Tees Valley Combined Authority Cabinet
Agenda

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Date: Friday 30th November, 2018 at 10.00am

Venue: Cavendish House, Teesdale Business Park, Stockton-on-Tees, TS17 6QY

Membership:

Mayor Ben Houchen (Tees Valley Mayor)
Mayor David Budd (Mayor of Middlesbrough)
Councillor Stephen Harker (Leader of Darlington Borough Council)
Councillor Christopher Akers-Belcher (Leader of Hartlepool Borough Council)
Councillor Sue Jeffrey (Leader of Redcar and Cleveland Borough Council)
Councillor Bob Cook (Leader of Stockton-on-Tees Borough Council)
Paul Booth (Chair of Tees Valley Local Enterprise Partnership)

Associate Membership:

Darren Hankey (Member of Tees Valley Local Enterprise Partnership)
Professor Paul Croney (Member of Tees Valley Local Enterprise Partnership)
Jerry Hopkinson (Member of Tees Valley Local Enterprise Partnership)
Angela Howey (Member of Tees Valley Local Enterprise Partnership)
Mike Matthews (Member of Tees Valley Local Enterprise Partnership)
Mark South (Member of Tees Valley Local Enterprise Partnership)
Nigel Perry (Member of Tees Valley Local Enterprise Partnership)
David Soley (Member of Tees Valley Local Enterprise Partnership)
Albert Pattison (Member of Tees Valley Local Enterprise Partnership)
Graham Robb (Member of Tees Valley Local Enterprise Partnership)
Siobhan McArdle (Member of Tees Valley Local Enterprise Partnership)

AGENDA

1. **Apologies for absence**

2. **Declarations of Interest**

3. **Minutes**

   The minutes of the meeting held on 28th September 2018 for confirmation

4. **Matters Arising**

5. **Tees Valley Mayor's Update**

   Attached

6. **Governance and Appointments**

   Attached

7. **Investment Plan Delivery Report**

   Attached

8. **Darlington Station Upgrade**

   Attached

9. **Middlesbrough Station Redevelopment**

   Attached

10. **Fujifilm Biocampus Project - Phase 1**

    Attached

11. **Adult Education Budget**

    Attached

12. **Supporting Apprenticeships**

    Attached

13. **Combined Authority Budget 2019/2020**

    Attached

14. **Combined Authority Budget 2018/2019 – Quarter 2**

    Attached

15. Treasury Management Annual Report

Attached

16. Annual Audit Letter

Attached

17. Appointment of Head of Paid Service*

**This report is not for publication by virtue of paragraphs 1 and 2 of schedule 12A of the Local Government Act 1972*

18. Any Other Business

19. Date and Time of Next Meeting:

Thursday 31st January 2019

FOR INFORMATION

20. Delegated Decisions

Attached

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers. Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: Sarah Brackenborough, 01642 524423 or sarah.brackenborough@teesvalley-ca.gov.uk.

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Tees Valley Combined Authority Declaration of Interests Procedures

1. The purpose of this note is to provide advice and guidance to all members (the Mayor, elected and co-opted members, substitute members and associate members) of the Combined Authority Cabinet, Sub-Committees and Local Enterprise Partnership Board, on the procedure for declaring interests. The procedure is set out in full in the Combined Authority's Constitution under the "Code of Conduct for Members" (Appendix 8).

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.

3. There are two types of personal interests covered by the constitution:

    a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
        i. a member of your family;
        ii. any person with whom you have a close association;
        iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
        iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
        v. any body as described in paragraph 3 b) i) and ii) below.

    b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
        i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
        ii. any body which:
            - exercises functions of a public nature;
            - is directed to charitable purposes;
            - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

TEES VALLEY COMBINED AUTHORITY

Declarations of interest relating to the Councils' commercial role

4. The five Councils are constituent authorities of the Combined Authority, integrated within its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

Procedures for Declaring Interests

5. In line with the Code of Conduct, members are required to adhere to the following procedures for declaring interests:

Register of Interests

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Combined Authority. Details of any personal interests registered will be published on the Combined Authority's website, with the full register available at the Combined Authority's offices for public inspection. The form will be updated on an annual basis but it is the responsibility of each member to notify the Monitoring Officer of any changes to the register throughout the year. Notification of a change must be made to the Monitoring Officer within 28 days of becoming aware of that change.

Declaration of Interests at Meetings

7. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.

8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.

9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before

leaving the meeting room. Failure to comply with the requirements in relation to disclosable pecuniary interests is a criminal offence.

Sensitive Information

10. Members can seek the advice of the monitoring officer if they consider that the disclosure of their personal interests contains sensitive information.

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Minutes

TEES VALLEY COMBINED AUTHORITY CABINET

Cavendish House, Teesdale Business Park, Stockton-On-Tees at 10.00am on Friday 28th September 2018

These minutes are in draft form until approved at the next Cabinet meeting and are therefore subject to amendments.

ATTENDEES	
Members	
Mayor Ben Houchen (Chair)	Tees Valley Mayor
Mayor David Budd	Mayor of Middlesbrough
Councillor Christopher Akers-Belcher	Leader, Hartlepool Borough Council
Councillor Bob Cook	Leader, Stockton-on-Tees Borough Council
Councillor Stephen Harker	Leader, Darlington Borough Council
Councillor Chris Massey	Deputy Leader, Redcar and Cleveland Borough Council
Associate Members	
David Soley	Member of Tees Valley LEP
Darren Hankey	Member of Tees Valley LEP
Albert Pattison	Member of Tees Valley LEP
Jerry Hopkinson	Member of Tees Valley LEP
Graham Robb	Member of Tees Valley LEP
Angela Howey	Member of Tees Valley LEP
Apologies for Absence	
Paul Booth	Chair, Tees Valley LEP
Councillor Sue Jeffrey	Leader, Redcar & Cleveland Borough Council
Siobhan McArdle	Member of Tees Valley LEP
Professor Paul Croney	Member of Tees Valley LEP
Mark South	Member of Tees Valley LEP
Mike Matthews	Member of Tees Valley LEP
Nigel Perry	Member of Tees Valley LEP
Officers	
Julie Gilhespie	Interim Managing Director, Tees Valley Combined Authority
Julie Danks	Deputy Chief Executive, Stockton Borough Council
Tony Parkinson	Chief Executive, Middlesbrough Borough Council
Paul Wildsmith	Managing Director, Darlington Borough Council
Denise Ogden	Director of Regeneration and Neighbourhoods, Hartlepool Borough Council
Andrew Nixon	Monitoring Officer, Tees Valley Combined Authority
Sarah Brackenborough	Governance Manager, Tees Valley Combined Authority
Linda Edworthy	Strategy Director, Tees Valley Combined Authority
Keith Wilson	Economic Strategy & Intelligence Manager, Tees Valley Combined Authority

Julie Prior	Legal and Commercial Manager, Tees Valley Combined Authority

TVCA 28/18	**DECLARATIONS OF INTEREST** Declarations of Interest were received for item 8 “Adult Education Budget” from:- Cllr Christopher Akers-Belcher, Cllr Chris Massey, Cllr Bob Cook, Cllr David Budd, Cllr Stephen Harker, Darren Hankey.
TVCA 29/18	**MINUTES OF PREVIOUS MEETING** RESOLVED that the minutes of the meeting held on 27th July 2018 be confirmed and signed as a correct record.
TVCA 30/18	**TEES VALLEYS MAYOR’S UPDATE** Cabinet received a report providing a general update on the key activities of the Mayor and the Combined Authority since the last Cabinet meeting. The Tees Valley Mayor indicated his intention to bring forward investment approvals for Middleborough Station and Darlington Station at the November Cabinet meeting. RESOLVED that the report be noted.
TVCA 31/18	**GOVERNANCE AND APPOINTMENTS** Cabinet received a report detailing appointments for approval. RESOLVED that the following appointments be approved: i. Councillor Stephen Harker appointed to the position of Tees Valley Combined Authority Portfolio Holder for Transport; ii. Councillor Chris McEwan appointed to the position of Deputy Cabinet Member (Darlington).
TVCA 32/18	**FUNDING SUPPORT RE: INNOVATIVE RESEARCH & DEVELOPMENT PROJECT – LIBERTY POWDER METALS** Cabinet considered a report relating to a funding request from Liberty Powder Metals Ltd (Liberty) for investment to support an R&D project focused on developing and manufacturing new speciality alloy metal powders. It was to be hosted at the Material Processing Institute. It was clarified that should activity move outside of the Tees Valley that the loan would require immediate repayment. It was noted that there were some details relating to the funding agreement that were still under discussion and that these would be finalised in the coming days. RESOLVED that:-

	i. The request for Combined Authority for £4.6m funding from Liberty to support the R&D Project be noted; ii. The request for £1m grant and £3.6m loan funding be approved on the basis of the recommendations of the funding appraisal; iii. The Managing Director is authorised to take all necessary steps to complete a funding agreement (including appropriate collateral/security arrangements) with Liberty on the basis set out in the report.
TVCA 33/18	**PROCESS, CHEMICALS & ENERGY SECTOR ACTION PLAN** The Process, Chemicals and Energy Sector Action was presented to Cabinet for approval. The Cabinet welcomed the report. Darren Hankey asked that the report draw out the offer from all colleges. RESOLVED that the findings of the Process, Chemicals and Energy Sector Action Plan be approved.
TVCA 34/18	**ADULT EDUCATION BUDGET** Cabinet considered a report detailing the ongoing work to prepare for implementation of the Adult Education Budget from August 2019, and the process for awarding funding to a range of providers. Cabinet requested that the details of the governance operating model be brought back to a future Cabinet for agreement, and that this be reflected in the recommendations. RESOLVED that:- i. the strategic approach that is planned for implementation of the devolved Adult Education Budget be approved; ii. the process for allocation of funding providers for 2019/20 be approved; iii. the operational management, including the funding award administration and the resourcing required for delivery be delegated to the Tees Valley Combined Authority Managing Director in consultation with the portfolio lead, Cllr Christopher Akers-Belcher and the elected Mayor. iv. the details of the governance operating model be brought back to a future Cabinet for agreement; v. a further report be received in May 2019 to approve final funding awards to providers.
TVCA 35/18	**IMPLEMENTATION OF THE LEP REVIEW** Cabinet considered a report detailing the outcome of the Local Enterprise partnership (LEP) review and the necessary actions that the Tees Valley Combined Authority will need to put in place to respond to the review recommendations. RESOLVED that: i. the report be noted; ii. the submission of the statement on LEP geography for the Tees Valley to Government be agreed;

	iii. the draft implementation plan be circulated to all members for comment before sign off for submission to Government; iv. the sign off of the implementation plan to be submitted to Government by 31st October be delegated to officers, in consultation with the LEP Chair and the Mayor.
TVCA 36/18	**LOCAL INDUSTRY STRATEGY** Cabinet considered a report which provided an update on the development of the Tees Valley Local Industrial Strategy. RESOLVED that: i. the report be noted; ii. the general approach to the development of the Local Industrial Strategy be agreed including an initial session of the Combined Authority including private sector members which is being organised to consider the evidence base that we have for the LIS and what it tells us.
TVCA 37/18	**CA BUDGET REPORT QUARTER 1 2018/2019** Cabinet received a report which provided an update on the financial position of the Combined Authority for the period ending 30 June 2018 and presented a revised Medium Term Financial Plan. RESOLVED that: i. the quarter 1 financial position as at 30 June 2018 be noted; ii. the revised Medium Term Financial Plan be noted.
TVCA 38/18	**DATE OF NEXT MEETING** Friday 30th November 2018

TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 5

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE TEES VALLEY MAYOR

TEES VALLEY MAYOR'S UPDATE

SUMMARY

This report provides a general update on the key activities of the Mayor and Combined Authority since the last Cabinet meeting, which are not covered in other reports to this meeting.

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority Cabinet notes the report.

