considerations in the sub-region. Current economic development activity occurs at County, City and District levels and a range of existing agencies are operating across different geographies and pursuing various strands of economic development related activity.

The Leicestershire Strategic Economic Partnership (LSEP) currently leads on the development of sub-regional economic strategy and is responsible for 'managing' emda's capital investment programme in the area. Significant progress is being made across a range of fronts in the economic development arena, but there is widespread acknowledgement of the need to accelerate the delivery of economic growth in the City and County.

The purpose of the proposed EDC is to streamline the approach to economic development delivery across the sub-region and to improve the overall efficiency of economic development delivery, co-ordination and championship to more effectively realise Leicester and Leicestershire's competitive potential.

The engagement of the private sector in the emerging governance arrangements is a key component, which has been emphasised in previous Government guidance on the

formation of City Development Companies and is recognised by the partners in Leicester and Leicestershire as an important consideration in any future model. Critically, any future model will need to present a clear 'value proposition' to the private sector to encourage effective engagement. Private sector representation will only be secured at the appropriate level if the governance arrangements provide a framework for real influence in the strategy and delivery decision making processes for economic development.

The consultancy team has presented to the Steering Group on key issues arising from consultations with principal agencies across the sub-region, following which, and in response to the primary issues raised, the team has been working with lead officers from the County and City Councils to identify a potential model on which to base an EDC proposition for the sub-region. This paper presents GENECON / Evershed's current thinking on that model as a basis for further discussion with the Steering Group and Stakeholders.

1.3 Report structure

The report is structured into the following sections

- **Section 2: Defining function and spatial level** – outlines the approach to developing the EDC model and identifies the key issues and drivers in defining EDC functions and spatial level of operation.
- **Section 3 – Description of proposed model** – provides a detailed description of the model including it's: relationship with wider structures, functional activity, governance arrangements and executive structure.
- **Section 4 – Issues for further clarification** – identifies a range of areas/issues which require further consideration by the Steering Group.

2 Defining function and spatial level

2.1 Outline approach

In line with the requirements of the brief the development of the potential remit of the Economic Development Company (EDC) has divided into two broad areas:

- ❑ *The spatial level for operations* – comprising an evaluation of three potential areas of operation including City (Leicester), County (Leicestershire) and an intermediary Sub-County level.
- ❑ *The functions/activities* – assessing a range of potential functions for the EDC.

From this analysis a preferred model has been derived which is described in full in section 3. There is widespread support amongst stakeholders for a new model to provide a more effective basis for taking forward Leicester and Leicestershire's economic development objectives. In line with emerging Government guidance it is not proposed that any new vehicle should take on statutory planning or other powers, such as the Urban Development Corporation model. Nevertheless, it is proposed that the new vehicle should become an entity in its own right and have the powers to enter into contracts directly and own/hold assets, as appropriate. Ultimately, the extent to which such powers are utilised will be at the discretion of the company members. Importantly, this approach does differentiate the vehicle from an Urban Regeneration Company model which is a facilitating body wholly reliant on the powers and resources of its partner members.

The brief also required consideration of the appropriateness of a community interest company (CIC). CICs are companies generally limited by guarantee whose activities can be shown to be for the community's interest.

Alongside a comprehensive review of existing strategies and available documentation work has focused on consultations with the following key stakeholders:

- ❑ Leicester City Council
- ❑ Leicestershire County Council
- ❑ EMDA
- ❑ Leicestershire Strategic Economic Partnership
- ❑ English Partnerships
- ❑ Leicester Regeneration Company
- ❑ New Growth Point Manager
- ❑ Leicestershire Promotions/Invest Leicestershire
- ❑ Leicestershire Chamber of Commerce
- ❑ Leicestershire Business Voice
- ❑ Charnwood Borough Council
- ❑ North West Leicestershire District Council
- ❑ Oadby & Wigston Borough Council
- ❑ Blaby District Council
- ❑ Hinckley and Bosworth Borough Council
- ❑ Harborough District Council
- ❑ Melton Borough Council.

This process has provided a clear understanding of current organisational arrangements and the views and opinions of key players on the most effective arrangements for economic development governance moving forward.

2.2 Areas of consensus

The consultation process highlighted a number of areas of consensus across stakeholders which have shaped the approach to developing a new model. There is a clear appetite for change across Leicester/Leicestershire agencies, driven by a shared concern to enhance overall economic performance. There is a widely held view that existing structures should be streamlined to enhance operational efficiency. Private sector capacity to resource the array of boards is a key factor in improving efficiency. This capacity is 'stretched' and current arrangements risk undermining private sector engagement and confidence in economic development leadership in the sub-region.

It is widely acknowledged that the principal urban area of Leicester (PUA) is the engine for growth of the sub-regional economy and should therefore be the primary focus for economic activity. It is recognised however, that a number of Leicestershire's key economic assets, such as the airport; Loughborough University and several large scale employers are located outside of the PUA. Cross boundary working is therefore required to most effectively harness this asset base and support the City's growth and the sub-region's economic performance.

The sub-regional New Growth Point programme also requires a co-ordinated approach to delivering housing infrastructure and growth targets, aligning housing and economic growth in the sub-region. The City is underbounded and thus requires effective interaction with neighbouring districts on physical growth issues, including in respect of employment land supply, the shortage of which is an acknowledged constraint on the City's growth potential. The City must therefore work with neighbouring areas in order to grow the urban economy.

A key consideration for a new model will be whether the EDC is to be self-determining in terms of economic strategy or whether it operate to deliver the strategy of a higher tier strategic body for the sub-region. Current economic strategy is developed at City and County level and an MAA is being developed which combines the economic themes of the City/County LAAs. The intention is that strategy and the MAA would be governed by a leadership group that brings together the City, County and Districts and other partners which would play a key role in setting the economic strategy for the sub-region as a whole.

