APPENDIX B

TOTAL CAPITAL – LEICESTER AND LEICESTERSHIRE

INTRODUCTION

1. This report summarises proposals from Leicester City and Leicestershire County on how a Total Capital pilot programme could be introduced. This would compliment the Government's current Total Place initiative.

2. The principles that Leicester and Leicestershire propose are that capital funding streams should:

   - be **combined at national level** to make joining up locally as easy as possible;
   - have a **consistent minimum** of rules and processes;
   - have **maximum flexibility for virement** to ensure they can be applied to greatest effect;
   - be capable of being **applied to sub-regional priorities** that are agreed between national, regional and local agencies and meet local, regional and national priorities;
   - be **allocated through a sub-regional 'single pot'** approach where funding of projects is agreed in one place.

3. This report sets out the need for these principles to be applied in order to simplify the current arrangements and drive up the pace of delivery and quality of outcomes. This report uses economic development and regeneration as an example and highlights the practical barriers which now exist. The report also highlights issues of accountability. Our proposals are drawn together in "What could make a total capital approach work?"

THE LEICESTER AND LEICESTERSHIRE CONTEXT

4. In some ways Leicester and Leicestershire are the same place. The journey to work area of the City covers most of the County and people travel from the County and beyond to the excellent retail facilities in the City. City dwellers visit the countryside and use its footpaths, bridleways and village pubs.

5. In other ways the City and County face different challenges. Demographic differences provide different needs and opportunities for community cohesion, skills and education. The Leicester Principle Urban Area (the PUA) -- Leicester City and the suburban areas of Charnwood, Blaby, Harborough and Oadby and Wigston -- displays a typical City 'escalator' model of migrations. Younger newer less well off households move to the City centre and more mature families move to the suburbs. This can be seen in the migration of better off Asian families from the central eastern Belgrave area of Leicester to Oadby, Thurmaston and Thurnby.

6. There are quite distinctive housing markets outside of the PUA in most of the Leicestershire Districts centred around key settlements such as Loughborough, Melton Mowbray, Coalville, Market Harborough and Hinckley. This has meant that housing delivery has, historically, been District focused.

7. In recent years, however, a more strategic approach to planning and delivery across the eight authorities has emerged. This is set out below.

8. There are considerable economic differences between the City of Leicester and the rest of the County. Economic activity rates and pay are lower in the City whilst unemployment is higher. Gross weekly pay in the County, excluding Leicester, is around 7% above the East Midlands average. However within the City it is 15% lower than the regional average. The City also has a significantly higher level of deprivation compared with the surrounding Districts. It is particularly important in the City that a clear employment strategy is developed in tandem with housing growth and renewal.

9. Reflecting these characteristics and in recognition of the interdependency of Districts on the economic performance of the area as a whole, the political leaderships of the City and County (including the Districts) agreed to work together where joint working can best meet the outcomes and ambitions they seek for their areas (The governance structure is set out in Annex 1).

PRE THE SUB-NATIONAL REVIEW (SNR)

10. Before the Sub-national Review, there was no arena for a 'single conversation' about the City, the County or the sub-region as a place. Separate processes governed how capital and some revenue streams would be spent:

- regional economic development funding allocations were - and still are - determined by the East Midlands Development Agency (emda) at the regional level, with inconsistent attention paid to the priorities and existing activities in specific areas. ERDF and Rural Development funding is also allocated separately by emda;
- the Learning and Skills Council determined skills funding regionally and sub-regionally in line with national priorities, and to a certain extent regional priorities;
- the Housing Corporation set national and regional priorities for the National Affordable Housing Programme in line with needs indices and housing need discussions at a district (rather than sub-regional / strategic) level;
- local authorities determined Working Neighbourhood Fund priorities and New Growth Point (NGP) spend and their own allocations; and
- the Leicestershire Regeneration Company (LRC) sought to bring funding streams together to achieve the regeneration of inner Leicester.

11. The overall picture was one in which separate processes awarded funding to different activities without recourse to the over-arching set of shared priorities as set out in various local and sub-regional strategies. Staff in local authorities and other agencies spent considerable time and effort pursuing a range of funding streams, requiring numerous applications to various funding bodies justifying spend on the basis of nationally and regionally determined criteria rather than local need and development potential. There was no robust system for calculating the total level of spend and its overall benefit to the sub-region.

POST THE SUB-NATIONAL REVIEW: THE MULTI-AREA AGREEMENT (THE MAA)

12. Post the SNR, the creation of the Leicester & Leicestershire MAA has enabled a much more strategic approach to the recognition and prioritisation of investments for the area. Partners recognised that the physical and economic geography of the sub region requires a joint approach. Through the MAA and its governance structure, it was quickly recognised that a holistic approach to housing and economic growth - where housing fits with the employment, leisure and the public service offer in a locality - would lead to more sustainable communities. This holistic focus has featured in the preparation of the Economic Growth Strategy for the area and is now also reflected in the Single Conversation approach being considered for the MAA area as a whole. The Single Conversation will also enable authorities to better collaborate on joint activities and "connect" investment decisions.

13. The SNR placed greater emphasis on the delivery role of principal local authorities alongside an increasingly strategic role for the RDAs. The principle of greater devolution of funding and delivery responsibility to the local authorities was supported on the basis that effective delivery management capacity and associated governance structures were put in place at sub-regional level. The main changes delivered by sub-regional partners following SNR are:

    - the **MAA** identifies the **key outcomes and targets** ;
    - the **MAA Partnership** provides a streamlined approach to improve the **overall efficiency** of economic development delivery and co-ordination to more effectively realise Leicester and Leicestershire's competitive potential;
    - the **Leadership Board**, chaired by the Leaders of the City and County Councils, agrees **strategy and commissioning priorities** (see Annex 5);
    - the **HCA supports the Single Conversation approach** and is represented on the Board;;
    - **emda** is also represented on the Board and is working to "**sub-regionalise its processes"** (which are still regionally driven by the framework within which RDAs are required to operate);
    - five **theme groups** support the Leadership Board by developing **strategy and commissioning priorities** for consideration; and
    - a 'single service' **Economic Development Support Unit** serves the sub-region by preparing key strategic documents including the Economic Assessment and Economic Growth Strategy and preparing strategic commissioning plans.