DETAIL

Budget 2018

1. The Chancellor of the Exchequer delivered his Budget Statement on Monday 28 October 2018. Key announcements relating to the Tees Valley included:

    - An extension to the Transforming Cities Fund by a year to 2022-23, providing an extra £16.5m for the Tees Valley and bringing the total allocated for the delivery of priority transport schemes to £75.5million;
    - The creation of a Special Economic Area on the South Tees Development Corporation site, allowing for the local retention of business rates to reinvest into site remediation;
    - £14million of funding to enable the early redevelopment of a part of the Development Corporation site to attract two specific metal works projects, bringing total Government investment announced on the site in the last year to £137million.

2. The Mayor and South Tees Development Corporation Board are working with Government officials to pull together and submit a comprehensive, multi-year bid for additional support ahead of the spring 2019 Spending Review.

New Tees Crossing and Darlington Northern Link Road:

3. Development of the business cases for a new crossing of the River Tees and for the Darlington Northern Link Road continues. The schemes are designed to address current issues with journey times and delays and improve the local road network in order to help deliver a number of new employment and housing sites.

4. Local funding has been provided to continue scheme development, and it is hoped that the schemes will be funded through the Government's £25billion Road Investment Strategy 2 (RIS2) process, and the new National Roads Fund for delivery in 2023 onwards.

5. It is planned that an update report on the New Tees Crossing will be presented to the Cabinet meeting on 31 January 2019.

Carbon Capture and Storage

6. We are currently supporting the development of a nationally significant energy plant on the South Tees Development Corporation site equipped with Carbon Capture and Storage (CCS) as a potential anchor project for our emitter cluster.

7. Work continues on building the profile of the Tees Valley as a cost effective location for CCS, and we have been active on the government's Cost Challenge Task Force, advising on a deployment pathway for CSS at Scale from 2030.

8. The recommendations put forward to the Task Force have stressed the need for at least two clusters to be identified and provided with the policy framework and funding mechanisms to support the development of a full chain CCS system. Our submission also highlighted the need for this initial deployment to take place between 2020 and 2030 if significant cost savings are to be achieved for the larger scale deployment by 2050.

9. Further announcements are anticipated from Government in November.

National Hydrogen Centre

10. We are working with number of industrial partners, including MPI and TWI, to develop a proposal for funding from the Industrial Strategy Challenge Fund (ISCF) for establishment of the UK's first National Hydrogen Centre in the Tees Valley.

11. The ISCF is one possible source of match funding for the deployment of hydrogen to decarbonise industry, transport and homes in the region. The results of the submission are expected before the end of the year.

12. We have made progress on establishing a hydrogen cluster with industry to support the case for a deployment here. The Government's Chief Scientific Advisor has visited the region and was shown our hydrogen infrastructure and ambitions.

Hydrogen Transport

13. Commercially sensitive work continues with Northern Rail and Network Rail on the development of a business case for Hydrogen Rail deployment in the Tees Valley. This is due early in 2019 with deployment following in the early 2020s.

14. We also in the process of submitting a bid for Government funding (via the Office for Low Emission Vehicles) for Hydrogen Vehicle refuelling infrastructure in the Tees Valley, and an initial deployment of passenger cars.

15. Two refuelling stations are proposed, one on the A66 towards Wilton and the other near the Haverton Hill/A19 junction. These are coupled with a modest fleet of vehicles currently operated by the Ambulance Service and MPI. The project should be operational within 12-18 months from a decision by Government which is expected around the end of the year. The bid is for £2m of OLEV funding which will need to be matched should we be successful.

16. The proposal compliments our ambitions on hydrogen rail and will provide an infrastructure for further deployment in road transport. We intend to use our industrial hydrogen infrastructure to supply the project to support the case for industrial decarbonisation in the Tees Valley.

£24million 'Opportunity North East' programme

17. The Mayor and Combined Authority officials, together with the five Local Authorities, are working with Government to influence the recently announced £24million 'Opportunity North East' programme. The aim is to tackle issues that are holding young people back from achieving their ambitions, raising the number of students attending the country's top Universities and inspiring them to access education, employment and training post-year 11.

18. The programme will see £12m invested in targeted approaches to improve the transition from primary to secondary school, drive up standards at secondary level and improve outcomes for pupils post 16 years of age. A further £12m will be used to boost early career training for new teachers, and to raise standards in the region's secondary schools.

19. The programme will see secondary schools, and colleges work to encourage young people to consider university, degree apprenticeships and other high quality technical education options, while partnering with local businesses to improve job prospects for young people across the region.

FINANCIAL IMPLICATIONS

20. There are no financial implications to this report.

LEGAL IMPLICATIONS

21. There are no legal implications to this report.

RISK ASSESSMENT

22. This report is an update and therefore is categorised as low risk.

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AGENDA ITEM 6

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE INTERIM MANAGING DIRECTOR

GOVERNANCE AND APPOINTMENTS

SUMMARY

This report brings forward the following appointments:

- Councillor Bob Norton as the Tees Valley Combined Authority's Audit & Governance Committee's representative on the South Tees Development Corporation's Audit & Risk Committee;
- Brenda McLeish, Vikki Jackson-Smith and Annabel Turpin to the Tees Valley Local Enterprise Partnership;
- David Soley as Deputy Chair of the Local Enterprise Partnership; and
- the nomination of Cllr Stephen Harker as the Tees Valley Combined Authority's substitute member for Transport for the North's Rail North Committee.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet approve the appointments detailed in this report.

DETAIL

1. Article 41 of the Constitution of the South Tees Development Corporation states: "The Combined Authority's Audit & Governance Committee shall appoint one of its members to be a member of the Corporation's Audit & Risk Committee".

2. This requirement is reiterated in the Committee's Terms of Reference (Clause 2.1) which states "The A&R Committee shall, as a minimum comprise at least five members, which shall include: The Independent Chair, any 2 other nominated Board members; and a representative of the TVCA Audit & Governance Committee".

3. The Committee's Terms of Reference state that it provides "independent review of governance, risk management and control frameworks and oversees financial

reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place."

4. At its meeting of 27th September 2018 the Tees Valley Combined Authority's Audit & Governance Committee elected Councillor Bob Norton (Redcar & Cleveland Borough Council) to take up this position.

5. The Tees Valley Local Enterprise Partnership (LEP) is the principal forum for collaboration between the public and private sectors in the Tees Valley. LEPs exist across England and form part of a national network, but in the Tees Valley the partnership is strengthened by its integration within the decision-making structures of the Combined Authority with LEP members also acting as Associate Members of the Combined Authority Cabinet.

6. In order to strengthen private sector representation on the LEP, a round of recruitment has recently taken place. In particular its focus has been on increasing the diversity of the group.

7. Following a recruitment campaign in September 2018, 13 applications were received from a diverse range of sectors and across the geographies of the Tees Valley. A Recruitment Panel met on 16th October 2018 to review the applications and agreed to recommend the appointment of Brenda McLeish, Vikki Jackson-Smith and Annabel Turpin.

8. Brenda McLeish is the CEO of one of the UK's largest training providers, Learning Curve Group.

9. The firm delivers a broad range of educational services and training programmes across diverse industry sectors and a broad range of learners, with staff numbers growing from 40 full-time employees to more than 450 and turnover increasing from £1m to in excess of £45m. Learning Curve Group now supports approximately 120,000 learners every year.

10. Vikki Jackson-Smith is the CEO of the North-East's largest independent waste management company, J&B Recycling.

11. The company has continued to grow through investment in technology and commitment to providing skills and employment.

12. Annabel Turpin is Chief Executive & Artistic Director of ARC Stockton Arts Centre, which is one of the North-East's most influential cultural entertainment venues.

13. A nationally and internationally respected cultural sector leader, Annabel has transformed the profile and impact of the ARC Stockton Arts Centre over the last 10 years. The introduction of innovative audience-driven payment policy heralded a significant increase in the audience participation, revenue and first-time attendance at the venue, and Annabel travels extensively to share the success and methodology behind ARC.

14. In order to strengthen the leadership function of the LEP, it was agreed that a Deputy Chair would be appointed. The Deputy Chair will operate as a substitute for the Chair in representing the LEP at meetings with stakeholders, in undertaking relevant activities and retaining the visibility of the LEP, both locally and nationally, and in attending official meetings including TVCA Cabinet.

15. Following a robust process for selection, it was agreed by the LEP, to recommend the appointment of David Soley as Deputy Chair.

16. Transport for the North, Northern England's sub-national Transport Body, has requested TVCA nominate a formal substitute member for the Rail North Committee.

17. Membership of the committee is restricted to Transport for the North Board members or substitute members, and as such this nomination is TVCA's Transport for the North Board substitute member, Councillor Stephen Harker.

18. Cabinet is asked to confirm the appointments as set out above.

FINANCIAL IMPLICATIONS

19. Support for the governance of the Tees Valley Combined Authority is provided from within the Authority's core budget, as agreed by Cabinet through the annual budget process, and funded through resources devolved from central government.

LEGAL IMPLICATIONS

20. The report relates to the Constitution for the Combined Authority which sets out the appropriate statutory framework. The Constitution came in to effect on 8th May 2017 and is legally binding.

21. The report also relates to the Constitution of the South Tees Development Corporation, which sets out the appropriate statutory framework. The Constitution came in to effect on 13th June 2017 and is legally binding.

RISK ASSESSMENT

22. This report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

23. Appointments are made in accordance with the Combined Authority Constitution and the processes governing each Local Authority.

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 7

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE INVESTMENT DIRECTOR

PORTFOLIO: INVESTMENT & BUSINESS GROWTH

INVESTMENT PLAN DELIVERY REPORT

SUMMARY

This paper sets out progress made to date on delivering the Tees Valley Combined Authority Investment Plan which was published in April 2017. It provides:-

- general updates since the last report (27 July 2018) on the spend position, forecast and recent approvals;
- a general update on the strategic prioritisation exercise;
- an update on the ERDF & ESF Uprating exercise;
- an update on the evaluation of Devolution Funding to be undertaken by SQW; and
- an update on the review of the Combined Authority's Assurance Framework.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. Notes the current position of the investment programme and project updates since the previous report to July Cabinet.
ii. Notes the general update on the strategic prioritisation exercise.
iii. Notes the current position on the SQW review work.
iv. Notes the current position on reviewing the Assurance Framework.

DETAIL

CURRENT SPEND POSITION & FORECAST

1. **Table 3 below shows the spend position in 2017/18 and forecasted expenditure for 2018/19 (excluding European funding specific grants).**

	2017/18 £ million	2018/19 £ million
Forecasted Spend £ million	£25m	£74m*
Achieved Spend £ million	£25m	£19m

*Previous forecasted spend for 2018/19 included anticipated spend on pipeline projects; however due to the prioritisation exercise this figure may change. Once the prioritisation exercise is complete we will bring forward a revised 10 year investment programme which will update this figure.

2. Government is monitoring spend closely on LGF and as at the end of Quarter 2 18/19 we are currently on track against forecast spend.

3. Table 2 below shows the current position on European Funding. All TVCA pipeline projects are considered for eligibility to access these funds and applications progressed where suitable.

   Tees Valley notional allocations have been updated to reflect recent and forward sterling/euro exchange rates. The revised rate for the ERDF Programme is €1=£0.9033. This means that the total notional ERDF allocation for Tees Valley has risen from £96.2m to £111.4m.

   The revised rate for the ESF Programme is €1=£0.87. This is lower than the rate used for ERDF as DWP decided to apply a lower rate reflecting the structure of the programme and its fundamental difference to ERDF. This means that the ESF notional allocation for Tees Valley has risen from £74.4m to £84.5m. DWP have stated that these figures could be subject to change as they are pending approval of the revised Operational Programme by the European Commission. It is hoped that final revised allocations will be confirmed in the Autumn.

   The sterling value of Local Enterprise Partnership area notional allocations will be kept under review by the ERDF and ESF Managing Authorities and adjusted as necessary to reflect future currency fluctuations and departmental responsibilities for managing programme budgets.