Throughout the consultation process stakeholders agreed that economic growth and housing growth should go 'hand in hand' in order to achieve sustainable growth. There is a significant overlap in the skill sets/expertise required to deliver both agendas (i.e. physical development and infrastructure) and this suggests the remit of the EDC should align with the delivery of the New Growth Point (NGP) programme. There was also broad agreement that physical development (supply side) and business investment activity (demand side) should be more integrated. The potential synergies of providing these services 'under one roof' are widely recognised.

Consultees have considered a diverse spectrum of forms of collaboration which could provide the structural basis for future economic development governance across the sub-region. This ranges from continued informal partnership working through to more formalised collaboration arrangements and to a new incorporated entity. Given the appetite for change and the drive for a more streamlined and efficient approach, there is a consensus amongst agencies that an EDC would have the potential to add significant value to the delivery of economic development, albeit not necessarily as a 'catch all' organisation.

2.3 Defining EDC activity

The role of an EDC can be split into the following areas:

1. **Leading** the delivery of specified economic development functions;
2. **Influencing** the activities of other delivery agencies to achieve complementarity across linked agendas;
3. **Supporting** delivery of economic development at all levels across the County

A range of potential activities / thematic functions for the EDC have been identified:

Potential EDC functions:

- Physical development and infrastructure
- New Growth Point programme delivery
- Inward investment
- Innovation
- Business/Enterprise
- Skills
- Transport
- Tourism and place marketing

At present these activities are undertaken by a range of different agencies and at different spatial levels across the sub-region.

2.4 Defining spatial level

Currently activities are being undertaken at diverse spatial levels with a concentration of economic development activity at City/County level. Only transport is currently planned at the Sub-County (Central Leicestershire) level. The EDC offers the potential to simplify and streamline these arrangements.

Defining the appropriate spatial level for operation of the EDC is a complex issue, both economically and politically. In many respects, the success of any model that extends beyond the City boundary will hinge on the ability to achieve political consensus around economic objectives and priorities. Moreover, different economic development functions could be more effectively delivered at different spatial levels.

The analysis below summarises the relative merits of organising economic development activity at different spatial levels.

City boundary	
Pros	Cons
<ul style="list-style-type: none"> <input type="checkbox"/> Simple in operational terms <input type="checkbox"/> Provides a clear focus for activity <input type="checkbox"/> Avoids multi-area complexity <input type="checkbox"/> Existing delivery organisation could extend remit (i.e. LRC) <input type="checkbox"/> Coherent area for external messages 	<ul style="list-style-type: none"> <input type="checkbox"/> Reflects administrative not economic boundary (e.g. TTWA) <input type="checkbox"/> No direct co-ordination between City and County level delivery <input type="checkbox"/> Missed opportunity to galvanise County/District support <input type="checkbox"/> Risk of lack of complementarity between City and non-City investment <input type="checkbox"/> Requires other delivery arrangements for rest of County (including non-City NGP)

County boundary	
Pros	Cons
<ul style="list-style-type: none"> <input type="checkbox"/> Logical spatial unit incorporating key economic assets <input type="checkbox"/> Strategy developed at this level <input type="checkbox"/> Range of existing agencies operate at this level <input type="checkbox"/> Potential for complementarity between City/County investments <input type="checkbox"/> Extends 'pool' for private sector involvement <input type="checkbox"/> Coherent area for external messages 	<ul style="list-style-type: none"> <input type="checkbox"/> Potential lack of focus on priority growth areas and dilution of vision/objectives <input type="checkbox"/> Distinction between urban and rural agendas and skill sets required <input type="checkbox"/> Involves multi-area complexity <input type="checkbox"/> Requires full alignment of interests across diverse political spheres <input type="checkbox"/> Questionable political acceptability

Defining a 'Sub-County' boundary is less clear cut. The following options have been considered:

1. **Central Leicestershire Policy Area** - has limited currency in policy terms outside of planning (Structure Plan) and transport policy. There is no current economic basis for this spatial level.
2. **Travel to Work Area (TWA)** - represents an 'economic footprint' of the urban area. The latest data shows TWA covers approximately 90% of the County and on this basis it would be more logical to extend boundary to the entire County.
3. **Principal Urban Area (PUA)** – is the footprint of urban Leicester which includes parts of Oadby and Wigston, Charnwood and Blaby Districts. The PUA is identified within Regional Spatial Strategy and NGP Strategy. It provides a potential basis for defining a boundary for economic development activity. However, concerns have been expressed by the Districts in relation to this terminology and it is recommended that an alternative terminology is agreed in relation to the spatial area. Potential alternatives might include Urban Leicester or Greater Leicester.
4. **Urban Leicestershire** – is a non-contiguous spatial area incorporating the key growth areas and economic assets of the sub-region. It comprises: the PUA, Loughborough, Hinckley and Coalville and provides potential basis for operational area

Options 3 and 4 would appear to have the strongest economic/logical underpinning and therefore would provide the most appropriate basis for any Sub-County model to be considered. An analysis of relative merits is presented below:

Sub-County boundary	
Pros	Cons
<ul style="list-style-type: none"> <input type="checkbox"/> Better reflects the economic opportunities for the City/County <input type="checkbox"/> Potential to align with New Growth Points <input type="checkbox"/> Enables targeting of key urban economic assets <input type="checkbox"/> Enables clarity on rural economic development - LRP <input type="checkbox"/> Enables co-ordination of cross-boundary infrastructure delivery <input type="checkbox"/> Extends 'pool' for private sector involvement 	<ul style="list-style-type: none"> <input type="checkbox"/> No existing governance/agencies at this level <input type="checkbox"/> Involves multi-area complexity <input type="checkbox"/> Requires full alignment of interests/priorities between City, County and adjoining Districts <input type="checkbox"/> Requires clarity on lead/accountable body.

2.5 An emerging model

The analysis outlined above has led to the consideration of a wide range of potential options based around the 'form and function' of the EDC. Potential options were driven by the range of functions/activity (i.e. direct delivery / co-ordination / influencing) and the various spatial levels at which the EDC could operate. The options also recognised that different functions could be more effectively delivered at different spatial levels. Based on the range of options discussed with the Steering Group, a preferred option has emerged which has been developed further, within the context of wider governance structures, and is described in the following section.

