

**Report of Deputy Chief Executive**

**Report to Executive Board**

**Date: 9<sup>th</sup> October 2013**

**Subject: Funding for a new inward investment service for Leeds City Region**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: 10.4 (3) Appendix number: 1	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**Summary of main issues**

1. In November 2012, the Leeds City Region (LCR) Local Enterprise Partnership (LEP) Board agreed that a new inward investment service for the City Region should be developed, and that it should be funded via future business rates receipts generated from the Aire Valley Leeds (AVL) Enterprise Zone (EZ). The agreed level of funding was £2.25m over three years to put in place a more proactive service capable of significantly increasing LCR's share of UK and overseas inward investment (foreign direct investment into LCR was estimated at just 2.2% of the UK share in 2012).
2. The proposed funding model for the service is for the Council, as the accountable financial body for the LCR LEP, to advance-fund up to £1.72m to the LEP from its general fund reserves to support delivery of the new service from 2013/14 to 2015/16. The requested funding is expected to be repaid in full to the Council by mid-2018/19 as more business investment is made on the EZ, in the process generating income from business rates receipts. Officers remain confident that future business investment in the EZ, and subsequent income for the Council, will provide sufficient return against this request for interim funding. This model has been adopted by several other city regions across the country, most notably in Sheffield City Region which now has in place a well-resourced inward investment service.
3. The LEP Board, which includes several leaders of Local Authorities (including Cllr Wakefield), also agreed that Leeds and Partners should be commissioned to deliver the new service, subject to the outcome of contract negotiations and procurement clearance. Over the next three years, the service is expected to secure a minimum of

60 new direct investments (UK and overseas) into LCR and to create up to 1,500 new jobs (subject to ongoing negotiations).

### **Recommendations**

- 4 That Executive Board approve the advance funding of up to £1.72m over three years (2013/14 to 2015/16) to be provided from the Council's general fund reserves in order to support delivery of a new, proactive inward investment service for Leeds City Region. The requested funding will be reimbursed to the Council's general fund reserves via future business rates receipts as more business investment is made in AVL EZ. It is expected that the full £1.72m will be repaid to the Council by mid-2018/19.
- 5 Executive Board members are asked to:- note the options-appraisal for the requested funding model as set out in 3.7 and 3.8 ; note that the new service will be delivered by Leeds and Partners from October 2013 (subject to the outcome of ongoing negotiations and commissioning), and that it is expected to secure a minimum of 60 new direct business investments and up to 1,500 new jobs.
- 6 The responsible officer for implementing the decision is Henry Rigg, LCR Secretariat, Strategy and Resources.

## **1 Purpose of this report**

- 1.1 To update Executive Board on the development of a new, proactive inward investment service for Leeds City Region (LCR), capable of significantly increasing the City Region's share of new direct business investment from elsewhere in the UK (particularly London and the South East) and overseas.
- 1.2 To request approval from Executive Board to provide advanced funding of up to £1.72m for the new service over a three-year period 2013/14 to 2015/16 to be funded through the Council's general fund reserves . The requested advance funding will be reimbursed to the Council's general fund reserves via future business rates receipts to be generated as more businesses locate/expand onto the AVL EZ. It is estimated that the full amount will be repaid to the Council by mid-2018/19.

## **2 Background information**

- 2.1 LCR's performance in securing new direct business investment (UK and overseas) has been relatively poor in recent years, lagging behind other comparative city regions such as Manchester and Birmingham. To address this, the LCR LEP Board recently approved the development of a new proactive inward investment service to be funded via future business rates receipts generated from the AVL EZ. This would require approval from the Council as the accountable financial body for the LEP and the EZ. One of the features of the EZ is that additional business rates are earmarked for the LEP to invest in economic development activity that will bring benefits across the City Region.
- 2.2 At its November 2012 meeting, LEP Board also agreed that Leeds and Partners is best placed to deliver the new service in partnership with Local Authorities across the City Region. This decision was subsequently endorsed in June 2013 by the Chief Executives of LCR's Local Authorities and by the LEP's Business, Innovation and Growth Panel.
- 2.3 Since the above endorsements, LCR LEP, LCR Local Authorities and Leeds and Partners have been in active negotiations over the development of the new service. This has culminated in a draft Service Level Agreement (SLA) between LCR LEP (with the Council as the accountable body) and Leeds and Partners, setting out what the latter will be expected to deliver in terms of key activities, outputs and outcomes. It also clearly sets out the funding arrangements with Leeds and Partners i.e. payment on a defrayed quarterly basis subject to detailed progress reports and financial claims, and expectations related to partnership-working (locally and with national players, such as UK Trade and Investment and its network of overseas consuls and embassies), communications (media and branding) and other working practices.
- 2.4 It is proposed that the SLA's targets for new business investment and jobs creation are inclusive of those within the draft SLA between the LCR LEP and Leeds and Partners. Although subject to ongoing negotiations, the SLA's current headline targets to be delivered by Leeds and Partners across the City Region are: - a minimum of 60 new direct business investments, and for these to create up to 1,500 new jobs.