	£m	£M	£M	£M	£M
	ORIGINAL ALLOCATION	REVISED NOTIONAL ALLOCATION	CONTRACTED	PIPELINE	AVAILABLE
ERDF	96.2	111.4	38.1	33.0	40.3
ESF	74.4	84.5	35.4	21.4*	27.6
EAFRD	1.1	1.1	0.6	1.0	-0.5
TOTAL	**171.7**	**197.0**	**74.1**	**53.4**	**67.4**

* Procurement for four Education and Skills Funding Agency opt-ins (funding specifications) with a total value of £19.4m took place during October. The outcome of this procurement exercise will not be known until early 2019, therefore, the full amount allocated has been included as pipeline.

PIPELINE & STRATEGIC PRIORITISATION EXERCISE

4. Work is ongoing with Management Group and Chief Executives to look at the strategy for prioritisation of projects in the current pipeline. An updated assessment matrix has been used in the review of the current pipeline and will be developed further for future EOIs within our updated Single Pot Assurance Framework. Discussions around prioritisation are ongoing.

DELIVERY

5. No further updates since the last report, delivery of the Investment Programme has accelerated as reported previously and is on track. Delivery is monitored closely by TVCA. A delivery dashboard is being developed for future reports.

ASSURANCE FRAMEWORK

6. We are currently undertaking a full review of the Assurance Framework we have in place with Government and guidance is expected to be published by Government in early 2019. A draft will be shared with Cabinet on receipt of updated guidance from Government.

EVALUATION OF DEVOLUTION FUNDING – ANNUAL SQW REVIEW

7. Tees Valley is in receipt of £15m of annual financial support through its devolution deal. The monitoring and evaluation of these monies is subject to a National Evaluation Framework, delivered by SQW Ltd (economic consultants) which will inform the 2021 Gateway Process, a five year review by Central Government to ensure devolution deal monies have been appropriately spent.

8. All programmes in receipt of support under the devolution deal must be evaluated in accordance with guidelines developed by SQW and the Combined Authority and agreed with Central Government.

9. The proposed monitoring and evaluation framework is in two parts and will cover all activities supported under the Single Pot and will subsequently contribute to the first Gateway Review (2021), including:

    - National Performance: Using an agreed list of metrics (formed into detailed logic models), the evaluation will assess performance of Tees Valley against key indicators, in order to assess progression; and

    - Local Performance: In order to provide 'local granularity and assess value for money' the specialist panel of external evaluators will develop a local evaluation methodology for all relevant programmes (dependent on the degree of progression of each programme, they will either be assessed solely by outputs (for early stage programmes) or impact driven (for those which are either completed or close to completion by 2020)) incorporating the national performance indicators but augmented by outputs and impacts specific to the range of projects supported by the Tees Valley single pot.

10. The Combined Authority has to date developed a draft monitoring and evaluation framework (which includes Revenue and Capital Logic Models for all six Strategic Economic Plan themes) and has shared preliminary case work with SQW, which will be used to develop a consistent approach to monitoring and evaluation. SQW are reviewing the Combined Authority's information this Autumn.

FINANCIAL IMPLICATIONS

11. No financial implications other than as set out above.

LEGAL IMPLICATIONS

12. The Assurance Framework must be adhered to at all times. This was agreed with Government through the Devolution deal and if not followed can pose a risk to the investment programme and securing future funding.

RISK ASSESSMENT

13. The main risk in respect of the Investment Plan is that significant delay in spending the funds the Combined Authority has available may impact on our ability to secure further funding from Government, under the 2021 Gateway Process referred to at paragraph 7 above, or under any other specific competitive funding opportunities that may arise. The Investment Plan Delivery Report itself is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

14. The strategy for prioritisation of projects in the current pipeline has been subject to consultation with Management Group and Chief Executives.

DELEGATED DECISIONS:

15. Development Funding – August 2018 and September 2018

Project and Summary	TVCA Amount £	Assurance Framework
GRIP3 Rail Options Selection - Eaglescliffe to Northallerton Branch Line Gauge enhancement work to improve rail connectivity to Teesport by addressing the constraints caused by four gauge fouls.	250,000	EOI Assessment
Northern School of Art - Middlesbrough FE relocation Development of the Business Case (RIBA Stage 3). The proposal is to relocate the Northern School of Arts FE site at Green Lane in Middlesbrough, to a new purpose built building in a more central location in Middlesbrough.	580,000	EOI Assessment
Hydrogen Transport Deployment Bid Development of a proposal to meet a call by the Office of Low Emission Vehicles (OLEV, part of DfT) for deployment of Hydrogen Vehicles and refuelling infrastructure and which will also support applications to related calls on Air Quality and potentially EU funding calls.	60,000	EOI Assessment
TWI & TVCA Hydrogen Bus Development role To match fund a hydrogen business development role employed by TWI.	80,000	EOI Assessment

Freeport status study additional amount Commissioning of research and expertise to understand the merits of Free Port Status, using Tees Valley as a test case. (Linked to previous decision dated 16.04.18)	50,000	
Tees Valley business accommodation study To strengthen the Combined Authority's prioritisation of business accommodation investment by providing a robust evidence base.	60,000	

16. Investment Commitments since last update.

Project	TVCA £	Summary	Assurance Framework
Innovation Research and Development Project – Liberty Powder Metals	Total Investment of £4.6m (£1m Grant and £3.6m Loan)	Supporting an R&D project focused on developing and manufacturing new speciality alloy metal powders for end users to use in net shape and additive manufacturing applications like 3D printing engine parts, to be hosted at The Materials Processing Institute.	Business Case Assessment Approved subject to a number of conditions.

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 8

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE INVESTMENT DIRECTOR

PORTFOLIO: TRANSPORT

DARLINGTON STATION UPGRADE

SUMMARY

The capacity constraints at Darlington Station are becoming a barrier to improved rail services across Tees Valley and if not resolved will impact on both Local and National connectivity aspirations.

At its meeting in June 2018 Cabinet committed £3 million to the ongoing development of this project.

The purpose of this report is:-

a. to update Cabinet on the progress to date of the work being carried out by the Combined Authority ("TVCA"), Network Rail ("NR") and Darlington Borough Council ("DBC") to bring forward the Business Case for the rail infrastructure and station fabric elements of the Darlington Station project for submission to Department for Transport's Rail Network Enhancements Pipeline; and

b. to seek approval for the investment of up to £25m of Combined Authority funding as a contribution towards the total cost of the station elements of the scheme. This contribution is dependent upon the rail infrastructure elements of the scheme (new platforms, track alignment and signalling) being funded by DfT and brought forward in its funding programme.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:-

i. Notes the progress to date and the work being carried out by TVCA, DBC and NR to bring the Darlington Station project forward;

ii. Subject to due diligence and on the basis that the project is funded and brought forward by DfT as set out above, approves the investment of up to £25 million of Combined Authority funding into the station elements of the Project; and
iii. Authorises the Interim Managing Director and the Investment Director to fully develop the project subject to the availability of all of the funding needed to deliver the Project, and to bring forward appropriate contractual proposals for the delivery of the Project and further updates to Cabinet in due course.

DETAIL

Project Description

1. The Darlington Station upgrade encompasses three strands of activity which if delivered together will have a transformational effect on local and national rail services in the Tees Valley, in turn stimulating economic growth and contributing to the area's wider economy. The three component parts of the overall project are:

    - Introduction of new platforms on the eastern side of the station with an improved track layout and improved signalling;
    - Improvements to the fabric of the station including a new bridge, improved western entrance new eastern entrance, improved passenger facilities and improved car parking and public transport interchange - fully integrated in to the surrounding public realm; and
    - The regeneration of the wider area around the station.

2. The funding requested in this report will contribute to the overall cost of the work set out in (a) and (b) above, which will be established at the next stage of the project development process.

3. The risk of not committing the funding requested in this report is that the Project will not come forward by 2025, which means the capacity constraints will remain for both long distance and local services and the delivery of future service enhancements on the ECML, which will improved local connectivity into Darlington from the rest of the Tees Valley will be put at risk. In addition, according to the Network Rail's East Coast Route Study, without intervention it is forecast to become very difficult, if not impossible, for local services to access Darlington Station from the mid-2020s onwards.

4. Darlington station plays a key role in the operation of the whole of the local rail and regional network. The combined total of population in the Tees Valley and its environs is on a par with the Leeds urban area, and is significantly greater than the population of Liverpool. However, both places have extensive local rail networks with frequencies on all local routes of at least 4 trains per hour on all arteries. The only part of the Tees Valley network that has a frequency of 2 trains per hour is between Darlington and Saltburn. This level of train service must inevitably reduce opportunity in the area, as access to jobs and business to business connectivity is impeded. There is no prospect of improving local services without works at Darlington Station to separate these trains from services using the mainline.

5. The rail infrastructure elements of the project will address existing capacity constraints at Darlington Station by creating two new bay platforms on the east side of the Station to accommodate existing and future increases in local services and a new through platform adjacent to the Up Goods Loop. This will enable local services to operate independently from the East Coast Mainline Line ("ECML") and remove other current conflicting

movements with northbound non-stop trains using the Down main line. This will enable more local train services across the Tees Valley and more national services to be considered.

6. The station fabric elements of the Project will build upon the station as a multi-modal hub, providing a passenger infrastructure that will be able to accommodate the improved connectivity that HS2 and Northern Powerhouse Rail will bring to the Tees Valley in the early 2030s.

7. Darlington has been identified as an important calling point for HS2 and will be the Tees Valley's access point to the HS2 network. HS2 provides an opportunity for faster journeys to key locations and for more services. HS2 will better link the advanced manufacturing, bio-pharmaceuticals and energy industries of the Tees Valley with clusters and innovation hubs in the west and West Midlands. The Darlington Station project allows for a new platform to accommodate HS2 services, ensuring the Tees Valley is HS2 ready.

8. Most crucially for the Tees Valley, the scheme will enable improved local rail services throughout the area. Over 30 local rail stations connect to Darlington Station, many of which rely on this connection to access national and mainline services, and in the future HS2. Currently local services from both the west and the east have to cross the East Coast Mainline south of the station to access platforms, and this causes interruption and delays to both local and mainline services.

9. This conflict limits the number of services that can be provided on both the local and national rail network, the and analysis of the impact of not changing this shows that significant numbers of future mainline and local services will not be able to run without this investment. The current situation also makes it impossible to run a 'clockface' timetable (an even-spread of services running at same time every hour) for local services, a key ambition for improvement of the local rail network, and makes it impossible to properly integrate national and local services.

10. The Darlington Station improvement is integral to our emerging Strategic Transport Plan, as it will facilitate improve national connectivity as well as better rail links across Tees Valley and wider Northeast region. Providing an attractive rail system will also allow alternatives to the private car and enable integration with bus and sustainable modes, fundamentally enabling a resident living in one part of Tees Valley to access employment opportunities anywhere else in the region.

11. In 1825 the Tees Valley was where the modern passenger railway was born, and the Darlington Station project will deliver a fit for purpose rail gateway to the Tees Valley in time for the 200th anniversary of this globally significant event.

Project Development Process

12. Rail Network Enhancement Pipeline (RNEP) is the Department for Transport (DfT)'s new mechanism for bringing forward rail enhancement projects and releasing funding and was introduced in March 2018. The process has 5 stages shown below:

13. In Stage 1 of the process, a strategic Outline Business Case ('SOBC') has been produced to enable a "Decision to Develop" the rail infrastructure and station fabric elements of the Darlington 2025 Station Upgrade Project by DfT.

14. The SOBC shows the project demonstrates high value for money with a standard transport (Level 1) Benefit to Cost Ratio (BCR) of 2.77 and an adjusted BCR of 3.55 with the inclusion of wider benefits. The SOBC was presented to the Darlington Station Programme Board on 28th September for approval to submit to DfT, and has now been submitted.

Project Governance

15. Robust project governance arrangements have been agreed by the Programme Board and partners and the Combined Authority have provided the project management capacity to support the delivery of the Project. The Board is chaired by the Tees Valley Mayor and its members are:
    - Leader of Darlington Borough Council
    - TVCA Investment Director
    - DBC Managing Director
    - NR Route Managing Director: London North East and East Midlands
    - NR Investment Director: London North East and East Midlands
    - LNER Major Project Director
    - DfT Head, Northern & TFN Engagement Team: North and Devolution
    - Homes England General Manager: North East, Yorkshire and the Humber.