2.6 District Authority issues

Following the emergence of a preferred outline model the seven District authorities have raised a number of potential issues in developing the model further. The key issue relates to District representation within the proposed governance model described in section 3. The implementation of any revised arrangements governing economic development across the City and County will have different implications for the Districts, depending on their spatial and economic characteristics:

- ❑ Oadby and Wigston and Blaby District Councils – to a large extent lie within the Leicester urban area and therefore have a direct interest in economic development activity at the City level as well as County level. In principle, economic development delivery potential in these Districts could be enhanced under a PUA model. However, any proposals are also likely to be sensitive, from a political perspective, and the Districts have raised concerns about their interests being marginalised. A sustainable urban extension is proposed.
- ❑ Charnwood, North West Leicestershire and Hinckley and Bosworth Councils – comprise significant rural areas, but critically also include large urban areas (i.e. Hinckley, Loughborough and Coalville) and the associated economic asset bases of these towns. Loughborough University and East Midlands Airport represent two major economic assets for the City and the County. These Districts also include proposed sustainable urban extensions New Growth Point areas/opportunities. There is concern that the interests and opportunities of these areas are fully reflected in economic priorities for the sub-region.
- ❑ Harborough District Council and Melton Borough Council – are predominantly rural areas which include important service centres/market towns such as Market Harborough and Melton, The principal concerns of these Districts relate to the mechanisms proposed to support ongoing rural economic development.

The principal concern across all seven Districts is the level of representation of their interests within any new governance model but this concern has to be measured against balancing City and County representation recognizing the Districts as part of the County but more importantly ensuring the EDC is a private sector led company. .

3 Description of proposed model

3.1 Overview

The proposed governance arrangements, including the EDC proposition, seek to provide the structure within which the economic development theme of the respective Sustainable Community Strategies of Leicester and Leicestershire Local Strategic Partnerships can be managed and delivered. A **Multi-Area Agreement (MAA)** is being developed to provide the framework for delivering part of the combined economic development strategies articulated in the City and County Sustainable Community Strategies. A range of delivery strategies are being developed alongside the MAA including the Local Development Frameworks, the New Growth Point initiative and local transport planning which will all contribute towards achieving the objectives of City and County Sustainable Community Strategies. To this extent, the model reflects an intention for the economic development strategy to be delivered on the basis of a combined Leicester and Leicestershire approach rather than through separate arrangements. Nevertheless, any model will need to recognise the need for clear arrangements to manage the respective roles, relationships and contributions of the County, City and District Councils going forward.

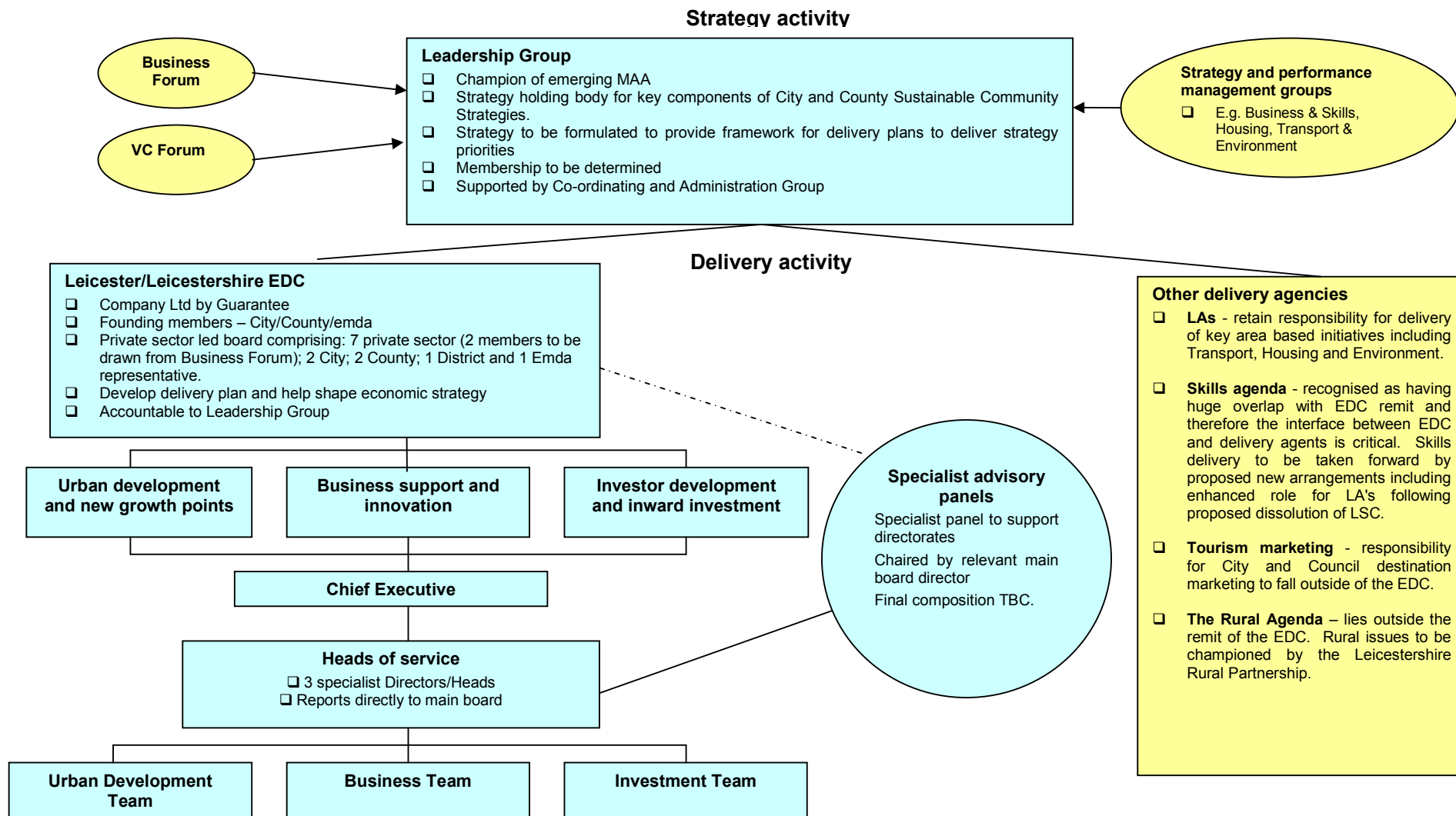
Critically, the model proposes a separation of 'strategy' and 'delivery' activity, with the EDC effectively operating as a delivery agent for the Leicester and Leicestershire economic development strategy which would be held, monitored and reviewed by a separate '**Leadership Group**' for the sub-region.