14. A sub regional economic development company - PROSPECT Leicestershire - has been created to replace the Leicester Regeneration Company and the SSPs.

PLANS FOR FURTHER IMPROVEMENT AND BARRIERS TO PROGRESS

15. The Leicester and Leicestershire Leadership Board is on a journey to prepare and deliver investment plans that overcome the unintended consequences of disjointed investment plans. This brings with it the need for significant change and co-operation across the many agencies and funders who currently invest in the area. Developing the single strategy MAA approach is also fettered by the number of funding bodies involved in the process, each with its own targets and each with its own governance and accountability processes. This existence of the Leadership

Board places Leicester and Leicestershire in a strong position to make maximum use of the Total Capital pilot opportunity. The Board is leading the redesign of investment processes within the current arrangements and any additional efficiencies that the Total Capital Pilot offers.

16. However, current rules governing various capital expenditure streams -- and how these rules are applied -- present barriers to a real ‘single pot’ or ‘total capital’ approach. The processes through which funding has to be sought through different agencies is complicated and can work against rather than with the broader place based strategy. Even the HCA’s two principle inherited funding streams have different objectives that can lead to uncoordinated investment. The National Affordable Housing Programme is allocated on basis of needs indicators to meet housing needs identified by local authorities whilst regeneration is investment on a project basis with intervention being led by specific initiatives or opportunity. In many locations, it is clear that these investments do not complement one another; there is considerable scope to align this spend to improve outcomes. More generally, aligning capital programmes from all agencies investing in a locality would lead to significantly improved outcomes.

17. There are also considerable savings to be made. There are 39 separate funding streams that come into the area with separate appraisal, approval and performance arrangements. There are 44 funding streams with a value of less that £1m each. Even though the 2 upper tier local authorities manage budgets of nearly £1bn each – emda’s Board has to make decisions on all funding of over £1m. Based on the National Audit Office finding that 20% of funding in each layer funding goes through (there are three – national, regional and sub regional) we estimate that it costs about £180m to administer the £230m of economic development expenditure (capital and revenue) in the sub region. We envisage that efficiency savings of some 50% in the costs of administering funding could be achieved through a Total Capital approach i.e. £90m.

18. Three case studies are used to illustrate the problems of bringing forward agreed projects within the current funding regimes. Annex 2, the ‘**New Business Quarter’** illustrates the effect of uncertainties in obtaining funding where there is dependency on a regional development agency. Annex 3, the ‘**Loughborough Eastern Gateway’** illustrates the problems in aligning funding from multiple sources. Annex 4 describes the complexities of delivering the **Harborough Innovation Centre**.

FUNDING COMPLEXITIES FOR ECONOMIC DEVELOPMENT AND REGENERATION

19. Most investment to secure economic development and regeneration of a community originates from a central Government department as illustrated in the diagram below. This complex pattern of accountabilities leads to confusion, overlap and bureaucracy. As such, sub-regional partnerships and local authorities lack the necessary powers and delegated resources to maximise the value of the total capital investment available. A stronger role for sub-regions in setting priorities would ensure that capital projects are delivered more effectively and efficiently.

DfT

HIGHWAYS AGENCY
- Aligned to Government regions from July 2009
- Regional allocation TBC
- **National** schemes M1 J19
- Maintenance trunk roads/small schemes
- RFA allocated to region until 2018 (via GOEM)

LTP for sub-region
- Annual allocation for Integrated Transport Block, Maintenance and Detrunking
- **RFA**1 until 2016
- RFA 2 until 2018

Annual Grants
- Road safety
  Rural bus subsidy
- Concessionary fares
- Bus service operators grant (Operators)
- Highways asset management funding
- Community Infrastructure Fund
- Challenge funds
- Kickstart
- Transport Innovation Fund
- Road safety partnership grant
- Green bus fund
- Cyclability

DBIS

HEFCE

- Universities

LSC / SFA

EMDA
- Regional Single Pot
- ERDF / EU
- Train to Gain
- Business Support
- UKTI
- Rural Development Programme
- Blue Print
- JESSICA
- STEM

- Sub-Regional investment Plan (SRIP)
- Regional Single Pot Projects

LSC / SFA
- National Apprenticeship Service
- ESF Co-financing

- 16-19 FE Colleges
- 16-19 education and training
- Adult Learning
- ESF Programmes

DCLG

HCA

HCA
- Kickstart
- Local Authority New Build
- National Affordable Housing Programme
- Gypsy and Travellers
- Regeneration
- Total Capital pilots

- Decent Homes
- Single Regional Housing Pot
- Major repairs allowance
- Homelessness prevention grant
- Repossession Prevention fund
- Social Housing Fraud Initiative
- Housing Revenue Account
- Disabled Facilities Grant
- Housing Planning Delivery Grant
- Supporting People funding
- New Growth Point (NGP)
- Community Infrastructure Fund (CIF)
- Area Based Grant (ABG)
- RIEP funding
- Working Neighbourhoods Fund (WNF)

DWP
- Welfare to Work Programmes
- Flexible New Deal
- Pathways to Work,
- Job Centre Plus Support Contract
- Fit for Work

Job Centre Plus

Job Centre Plus
- ESF Co-financing
- Regional Contracts

- WNF
- ESF Programmes
- Future Jobs Fund
- Fit for Work

WHAT COULD MAKE THE TOTAL CAPITAL APPROACH WORK?

20. The principles that Leicester and Leicestershire propose are that capital funding streams should:

- be **combined at national level** to make joining up locally as easy as possible;
- have a **consistent minimum** of rules and processes;
- have **maximum flexibility for virement** to ensure they can be applied to greatest effect;
- be capable of being **applied to sub-regional priorities** that are agreed between national, regional and local agencies and meet local, regional and national priorities; and
- be **allocated through a sub-regional 'single pot' approach** where funding of projects is agreed in one place.