Strategic Fit, Ambition and Benefits

16. Improving the operation and environment of Darlington Station is a key component of the Tees Valley's draft Strategic Transport Plan. Darlington Station upgrades are identified as a transport priority in the Tees Valley Devolution Deal, Strategic Economic Plan and Investment Plan.

17. Key to the overall masterplan is that this is not just a rail project. It is an integrated development in which investment in the station and its infrastructure also unlocks regeneration and economic growth through new commercial and residential development around the station.

18. Darlington 2025 once complete will:

    - Help unlock capacity on the ECML;
    - Create extra capacity to ensure the area is ready for new train services provided by HS2 and Northern Powerhouse Rail;
    - Improve connectivity into the national rail network – making local and national connections work;
    - Ensure fast and frequent direct trains to London, Edinburgh, the north and the wider Tees Valley – stimulating economic growth;
    - Provide an improved franchise offer for passengers and better connectivity across the Tees Valley and sub-region;
    - Enable the redesign of train services, with potential for new Stations enabling them to be faster, more frequent and tailored to meet the needs of people rather than the constraints on the network;
    - Support and facilitate the ambitious growth targets to be achieved by 2026 in the Strategic Economic Plan;

- Maximise the potential for franchises to be successful and reduce subsidy;
- Maximise the investment in rolling stock (Pacer replacement);
- Provide an attractive regional rail system that will offer alternatives to the private car and enable integration with bus and sustainable modes - railway improvement is integral to the region's strategic transport plan;
- Drive and facilitate wider regeneration and development in the area around the Station;
- Contribute significantly to economic growth in TVCA's regional economy;
- Support Tees Valley's *Visitor Strategy* and the Rail Heritage celebrations planned for 2025; and
- Deliver high value for money including a standard transport benefits BCR of 2.77 and an adjusted BCR of 3.55 with the inclusion of wider benefits.

Funding

19. The indicative costs for the station project are £122.5 million, excluding optimum bias and risk. This work will all be developed in the next phase of the Project.

FINANCIAL IMPLICATIONS

20. TVCA Cabinet has previously endorsed £3m of funding to support the next stage of development and design of the proposal allowing the scheme to progress to outline business case, subject to due diligence.

21. Approval of this proposal will accept the Project into the Investment Plan and commit up to £25m of funding towards the Project. This funding will be subject to appropriate due diligence through the Tees Valley Assurance Framework.

LEGAL IMPLICATIONS

22. There are no specific legal issues arising from the provision by the Combined Authority of funding for the Project as set out above. The Combined Authority will use its standard funding agreement for capital projects to govern the terms of its funding into the Project. The funding agreement will be tailored so as to minimise the risks identified in the risk section below as far as possible. All the contractual mechanisms to deliver the project remain to be developed at the next stage.

RISK ASSESSMENT

23. The main risk is DfT failing to commit to delivering the Rail Infrastructure for Darlington 2025.

24. Other key high level Project risks have been identified. A full risk management workshop is scheduled for 31st October 2018, will be conducted with key stakeholders and industry experts to identify risks across a range of categories. These risks will be recorded in a risk matrix and assigned to an owner to manage and mitigate.

CONSULTATION

25. The Darlington 2025 project has been subject to consultation and information dissemination as part of the initial master planning work undertaken by ARUP. The Strategic Outline Business Case (SOBC) prepared to allow the Project to enter DfT's enhancement pipeline was presented to the Programme Board on Thursday 28th September 2018 and approved for submission to DfT. Further consultation will take place as the scheme develops.

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 9

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE INVESTMENT DIRECTOR

PORTFOLIO: TRANSPORT

MIDDLESBROUGH STATION REDEVELOPMENT

SUMMARY

At its March 2018 meeting Cabinet agreed a £2.5 million contribution to this project.

The purpose of this Report is to:

- Provide an update on the proposed improvements at Middlesbrough Station;
- Inform Cabinet of the joint proposal by the Combined Authority and Middlesbrough Council ("MBC") to work together to bring forward the delivery of the masterplan for Middlesbrough station, addressing the need for additional capacity and to regenerate and improve the station for the benefit of rail users; and
- Seek approval to authorise an additional Combined Authority contribution to the Project to up to £20 million of Combined Authority investment as set out in this report.

The Project is being developed in conjunction with the Department for Transport ("DfT"), Transport for the North ("TfN") and Network Rail ("NR"). The component parts of the project are:

- Remediation of the station undercroft to bring it back into use, including the creation of new business workspace (which will also allow the permanent re-opening of the southern entrance, building upon the current interim solution);
- Enhancements to the existing station buildings to provide new and improved facilities for passengers; and
- Improvements to the capacity of the station to allow for growth in the number of rail services to/from Middlesbrough station that serve destinations within Tees Valley and further afield.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. Notes the progress with the delivery of the Middlesbrough Station Improvement Project, through the work being carried out in partnership between the Combined

Authority and MBC in conjunction with DfT, TfN and NR, to bring the undercroft remediation, station and facilities enhancement and station platform capacity components of the project forward;

ii. Subject to compliance with the Tees Valley Assurance Framework, approves in principle the investment of an additional up to £20 million of Combined Authority funding into the project as set out in this report; and

iii. Authorises the Interim Managing Director and Investment Director to:

a. continue to work in conjunction with all stakeholders to identify potential temporary measures which can be funded from this allocation and put in place to accommodate additional train services, until a permanent solution to the development and delivery of additional station platform capacity can be agreed;

b. work in conjunction with MBC, DfT, TfN and NR to develop a Strategic Outline Business Case ("SOBC") (RNEP Stage 1) for the station platform, track and signalling capacity component of the Project and (subject to Government endorsement and a positive investment decision) to progress to the develop stage (RNEP Stage 2) to develop an Outline Business Case ("OBC") to identify the preferred option for delivering the additional capacity;

c. bring a further report back to Cabinet when the OBC is completed and the preferred option for delivering the additional capacity, total cost, funding proposal and timescale is known; and

d. continue to work in conjunction with MBC and NR to develop proposals for the remediation of the station undercroft to bring it back into use, including the creation of new business workspace (which will also allow the permanent re-opening of the southern entrance building upon the current interim solution) and also to develop the approach to identifying the preferred options for delivering further phases of station facility improvements.

DETAIL

Background

1. The March 2018 Cabinet Report provided a broad overview of the Middlesbrough Station masterplan (the "Masterplan") and the programme of projects it covers. The key projects identified were:
   - Improvements to the fabric of the station to improve the passenger experience, including interim measures to re-open the southern entrance and remediation of the under-croft of the station; and
   - A review of the capacity needs of the station to ensure current and planned future rail services could be accommodated.

2. Subject to due diligence, Cabinet has already approved £2.5 million of Combined Authority funding, as follows:

   - <u>Customer facing improvements to the station (£2 million from Combined Authority)</u>

Total estimated project cost of £4.5 million, with additional contributions of £2 million from NR and £0.5 million from MBC.

- Rail capacity (£250,000 from Combined Authority)
  £50,000 contribution to capacity study.
  Total estimated project cost of £400,000 for subsequent GRIP3 study, with additional contribution of £200,000 from NR.

- Contingency (£250,000 from Combined Authority)
  To mitigate the identified project risks.

3. The Masterplan also identifies the need to improve the public realm around the station and the link to the town centre. This is to be developed in parallel to the projects set out above but will be led and funded by MBC.

Capacity Issues - the Need for Further Investment in the Station

4. The additional development of Middlesbrough Station is needed due to planned increases in the number of rail services which will be passing through the station in the near future. By 2021, franchise commitments by the Train Operating Companies ("TOCs") will see:
   - longer trains to and from Manchester Airport, providing additional seats for passengers;
   - An increased number of services between Middlesbrough and Whitby, serving rural communities along the route;
   - New Northern Connect Services between Newcastle and Middlesbrough; and
   - The introduction of direct services to and from London Kings Cross.

5. It is not possible for all the current and committed rail services to be accommodated within the current station (which comprises two platforms) which means that **additional platform capacity is needed**. A capacity analysis undertaken by NR has identified that a third platform for the station will be required to fully facilitate the extra services that have been specified and committed to by DfT and the TOCs. Developing extra capacity to host these strategic rail services is a national issue and we will work closely with MBC, DfT, TfN and NR to develop the proposal for an extra platform. TfN are supportive of the project.

6. Work is also required to **improve the station facilities** for passengers. In 2016/17 the station had an annual rail usage of 1.36 million passengers - this figure is from the Office of Rail and Road statistics and is based on sales of tickets in stated financial year(s) which end or originate at Middlesbrough. This is likely to underestimate usage as it does not take into account those passengers changing trains at Middlesbrough station to reach other destinations. With the increase in rail services, the number of passengers using the station is set to grow and therefore the fabric of the station and its facilities need to be improved to meet this rise in demand. This component of the project is being developed jointly by the Combined Authority, MBC and NR.

Update on Remediation and Passenger Facility Improvements

7. The proposals for further improvements to the fabric of the station build upon the £3 million of investment by NR that has already gone into maintaining the roof, and additional money spent on an interim solution to re-open the southern entrance which has previously been closed due to its structural fragility.

8. As a result of the joint working commitment between the Combined Authority, MBC and NR, including the funding commitments identified above, progress is being made with proposals to remediate the undercroft including:
   - the creation of new business workspace;
   - finding a long-term solution to enable the southern entrance to be fully re-opened; and
   - identifying the preferred options for delivering further phases of station facility improvements.

9. A Client Scheme Requirements Document has been produced by the Combined Authority and MBC in consultation with NR and this establishes the component parts of the work to enable NR to develop proposals for improvements to the station fabric and passenger experience. An output specification document establishing in more detail what is required for the various elements of the project is also being produced and a workshop with NR and key stakeholders will be held in November. A proposal for the first phase of these improvements (the remediation of the undercroft and creation of new business workspace) is still on course for definition in this financial year for delivery in the period 2019/20 and this is expected to add significant vibrancy to the station. Work will continue with NR to specify further phases of work to improve the station's passenger offer.

Platform Capacity

10. A significant proportion of trains are already leaving late from Middlesbrough station, due to the platform capacity being insufficient to accommodate existing committed services. These late departures have a wider impact on the network across the north of England and TfN has identified the need to address capacity issues at Middlesbrough as one of its key priorities for network improvements.

11. Although the existing services are already causing capacity issues, there are also planned increases in the number of rail services which will be passing through Middlesbrough in the near future and this will further compound the issues. The Masterplan identifies that by 2021, the following franchise commitments are expected to be operational at Middlesbrough Station:
    - Services to / from Manchester Airport – from Autumn 2018 these services will be formed from new rolling stock which provides additional seats for passengers but consequently are longer and require more time at the station to prepare the train for its return journey;
    - Services to / from Whitby – from December 2019 an increase in the number of services;
    - Services to / from Newcastle – from December 2019 an additional 1 train per hour; and
    - New Services to / from London Kings Cross – from December 2020 with 7 trains per day heading south and 6 returning north.

12. While the additional trains to Newcastle, Hartlepool and Whitby (all scheduled to be introduced in 2019) can theoretically be accommodated within the timetable, there is clearly additional pressure caused by delayed services, which again would impact across the wider Tees Valley network.

13. As a result of this additional pressure, without increased platform capacity the introduction of the direct London trains specified for 2020 by the DfT as part of the franchising process would have a significant effect on the current timetable, as the London franchise would have access rights to the station that supersede those of other rail operators.

14. Unless a solution can be found to this capacity problem at Middlesbrough station, there are potentially significant adverse implications (in terms of delays and cancellations) for rail services across Tees Valley including those towns and villages on the lines to:
    - The mainline hub at Darlington (and beyond to Bishop Auckland) – which connects places including Thornaby, Eaglescliffe, Allens West, Dinsdale and North Road;
    - Hartlepool (and beyond to Newcastle) - which connects places including Thornaby, Stockton, Billingham and Seaton Carew;
    - Saltburn – which connects places including South Bank, Redcar British Steel, Redcar Central, Redcar East, Longbeck and Marske;
    - Whitby – which connects places including James Cook University Hospital, Marton, Gypsy Lane and Nunthorpe; and
    - Manchester Airport – which connects places including Thornaby, Yarm and key northern destinations such as York, Leeds and Manchester.