The strategy will cover the full range of economic development issues, objectives and activity for the sub-region. It is proposed that the **EDC** will form *part* of a wider delivery structure focussing on specific themes of the economic development strategy. Alongside the EDC, a range of other agencies will be responsible for delivering other aspects of the economic development agenda.

The proposed model is illustrated on the diagram overleaf.

The narrative that follows seeks to explain how the proposed model will function in terms of:

- Economic development strategy formulation and management;
- Delivery role of the EDC;
- Outline governance arrangements for the EDC.



3.2 A Leadership Group - economic development strategy formulation and management

3.2.1 Rationale for a Leadership Group

It is proposed that the economic development strategy for the sub-region will be held, monitored and reviewed by a Leadership Group. This will be the strategy holding body where strategic economic objectives, including economic development/regeneration, transport, housing and environmental priorities will be determined. It will delegate strategy delivery roles to the EDC and other agencies as appropriate. It will require those agencies, including the EDC, to prepare delivery/business plans for endorsement by the Leadership Group and will hold delivery agencies to account against those plans.

The form of economic strategy will need to be reviewed. For example, a more specific 'economic masterplan' may be required to translate the strategy expressed through the MAA delivery plan into an investment strategy which can give clear guidance to delivery agencies on roles and responsibilities and against which economic progress can be measured through appropriate KPIs and targets.

3.2.2 Supporting components

The Leadership Group will be supported by three key elements:

Business Forum

A Business Forum is proposed to act as a 'sounding board' for the Leadership Group in terms of understanding the key issues and priorities for the business community. The Business Forum will have representation across the spectrum of sectors, scale and location of businesses in the sub-region. It will provide inputs to the strategy development process and its views will be sought at key points in the strategy monitoring and review process.

This forum could provide an effective basis for private sector engagement without needing to extend representation on the Leadership Group beyond, say, two proposed business representatives acting as the conduit to the Forum and appointed by its members. It is proposed that two of the Forum representatives are also appointed to the LLEDC board to promote continuity, communication and alignment.

Voluntary and Community (VC) Sector forum

A VC forum is proposed to act as a 'sounding board' for the Leadership Group in terms of understanding the key issues and priorities for the sector. It will provide inputs to the strategy development process and its views will be sought at key points in the strategy monitoring and review process.

Strategy and Performance Management Groups

These Groups would provide advisory support to the Leadership Group on the individual themes of the 4th theme including MAA targets outlined below:

- Business & Skills.
- Spatial & Housing.
- Transport.
- Efficiency.
- Environmental.

The Groups would review the delivery plans of the relevant delivery agencies and advise the Leadership Group on aspects of the economic strategy that may require review in

light of performance issues. These groups could comprise relevant senior officers and portfolio holders from the County, City and Districts, as appropriate and some existing groups could be subsumed into this role.

3.2.3 Roles and responsibilities of the Leadership Group

The Leadership Group would provide the strategic mandate for the delivery activities of the EDC. In order to create a direct link between the Leadership Group and the EDC, it may be appropriate to establish common representation by the City and County Councils on both organisations. As the guardian of the MAA, the Leadership Group would play a critical role in monitoring the performance of the EDC and holding it to account against an agreed delivery plan.

3.2.4 Governance arrangements and membership of the Leadership Group

Governance

There will need to be clear mechanisms for the Leadership Group to co-ordinate the roles and activities of the stakeholders responsible for delivery. It is anticipated that the Leadership Group would operate as a formal strategic board with governance arrangements set out in an agreed protocol or Collaboration Agreement. An informal arrangement is unlikely to achieve the level of accountability that will be required to co-ordinate the Strategy and the delivery plan outlined in the MAA. These sub-regional arrangements will fit within a wider regional governance structure post SNR.

- Local Authority Membership of Leadership Group - to be determined
- 2 Business sector representatives – one from within the City and one from elsewhere in the County appointed by the Business Forum. It is recommended that one of the private sector representatives is appointed as chairman of the EDC Board in order to promote continuity and effective communication
- 1 Emda representative – senior level;
- 1 Voluntary sector representative.
- 1 Homes & Communities Agency

Other agencies may be offered observer status, including the, Government Office East Midlands.

Co-ordinating & Administration Group

It is recognised that the Leadership Group will require a Co-ordinating and Administration Group to support its role. The scale and form of this function will need further consideration by the partners however its role could include:

- Receiving and reviewing progress reports from the EDC and other delivery agencies against agreed delivery/business plans;
- Supporting the thematic work of the Strategy and Performance Management Groups;
- Acting as the interface between the Business Forum and the Leadership Group;

3.2.5 Funding arrangements

The current level of emda funding delegations through the Leicestershire Economic Partnership is limited. Under the principles of SNR, emda will be seeking a governance model which will enable it to increasingly devolve funding to sub-regional levels.