Each of these is explored in more detail below. In addition, we see considerable merits in combining these principles with our joint approach to asset management across Leicester and Leicestershire. This is also discussed below.

Be combined at national level to make joining up locally as easy as possible

21. A move away from departmental objectives, funds and targets would be a massive change. However, if a Total Capital approach is to be applied, some means of enabling this without dismantling departments and ministerial responsibilities is necessary.

22. One approach to achieving this would be to have cross departmental agreements for a local community i.e. a requirement that investment priorities are agreed at a local level and Government departments (and the non-departmental public bodies that they sponsor) would be required to allocate resources accordingly. This may not match the volume of funds required, but it would establish the practice of mutual prioritisation.

Have a consistent minimum of rules and processes.

23. There are two aspects here. **Governance** reforms are necessary to ensure that each investment body is accountable for the decisions it makes. **Process** reforms must be applied to ensure propriety in procurement, financial control and efficiency/effectiveness. Currently, the project approval process is operated on agency / departmental basis each with its own review board / panels and timeframes. Each approval process will likely not take account of the other forms of public investment (other than as a means of demonstrating that the investment is being spread across other funders).

24. Adoption of a single project appraisal approach for public sector investment would streamline approval processes significantly. This would involve alignment of accountancy rules / conventions, consistent

agreement on delegation limits for approval processes across departments, and a single project approval process. This is discussed further below.

25. There is a particular need to align budgeting timescales. Now, funding streams from different Government departments span varying timescales. A longer term allocation of funding from Government for capital investment projects, particularly those funded by local authorities, the RDA and Homes and Communities Agency would enable better integration of physical development programmes, business support and employment and skills activities.

26. A conjoined approach would see partners including the Government Departments, HCA, emda and the local authorities in the sub-region agree to align their capital funding around the priorities outlined in the sub-regional strategy, over a longer timescale. A further benefit to Government would be the efficient delivery of capital investment projects, since a greater degree of certainty will allow more projects to be brought forward for development earlier.

27. Greater certainty will reduce the current instances of over-programming – and the consequent waste of resources – in the sub-regional investment plans. Over-programming is ordinarily built into plans to account from the uncertainty arising from relatively short term budget allocations. Over-programming can then be perceived as lack of delivery as projects inevitably slip within the programme.

28. Certainty of public sector capital funding arising from longer term allocations would also generate greater private sector leverage. Short term funding allocations is one of the most significant barriers to attracting private investment in larger scale schemes. Setting out longer term plans for investment with defined public sector commitments will result in increased private sector leverage and accelerate delivery.

Have maximum flexibility for virement to ensure they can be applied to greatest effect

29. If delivery is moved to a place based Total Capital approach, then flexibility for virement becomes essential. The examples in this paper show the complexity of funding streams involved in place making. The inability of one funding body to invest at a predetermined point in time can delay and even result in the loss of a project. Place making has to follow a logical order and timeline: site assembly, infrastructure, development, support services etc.

30. The availability of funds seldom follows that timeline and this can result in poor quality development with insufficient infrastructure or inadequate local services. If at project appraisal / approval stage there is a common set of outcomes, then the virement of funding streams across the life of a project can be supported if ultimately the outcomes will be delivered.

31. For example, within HCA, the NAHP provides grants for the provision of affordable housing and resources for regeneration and infrastructure are provided through the Property and Regeneration and other programmes transferred from CLG. Resources for regeneration in particular are very now very limited. However in many cases, housing cannot be delivered without provision of advanced infrastructure and affordable housing can jump-start a mixed use and mixed tenure scheme. If it were possible to sub regionally vire funds between NAHP and regeneration budgets, it is likely that total affordable housing and regeneration outputs would be increased. Investment in infrastructure in the early years of a project could accelerate the delivery of housing in following years. Releasing serviced land also brings inward investment which can be used to subsidise the housing and achieve better balanced communities. Provision of access roads / highways is often a major barrier to housing growth, and ability to secure this investment by cross agency funding solutions would be a major benefit if this were to come through a Total Capital approach.

32. Securing flexibility across funding streams is an essential part of the HCA's future strategy, and is viewed as a means to demonstrate additionally from investment. Securing this across agencies would be extremely complex, and could question how matters such as end of year flexibility might be handled.

33. Another means of securing flexibility to improve outcomes is through more consistent rules on land disposals. Land value is a significant "currency" in project delivery. Where agencies own land, adoption of a common approach to disposal that allows the asset to be used in lieu of capital investment would assist. For example, land held within HCA acquired from other Government departments (e.g. hospital sites) cannot be used as a means of subsidising a project unless the value of the receipt counts as expenditure. Simplification of rules linked to capital receipts and disposals would help initiate projects and secure more certain delivery.

34. The fundamental issue relating to virement remains whether individual funding Departments and their agencies would be prepared to allow, what is perceived as "their" money, being spent on another priority outside its remit. For example, would the Department of Business Innovation and Skills accept funding granted for its Departmental Strategic Objectives (DSO) being used for those of the Department of Transport even if the investment in road infrastructure unlocks land for employment uses and thus leads to economic growth and increased productivity?

35. Similarly, virement would impact on the achievement of a Department's PSA target in any given year. A single pot or Total Capital approach would allow the PSAs to be achieved over the longer term. Evaluation of outputs and targets needs to be undertaken over a minimum three year trajectory rather than annually to take account of any virement for large scale capital infrastructure projects.

36. Effective virement will only work to its full extent in line with the longer term funding cycles described above. The only way that moving money between funding partners is likely to be acceptable will be if there is a guarantee that the funding will be replaced the following year. The ability to vire funding will also avoid situations where money that is made available towards the end of a financial year because of a national or regional under spend could be lost completely. In these circumstances funding has previously been allocated to projects that guarantee spend but do not entirely deliver the preferred outcome. Large scale capital projects in Leicester and Leicestershire are at risk of being unable to spend effectively in any given financial year without the ability vire and carry forward funding. As with a longer term commitment of funding, the ability to vire capital resources would also reduce the current instances of over-programming which is built in to account for project delays.