15. To accommodate the additional services arriving in 2019 and 2020 it may be necessary to pursue temporary measures to manage the situation until the necessary works can be completed. These are being explored with NR, the Train Operating Companies and other stakeholders and may include measures such as extending services that terminate at Middlesbrough and/or introducing a limited direct London service initially. Although the current franchise holders are supportive of exploring these interim options, there would be both capital and revenue implications associated with them, and the shorter the time period they are required for, the lower these would be. It is not anticipated that any revenue implications would fall to be funded from this project.

Need for Additional Funding

16. In order to ensure that the Combined Authority can meet its SEP ambition to develop Middlesbrough Station as a second rail gateway for the Tees Valley, a permanent solution is needed for the capacity problems that have been identified. Identification of a preferred option for intervention will be key to establishing a bid for funding to DfT.

17. From early discussions it is anticipated that the preferred option (which will be identified in the SOBC) may need to comprise improvements both to operational railway infrastructure improvements (e.g. track and signalling) as well as the construction of a platform with appropriate passenger facilities.

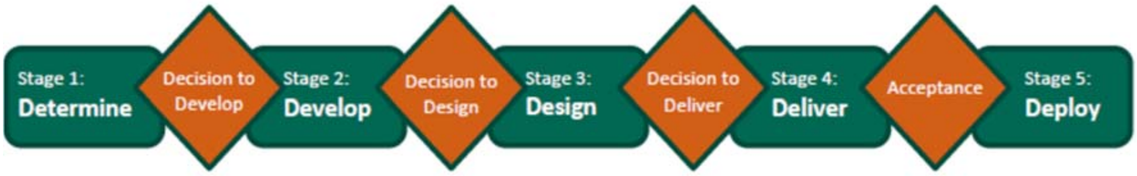
18. It is anticipated that there will be a significant financial contribution from NR/DfT to these works, and the project will need to follow DfT's new project development process for rail enhancements (see paragraphs 21 – 23). This means that at each stage of the process NR/DfT approval will be needed and a funding commitment obtained to progress to the next stage.

19. The provision of a significant funding contribution from the Combined Authority is considered important to assist with the approval of the project for DfT funding (in competition with other national rail priorities), and therefore likely to accelerate delivery of the agreed capacity solution. In particular, it has been suggested that if the Combined Authority were to fund the RNEP Stage 2 costs (the development and detailed design phase of the project) subject to DfT approval of the SOBC, this may enable the project to move forward more quickly as DfT funding will not then be needed for this work. However, it is important to liaise with TfN/DfT to fully

understand the implications of this approach and ensure that this will not preclude DfT funding being sought for subsequent stages of the project.

Project Development Process

20. Both the Masterplan and subsequent NR Capacity Analysis Study recognised the issues and identified a clear need urgently to increase the capacity of the station and the necessity for a third platform. As a result, TfN agreed to undertake a joint piece of work with DfT to commence the bidding process required to access DfT investment: the production of an SOBC in accordance with stage 1 of Department for Enhancements (RNEP).



21. The Proposal will be developed in accordance with DfT's Rail Network Enhancements Pipeline – A New Approach for Rail Enhancements (RNEP), as set out in the diagram above. This is DfT's new mechanism for bringing forward enhancement projects and releasing funding and is based upon five stages: Stage 1 is currently underway with funding from DfT and TfN and it is now expected that the Strategic Outline Business Case ("SOBC") will be published in March 2019. Following this we would need to secure a positive investment decision from DfT to take the project forward to stage 2 (to produce an OBC), identify the preferred solution for additional station platform capacity and the subsequent stages through to stage 5 (deployment).

22. Consideration is also being given to supporting the implementation of temporary platform capacity measures until a longer term solution to the station capacity issues can be developed and delivered.

Strategic Fit and Benefits

23. Upgrading Middlesbrough Station and developing it as a second rail gateway for the Tees Valley is listed as a priority in our Strategic Economic Plan, the Investment Plan and in the draft Strategic Transport Plan. The increased number of rail services will benefit the whole of Tees Valley by significantly improving connectivity between places across our region where people live and work. Middlesbrough has significant net inward migration each day for employment, education and retail/leisure. The improvements to train services will benefit the wider population of the area and the development of key sectors with a strong presence in the centre of Middlesbrough, such as digital, higher education and professional services, all critical to the SEP aspirations.

Funding

24. Previously, Cabinet had approved £2.5 million of funding towards improvements to Middlesbrough Station, subject to due diligence. Approval of the proposal set out in this report will now commit up to another £20 million of funding overall to bring forward the redevelopment set out in this report.

25. Further high-level details about the total estimated project costs will be available when the SOBC report on the potential solutions for the additional station platform

capacity is available in March 2019. This will be further refined and clarified during the production of the OBC and the identification of a preferred option.

26. The output specification document for the remediation and passenger facility improvement work should also be produced and agreed with NR by December 2018. This will allow a more detailed project programme and budget to be prepared for this component of the project.

FINANCIAL IMPLICATIONS

27. Financial support to the project of up to a further £20m. No other financial implications.

LEGAL IMPLICATIONS

28. There are no specific legal issues arising from the provision by the Combined Authority of funding for the project as set out above. Funding will be covered by the Combined Authority's normal funding agreement requirements. The contractual model for delivery of the project itself remains to be discussed at the next stage of the project, as set out above.

29. This funding will be subject to appropriate due diligence through the Tees Valley Assurance Framework.

RISK ASSESSMENT

30. The specific key project risks will be identified in the output specification for the remediation and passenger facility improvements and in the SOBC for the station platform capacity component. This will subsequently be refined and reassessed as the project progresses through the RNEP stages.

31. At this stage the main anticipated project risk is financial - that the funding is insufficient to carry out the work planned for all elements of the Project. The risk of this occurring will be managed through the submission to DfT for funding, the project governance arrangements and the letting and management of the relevant contracts for works and services. A contingency allocation of £2 million has been included within the £20 million funding to mitigate this risk.

32. The approach being put forward, with the Combined Authority providing grant funding for elements of the project, also mitigates against the risk of relying upon funding from DfT for the delivery of the overall scheme in competition with other national rail priorities. The approach mitigates risk both in terms of the time that would be needed to go through the bidding process and the subsequent delays to delivery, and also in relation to the chances of success.

33. Ultimately, by following a solely DfT funded route, there is a risk of not delivering the Project quickly, or indeed not being able to secure the funding to deliver the project at all. This would have a negative impact at one of the region's key stations, in terms of:

    - Continued impacts across the Tees Valley and further afield resulting from trying to accommodate growth in passenger numbers and rail services within existing capacity, causing unacceptable delays and cancellations to services;
    - The station not being able to meet the requirements and maximise the benefits of increased rail service volumes, including the new direct to London service; and

- The station and rail services not being able to support the wider development of Middlesbrough Town Centre, as a key location for activity and investment in the region.

CONSULTATION

34. MBC has already consulted on the master plan for the Station, and will continue to undertake consultations on the Project as it progresses and as appropriate.

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BACKGROUND PAPERS

- Report to the Tees Valley Combined Authority Cabinet: 28th March 2018
  Agenda Item 8 – Middlesbrough Station Redevelopment
- Rail Network Enhancements Pipeline – A New Approach for Rail Enhancements
  Published by Department for Transport – March 2018
- Rail market-led proposals – guidance
  Published by Department for Transport – March 2018

AGENDA ITEM 10

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE INVESTMENT DIRECTOR

PORTFOLIO: INVESTMENT & BUSINESS GROWTH

FUJIFILM BIOCAMPUS PROJECT– PHASE 1

SUMMARY

The report considers the request from Fujifilm Diosynth Biotechnologies UK Limited ("FDBUK") for investment to support the development of its Phase 1 Biocampus at the existing Billingham site ('the Project').

The Project Involves the relocation of most of the staff currently working in temporary buildings into a new purpose built building on the North Site and is seen as a key enabler for subsequent phases of investment and development planned by FDBUK for the site. The investment will support the provision of 4,000 square metres of high specification office space, potentially convertible to laboratory space and will house circa 250 existing staff and support the attraction of 50 additional high value jobs.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. notes the request from FDBUK for £7.062m of Combined Authority funding to support the £14.5m Project as described in this report;

ii. approves the request for £1.625m grant and £5.437m loan funding on the basis of the recommendations of the funding appraisal; and

iii. authorises the Interim Managing Director to take all necessary steps to negotiate and complete appropriate funding agreements (including appropriate collateral / security arrangements) with FDBUK on the basis set out in this report and taking into account any issues arising as a result of the due diligence process.

DETAIL

Project Description

1. FDBUK is seeking a total investment from TVCA of £7.062m (£1.625m grant and £5.437 loan) to support this project that will enable the significant extension and development of the Billingham site campus and the attraction of additional inward investment to the site.

2. The funding support from the Combined Authority is to contribute to new replacement premises to be built adjacent to FDBUK's existing Billingham campus on a site it has already purchased. The additional site development will replace existing manufacturing and administration/business support functions which are presently housed in eight temporary modular buildings. When complete the new premises will extend to 4,000 square metres and house circa 300 staff (including 50 additional jobs), principally working on manufacturing and administration/business support functions.

3. FDBUK is a global, first rank Contract Development & Manufacturing Organisation operating at the leading edge of biopharmaceutical science and technology. It has a strong track record of making successful capital investment and has expanded in Billingham from 90 employees to circa 600 today. FDBUK worked with CPI on the recent bid for the new National Vaccines Manufacturing and Development Centre – the bid was not successful but both organisations continue to liaise on future opportunities in the sector.

4. On 1st March 2017, Fujifilm Corporation launched FDB as a standalone division of the group and announced its target to bring the Division's revenue to 100 billion yen (approximately £700 million) by 2024 - a fourfold growth over six years.

5. FDBUK's vision for their Tees Valley site is to create a thriving bioscience campus and it is developing a phased masterplan for the creation of the Fujifilm BioCampus. Phase 1 of these plans are the subject of this report.

6. Phase 1 of the BioCampus is the enabling phase to allow for decanting from existing premises and the subsequent creation in the later phases of purpose-built business space on the existing site, to sustain existing jobs and enable further expansion. The key objectives include:
    a. Develop & agree the masterplan for the overall campus site;
    b. Planning consent and delivery of suitable accommodation for 300 staff;
    c. Retention of existing staff and creation of 50 new posts in the Tees Valley;
    d. Site infrastructure; and
    e. Diversion of traffic on Belasis Avenue and agreements with neighbouring and utilities companies on impact and mitigation of road closure (to enable both the current and new parts of the site to operate as a coherent whole).

7. Subject to securing the delivery of Phase 1, FDBUK's vision includes the following 2 further phases to be delivered in the medium term ,which could potentially deliver a further 150 to 200 jobs:-

    - **Phase 2**: Construction of an Innovation Centre and infrastructure based on customer demand and organisational efficiency. The objective of this future phase is to provide suitable infrastructure and build an Innovation Centre, to replace some existing laboratories, expand overall capacity of the R&D function, enable business growth in existing technologies and to add capacity for newer technologies.

- **Phase 3**: Currently there are 5 “production streams” for biologic drugs in 3 separate production plants. Due to several restrictions not all 5 can be operated at full capacity at the same time. Phase 3 will require further investment in expanding this capacity and enable an increase in plant occupancy, with the aim of being able to operate all production streams in parallel and increase to 7+ production streams at any time. In addition to provide infrastructure and manufacturing capacity for processes based on novel technologies such as gene & cell therapies.

