

**REPORT TO CABINET – 8 FEBRUARY 2011**  
**SUB-REGIONAL ECONOMIC DEVELOPMENT ARRANGEMENTS**  
**REPORT OF THE CHIEF EXECUTIVE**

**PART A**

**Purpose of the Report**

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

**Recommendation**

2. It is recommended:
  - a. That approval be given to the establishment of a Local Enterprise Partnership for Leicester and Leicestershire (LLEP);
  - b. That approval be given to combining Prospect Leicestershire and Leicestershire Promotions into a Single Delivery Vehicle (SDV) for Leicester and Leicestershire, to be a jointly held company between the County Council and Leicester City Council;
  - c. That the Chief Executive, in consultation with the Leader, be authorised to finalise all matters relating to the establishment of the LLEP and SDV;
  - d. That approval be given for financial provision for the establishment of the LLEP and SDV as set out in paragraphs 7 and 8 of the report, taking into account any associated liabilities from the existing delivery bodies.

**Reasons for Recommendation**

3. To put in place appropriate and effective economic development arrangements which respond to the new national policy context for economic development established by the new Government, and reductions in funding availability.

**Timetable for Decisions (including Scrutiny)**

4. It is intended that the LLEP becomes operational on 1<sup>st</sup> April 2011. This report will have been considered by the Scrutiny Commission at its meeting on 2<sup>nd</sup> February 2011 and the views of the Commission will be reported to the Cabinet. Leicester City Council's Cabinet is considering this matter at its meeting on 7<sup>th</sup> February 2011.

## **Policy Framework and Previous Decisions**

5. In the context of the Coalition Government's economic policy the Leicester and Leicestershire Leadership Board submitted a bid for a Local Enterprise Partnership to be established covering Leicester and Leicestershire. This bid was submitted to the Government on 6<sup>th</sup> September 2010. The Cabinet, at its meeting the following day resolved that:

'the decision of the Chief Executive, in consultation with the Leader, to agree the submission of the Leicester and Leicestershire Enterprise Partnership (LEP) proposal to Government be noted'.

The Government received 57 submissions, of which 24, including that from Leicester and Leicestershire, were approved.

6. The Scrutiny Commission received presentations from the Chairmen and Chief Executive's of Prospect Leicestershire and Leicestershire Promotions at its meetings on 1 September 2010 and 10 November 2010 respectively. Detailed accounts were received of both companies' performance, the outcome of which was reported to the Lead Member for consideration.

## **Resource Implications**

7. The proposals set out in the report involve the County Council making an annual contribution of £56,000 to the LLEP Support Unit and of £370,000 to the proposed single delivery vehicle. These contributions, involving a 30% reduction in funding compared with that provided to the support unit and the two existing delivery vehicles in 2010/11, are included in the draft Medium Term Financial Strategy 2011 proposals.
8. The single delivery vehicle proposals provide an opportunity to reduce costs through the rationalisation of accommodation requirements. There is, however, a potential liability with regard to the Prospect Leicestershire Ltd offices at Colton Square which will be vacated as part of this rationalisation (see paragraph 28). The liabilities total £343,000 between April 2011 and March 2014 and are shared with Leicester City Council. As part of the closure of final accounts for 2010/11 provision will be made to cover the County Council's share of this liability up to a maximum of £57,200 per annum for each of 2011/12, 2012/3 and 2013/4. Should any additional liabilities or transitional costs arise it is anticipated that these can be accommodated within the budget proposals included in the draft MTFS for 2011.

## **Circulation under the Local Issues Alert Procedure**

9. This report is being circulated to all Members of the County Council via the Members' Information Service.

## **Officers to Contact**

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## **PART B**

### **Background**

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

### **Changed context**

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

## **A new approach to Sub Regional Economic Development**

### **Leicester and Leicestershire Enterprise Partnership**

14. Responding to the new Government agenda, the current Sub Regional Leadership Board agreed to pursue the establishment of a Leicester and Leicestershire Local Enterprise Partnership (LLEP) to refocus economic development in the area and ensure the City and County were well placed to access and coordinate new (albeit more limited) national funding resources and to influence national commissioning activity affecting the area. A bid was submitted to Government for the LLEP which proved to be one of only 24 agreed at this stage. This gives the sub region a distinct competitive advantage in accessing new resources.
15. The main role of the LLEP will be to set strategy and prioritise and commission economic development activity in the Sub Region with the resources that are potentially available to the LLEP. This will include priority projects being submitted for the recently announced Regional Growth Fund. The body will also help to coordinate economic development activity in City and County including, for instance, cross boundary transport and planning infrastructure strategy and delivery. It will also lead dialogue with other public and private sector organisations that can assist the delivery of the economic development strategy e.g. in regard to skills development and tackling worklessness.
16. Support funding to meet the costs of staffing and running the LLEP is not however to be provided by the Government and this cost will need to be met locally. Funding pressures facing local partners and the phased cessation of funding from emda and the Homes and Communities Agency means that funding for the Support Unit will decline from £494,000 in 2010/11 to £268,000 in 2011/12 and to £168,000 subsequently. The County Council's contribution is proposed to reduce from £80,000 in 2010/11 to £56,000 in 2011/12 and beyond.
17. Work is underway to establish the LEP Board, planned to have around 15 members with at least 50% of members from the private sector. The County Council would be represented by the Leader and one other Cabinet member. A Chair will be appointed from the private sector and a recruitment process is now under way for that position.
18. The Cabinet is asked to formally approve the establishment of the LLEP and delegate responsibility to the Chief Executive in consultation with the Leader to finalise arrangements relating to the governance and funding of the new body and the necessary support staffing arrangements.