2.5 The proposed funding model for the new service has been adopted in several other city regions across England. This has proved a cost-effective way of building local capacity to attract business investment onto Enterprise Zones and other key development sites. For example, Sheffield City Region have had a well-resourced inward investment team in place for over 12 months funded by business rates receipts linked to their Enterprise Zones, and this has enabled them to undertake a range of proactive activities (in the UK and overseas) to attract investment and promote their city region as a prime business location.

### **3 Main issues**

3.1 A separate key decision to invoke the Council's procurement rules, allowing the implementation of the LCR LEP Board's decision to directly commission Leeds and Partners to deliver the new service, was taken in early October September 2013 by the Deputy Chief Executive, Strategy and Resources.

3.2 The headline reasons for directly commissioning Leeds and Partners are as follows: - undertaking a full, open and competitive tendering process would be costly and time-consuming (taking between 12 and 18 months) ; it is unlikely that any organisation would be as well placed as Leeds and Partners to deliver the service (see 3.3 to 3.5 below for reasons) and a full procurement process could result in only one credible response ; delaying the delivery of the new service via a full procurement process would result in LCR falling further behind other competitor city regions in its ability to secure new business investment ; and the Council is already working with Leeds and Partners to undertake inward investment activity at the Leeds district level. Therefore, it is sensible to build on this investment to realise economies of scale and enhanced impact.

3.3 In addition to the above, Leeds and Partners has an existing inward investment infrastructure which could easily be built on to cover the wider city region. It also possesses recognised expertise and experience in this field via its private sector-led Board, its Chief Executive and several of its existing employees (recognising that an immediate priority in the draft SLA is to recruit a number of new staff members to lead proactive programmes of work in the identified key sectors). Furthermore, Leeds and Partners has existing knowledge and understanding of the City Region and its range of assets and investment opportunities. This means that the organisation would be able to 'hit the ground running' and channel more investment into proactive lead generation and sector propositions, than developmental work.

3.4 Leeds and Partners has an inward investment strategy that focuses on three principles; concentrating on sectors where there are strengths (health, digital, professional services and financial services), working in collaboration to develop value propositions and developing lasting relationships with key partners in the target markets. This approach has already brought a number of successes; 60 investment enquiries from companies located outside Leeds, agreement of heads of terms with a US investor in health and innovation; generated an additional 20 investment leads, and worked in collaboration to secure a number of new NHS bodies locating in Leeds.