Be capable of being applied to sub-regional priorities that are agreed between national, regional and local agencies

37. This would meet the needs of the place in a way which is consistent with national and regional strategy and targets. Agencies/authorities will always need to be accountable for the decisions they make, but this does not mean that the prioritisation of projects within an area and the decision on which initiatives are supported cannot fall to a sub regional partnership. In the case of HCA, for example, the agency would adopt a delivery role being commissioned by the sub regional partnership to fulfil its part of the strategic plan.

Be allocated through a sub regional 'single pot' where funding of projects is agreed in one place.

38. There is a distinction between pledging resource into a single pot to be spent as the sub region determines, and the agency working as a partnership member, being commissioned to deliver agreed priorities as a part of the single strategy process. The sub regional body has a role in controlling the decisions that lead to investment in specific initiatives within its area. It agrees its strategy, determines the priorities that emerge from this and the investments necessary. It then needs to commission delivery of projects to meet the strategy priorities.

39. Under a Total Capital model, the various funding bodies are part of the strategic review process, through that process they are recognising and agreeing to the priority projects within the area and are able to give indication of the level of resource that will be available support the strategy. Through commissioning, the specific projects are agreed. In effect, the contribution to a single pot is ‘virtual’ in that there is a calculated sum of what is planned for the area, with delivery being secured through various bodies. This is not the same as front payment of lump sum or block grant for sub regional distribution through the sub regional board / single accountable body.

40. The guarantee that the totality of funding will achieve PSA targets is that the total contribution to these targets will be set out in the strategy & commissioning plans that are jointly agreed by all the partners.

Appraisal and Approval of Projects

41. Under the current system with emda, a Sub-Regional Investment Plan (SRIP) is produced by the Leicester and Leicestershire MAA Partnership and emda makes funding allocations to the sub-region based on the SRIP. This was approximately £11m in 2009/10 and will be reduced to £9m in 2010/11. Individual projects are considered by the MAA Partnership and are approved based on the strategic fit with the SRIP. Projects are then submitted back to emda for appraisal and approval and any projects exceeding £1m have to be approved by the emda Board. The current arrangements do not allow for a detailed programme at a sub-regional level, but rely on the approval of individual projects by emda. In contrast, the HCA's "single conversation approach" is promoting a shared investment agreement that aims to deliver outcomes through a less centralised, top-down approach.

42. The added value of a delegated programme approach is that emda capital funding can be aligned with other funding streams and coordinated across the sub-region. This approach would achieve national PSA targets and DSOs, rather than individual funding stream targets that do not necessarily contribute to higher level targets. The added value of a delegated approach is essentially effective and efficient delivery. Most projects involve public and private sector partners and the current process of obtaining approval becomes hierarchical and takes considerable time, particularly for schemes of a relatively low value in private sector investment terms. This then results in the private sector being less willing to work with the public sector, since long decision making time leads to uncertainty, risk and extra costs.

43. The SNR stresses that in delegation of decision-making and resources, RDAs will need to be satisfied that there is a clear rationale for the proposed spending and that expected outcomes are clearly identified for delegated funds. The Leicester and Leicestershire MAA, Economic Assessment and Strategy clearly sets out the basis for this rationale. The SNR also states that "the Government has made it clear that RDAs should explore, within the current legislative constraints, how greater flexibility can be given to local authorities to meet agreed outcomes, whilst ensuring that accountability and value for money requirements are in place." A Total Capital approach would feature a clear delegation framework for RDA resources.

A Joint Approach to Asset Management

44. The Government has called on local authorities to take a more strategic approach to asset management in order to achieve efficiency gains in the public sector estate and to support wider objectives such as stimulating regeneration, reducing environmental impact and encouraging community

activity. The Leicester and Leicestershire authorities are now planning to establish an integrated portfolio management services to secure these benefits. This will support further steps to develop a Total Capital approach. This is described in more detail in Annex 7.

A SINGLE CONVERSATION IN LEICESTER AND LEICESTERSHIRE

45. The single conversation being promoted by the HCA dovetails with the progress and approach made through the MAA and Total Capital approach already undertaken by Leicester and Leicestershire. There is a clear recognition that the single conversation approach accords wholly with the ambition of Leicester and Leicestershire to commission projects which meet local and national HCA priorities.

46. In Leicester and Leicestershire, the single conversation process is utilising existing structures and mechanisms; outcomes will be nested in the emerging overall strategy. It is anticipated that progress will continue to lead to the development of a local development plan by the summer and then onto a local development agreement. A Total Capital pilot would give a further boost to this effort.

Governance

47. Leicester and Leicestershire authorities, through the Leadership Board have agreed to utilise the MAA governance structure for any further Total Capital initiatives. The housing, planning and infrastructure group which sits within the overall MAA governance structure has assumed responsibility for leading on the single conversation; this is supported by a working group.

Evidence base

48. Given the progress on the economic strategy and its evidence base again the decision has been made to utilise the economic strategy evidence base and add into it more detailed spatial planning, regeneration and social dimensions.

Emerging priorities for housing and regeneration

49. There is clear agreement in Leicester and Leicestershire to focus on working towards the delivery of urban extensions and the single conversation will look at sequencing and where HCA investment can be most effectively be made. Similarly, town centre renewal is another area of key priority. Again, the single conversation process will lead to a clear statement of town centre renewal priorities across the City and the County.

Moving from Investment Plan to Investment Agreement

50. The ambition for Leicester and Leicestershire to be able to work across funding streams and processes will undoubtedly face barriers in the internal HCA project governance and control processes. This may be a

source of potential future tension. Leicester and Leicestershire will wish to secure clear funding commitments from the HCA that do not require the likely (and existing) project by project scrutiny. This can be ameliorated by clear communication and early discussions on what can and cannot be done. Equally, the prioritisation process leading to an agreed Investment Plan will test the governance and planning structure as there are real tough choices in sequencing that will mean some places have to wait until later.