8. At this point in time there is no guarantee that Phases 2 or 3 will come forward. However, if Phase 1 is not delivered the Tees Valley will be unable to compete against Fujifilm’s other two divisional sites (College Station in Texas and Research Triangle Park in North Carolina) for further Fujifilm Group investment. Both of their US sites have substantial existing purpose-built biologics infrastructure and a strong delivery track record, as well as continuing access to attractive local and national agency support.

9. The FDBUK team based in Tees Valley has advised that there is also a risk in the medium to long term of the current Tees Valley site closing if its facilities cannot compete for investment with the US sites in the division going forward.

10. Phase 1 delivers 50 additional jobs (supported for two years through the Tees Valley Business Compass - capital grant support scheme referred to at paragraph 20 below) for a new product range. However, this investment is at present linked to a two year contract. The investment proposed in this report will ensure the permanence of these positions, sustain circa 250 existing jobs and demonstrate to Fujifilm the continuing competitiveness of the Billingham site.

11. The cost per job in Phase 1 is higher than TVCA would normally accept. However, this level of investment is required if the Tees Valley site is to have a chance of securing the existing 250 jobs and the growth of the campus, with a further 150 to 200 potential jobs in the later phases of the development.

12. FDBUK have been advised that any further Combined Authority support to bring Phases 2 and 3 forward would be limited to normal inward investment grant support.

Evidence of Need

13. FDBUK have advised that the commitment of investment from Fujifilm Group will not be achieved without public sector support, so that Phase 1 could not be brought forward without the level of Combined Authority funding sought. FDBUK has limited financial reserves locally to be able to develop the Tees Valley site and without public sector support it will not happen. FDBUK has recently sought approval from its group Executive Committee for development of the North site, and that Committee has now given conditional approval for Phase 1 of the proposed development, on several conditions including that the grants and loan described in this report are secured.

Strategic Fit and Benefits

14. The proposed project addresses three of the six priority themes of the Strategic Economic Plan (SEP): Business Growth: a high potential business; Research, Development, Innovation and Energy: provision of product testing facilities; and Education, Employment and Skills: the creation of 50 net additional jobs, most of which are at NVQ Level 4 and above. The project also delivers growth in one of the SEP's seven priority sectors: Biologics.

15. The project is in alignment with both the emerging UK Industrial Strategy and Northern Powerhouse agendas as it is both testing and putting into commercial usage a target sector – biologics – which falls under the Clean Growth Grand Challenge.

16. The project affords the opportunity to create critical mass within an emerging sector both for the region and wider United Kingdom. The expanded facility will make Tees Valley third in size across the United Kingdom (behind Cambridge and Glasgow) and through links with local Universities (Teesside and Durham) could provide knowledge spillover effects for the benefit of the wider sector locally, including the attraction and retention of a wider skills base.

17. As noted above the direct economic benefits are 50 high quality jobs and an increase in GVA of circa £4m per annum (all subject to due diligence). This project is seen as an enabler and could potentially create an additional 150-200 jobs with potential for £100-150m further capital investment, subject to future phases. The project will create a net benefit to the local economy.

Funding

18. The total cost of the project is £14.5m, of which £7.062m is requested from the Combined Authority - £5.437m loan and £1.625m grant.

19. Of the £7.437m match funding:
    a. £1m is from the Tees Valley Business Compass capital grant support scheme and this was approved on 4th October 2018 (subject to due diligence). This is funded through the financial support made available through the SSI Taskforce;
    b. Within our original Local Growth Fund allocation, £1m was specifically identified for investment into the road infrastructure for this campus project (to fund work to be done to the road by Stockton Borough Council) and this £1m is already ring-fenced in the Combined Authority's investment plan; and
    c. £5.437 is from FDBUK and is subject to main board approval – please see paragraph 13 above on Fuji Group's Executive Committee approval.

20. TVCA loan terms will be determined as part of the due diligence process including the applicable state aid compliant interest rate.

Assurance and Appraisal Outcome

21. Once the technical details of the site development are clear, TVCA will need to undertake a full appraisal and carry out the necessary due diligence in line with TVCA's normal assurance framework.

22. TVCA recommends that authority is delegated to the Interim Managing Director and Investment Director to approve the outcome of due diligence and approve any conditions to mitigate risk which arise from the due diligence appraisal.

23. The TVCA Funding will be subject to TVCA's standard capital funding terms and conditions which will include appropriate restrictions on the disposal of funded assets.

FINANCIAL IMPLICATIONS

24. Assuming the recommendations set out above are agreed, the financial implications are that the Combined Authority would make a £5.437m loan and £1.625m grant. The loan will be at a state aid compliant rate to be agreed depending on the financial standing of FDBUK, taking into account the availability of appropriate security, and will therefore provide a return on investment to the Combined Authority.

25. This funding will be subject to appropriate due diligence through the Tees Valley Assurance Framework.

LEGAL IMPLICATIONS

26. Approval is subject to completion of due diligence and includes a condition that satisfactory state aid legal advice is received.

27. Any funding will be subject to standard Combined Authority terms and conditions which will allow for clawback of the funds if FDBUK fails to meet the project outputs or acts in breach of those terms and conditions. Special conditions will be included to ensure that any issues raised by the appraisal or due diligence are appropriately addressed.

RISK ASSESSMENT

28. The key risks in relation to this request for Combined Authority funding are as follows:

Risk	Proposed Mitigation
• Fujifilm Group support and investment is not secured	• TVCA support is being provided to secure this
• Loan is not repaid	• To seek an appropriate parent company guarantee or other security for the loan.
• Phases 2 and 3 do not happen and therefore the Combined Authority has not secured sufficient value for the level of its investment. The cost per job is higher than the Combined Authority would usually agree to fund.	• The 50 jobs to be created in Phase 1 are high quality jobs in a key sector. • Phase 1 secures the existing 200 jobs.

• Phase 1 Outputs (including 50 new jobs) are not delivered	• Grant to be subject to clawback if Outputs not met.
• FDBUK seeks high levels of Combined Authority support to bring forward Phases 2 and/or 3.	FDBUK has been advised that this level of support is exceptional and that any further Combined Authority support to bring Phases 2 and 3 forward would be limited to normal inward investment grant support.

CONSULTATION AND COMMUNICATION

29. Consultation has been undertaken with Tees Valley Management Group and Tees Valley Chief Executives.

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AGENDA ITEM 11

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE HEAD OF EDUCATION, EMPLOYMENT AND SKILLS

PORTFOLIO: EDUCATION, EMPLOYMENT AND SKILLS

ADULT EDUCATION BUDGET

SUMMARY

Background

As part of the Devolution deal agreed with Government in 2016 the Tees Valley Combined Authority will assume responsibility for the Adult Education Budget (AEB) from 2019/20.

The Adult Education Budget for the Tees Valley will be transferred to the Tees Valley Combined Authority for implementation from 1 August 2019. An indicative budget has been provided from the Department of Education to aid planning, this is £30.5m for one academic year. This budget will be devolved to provide training for Tees Valley residents only.

Cabinet resolved at the September 2018 Cabinet meeting that:-

i. the strategic approach that is planned for implementation of the devolved Adult Education Budget be approved;

ii. the operational management, including the funding award administration and the resourcing required for delivery be delegated to the Tees Valley Combined Authority Managing Director in consultation with the portfolio lead, and the elected Mayor;

iv. A further report would be received in May 2019 to approve final funding awards to providers.

It was also requested that a further paper would be submitted to Cabinet to provide the details of the governance operating model, for agreement. This paper provides a summary of the governance operating model, information relating to the commissioning process and a web link to the relevant commissioning and technical documents.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. Approves the governance operating model.
ii. Approves the list of related policies and the approach for amendments made as presented at Appendix 1.
iii. Notes the timings of further papers to Cabinet.

Background

1. In September 2018 cabinet received information relating to the implementation of the devolved Adult Education Budget that will enable the Tees Valley Combined Authority to plan and influence skills and training provision to ensure Tees Valley residents have access to skills and training from Entry level to Level 3 (approx. A-Level) qualifications. Eligibility criteria will continue to apply to provide this at no cost to the learner.

2. It is intended to maximise funding to the learner by creating a system that focuses upon measuring and delivering better outcomes for all learners. In time this will provide a progressive offer that creates lifelong pathways of learning to identifiable outcomes, including career pathways. This is particularly important for learners who may begin their journey with community level learning or access retraining later in their lives.

3. Whilst implementation in 2019/20 will aim to minimise the disruption to existing strategic and economically significant providers to stabilise provision, devolution will, in time provide an opportunity to flex eligibility criteria and provide simpler pathways to progressive learning directly linked to employer demand.

4. During 2019/20 stronger relationships will be built between the Combined Authority and providers to provide better and timely data regarding funding utilisation and delivery via a performance management framework. 2019/20 will establish and stabilise the provider base for Tees Valley residents, review performance, quality of delivery, sub-contracting arrangements and payment models and the demand for distance learning.

5. This performance information will inform future changes to commissioning, outcome payment models and directing skills provision more related to employer demand. Due to the scale and complexity of data reporting, commissioning timetables and curriculum planning the most significant changes will be made for delivery in academic year 2021/22.

The Governance Operating Model

6. The Tees Valley Combined Authority seeks to establish “Grant Funded” agreements, through an open commissioning process, in line with the timeline agreed at the September 2018 Cabinet meeting, and invite those organisations who wish to deliver adult skills provision to Tees Valley residents, based on a minimum contract level of £50k.

7. A dedicated on-line portal will be made available to providers that will support the management of the commissioning process, and will also give providers the opportunity to access key information and documentation about the devolved Tees Valley Adult Education Budget.

8. In support of the agreed approach of supporting the sustainability of current provision, relevant documents and policies have been adopted and adapted from the existing Education Skills Funding Agency (ESFA) key policies. These have been amended to remove any reference to ESFA and the national programmes that will not be funded

via the devolved Adult Education Budget in Tees Valley, such as Apprenticeships and Traineeships and relevant changes inserted where required. A list of the documents, a summary of the changes made and the new policies required are set out in Appendix 1. Cabinet is requested to approve this list and the approach taken.

9. In addition to the ESFA policies and documents, the Tees Valley Combined Authority has developed additional supporting documents and templates to make funding awards to providers. The documents include the Delivery Plan as a template to request funding, the Delivery Plan Technical Guidance, the Delivery Plan Appraisal Process Summary and the Performance Management Framework.

10. As part of the process, all providers will be invited to attend one of two engagement events, where they will be provided with further guidance on how to complete the Delivery Plan, be offered technical support and will be given the opportunity to ask any questions.

11. Frequently asked questions thereafter will also be published on the Adult Education Budget dedicated on-line portal.

Delivery Plan

12. All providers seeking to secure a funding award from the Tees Valley Combined Authority's Adult Education Budget, to deliver adults skills provision to Tees Valley residents from 2019/20 will be required to submit a Delivery Plan as the document to be assessed to award funding.

13. The Delivery Plan will inform the Tees Valley Combined Authority of the Provider's objectives and how the provider intends to meet the needs of the Tees Valley learners; what they are intending to deliver in line with the legal entitlements, sector areas for focus, qualification levels, and whether the provision will be directly delivered and/or subcontracted. The Adult Education Team have undertaken consultation and feedback throughout the development of this document.

14. The Delivery Plan will continue to be used as the basis for performance management for providers that receive funding in 2019/20.

15. The Tees Valley Combined Authority will reserve the right to reconcile any significant underperformance against their own Delivery Plan objectives throughout the year and adjust provider payment profiles. In addition the ability to stop payment will be retained if any inappropriate, illegal or unsatisfactory delivery is undertaken.

The Appraisal Process

16. The appraisal process will seek to ensure that the Tees Valley Combined Authority awards grant funding agreements to those providers who can demonstrate high quality provision. The appraisal process will take into consideration such information as the provider's recent Ofsted inspection outcomes, financial health assessment, self-assessment grades, learner achievement rates and any notices to improve issued by ESFA.

17. Priority will be given to those Delivery Plans that will deliver the most economic and strategic benefit to Tees Valley. This will include supporting the sustainability of quality learning, sustaining jobs and supporting wider economic growth.