The Leadership Group and the MAA provides the basis on which delivery plans for key strands of economic development activity can be co-ordinated effectively. Consequently, it may be possible to seek funding devolution from emda on the basis of an alignment of

objectives, programmes and outcomes established in the MAA and the expenditure proposals set out in the related delivery plans. Emda will require a contractual arrangement with the appropriate accountable body (bodies) through which devolved funding can be channelled. It will be critical for the Leadership Group to determine, with emda, the appropriate funding arrangements to achieve the level of devolution envisaged under the SNR. Again using Sheffield as an example, YF has not implemented final funding arrangements to support Creative Sheffield however it is currently reviewing a range of options to provide funding through a contract with Sheffield City Council (SCC) as the accountable body for delivering RES objectives. SCC will in turn channel YF investment and its own funding through Creative Sheffield.

3.3 Arrangements for economic development delivery

3.3.1 Introduction

The economic development strategy reflected in the MAA will be multi-faceted, encompassing a wide range of themes, objectives and delivery functions. Moreover, priorities for action on certain themes and objectives will vary according to spatial needs and opportunities. The proposed model acknowledges that not all of these functions will fall under the remit of the proposed EDC, with a diverse range of delivery agencies including Local Authorities performing a critical role in MAA delivery. Furthermore, the model recognises that different functions are more effectively delivered at different spatial levels. An overview of the approach to the delivery of key economic development functions is set out below.

3.3.2 Functional arrangements

A range of key economic development functions underpinning the MAA are outlined below, some of which will form the basis of EDC activity, while others will be delivered through existing mechanisms.

Urban development & infrastructure

This is proposed as a core function for the EDC, focused on the delivery of key physical projects to support the regeneration and growth of the 'principal urban area' (PUA) comprising Leicester and associated New Growth Points adjoining the City. In addition the EDC will be able to contract out its services to support New Growth Point and physical economic investment delivery outside of the PUA, across the wider sub-region. This function essentially relates to the 'supply-side' of economic development, and subsumes the current role of Leicester Regeneration Company, integrating physical regeneration and housing growth delivery arrangements to a new PUA spatial level.

Business support and innovation

This is proposed as a core function for the EDC, operating across the City and County. This function relates to the promotion / co-ordination of effective business support across the sub-region rather than direct delivery. It essentially places the EDC in a key role in *identifying* business support needs for the sub-region, based on target growth sectors and emerging areas of vulnerability or opportunity either sectorally or spatially. Direct delivery of business support would remain with existing mechanisms. The precise nature of this role will need to be developed in association with emda to ensure full alignment of regional and sub-regional service provision.

Investor development and inward investment

This is proposed as a core function of the EDC, operating across the City and County. It relates to the delivery of services to promote and facilitate inward and indigenous business investment through effective account management to steer investors through the process of delivering business development and growth projects. It forms an

important interface with the urban development activities at the PUA level proposed for the EDC by integrating 'demand' and 'supply' related economic development activity.

Area-based functions

Some functions relevant to economic performance will most appropriately remain within the remit of the local authorities and associated bodies, notably neighbourhood and district related regeneration, transport, housing and environmental matters. Nevertheless, the EDC will have an 'influencing role' in relation to these matters in so far as they impact on its core activities.

Rural economic development

Rural economic development is an important part of the sub-regional economic development agenda and it is proposed that it should be co-ordinated through the Leicestershire Rural Partnership. The EDC will again play an 'influencing role' on this agenda to ensure complementarity between its activities and rural economic development programmes.

Skills programmes

It is envisaged that skills related programmes will continue to be coordinated through the Learning & Skills Council (and their successor bodies following reconfiguration) and the Leicester & Leicestershire Learning Partnership, including the City and County Councils. The EDC will have an important interface with skills programmes, particularly in terms of ensuring that they are complementary to its core activities.

Tourism and place-marketing

Tourism and place-marketing has hitherto been the responsibility of Leicestershire Promotions. This agency has also had responsibility for business investment promotion but it is widely recognised that this function can be most effective when fully integrated with 'supply-related' aspects of economic development – property / infrastructure delivery. At this stage it is not proposed that tourism related place-marketing functions should fall within the remit of the EDC. Further consideration will need to be given to the future of place-marketing activity to reflect the distinctive needs of the City and County and the future role of Leicestershire Promotions but at this stage we do not see this being a core activity for the EDC at the outset.

The core functions and operating principles for the EDC are outlined in the following section.

3.4 Leicester/Leicestershire Economic Development Company (LLEDC)

3.4.1 Overview and key principles

Branding

It is recommended that the partners commission specialist marketing advice in relation to the name and branding of the EDC. For the purposes of this report it is referred to as the LLEDC to reflect its City and County remit.

Objectives and roles

LLEDC will form one element of the delivery structure for the economic development priorities identified by the Leadership Group through the MAA. LLEDC's objectives will be to assist, promote, encourage, develop and secure the economic competitiveness of Leicester and Leicestershire, in collaboration with other delivery agencies. It will be responsible for delivering specific components of the MAA. In effect, the Leadership Group will delegate responsibility for delivery of relevant components of the sub-regional

economic strategy to the LLEDC and the LLEDC will in turn be held to account by the Leadership Group for delivery against specific outcomes in the MAA.

LLEDC will be governed by its constitutional and business plan documentation (to be agreed) which will reflect outputs/outcomes for the EDC as specified within the MAA. As outlined in section 2, LLEDC activity will be split across:

- ❑ **Leading** the delivery of specified economic development functions and including the direct delivery of physical projects as appropriate;
- ❑ **Influencing** the activities of other delivery agencies to achieve complementarity across linked agendas;
- ❑ **Supporting** delivery of economic development at all levels across the County

It is important to note that formal guidance from DCLG in respect of Economic Development Companies is expected to be published in 2008. On this basis, the structure for the LLEDC must be flexible to allow it to potentially adopt any more refined guidance from Government at a later date.

Operational principles

LLEDC will have a Leicestershire wide remit, save in respect of the 'urban development' core function where its remit will be restricted to the principal urban area (PUA) of Leicester. It will focus on the following functional areas, which will have a complementary but not conflicting role of EMDA's Regional Agenda:

- ❑ *Urban development & infrastructure*
- ❑ *Business support and innovation*
- ❑ *Investor development and inward investment*

LLEDC will subsume some or all of the functions of a range of existing agencies, notably LRC, LP and LSEP, and should deliver potential synergies and efficiencies through the integration of activities under a single body.