51. So far, the single conversation is bringing together the funding streams within the remit of HCA and the local authorities and agencies linked with the MAA. It does not however bring commitment from other departments / agencies essential to improving the prosperity of each place. Further education and health are particular examples. The single conversation can only include those organisations that are signed up to the Investment Plan. Indeed, at present, the single conversation will only lead to the commitment of HCA resources. . Whilst this is a move in the right direction it does not provide the commitments from other funding bodies to enable delivery of all investments necessary to improve a place. A Total Capital approach would enable us to secure these wider commitments.

THE FUTURE

52. A simple more effective system:

Government Level	Simplified funding streams aggregated were possible with consistent rules and maximum flexibility.
Agency Level	Reduced number of agencies with consistent approaches.
Sub regional level	1. Jointly agreed strategy to identify placed based outcome priorities while meeting Government output targets – a single conversation. 2. Jointly agreed Commissioning Plan to set out how these outcomes & outputs will be achieved 'on the ground'. Funding from different pots allocated by fund holders = creation of a 'single pot'. 3. Single appraisal of projects against the commissioning plan. Project agreement by fund holders at sub regional level = reduced time and cost of multiple approval processes.

Annexes:

Additional information in support of this proposal is as follows:

Annex 1: Governance Structure

Annex 2: Case Study: New Business Quarter

Annex 3: Case Study: Loughborough Eastern Gateway

Annex 4: Case Study: Harborough Innovation Centre

Annex 5: Leaders Board: Strategy and Commissioning Priorities

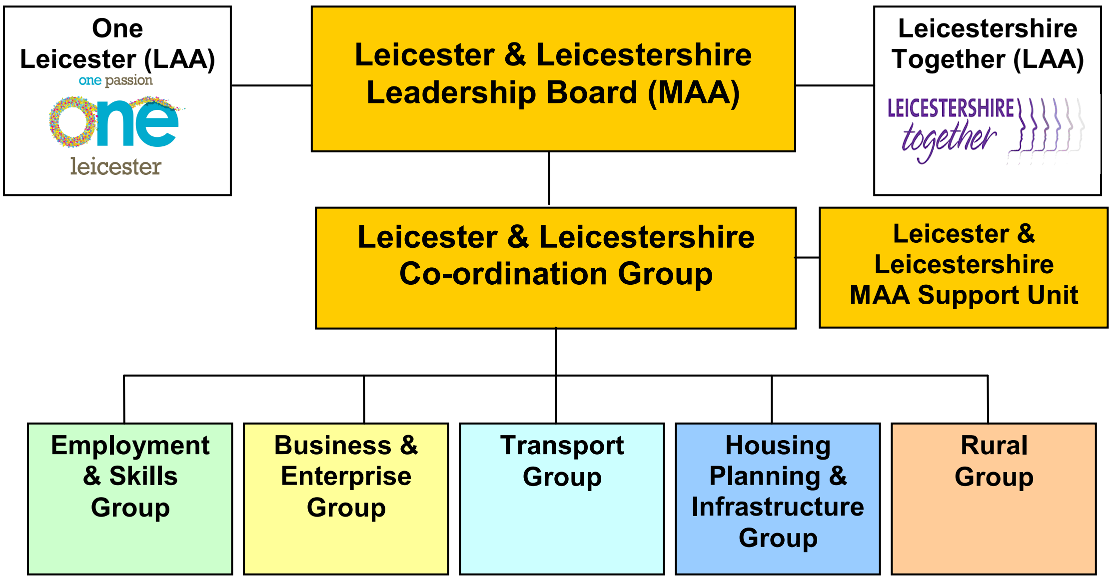
Annex 6: draft Economic Strategy: available separately

Annex 1: Governance Structure

Governance

The structure of local government in the sub-region had introduced particular challenges in terms of governance and delivery. Economic development and regeneration activity was organised at County, City and Districts levels and a range of existing agencies operated across different geographies and pursed various strands of economic regeneration related activity. In view of these complexities, the City and County Councils, along with the support of the Districts councils and emda, established the MAA Partnership to lead economic strategy and policy and an Economic Development Company (EDC), Prospect Leicestershire, to lead delivery in the sub-region.

The SNR placed greater emphasis on the delivery role of principal local authorities alongside an increasingly strategic role for the RDAs. The principle of greater devolution of funding and delivery responsibility to the local authorities was supported on the basis that effective delivery management capaCity and associated governance structures were put in place at sub-regional level. Our MAA Partnership has established appropriate arrangements to streamline the approach to economic development delivery across the sub-region and to improve the overall efficiency of economic development delivery and co-ordination to more effectively realise Leicester and Leicestershire's competitive potential.



Leicester & Leicestershire Leadership Board: The strategy holding body where priorities for economic development and regeneration are determined and key investment decisions are made. Membership comprises: Leader Leicestershire CC, Leader Leicester City Council, Leader – representative District Council, Chair Leicester Prospect, Exec Director emra, President representative Chamber of Commerce, Director HCA, Director Voluntary Action Leics, plus attending officers.

Leicester & Leicestershire Co-ordination Group: The Executive of the Leadership Board responsible for overseeing the preparation, delivery and performance management of the sub-regional strategy.

Strategy & Performance Groups: The advisory groups of the Co-ordination Group that develop and implement policy, identify priorities for investment and ensure the effective co-ordination and delivery of projects.

Leicester & Leicestershire MAA Support Unit: A shared service established by the local authorities responsible for supporting the sub-regional partnership and the preparation, delivery and performance management of the sub-regional economic assessment, economic strategy and MAA.

Leicestershire Business Council: An advisory group for the Leadership Board in terms of understanding the key issues and priorities for the business community. It has representation across the spectrum of sectors, scale and location of businesses in the sub-region.

Voluntary Sector Forum: An advisory group for the Leadership Group in terms of understanding the key issues and priorities for the voluntary and community sector.