18. In line with the Combined Authority's approach to assessing all applications for investment support, Delivery Plans shall be appraised using a Treasury Green Book approach, then an internal Investment Panel will collate and report the outcome of the appraisal process for consideration of the existing governance arrangements of the Combined Authority and the Cabinet, including the agreed delegation at Cabinet in September 2018.

19. It is proposed that further papers will be submitted to Cabinet in March 2019 that will provide a summary of the outcomes of the appraisal process and the proposed indicative funding awards. An additional paper will be presented to Cabinet in May 2019 that lists the final provider funding awards.

Performance Management Framework

20. In order to ensure that the Tees Valley Combined Authority is awarding funding agreements to those providers who will deliver high quality provision and outcomes to Tees Valley residents, a Performance Management Framework has been developed in consultation with stakeholders.

21. The framework sets out the approach that the Tees Valley Combined Authority will take in monitoring and managing the performance against the submitted and agreed Delivery Plan. The performance management function will recognise and take into account any changes to actual delivery and the learner outcomes achieved.

22. The approach for performance management will be significantly different from the previous transactional approach taken by the ESFA. The approach to be implemented will be more provider relationship based with a focus on learner experience and outcomes achieved.

23. A significant emphasis will be placed on demonstrating positive progression into further learning or employment, qualification achievement, overall success rates, sub-contracted delivery and outcomes of any Ofsted inspections.

24. In addition learner and employer feedback will be taken into consideration when measuring performance.

Further papers to be submitted to Cabinet

25. It is proposed that further papers will be submitted to Cabinet in March 2019 that will provide a summary of the outcomes of the evaluation and the proposed indicative funding awards and then another in May 2019 that lists the final provider funding awards.

FINANCIAL IMPLICATIONS

26. The funding allocation to the Tees Valley Combined Authority will be awarded on an annual basis and is subject to the annual Autumn Statement. The initial allocation for 2019/20 will be made using the existing formula provided by the Department of Education based on 2017/18 actual delivery to Tees Valley residents.

27. In future years the allocation will be made upon the percentage allocation made in 2019/20 against the overall budget available in England as part of the Autumn Statement. This percentage will then be used as the baseline for the calculation of budgets from the 2020/21 Academic Year onwards.

28. The decision making timeline will ensure that no funding awards will be entered into until the devolved budget from Department of Education is received.

29. Grants will be awarded within the annual budget envelope and there will be no scope for over profiling.

30. External Audit arrangements will be secured to provide assurance of compliance.

LEGAL IMPLICATIONS

31. The Tees Valley Combined Authority has sought advice from external procurement law specialists and also from a leading procurement QC with regard to the proposed commissioning process. This advice has confirmed that the distinction between a grant (to which the Public Contract Regulations 2015 (PCR 2015) do not apply) and a services contract (to which they do) is often a difficult, but they both agree that the reasoning behind our classification of the agreements as a grant in this case is sound. On this basis, both agree that our commissioning process falls outside of the remit of PCR 2015 and that a procurement process is therefore not required.

32. DfE previously adopted a two tier commissioning process, whereby it grant funded providers who were essentially public in nature and procured independent training providers. Most other Combined Authorities are continuing the DfE approach, with the exception of Tees Valley and West of England Combined Authorities. Our legal advice, however, will assist with any required response to challenge regarding our commissioning process that could emerge in response to the varying approaches to devolution of this budget across the seven devolved areas.

33. The Combined Authority is required by the Department of Education to publish a Conflict of Interest policy related to the devolution of Adult Education Budget. The main purpose of the policy is to demonstrate how the Combined Authority will manage any potential risk of unfair bias to any organisation that is part of the policy development and the funding award process.

34. This policy will be published on the Combined Authorities website when finalised.

RISK ASSESSMENT

35. A project risk register is in place for the implementation of the Adult Education Budget and has been submitted and considered by the Audit and Governance Committee. The register will be up-dated and submitted to this group for further consideration on a regular basis.

CONSULTATION & COMMUNICATION

36. The Education, Employment and Skills Team has undertaken extensive consultation during the last 12 months with the Tees Valley Management Group, Audit and Governance Committee, The Business LEP members, Tees Valley Chief Executives and Council Leaders, Education, Employment and Skills Officer Group, Education and the Employment and Skills Partnership Board.

37. An AEB Strategic Steering Group of key stakeholders (Local Authority, FE Colleges, Association of Colleges and ESFA) was established and consulted to shape this process.

38. Two open provider engagement events were also hosted in 2018 to test the strategy and approach to be implemented.

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APPENDIX 1

TVCA ADULT EDUCATION BUDGET POLICY INDEX

The table below details all TVCA 2019/20 Adult Education Budget Policies, a description and detail regarding the level of change from the existing 2018/2019 ESFA policies**.**

Policy Title	Description	Level of Change
TVCA Adult Education Budget Funding and Performance Rules 2019/2020	This document sets out the TVCA 2019/2020 funding rules to all providers who receive adult education budget for Tees Valley residents. This document details what TVCA will and will not fund form the TVCA AEB in 2019/2020	This policy retains the current 2018/2019 ESFA Funding Rules. The following changes have been incorporated: • Addition of reference to TVCA 2019/2020 Strategic Adults Skills Plan, TVCA Strategic Economic Plan and Inspiring Our Future • Removal of reference to apprenticeship and traineeship funding • Removal of detail regarding learners that live in Scotland and Wales • Reference included regarding the Provider Delivery Plan and approval of the plan prior to allocation of funding • Policy now states any increase to subcontracting levels must be approved by TVCA • Detail regarding performance management of providers and direct and subcontracting delivery now included • Reference to role of the Provider Relationship and Performance Management Officer detailed in terms of role, and provider support provided

Policy Title	Description	Level of Change
		• Removal of match funding detail. Policy states TVCA will not utilise AEB funding as matched funding against ESF. • TVCA in-year reconciliation process defined within policy and removal of 3% tolerance
TVCA Adult Education Budget Funding Rates and Formula 2019/2020	This document sets out the principles and features of the TVCA 2019/2020 Funding System. It details how TVCA will calculate ‘formula funded’ earnings for the TVCA Adult Education Budget. The documents set out programme weightings to recognise the relative costs of delivering training in different sectors and subject areas	This document has been re-branded from the ESFA 2018/2019 Adult Education Budget Funding Rates and Formula. No significant change to methodology The following changes have been incorporated: • Removal of reference to ESFA and inclusion of TVCA • Removal of references to traineeships • Removal of area cost uplifts by region – this is for the south of England only
Funding Claims and Reconciliation Guide 2019/2020	This document was published online by the ESFA in terms of how to submit a funding claim and when to make a claim. A User Guide is also published.	TVCA are introducing a new process for reconciliation, which is detailed in the TVCA 19/20 Funding and Performance Rules and TVCA Provider Performance Management Framework.
TVCA Provider Performance Management Framework 2019/2020	This is a new policy. This document describes how providers will be assessed, monitored and reviewed during the funding agreement period if the provider successfully receives an allocation for Tees Valley AEB The document details the quality indicators that will be reviewed by TVCA to assess the quality of provision being delivered by the provider including attainment of agreed target outcomes and overall performance. Provider	New document

Policy Title	Description	Level of Change
	performance monitoring and evaluation activities will include Provider Performance Meetings on a quarterly basis. The role of the TVCA Provider Relationship and Performance Management Officer is also defined within this document.	
TVCA Subcontracting Funding and Management Regulations 2019/2020	The purpose of this policy is to detail TVCA's expectations in terms of a provider's management and monitoring of their subcontractors and the subcontracted delivery. This document details the compliance and control regulations all providers must adhere to in relation to the management of their subcontractors and the due diligence requirements for any new subcontractors	This policy is based on the ESFA Subcontracting Funding and Management Regulations 2018/2019. There is minimal change and the approach and concepts remain the same The following items have been incorporated: • Reference to the Provider Delivery Plan and approval from TVCA of all subcontracting activity • Reference to the monitoring of subcontracting management fees by TVCA in year one and review of fees at allocation and funding agreement stages
TVCA Providing External Assurance on Subcontracting Controls 2019/2020	This document provides providers further guidance regarding the annual subcontracting assurance requirements and the additional information required by TVCA to enable robust assurance of subcontracting activity This document details the process providers must follow if their subcontracting value has an aggregate value greater than £100k	This policy is based on the ESFA 2018/2019 Providing External Assurance on Subcontracting Controls. The only change is removal of reference to ESFA and inclusion of TVCA
TVCA Subcontracting for the First Time – Seeking Written	This document details the need and process for providers when engaging with a new subcontractor. The policy defines the process	This policy is based on the ESFA 2018/2019 Subcontracting for the First Time – Seeking Written

Policy Title	Description	Level of Change
Approval from TVCA in 2019/2020	the provider must follow to seek TVCA approval which requires a report from an external auditor	Approval. The only change is removal of reference to ESFA and inclusion of TVCA
TVCA Funding Higher Risk Organisations and Subcontractors 2019/2020	This document identifies the criteria that would prevent an organisation being considered for funding by TVCA in 2019/2020	This policy is based on the ESFA's 2018/19 document. The only change is removal of reference to ESFA and inclusion of TVCA
High Needs Funding Operational Guide 2019/2020	High needs funding is provided to local authorities through the high needs block of the dedicated schools grant (DSG), and local authorities must spend that funding in line with the associated conditions of grant, and School and Early Years Finance (England) Regulations. High needs funding is also provided directly to some institutions by the Education and Skills Funding Agency (ESFA) This guide describes how the ESFA 2018/2019 high needs funding system will work	This element of high needs funding is not included as part of the devolved Adult Education Budget Funding for those learners aged 19 and above who have additional learning needs is incorporated into the Adult Education Budget and the Funding and Performance Rules 2019/20
Post – 16 Audit Code of Practice 2019/2020	This Post-16 Audit Code of Practice sets out a common standard for the provision of assurance in relation to funding of post-16 providers. It sets out the specific assurance framework for sixth form and further education colleges.	This policy will be based directly on the current ESFA Post 16 Audit of practice 2018/2019. Once roles and responsibilities have been agreed with the ESFA this policy can be drafted for approval
2019/2020 TVCA Conditions of Funding Agreement – All	This document sets out the conditions of funding between TVCA and all providers and	This funding agreement is based on the ESFA Conditions of Funding Agreements

Policy Title	Description	Level of Change
Providers (FE Colleges, Authorities, Sixth Forms and Independent Training Providers)	includes the allocation of funds, payment of funds, quality assurance financial control, supply of data and dispute resolution	The following changes have been incorporated: • Inclusion of the TVCA in-year reconciliation process and removal of 3% tolerance against provider spend and allocation • Contract duration for one year with an option to extend to a further 12 months dependent on the submission of a Year 2 Intended Delivery Plan that meets the needs of Tees Valley learners and the delivery of positive outcomes for learners in year 1
Conflicts of Interest	This document sets the potential conflicts of interest that may arise throughout the commissioning of the Adult Education Budget, and how they will be managed.	New Document

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AGENDA ITEM 12

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE HEAD OF EDUCATION, EMPLOYMENT AND SKILLS

PORTFOLIO: EDUCATION, EMPLOYMENT AND SKILLS

SUPPORTING APPRENTICESHIPS

SUMMARY

This report provides a summary of apprenticeships created in Tees Valley with a view to provide information to inform proposed changes to the Apprenticeship grant Support for Employers. The report highlights that in the last twelve months there has been a significant reduction across England in the number of apprenticeships being created. This is also the case in Tees Valley. The report also proposes changes to the current Apprenticeship grant Support for Employers. The proposed changes would encourage businesses to create more apprenticeship opportunities. It is proposed to continue to assist priority and high growth sector businesses to recruit more apprentices and provide incentives to retain them to progress onto higher level apprenticeships.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. Agrees to amend the current criteria for the Apprenticeship Support for Employers grant to:
   - Widen the range of Businesses from priority sectors eligible for the grant;
   - Increase the value of individual Grants available to employers and provide incentive grants for retention and progression of apprentices

DETAIL

Background

1. The current Apprenticeship Grant for employers in Tees Valley as agreed by cabinet was launched in August 2017. £1.3 million was allocated from the Combined Authorities Investment Fund to provide grants to employers and brokerage services.