### **A Single Delivery Body**

19. In response to the changed financial circumstances referred to above, the Sub Regional Leadership Board instructed a review of the delivery of economic development activity currently delivered through Prospect Leicestershire (PL) and Leicestershire Promotions Ltd (LPL), and agreed to explore the feasibility of a single organisation for tourism and economic development activity across the sub-region, effectively being a combination of PL and LPL.

20. Review meetings have been held with PL, LPL, the Business Council, the Chamber of Commerce and District Chief Executives well as the County and City Councils. The outcome of these discussions has been reported through the Leadership Board on November 4<sup>th</sup> 2010 and are summarised below.

21. The Leadership Board agreed that the following outcomes should be the core focus for a single organisation:

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

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

22. It was concluded that physical regeneration activity had reduced substantially and related physical delivery will continue to be much less intensive owing to the reduction in grant funding and private sector investment. As a result it was concluded that leading the delivery of this activity should be moved in-house to the respective local authorities and other bodies who would then need to contract in specialist support as required.

23. It has been proposed that a single organisation would need to evidence a sustainable business model featuring:

- a provided budget of about £1m (taking account of the funding climate summarised in paragraph 26 below).
- staffing costs at about 66% of total budget
- executive costs at about 15% of total staff costs
- increased 3<sup>rd</sup> party income
- minimum back office services and accommodation costs
- ring-fenced marketing and project costs

24. Discussions have recently taken place with the Chief Executives of the County and City Councils and the respective Leaders at which it was further determined that, subject to approval by both Cabinets :

- the ownership of the SDV should be jointly held between the County and City Councils;
- the likely budget and responsibilities of the SDV will be confirmed and in doing so the County and City Councils will consult with the Chair of the LEP Board when appointed;
- the County and City Councils will aim to recruit a Chair for the SDV by the end of January 2011;

25. The combined core revenue funding provided to PL and LPL in 2010/11 totals approximately £2.5m of which £529,000 is provided by the County Council. Other contributors include the City Council (£796,000), district councils (£125,000), emda (£538,000) and the HCA (£225,000).

26. This funding is expected to fall dramatically in 2011/12 to approximately £1m, a reduction of approximately £1.5m. The main funders in 2011/12 are expected to be the County and City

Councils who are proposing contributions 30% below those in 2010/11 at £370,000 and £557,000 respectively. The position of the District Councils is yet to be confirmed.

27. Liabilities have been considered for both organisations. LPL is a member owned company. The information provided indicates that company reserves would be able to cover any incurred severance and contract liabilities. PL is owned by the County and City Councils. Shared liabilities for the County and City Councils would include any ongoing staff costs during the conclusion of decision-making on creating a single body, severance costs and accommodation costs. It is understood that staffing/severance liabilities can be accommodated within the resources available to the two organisations this year and a number of staff have been made redundant to this end.
28. However the ongoing costs of PL's existing accommodation at Colton Square, which will no longer be required by the SDV, could create liabilities beyond this financial year. These could total £343,000 over the next three years if the accommodation was not re-let. This cost would be shared between the City and County Councils. Steps are being taken to find new tenants to offset this liability. As set out in paragraph 8 provision will be made to cover this liability up to a maximum of £57,200 per annum in each of 2011/12, 2012/13 and 2013/14. Should any additional liabilities or transitional costs arise it is anticipated that these can be accommodated within the budget proposals included in the MTFs.
29. Since the Leadership Board meeting on 4<sup>th</sup> November 2010 the Chief Executives of PL and LPL have met several times to consider how to generate a detailed proposal for the SDV that would fit the parameters set out in paragraph 23 above. These discussions have been positive and agreement has been reached to establish an interim board for the SDV to continue the process of bringing together the two existing delivery organisations
30. It is recommended that Cabinet delegates authority to the Chief Executive, in consultation with the Leader, to finalise arrangements for the proposed single delivery body.

### Legal Implications

31. PL is a company limited by guarantee owned by its members (Leicester City Council and Leicestershire County Council) although the Board of Directors is representative of all sectors) The company specifically operates SSP funding and its powers and objects reflect that, although the introduction of a further object of encouraging tourism to the sub region should not prejudice this. Both Councils have powers to encourage economic well being (section 2 Local Government Act 2000) and to encourage visitors (s144 Local Government Act 1972).
32. Leicestershire Promotions is also a company limited by guarantee and work is currently underway to establish the current membership. Both bodies are therefore legal entities in their own right.
33. The report envisages setting up a body – the SDV – and that there will be a physical transfer of functions. The main implications of this for the companies will be the “breakage” costs and funders requirements; the main implications for the part receiving the functions will be TUPE and pensions issues. Detailed legal advice is therefore being sought as to the transfer arrangements and the due diligence required, as well as to the constitution of the body and

the contracting/funding arrangements to be implemented, particularly bearing in mind the funding plan.

**Equal Opportunities Implications**

34. The establishment of effective economic development arrangements will contribute to improving the prospects of communities which currently face economic disadvantage.

**Background Papers**

Local growth: realising every place's potential. HM Government. October 2010.