A range of delivery strategies are being developed alongside the MAA including the Local Development Frameworks (LDFs), the New Growth Point (NGP) initiative and local transport planning, which will all contribute towards achieving sustainable economic growth. To this extent, the governance model reflects an intention for the economic development and regeneration agenda to be delivered on the basis of a combined Leicester and Leicestershire approach rather than through the separate LSPs. The model recognises the need for clear arrangements to manage the respective roles, relationships and contributions of the County, City and Districts Councils and ensures that decisions for the allocation of funding will be made based on need rather than geography.

This approach is already being taken by the political leaders in the sub-region with the use of New Growth Point and RDA allocated funding. The NGP funding has not been allocated on a local authority basis but has been deployed based on need. This has involved the 9 local authority leaders in the sub-region agreeing to the majority of the capital funding being spent in the City for the early years of NGP with more being spent in the county later on. This provides evidence that the Partnership will make decisions for the good of the sub-region as a whole.

Annex 2: Case Study: NEW BUSINESS QUARTER 2

The Masterplan for the regeneration of Leicester sets out a strategy for the development of a New Business Quarter for the city aimed at creating a concentrated critical mass of high quality office space in the city of up to 50,000 square metres and generating up to 4,000 service sector based jobs. The first phase of the New Business Quarter (NBQ1), Colton Square, has already been completed which has created 10,000 square metres of ‘Grade A’ office space.

This project represents the second phase of the development of the New Business Quarter (NBQ2) and will provide a further 35,000 square metres of office space to develop a high quality business district for Leicester. In addition ancillary retail, restaurants, bars and leisure space will be created around a new public space together with new car parking for the rail station and offices. A key element to enable the delivery of NBQ is the release of the existing Royal Mail delivery office site for development. This will then facilitate the second element, the development of the main NBQ2 project. . The current funding position is as follows:

SOURCE	AMOUNT (£m)
Regional Single Pot (emda)	£8.2
SRIP (emda)	£1.0
New Growth Point Funding (HCA) ERDF (emda) Sustrans	£2.05
TOTAL	**£11.25**

This is a complex project requiring a partnership between Leicester City Council, Prospect Leicestershire, emda, Royal Mail, Network Rail and East Midlands Trains. All these respective partners and vendors have specific requirements and aligning these together along with the funding streams is particularly challenging.

The key issues in securing the funding from emda have been identifying which organisation will bare the risks of the project. The funding agreement with the RDA has a number of default clauses which can trigger repayment of any grant awarded. The burden of risk is therefore not shared between the parties, but is borne entirely by the City Council as project lead and grant recipient. The risks to the RDA are minimal as in the event of default, emda can reclaim grant payments. The funding from the RDA is an annual fixed contribution and the City Council is responsible for any variations including making up shortfalls for underspend and liability to cover overspend within any financial year. The lack of delegation has caused uncertainty of funding and an inability to carry over funding has resulted in this capital project remaining at risk, and this risk being borne by the local authority rather than the RDA. This seems ludicrous, as all public authorities should be working together to deliver this flagship project for Leicester and the East Midlands.

Annex 3: Case Study: LOUGHBOROUGH EASTERN GATEWAY

The Loughborough Eastern Gateway project is the physical regeneration of the area around Loughborough Station which comprises two of the most deprived wards in Leicestershire. The area comprises approximately 11 acres of largely derelict and abandoned former railway sidings. The image of the town created by this situation is very poor for one of its main arrival points and partners are determined to address this situation through comprehensive regeneration and development, before 2012 in view of Loughborough's important role in the lead up to the London Olympics.

The purpose of the project is to facilitate a major redevelopment of the area to secure housing and employment opportunities for local people, to improve environmental conditions, to improve access to the station for all users and to transform the sense of arrival in Loughborough. The key to achieving the regeneration of this area is the provision of a new link road which will allow the other main elements of the scheme to be achieved:

- New housing providing 120 dwellings - 100 of which will be affordable
- A mixed commercial scheme including an 80 bed hotel
- Major improvements to Loughborough Station including additional car parking and new transport interchange
- Significant environmental improvements in the adjacent residential area

The development is entirely dependent on the provision of the link road at a cost of £6.4m. The costs of the road severely affect the commercial viability of the scheme and it had been clear for some time that significant public subsidy will be required to deliver the overall scheme. The current funding position is as follows:

SOURCE	AMOUNT (£m)
NCHA (HCA)	3.490
New Growth Point Funding (HCA)	1.000
SRIP (emda)	0.880
Charnwood Borough Council	0.550
Leicestershire County Council – Transport	0.500
TOTAL	**6.420**

The Homes and Communities Agency (HCA) funding for an affordable housing scheme was crucial and came at a time when the HCA was encouraging a more comprehensive approach to housing and regeneration and this scheme was a very good example of this. Even so, the exceptional costs of the road meant that additional infrastructure support was required. Again, it was fortuitous that the New Growth Point funding came on stream when it did which allowed additional funding for transport infrastructure to be made available. The funding from EMDA towards the acquisition of land was essential and the support of the County Council in finding an additional £500k towards the increased costs of the road was essential to allow the scheme to be progressed.

The main problem has been trying to piece together a funding package from various sources over a number of years in an increasingly uncertain financial climate. This has made advanced planning very difficult and makes the scheme very vulnerable to any changes in any particular funding stream. For example, when the Growth Point Fund was cut recently the project lost £100,000 which meant the removal of an important public realm link from the scheme. The loss or reduction of any single element of the scheme could threaten the overall viability and deliverability of the project. The scheme has taken nearly five years to get to the stage where all the funding has been secured and during that time funding streams have appeared and disappeared, which has damaged continuity.

The Multi Area Agreement and sub-regional partnership structures have introduced a more comprehensive approach to funding priorities and means that key organisations like the HCA, emda, local authorities and other partners are able to look at how alignment of funding steams can assist the delivery of major projects. However, the multitude of appraisal and approval mechanisms and the lack of delegation, uncertainty of funding and the inability to vire and carry over funding still means that the project remains at risk.