- 3.5 Finally, Leeds and Partners has a recent track record of successfully representing the City Region at a number of national and international events. Examples include: - City Week 2012 in London, MIPIM 2012 and 2013 in Cannes, and OMTEC 2012 and 2013. The latter is the world's largest trade fair and exhibition in the orthopaedic equipment sector, and this year saw a joint presence by LCR and Sheffield City region generate 20 leads from businesses interested in establishing European operations. The organisers of the event are keen to hold it in Europe in 2014/15, with Yorkshire the most likely location.
- 3.6 Following advice from the Council's Corporate Procurement Unit, a Voluntary Transparency Notice (VPN) was published on the European Union's OJEU system in early September 2013. This signalled the Council's intent (acting as the accountable body for the LCR LEP) to directly commission Leeds and Partners to deliver the service, and gave organisations the opportunity to challenge the decision. No objections were raised within the ten-day period and, therefore, Leeds and Partners can now be directly commissioned.
- 3.7 If approved, the SLA and associated funding would be managed by officers in the LCR Secretariat in strict accordance with the Council's financial management regulations. The performance of Leeds and Partners in relation to the delivery of the SLA would also be managed by the LCR Secretariat in strict accordance with the Council's contract management regulations.
- 3.8 The alternative options for funding the service have been appraised by the LCR LEP. These include:- bidding for funding from the Government's Regional Growth Fund (time-consuming and unlikely to meet the strict criteria linked to directly investing in individual businesses with significant growth potential, rather than into services) ; requesting that each Local Authority in LCR makes a financial contribution to the new service (time-consuming and difficult to secure in the current public sector funding environment) ; approach the private sector in LCR for investment (unlikely to provide any 'core funding' until the service is more established and is delivering clear returns, although more likely to invest in specific projects via sponsorship as is the case with MIPIM) ; request a lower amount of funding (would have less impact in terms of attracting new direct business investment and developing a world class inward investment service).
- 3.9 The proposed funding model has the most potential to generate financial returns for the LEP, and more business investment for the City Region. It will enable the new and enhanced service to commence in October 2013 for a three-year period. This will help to secure investment from more businesses, some of whom may locate to the EZ and, consequently, contribute to the income required to fully reimburse the Council for its 'up front' investment.

## **4 Corporate Considerations**

### **4.1 Consultation and Engagement**

- 4.1.1 There has been ongoing detailed consultation since November 2012 with the LCR LEP Board and the LCR Leaders' Board, both are made up of Council Leaders from across LCR, including Cllr Wakefield. Local Authority Chief Executives across LCR have also been consulted and attended an inward investment

workshop with Leeds and Partners in June 2013. Consultation has also taken place with the following key stakeholders:- Leeds, York and North Yorkshire Chamber of Commerce, UK Trade and Investment, University of Leeds and BIS Local.

## **4.2 Equality and Diversity / Cohesion and Integration**

4.2.1 There are no direct impacts on specific neighbourhoods or communities as a result of this decision. However, the requested funding will be used to attract more direct business investment into Leeds and the wider City Region, which has the potential to create jobs across the City Region.

## **4.3 Council policies and City Priorities**

4.3.1 The requested funding and new inward investment service will contribute to a number of the four-year priorities set out within the City Priority Plan (2011-15) – Best City for Business. Namely, ‘create more jobs’, ‘support the sustainable growth of the Leeds economy’, and ‘raise the profile of Leeds nationally and internationally’.

## **4.4 Resources and value for money**

4.4.1 The Council is being requested to provide advance funding of up to £1.72m to the LCR LEP between 2013/14 and 2015/16 to deliver the new inward investment service. It is expected that this funding will return in full to the Council by mid-2018/19 as more investment on the EZ generates the required level of business rates receipts (see confidential Appendix 1 for the assumptions underpinning this). As such there should be an eventual nil cost to the Council over the five-year period (October 2013 to September 2019).

4.4.2 The table below sets out the latest estimate of business rates to be generated from the EZ up to 2018/19. On this basis, it demonstrates that the Council is requested to provide advanced funding of £378K in 2013/14, £715k in 2014/15 and £634K in 2015/16, and that there will be sufficient business rates generated for the Council to be fully reimbursed by mid-2018/19. The attached confidential Appendix 1 provides more detailed information to support the estimates of business rates income up to 2018/19. It contains sensitive commercial information related to ongoing negotiations between the Council and several private business interests. Therefore, it is exempt from public consumption and subject to change in accordance with future market and economic conditions.

	<b>Estimate of business rates £000</b>	<b>Already Committed £000</b>	<b>Inward Investment £000</b>	<b>Advance funding to be provided by LCC £000</b>	<b>Reimbursement to LCC £000</b>
<b>2013/14</b>	0	3	375	378	

<b>2014/15</b>	82	47	750	715	
<b>2015/16</b>	280	164	750	634	
<b>2016/17</b>	1062	270	375	0	417
<b>2017/18</b>	1312	270			1042
<b>2018/19</b>	1512	300			1212

4.4.3 It is proposed that the Council's advance funding be initially met through the Council's general fund reserves, which would then be reimbursed after 2015/16 from the estimated business rates receipts from the EZ.

4.4.4 The Council is not being asked to provide any human resources as management of the funding, and the associated SLA, will be handled in-house by the LCR Secretariat on behalf of the LCR LEP.