3.4.2 Key functional activities

1. Urban development and new growth points

This function reflects the principle that housing growth and economic investment should be co-ordinated. Merging these objectives within a single area of activity further reflects the strong overlap between the agendas and the skill sets required to deliver outputs (i.e. core development skills). Primarily concerned with direct delivery of physical projects, this function will subsume and carry forward the activities of the LRC. However its remit extends well beyond the LRC's existing role as in addition to continued delivery of City Centre Masterplan delivery it will be responsible for driving forward the NGP and an expanded spatial remit to PUA level.

The operational area of the PUA provides the opportunity to co-ordinate cross boundary urban extensions and infrastructure. In addition, in accordance with the EDC's proposed 'supporting' role, LLEDC will be able to contract out its services to support the delivery of housing and physical economic investment across the wider sub-region. Primarily this would include the key growth areas and economic assets outside of the PUA including Loughborough, Hinckley and Coalville (i.e. the Urban Leicestershire model described in section 2.4). The potential for LLEDC to contract out its services is recognition of the potential resource/capacity limitations that may exist in surrounding local authorities and provides LLEDC with the potential to expand its role and make effective use of its expertise to support economic development in neighbouring areas. Districts would be under no obligation to utilise the expertise within the LLEDC, but would draw on its resources as required, subject always to the priorities for economic development set by the Leadership Group under the economic strategy.

A further, more strategic role for the LLEDC will be to develop a comprehensive and sustainable employment land strategy for the PUA and more generally taking forward the 'place making' agenda championing issues such as exemplary design and environmental sustainability.

2. Business support and innovation

This function will operate across the sub-region and will focus on the co-ordination of needs identification and the development of appropriate support programmes to be delivered by relevant agencies. It is not proposed that the LLEDC would duplicate any of the functions performed by Business Link but would be seeking to influence the work of established agencies in relation to Leicester / Leicestershire's needs. Importantly, any business support function for the LLEDC will need to reflect the regional approach of emda, the role of Business Link and the national agenda of Business Support Simplification.

Further work will be required in defining the functional role for the LLEDC in business support to address relevant needs taking into account the Business Support Simplification Agenda.

As a central theme of the emerging economic development strategy, the promotion of innovation across the sub-region's business community is proposed as a core function of the LLEDC, working collaboratively with the three Universities. As with business support, the function is essentially one of needs/opportunity identification and the co-ordination / brokerage of innovation support programmes, again in conjunction with the regional activities promoted by emda.

3. Investor development and inward investment

This function will operate across the sub-region, recognising the prioritisation of business growth opportunities within the PUA, and will focus on facilitating the delivery of business investment by both growing indigenous companies and inward investors. Activities of LLEDC will include a combination of account management of investment projects and high quality marketing programmes to target priority investment sectors for Leicester and Leicestershire. This would subsume the current functions in this arena of LSEP with regard promoting public sector relocations and Leicestershire Promotions (LP). LP's future role would focus on marketing activity associated with tourism promotion at County and, as appropriate, City-level.

Much of the activity would centre on the identification of target growth sectors and then providing a brokerage / support service to ensure that investment opportunities were brought forward with co-ordinated support to address information, property, funding, regulatory, and other issues to ensure efficient delivery of the investment. Again the precise nature of this role will need to be developed in association with emda to ensure alignment with regional frameworks and consistency with national policy as promoted by UKTI.

Key benefits would arise from bringing together this investment management function with the LLEDC's functions in terms of property delivery and specialist business and innovation support, linked to regional support mechanisms.

3.4.3 Required powers

To support its principal functions it is proposed that LLEDC should have a range of powers to undertake the activities outlined above and the resource (funding and otherwise) to use those powers. It is anticipated that further consideration of LLEDC's powers will be required in negotiations between key parties in defining the objects of LLEDC, taking account of the powers available through partner bodies. At this stage a range of suggested powers are presented below which would ensure that the LLEDC has the ability to act autonomously, within the constraints of the veto power afforded to founder members and 'restricted matters' described below. Giving the EDC these suggested powers would represent a marked difference from the existing powers of the

URC model which relies on co-ordinating and promoting the use of powers of its partner bodies. It is not anticipated that LLEDC would necessarily exercise these powers initially; however it is considered prudent to incorporate these powers from the outset in order that the organisation has the flexibility to evolve once it has established a proven track record and generated confidence across the partner bodies.

- to convene partners and marshal public sector resources to support the sub-region's economic priorities;
- to receive, buy, hold and develop land/buildings - i.e. . Neither City or County have indicated an intention to transfer any assets on establishment of the EDC, however, although this power may not be exercised initially, it is prudent to incorporate it to provide maximum flexibility throughout the EDC's lifespan;
- to enter into joint ventures for physical development - this may include joint ventures with the private sector to leverage in private sector funding and expertise;
- to borrow, to mortgage and otherwise pledge land and property and to invest in projects using capital funding and or assets as equity;
- to establish subsidiary companies and own equity shares in businesses being supported.

3.4.4 Governance arrangements and structure

Form of company

A range of structuring options is open to the stakeholders in forming the LLEDC. Our preliminary view is that a contractual joint venture would not provide the level of independence and delivery capability required by the stakeholders. Any contracts required to support delivery activity (employment/funding/works etc) would need to be entered into by a stakeholder on behalf of the joint venture.

Consequently, it is proposed that the LLEDC should take the form of an incorporated company, operating as a key agent in the delivery of the economic development strategy / MAA. There are two main forms of company, namely:

- companies limited by shares;
- companies limited by guarantee;

Limited partnerships and limited liability partnerships must be set up with a view to a profit. They have therefore been discounted as this is not the objective for the LLEDC.