Annex 4:Case Study: Harborough Innovation Centre

The Leicester and Leicestershire MAA identifies the shortage of quality employment space as a major barrier to economic growth in the sub-region. The Harborough Innovation Centre is a managed workspace project designed to help redress this problem in one of the most entrepreneurial parts of the country – although with limited employment space for micro and SME businesses. It will be the first development on the newly created Airfield Business Park, owned by the developer William Davis which is a former brownfield site. The proposed development of 30,000 sq ft of incubation and grown-on units will create space for 70 new jobs, mainly from start-up companies and it is anticipated this will act as a catylist to raise investment confidence in the business park.

The current project has developed from an aborted project that was being delivered by Welland SSP. Prospect Leicestershire became involved in the project during March 2009 through attending a meeting with the East Midlands Development Agency (emda), Welland, Harborough District Council (HDC) and Boden Developments. At the meeting the project was aborted due to:-

- The £1m private sector investment, a requirement for emda, could not be delivered by the developer

- Emda could not support the project because they did not have sufficient funds for the Welland Partnership SRIP (sub regional programme) although they had already invested £250k into the project.

Prospect Leicestershire were commissioned by Harborough District Council to see if the project could be resurrected. It was suggested that an innovation centre would be eligible for ERDF funding and proposed that a mixture of ERDF, SRIP and emda Single Pot could fund the project. An ERDF / emda Expression of Interest (EoI) was submitted at the end of July 2009. This was approved and a full application was submitted on 22 August 2009 to the ERDF / emda appraisal team. Just before the submission, Prospect Leicestershire advertised the proposed development opportunity through the European Journal and selected a preferred contractor / land owner. Emda were informed that the process was being run in tandem and agreed to it. The first schedule of questions was received from the technical appraisal team on 15 October 2009 and final clearance was given on 22 January 2010, which enabled the application to proceed to the next stage.

Whilst the appraisal was going on, emda had announced that they were to withdraw their regional single pot funding (£700k) from the project and requested that the SRIP meet the total emda contribution. As a result of constraints on the SRIP programme and the removal of the single pot funding the project had to proceed with a cap of the original EoI estimate of £4.2m. This was disappointing as the preferred developer had submitted an excellent bid with a £1m complimentary development and although they exceeded the EoI estimate the additional workspace and quality of design should have justified an increase in investment at the derailed appraisal stage. The preferred developer was also in a position to commence work on site prior to December 2009. However the programming constraints entailed a revision to the ERDF bid which delayed the approval and meant that the already delayed February Board meeting could not be met and the next meeting on 18 March 2010.

Unfortunately this project illustrates the problems that can arise when projects are reliant upon a multiple capital funding sources - albeit from one accountable body. Suggestions for improving the process include:

- Once identified as a regionally significant project by emda, every effort should have been made to ring fence this commitment. Emda withdrawing their £700k regional contribution without any prior notice meant the whole development had to be re-engineered which has delayed the appraisal process.

- Emda could have increased the ERDF allocation to the project from 40-45% which meant that the original detailed submission could have been delivered with its higher standard of design.

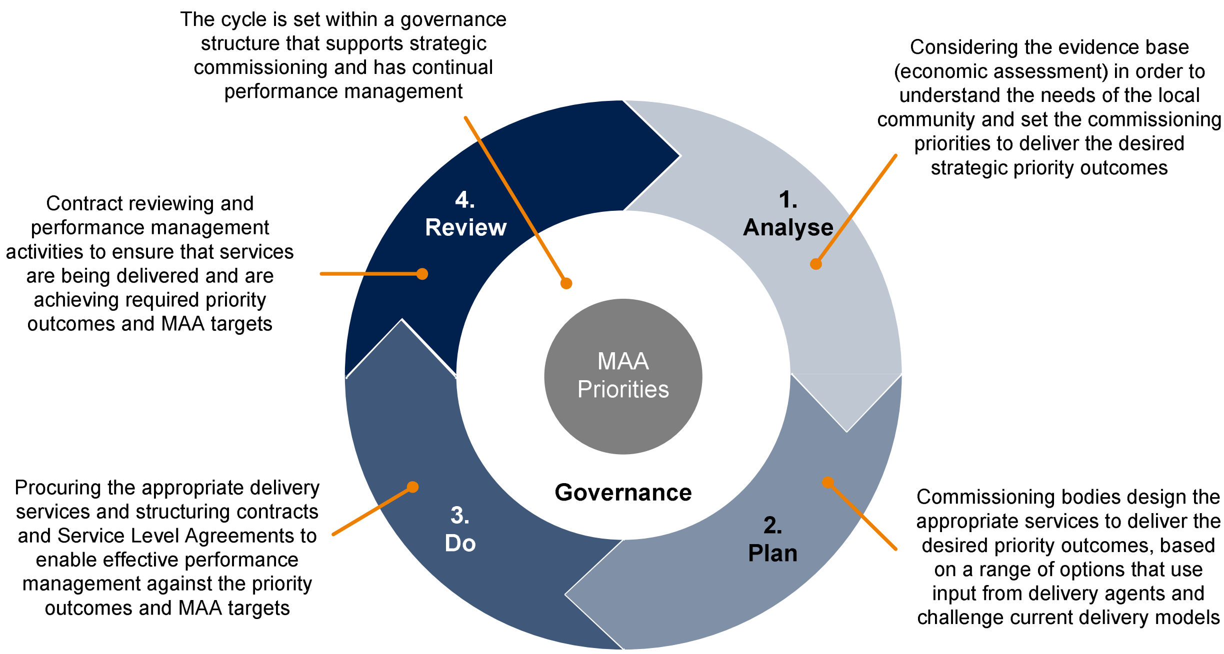
Annex 5: Leicester & Leicestershire Strategic Framework

1. Purpose of the Report

1.1 To seek the Co-ordination Group's approval of a methodology for developing an economic strategy and a timetable for preparing the economic assessment, economic strategy, delivery plans, commissioning framework and revised MAA 'with duties'.