4.4.5 It is anticipated that the proposed new service will provide a good return on investment for the City Region. The overall service-budget of £2.25m will aim to secure a minimum of 60 new direct business investments and up to 1,500 new jobs (average of £1,500 per job), the majority for City Region residents. It will supplement and add value to the Council's existing support for Leeds and Partners to raise the City Region's profile as a prime location for business investment. Its legacy is expected to be a professional and well-regarded inward investment service capable of out-performing competitor city regions in the UK and abroad.

#### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 Advice has been sought from the Council's Corporate Procurement Unit regarding the invocation of procurement rules which would allow the implementation of the LCR LEP's decision to directly commission Leeds and Partners (with the Council as the accountable body). If the funding is approved, a detailed Service Level Agreement will be used to manage any future financial and contractual relationship with Leeds and Partners.

4.5.2 It is in the public interest not to disclose the information detailed within the attached Appendix 1 because of reasons related to commercial confidentiality i.e. it presents sensitive information regarding ongoing commercial negotiations between the Council and several private business interests. This information falls within Access to Information Procedure Rule 10.4(3).

#### **4.6 Risk Management**

4.6.1 The main risk for the Council in agreeing to provide the advance funding for the three-year period is that less businesses investment is made on the EZ than is

currently being forecast. In such a circumstance, it is possible that the amount of expected income from business rates receipts might not cover the requested £1.72m, leaving the Council with financial liability for all or part of the SLA period, or more likely that it will take longer for the Council's advance funding to be reimbursed than assumed above.

- 4.6.2 In mitigation, however, officers and senior management delivering the EZ remain confident that future business investment will generate the required income to cover this proposal and other important economic development projects (see commercial Appendix 1). Furthermore, the new inward investment service, and the LEP's recently approved Round 4 bid to the Government's Regional Growth Fund, will collectively concentrate more resources on promoting the clear business benefits of the EZ.
- 4.6.3 In addition, the Government has recently announced a £100m Capital Grant Fund for EZs to bid into in order to improve infrastructure in and around key sites. This is expected to stimulate further investment and ultimately lead to more income for the City Region via business rates receipts to offset the requested advanced funding from the Council. There has also been a recent upsurge in the number of inward investment enquiries received by the LEP and its partners. These have tended to be for large industrial/light industrial usage which fits with the sites available on the EZ, and would appear to be indicative of a rise in business confidence and activity, here and abroad.

## **5 Conclusions**

- 5.1 If approved, this request for advance funding will enable the City Region to significantly build its inward investment capacity, in the process bringing it in line with the resources of comparable and competitor city regions. The funding is reliant on the EZ generating sufficient income from future business rates receipts to cover the requested £1.72m over the next three years. However, the Council remains confident that this can be achieved and surpassed due to the current pipeline of business interest in the EZ, and the additional resources recently secured to further promote the EZ and its clear benefits as a business location.
- 5.2 Therefore, it is expected that there will be a nil cost to the Council by mid-2018/19, and that the new service will actually contribute towards a surplus for potential re-investment into the EZ and into other important economic development projects across Leeds and the wider City Region. Furthermore, the requested advance funding will be used to build the capacity of Leeds and Partners to promote Leeds and the wider City Region as a business, leisure and tourism destination.

## **6 Recommendations**

- 6.1 That Executive Board approve the advance funding of up to £1.72m over three years (2013/14 to 2015/16) to be provided from the Council's general fund reserves in order to support delivery of a new, proactive inward investment service for Leeds City Region. The requested funding will be reimbursed to the Council's general fund reserves via future business rates receipts as more business investment is made in AVL EZ. It is expected that the full £1.72m will be repaid to the Council by mid-2018/19.

- 6.2 Executive Board members are asked to:- note the options-appraisal for the requested funding model as set out in 3.7 and 3.8 ; note that the new service will be delivered by Leeds and Partners from October 2013 (subject to the outcome of ongoing negotiations and commissioning), and that it is expected to secure a minimum of 60 new direct business investments and up to 1,500 new jobs (subject to ongoing negotiations).
- 6.3 The responsible officer for implementing the decision is Henry Rigg, LCR Secretariat, Strategy and Resources.
- 7 Background documents<sup>1</sup>**
- 7.1 None

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.