A company limited by shares is appropriate where:

- the shareholders (i.e. owners) of company are to benefit from any value captured by the company; and/or
- the company wants the facility to introduce additional funds by way of a potential share issue to new investors.

It is not considered that the latter will be a driver but if the former is the case then provisions may need to be put in place to specify that any such value capture will need to be recycled back into the company for future activities. It is assumed that there will be no "value extraction".

A company limited by guarantee structure is appropriate where the company is not necessarily going to capture value for its members. Typically, companies limited by guarantee have been "not for profit" organisations. That is not to say, however, that a company limited by guarantee cannot have a surplus at the end of each year. Its constitutional documentation can state that, in such circumstances, the surplus shall be recycled and applied towards the activities of the company.

The brief required consideration of the appropriateness of a community interest company (CIC). CIC's are companies generally limited by guarantee whose activities can be shown to be for the community's interest. In our opinion a CIC would not be appropriate given the likely remit of the EDC and its range of activities.

On balance, a company limited by guarantee is considered most likely to achieve the aims of the stakeholders.

Company membership

Every company has a two tier structure - its members and its board.

Members

There are certain matters which are reserved by statute (the Companies Acts 1985 and 2006 and the Insolvency Act 1986, both as amended) for which members are responsible. Examples include: changing the Memorandum and Articles of Association of the company; changing the name of the company and resolving to wind up the company whilst it is solvent.

Where a company has more than one member it is advisable for the members to enter into a Members' Agreement which sets out certain governance and probity issues - including dispute resolution etc.

It is proposed that there will be three members of LLEDC:

- City Council.
- County Council.
- Emda.

Directors/Board

Generally, the members will delegate the day to day management of a company to its board of directors. Corporate organisations can be directors of companies but in this instance it is appropriate that the directors will be individuals. Directors will typically be appointed to the board in a number of ways:

- nomination and appointment by the members of company; or
- appointment of "independent" directors - i.e. directors who are not nominated by each member but are appointed by the board independently of the members.

In line with the principles of the 'URC model' and guidance on EDC's to date, *a private sector led board* is proposed. Private sector directors should be appointed by virtue of their individual standing, reputation and strategic connections in the market. Candidates should, as far as possible, be free of interests that are likely to give rise to conflict.

The LLEDC Board is proposed to have a private sector chair and comprise:

- 7 private sector representatives – it is recommended that the chair of LLEDC should also be one of the private sector members on the Leadership Group to promote continuity and effective communication between the bodies.
- 2 City representatives.
- 2 County representatives
- District representation.
- Emda

Further consideration will need to be given to the requirements and regulations governing board members such as:

- the number of directors and the split between the public sector-nominated directors and the "independent" directors;

- ❑ the quorum requirements and whether the public-sector nominated directors must be present for board meetings to be quorate;
- ❑ the voting at board level and whether the public-sector nominated directors must have voted in favour of a board resolution for that resolution to then be passed by the company.

Operational form - decision making structure

The balance of control/influence between the members and the board of directors will largely be governed by the identity of each. The key questions, therefore, are what matters (if any) should be reserved to the members and how are board decisions to be made?

Member/Shareholder Reserved Matters

It is generally the case that the members in a company would retain certain entrenched rights. Examples may include:

- ❑ right of veto in relation to approval/variation to the business plan of the EDC;
- ❑ right of veto in relation to the approval/variation to the budgets of the EDC;
- ❑ approving any change in the key constitutional documentation of the EDC; and
- ❑ taking any decision to enter into joint venture arrangements/setting up subsidiaries.

Alternatively, where the members are also the funders of the EDC, they may seek to impose such rights (or variations thereof) through the funding arrangements. Where these controls are entrenched as member rights, the board of directors would need to obtain the (typically, unanimous) consent of the members before taking those actions. If the level of control was restricted to high level strategic matters rather than day to day management or operational issues, the list of matters which are reserved to members would be shorter but would deal with key strategic matters both in its objectives and significant decisions.

For example, there may be a statement that the approval of the business plan of the EDC (which, it is assumed, will be reviewed frequently) or any material variation to it will require the prior approval of the members. Any action within the parameters of the business plan could thereafter be undertaken by the board without further reference back to the members. Any action outside the parameters of the business plan would require member approval. In this scenario, the business plan would need to be looked at in some detail, including how the overarching business plan of the EDC interrelates with project specific plans/appraisals/budgets.

Further significant decisions - including the maximum size of investments/developments and novel and contentious matters should typically be reserved to the members through the levels of delegation in the business plan/constitutional documentation.

Board Decisions

Any matter which is not a member reserved matter and is not reserved to the members by virtue of statute will fall to the board of directors. The directors will have statutory and fiduciary duties which are owed to the LLEDC to benefit the members as a whole and not to any one member appointing them. The directors must balance a wide variety of factors when considering their duties, including:

- ❑ the need to act fairly between the members;
- ❑ the likely long term consequences;
- ❑ the desire to maintain reputation for high standards of business conduct;
- ❑ the impact of operations on community and environment;
- ❑ the need to foster business relationships with customers, suppliers and others; and

- ❑ the interests of employees.

The board would carry out the day to day management of the LLEDC within the strategic parameters set by the members in the business plan. The preferred approach would be for the board to take decisions on a majority basis with all board directors being given adequate notice of board meetings. It is proposed that the board should have a private sector chair who may be nominated by the members and who may (or may not) have a second vote in respect of board decisions where there is a tie on any vote.

Operational management

A number of alternative approaches to operational management have been considered. This process has been driven by the following key considerations/drivers:

- ❑ to engage effectively with the private sector and secure the right level of private sector representation and leadership at Board Level;
- ❑ to implement simple and transparent decision making structures to reflect a streamlined and non-bureaucratic company;
- ❑ to enable the varying spatial levels of operation of the company's core function (i.e. urban development at PUA level) to be reflected in stakeholder control/influence.
- ❑ to provide access to a range of key skills and expertise in order to benefit/inform the decision making and delivery processes.