2. Background

2.1 Following the economic assessment workshop in July and subsequent discussions at the Co-ordination Group meeting on 30th July, it was agreed that the Sub-Regional Partnership needs to develop an overarching economic strategy. It was also agreed that the economic assessment will inform the strategy and underpin important decisions about the sub-region's economic future. The strategy will deliver evidence-based policy making and investment planning in the sub-region. The Partnership is at an advanced stage in preparing the economic assessment and has started to develop a strategic commissioning framework. The strategy and delivery plans are vital components of the strategic commissioning cycle and it is critical that there is clear overlap and linkages between the four processes.



3. Economic Assessment and Strategy

3.1 The economic assessment is a comprehensive statistical and analytical evidence-base that will draw down a number of conclusions and issues about the sub-regional economy. The strategy is the process of specifying the Partnership's objectives and evidence-based strategic priorities. There are many different approaches to developing strategy and it could include an evidence base, strategic objectives and delivery plans. The Partnership is already preparing an evidence base in the form of the economic assessment therefore the recommendation is for the strategy to be about direction and the key platforms of the Partnership's intent. It is proposed that the strategy will cover the period from 2010 to 2020 and will be a short document of no more than 12 pages which will be reviewed every three years.

3.2 The essential elements which need to be included in the strategy are:

- **Vision** - a statement of the partnership's intent and the kind of the economy it believes the sub-region needs
- **Direction** - a description of where the partnership is trying to get to in the long-term
- **Stakeholders** - a statement of an understanding of the expectations of stakeholders
- **Governance** - a description of the governance and delivery structure to ensure accountability
- **Partnership** - a commitment and pledge from partners to adopt the strategy as part of their own organisational strategies
- **Priorities** - a description of the key issues arising from the EA and the identification of strategic priorities
- **Scope** - identification of the activities that the partnership will be involved in and external factors that may affect its ability to deliver
- **Resources** - identification of the resources that are required and available to deliver the priorities
- **Delivery** - a description of the strategic commissioning approach that the partnership will use to deliver its priorities

3.3 It is recommended that the methodology for developing the strategy will be the same as that used for preparing the economic assessment. It is proposed that the Co-ordination Group acts as the project board and the Support Unit will manage and deliver the project. The Strategy and Performance Groups will play a key role in developing the strategy and it is proposed that the Chairs of each group form the project team. It is recommended that the partnership consults widely on the strategy and economic assessment simultaneously rather than undertake separate consultations.

4. Commissioning Plans

4.1 The delivery planning process will identify the actions to achieve the strategic objectives and priorities. It will also allocate resources and include the identification of different alternatives, such as programmes or spending priorities, and choosing among them on the basis of the impact they will have. The delivery plans will need to include the management, financial, and administrative mechanisms arranged to deliver the objectives. The delivery plans will also include a cost-benefit analysis of the interventions across employment and skills, business and enterprise, and housing, planning and infrastructure to determine where investment will yield greatest returns. Evidence of effectiveness and cost-effectiveness will be applied comprehensively to compare diverse interventions in the sub-region's economy and will underpin the strategic commissioning process.

4.2 It is recommended that the Strategy and Performance Groups and the Support Unit take the lead in preparing the delivery plans. The proposal is to prepare three year delivery plans to follow the key funding cycles and to review these annually. The plans will include the revised MAA targets and will be used to manage performance.

5. Strategic Commissioning Framework

5.1 Following the commissioning workshop on 22nd July, Tribal Consulting has produced a draft report which recommends how the partnership should develop and adopt a joint strategic commissioning approach. This report will form the basis for developing a strategic commissioning framework which will be articulated within the sub-regional economic strategy. The economic assessment, economic strategy and delivery plans will form an integral part of the commissioning framework.

6. MAA 'with duties'

6.1 DCLG has advised the partnership to propose a timetable for the review and refresh of the current MAA. The process is flexible, unlike the one for LAAs, and provides the opportunity for the partnership to revise its priorities, baselines and targets in view of the current economic climate. The economic assessment, strategy, delivery plans and commissioning framework will form the basis of a revised MAA. The process will also allow the partnership and the S&P Groups, to consider the inclusion of additional targets, including targets for housing and transport.

6.2 The purpose of MAAs is to enable collaboration across political boundaries and for the Government to allow greater freedom and flexibilities for partnerships to deliver more effectively. The current MAA has allowed a certain degree of flexibility, particularly in the delivery of employment and skills programmes. Having demonstrated to Government that the MAA partnership has established a strong governance and delivery structure and is now starting to deliver effectively, there is now an opportunity for the partnership to seek additional devolved decision making and funding by making more ambitious 'asks' within a revised MAA.

7. Timetable

7.1 It is important that there are clear linkages between the processes identified above and Appendix 1 proposes a timetable for each of these.

8. Recommendation

8.1 The Co-ordination Group is recommended to approve the methodology for developing an economic strategy and the timetable for preparing the economic assessment, economic strategy, delivery plans, commissioning framework and revised MAA 'with duties'.

Appendix 1

	September	October	November	December	January
Economic Assessment	3/9 Presentation to LB 24/9 Conclusions and report to CG	1/9 Business Council event 16/10 Complete draft 28/10 Stakeholder event	16/11 Complete final draft 26/10 Co-ordination Group	9/12 Leadership Board 13/12 Formal Consultation starts	31/1 Consultation ends
Economic Strategy	3/9 Report to LB Establish project team Start draft	16/10 Complete 1st draft 28/10 Stakeholder event	16/11 Complete final draft 26/10 Co-ordination Group	9/12 Leadership Board 13/12 Formal Consultation starts	31/1 Consultation ends
Delivery Plans		Develop delivery plan template	Commence delivery planning		
Commissioning Framework	Start commissioning framework	Document commissioning process	Develop commissioning communications strategy		Complete commissioning framework
Multi-Area Agreement	Consider inclusion of housing and transport targets and 'asks'	S&P Group to consider new 'asks'	Review and refresh existing targets Negotiate revised targets and 'asks'		Re-draft MAA