On this basis two overarching operational management options emerge:

1. A main board supported by an Executive with no support from 'sub-boards';
2. A main board supported by three sub-boards aligned to the three core functions of the company.

Each option generates a range of issues and these are addressed individually below focusing on how each relates to the principle key drivers outlined above.

Option 1 – Board and Executive

This would create a direct reporting structure between the Board and its Chief Executive and Heads of Service. In terms of benefits, this approach creates a streamlined structure with clear decision making powers essentially held by the board directors. The board is therefore powerful and has a clear mandate in directing the executive and being accountable for the success of the LLEDC. This structure is likely to be attractive to potential private sector directors who will feel empowered (that they are making a valuable contribution) and not be discouraged by bureaucratic processes.

Although the private sector board directors will have appropriate areas of expertise and focus (it is anticipated that at least one will specialise in each of the core functions) this structure does not provide for access to skills and expertise outside of the boardroom environment. Heads of Service will therefore only have limited formalised access to high level expertise and advice. This would appear to represent a missed opportunity for integrating a more sophisticated management structure which takes advantage of the wide base of skills and expertise within the sub-region. Furthermore, the structure could raise issues for the City Council given their concerns with regards the level of control over the City focused urban development function. However, it is proposed that this issue could be addressed by ensuring that the Business Plan has a clear emphasis on City Growth and activity at the PUA level. As a member of the company the City Council would have a significant level of control over this issue.

Option 2 – Sub-boards

This structure incorporates three sub-boards which would specialise in each of the three core functions of the company. In principle, this could provide a number of opportunities/benefits:

- ❑ Broadening out of stakeholder engagement/participation in the LLEDC and provide access to wider skills and expertise.
- ❑ It would provide more focused board support for the Executive team and enable main board directors with specialist skills to be focused on particular activity.
- ❑ This structure could also provide the mechanism for varying levels of stakeholder control/influence across the different functions.

This option generates a range of potential sub-options to deal with:

1. The composition of the sub-boards
2. The level of decision making power of the sub-boards

In terms of sub-board composition, they could either be made up wholly by main board directors or from additional external appointments with relevant specialisms. If the main board directors populate the sub-boards there is a danger that each sub-board would largely mirror the main board and the added value of the sub-boards could therefore be questionable. Furthermore, this approach could also place a strain on the time/resources of the private sector directors and could lead to a situation of board member fatigue which could undermine the key principle of effective private sector leadership.

External sub-board appointments could undoubtedly provide additional expertise which would enhance both the decision making and delivery processes within the LLEDC. For example, HACA could play an important advisory role in relation to urban development and new growth points and the three universities could all have a significant positive influence on the business support and innovation arena. Harnessing external skills and expertise could therefore provide clear benefit to the LLEDC. However, the key issue relates to the level of decision-making control of the sub-boards.

The sub-boards could either operate as decision-making bodies with delegated powers from the main board, or simply in an advisory capacity in the form a specialist panel/forum. The principal concerns with establishing decision making sub-boards into the LLEDC's structure is that this could call into question the role, accountability and influence of the main board. Ultimately, the sub-board could undermine the mandate and authority of the main board which could lead to conflict between the two groups of directors. This structure could 'blur' the decision-making process and potentially create a highly bureaucratic organisation. On this basis, effective private sector engagement at main board level is likely to be difficult to secure, especially if the authority of the main board is compromised or called in to question by the role of the sub-boards.

Proposed management structure

Taking account of the issues outlined above it is proposed that the organisation is structured to incorporate the benefits of each option and avoid the potential pitfalls. On this basis, a structure incorporating three separate *advisory sub-boards/panels* to support the executive and main board is preferred. These panels would not have decision making powers and the Heads of Service/Chief Executive would report directly to the main board but would use the advisory panels to test and scrutinise proposals. The final composition of each panel requires further consideration with the Steering Group.

The LLEDC Executive

Ultimately the required scale and range of staff resources for LLEDC will be driven by the requirements of a business plan but at this stage the following principles are proposed.

- ❑ A Chief Executive will provide strategic direction to the executive team and act as the principal advisor to the LLEDC Board.
- ❑ Each functional area of the LLEDC will be led by a Head of Service / Director who will report to the Chief Executive and have line management responsibility for the respective service team – Head of Urban Development / Head of Business Services / Head of Investment

- ❑ The Urban Development Team would build on the existing LRC model to reflect extended role and geographic coverage. The team would bring together specialist skill sets relating to physical urban regeneration projects, large scale housing expansion and major infrastructure projects, supported, as appropriate by strategic planning and design/sustainability skills.
- ❑ The Business Services team composition will need to be configured in conjunction with emda and Business Link to ensure alignment with existing regional arrangements for business support and innovation service delivery.
- ❑ The Investment team will combine skills in investor development / account management and business marketing. The transfer of staff from LP would be complemented by additional skills as required by the company business plan.
- ❑ Administrative support will be required to support the activities of each functional team and also to provide secretariat support to the Board.

Further detailed work will be required to develop an executive team structure for the LLEDC.

4 Issues for further consideration

A range of detailed issues will need further early consideration, including:

- The composition of the Leadership Group - this will lie outside the development of the LLEDC.
- The terms of collaboration between the LLEDC members and the documentation of such terms;
- The mechanisms for establishing the LLEDC Board, including the need for open, competitive recruitment;
- The form and structure of the sub-Boards / Advisory Panels;
- The form and structure of the executive team;
- Implications for existing organisations, including any potential for TUPE issues associated with any proposed staff transfers;
- Accountability and funding arrangements, including the relationship between the LLEDC and the Leadership Group and the operational funding arrangements for the company;

Once the proposed functions and broad form of the model have been agreed, the establishment process of the EDC will require detailed consideration of a range of issues including the following:

- Vires**
- Third Party Approvals**
- Prudential Borrowing**
- State Aids**
- Procurement**
- Taxation**
- Funding**
- Conflicts/Code of Conduct**
- Publicity/Proprietary Controls**
- Contractual and other related matters**