2. The scheme offers two grants:

   Grant A £2,500
   The eligibility criteria includes that the employer must have less than 250 employees, the apprentice must be over the age of 19, the business has to be in a priority sector decided by the companies Standard Industrial Classification (SIC) code that defines the sector of the business.

   Grant B £1,000 (£500 payed initially and a further £500 on completion of 13 months in employment)
   The eligibility criteria includes that the employer must have less than 50 employees and that the apprentice must be aged between 19 and 24.

   Additional criteria for both grants includes that the apprentice must be employed in a Tees Valley workplace, be a new employee, an existing employee or an existing apprentice progressing to a higher level apprenticeship. In order to receive the Grant the apprentice must have completed a minimum of 13 weeks in learning and employment, and undertaking an approved apprenticeship framework or standard qualification.

3. From August 2017 to 30th September 2018 this grant scheme had supported the creation of 171 apprenticeships with 163 businesses. 35 apprenticeships were supported by Grant A and 128 by Grant B.

4. The funding committed up to the 30th September totals £223,500. £87,500 to Grant A and £136,000 to Grant B. There remains £1.77m unallocated.

   Apprenticeship performance in Tees Valley

5. In May 2017 the new Employer Levy policy was implemented that gave greater control to employers for arranging and paying for apprenticeship training. Businesses with a wage bill in excess of £3m, pay approximately 0.5% of their annual wage bill as a levy via PAYE. Businesses then draw down from this contribution to pay training providers for the training received. This gave employers greater control of the type of training provider to use and the ability to negotiate a price for the training.

6. It has taken some time for employers to become knowledgeable about the changes and understand the complex process to utilise their levy contributions for training. Therefore there has been a significant reduction in the number of apprenticeships created nationally and in the Tees Valley during the period from launch of the Apprenticeship Levy. A summary of the number of apprentices created compared to national and North East performance is attached at Appendix 1.

7. This has resulted in a significant reduction in the number of businesses applying for an apprenticeship grant from the Combined Authority. It is therefore proposed to continue to offer a grant but to enhance the criteria and funding available to priority sectors.

8. The Combined Authority has challenged the Department of Education to assist in supporting Tees Valley businesses to create more apprenticeships. This includes a request for better employer data so that those employers that are not fully utilising their levy can be identified and provided with support. This data would also provide information regarding the level of unutilised levy funding. Working with other Combined Authorities a request has also been made to ring fence and devolve to the Combined Authority the unutilised levy funding to then redirect it to Tees Valley businesses that could create apprenticeships. Work will continue to request this as part of the ongoing devolution discussions.

Proposal

9. It is proposed that revisions are made to the current grant to continue to support economic growth and the creation of apprenticeships as highlighted in the Strategic Economic Plan and the Education, Employment and Skills Strategy.

10. The proposal is to widen the range of employers that are eligible to apply for the grant within each priority sector. The proposal will also promote retention and career progression up to higher and degree level apprenticeships.

11. It is also proposed to continue to target the priority sectors as identified in the Strategic Economic Plan but to add the high job replacement demand sectors, including construction, health, care and social care. The additional SIC codes that will be eligible is attached at Appendix 2.

12. It is also proposed to offer a higher value grant for those employers creating higher level apprenticeships that reflects the higher financial commitment required by employers.

13. The new offer will also include a financial incentive to progress apprentices through the levels from level 3. This would result in stability for those undertaking the apprenticeship, to increase their skill levels and ultimately the skill set of the business.

14. The new Grant offer is proposed is:

Grant A
This grant would be available for employers from a priority sector identified via the SIC codes and would offer a sliding scale related to the level of the apprenticeship as follows:

Levels 2 & 3	£2,000
Levels 4 & 5	£3,000
Levels 6 & 7	£4,000

If the apprentice is progressing between levels 3 to 7 an additional grant of £2,000 would be offered for each progression.

Additional Criteria will include that the apprentice must be aged over 19, the business must have less than 250 employees, be undertaking an approved apprenticeship framework/standard qualification and have completed a minimum of 13 weeks in learning and employment at the level applied for.

Grant B
This grant would be available for employers with less than 50 employees from any sector and would offer a sliding scale relating to the apprenticeship level as follows.

Levels 2 & 3	£500
Levels 4 to 7	£1,000

If the apprentice is progressing between levels 3 to 7 an additional grant of £1,000 would be offered for each progression.

Additional criteria will include that the apprentice must be aged over 19 and undertaking an approved framework/standard qualification and have completed a minimum of 13 weeks in learning and employment at the level applied for.

FINANCIAL IMPLICATIONS

15. This proposal requires an agreement to widen the criteria for awarding previously agreed funding to provide Apprenticeship support for businesses creating apprenticeships.

16. This programme will utilise the existing approved funding envelope of £1.3m. No additional funding is being requested. The budget will be continually reviewed and if applications increase significantly Cabinet will be informed to consider if further funding is required or any further changes to eligibility should be made.

LEGAL IMPLICATIONS

17. There are no significant legal issues and implications for implementing this programme of activity.

RISK ASSESSMENT

18. Any risk is related to the contracting and award of funding to third parties. This process of award will be undertaken taking notice of public contracting guidance and managed accordingly.

19. This programme is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION AND COMMUNICATION

20. Consultation has been undertaken with Employers and Providers of the current grant, the Tees Valley Combined Authority Management Group and Education, Employment and Skills Officer Group.

21. Further communication and marketing of the new Grant will be undertaken to employers, training providers and key stakeholders. This will include a launch at a Business Summit in December 2018.

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Appendix 1

National and Regional Apprenticeship Data

Apprenticeships created up to April 2018

Tees Valley	14/15	15/16	16/17	17/18 (to April 2018)
Under 19	2,240	2,250 (+0.44%)	1,970 (-12.44%)	1,550 (-21%)
19-24	2,760	2,830 (+2.53%)	2,600 (-8.12%)	1,410 (-46%)
24+	3,850	4,850 (+24.97%)	4,590 (-5.36%)	1,860 (-59%)
Overall	**8,850**	**9,930 (+12.20%)**	**9,160 (-7.75%)**	**4,820 (-47%)**

North East	14/15	15/16	16/17	17/18 (to April 2018)
Under 19	8,590	8,660 (+0.81%)	7,850 (-9.35%)	5,980 (-25%)
19-24	10,040	10,420 (+3.78%)	9,350 (-10.26%)	5,050 (-46%)
24+	16,590	19,120 (+15.25%)	16,610 (-13.12%)	6,850 (-59%)
Overall	**35,220**	**38,200 (+8.46%)**	**33,810 (-11.49%)**	**17,880 (-47%)**

Nationwide	14/15	15/16	16/17	17/18 (to April 2018)
Under 19	124,300	129,800 (+4.42%)	119,700 (-7.78%)	90,290 (-26%)
19-24	158,500	152,400 (-3.84%)	139,500 (-8.46%)	88,950 (-38%)
24+	211,500	221,700 (+4.82%)	226,300 (+2.07%)	111,240 (-52%)
Overall	**494,300**	**503,900 (+1.94%)**	**485,500 (-3.65%)**	**290,470 (-41%)**

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Appendix 2 - SIC codes

ADVANCED MANUFACTURING
4 digit SIC Code - CURRENT SIC CODES
2410 : Manufacture of basic iron and steel and of ferro-alloys
2420 : Manufacture of tubes, pipes, hollow profiles and related fittings, of steel
2511 : Manufacture of metal structures and parts of structures
2512 : Manufacture of doors and windows of metal
2521 : Manufacture of central heating radiators and boilers
2529 : Manufacture of other tanks, reservoirs and containers of metal
2530 : Manufacture of steam generators, except central heating hot water boilers
2540 : Manufacture of weapons and ammunition
2550 : Forging, pressing, stamping and roll-forming of metal; powder metallurgy
2561 : Treatment and coating of metals
2562 : Machining
2571 : Manufacture of cutlery
2572 : Manufacture of locks and hinges
2573 : Manufacture of tools
2591 : Manufacture of steel drums and similar containers
2592 : Manufacture of light metal packaging
2593 : Manufacture of wire products, chain and springs
2594 : Manufacture of fasteners and screw machine products
2599 : Manufacture of other fabricated metal products
2611 : Manufacture of electronic components
2612 : Manufacture of loaded electronic boards
2640 : Manufacture of consumer electronics
2651 : Manufacture of instruments and appliances for measuring, testing and navigation
2652 : Manufacture of watches and clocks
2660 : Manufacture of irradiation, electromedical and electrotherapeutic equipment
2670 : Manufacture of optical instruments and photographic equipment
2680 : Manufacture of magnetic and optical media
2711 : Manufacture of electric motors, generators and transformers
2712 : Manufacture of electricity distribution and control apparatus
2731 : Manufacture of fibre optic cables
2732 : Manufacture of other electronic and electric wires and cables
2733 : Manufacture of wiring devices
2790 : Manufacture of other electrical equipment
2811 : Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
2812 : Manufacture of fluid power equipment
2813 : Manufacture of other pumps and compressors
2814 : Manufacture of other taps and valves
2815 : Manufacture of bearings, gears, gearing and driving elements
2821 : Manufacture of ovens, furnaces and furnace burners
2841 : Manufacture of metal forming machinery
2849 : Manufacture of other machine tools

2891 : Manufacture of machinery for metallurgy	
2892 : Manufacture of machinery for mining, quarrying and construction	
2893 : Manufacture of machinery for food, beverage and tobacco processing	
2894 : Manufacture of machinery for textile, apparel and leather production	
2895 : Manufacture of machinery for paper and paperboard production	
2896 : Manufacture of plastics and rubber machinery	
2899 : Manufacture of other special-purpose machinery	
2931 : Manufacture of electrical and electronic equipment for motor vehicles	
3011 : Building of ships and floating structures	
3030 : Manufacture of air and spacecraft and related machinery	
3040 : Manufacture of military fighting vehicles	
7112 : Engineering activities and related technical consultancy	
7120 : Technical testing and analysis	
7219 : Other research and experimental development on natural sciences and engineering	
7490 : Other professional, scientific and technical activities	
PROPOSED NEW SIC CODES FROM DECEMBER 2018	
33200	Installation of industrial machinery and equipment
13200	Weaving of textiles
22110	Manufacture of rubber tyres and tubes; retreading and rebuilding of rubber tyres
22190	Manufacture of other rubber products
22210	Manufacture of plastic plates, sheets, tubes and profiles
22210	Manufacture of plastic plates, sheets, tubes and profiles
22220	Manufacture of plastic packing goods
22230	Manufacture of builders ware of plastic
22290	Manufacture of other plastic products
23110	Manufacture of flat glass
23120	Shaping and processing of flat glass
23130	Manufacture of hollow glass
23140	Manufacture of glass fibres
23190	Manufacture and processing of other glass, including technical glassware
23200	Manufacture of refractory products
23510	Manufacture of cement
23520	Manufacture of lime and plaster
23610	Manufacture of concrete products for construction purposes
23620	Manufacture of plaster products for construction purposes
23630	Manufacture of ready-mixed concrete
23640	Manufacture of mortars
23650	Manufacture of fibre cement
23690	Manufacture of other articles of concrete, plaster and cement
23700	Cutting, shaping and finishing of stone
23910	Production of abrasive products
23990	Manufacture of other non-metallic mineral products
24310	Cold drawing of bars
24320	Cold rolling of narrow strip
24330	Cold forming or folding
24340	Cold drawing of wire
24410	Precious metals production
24420	Aluminium production
24430	Lead, zinc and tin production
24440	Copper production
24450	Other non-ferrous metal production
24460	Processing of nuclear fuel

24510	Casting of iron
24520	Casting of steel
24530	Casting of light metals
24540	Casting of other non-ferrous metals
26200	Manufacture of computers and peripheral equipment
26301	Manufacture of telegraph and telephone apparatus and equipment
26309	Manufacture of communication equipment other than telegraph, and telephone apparatus and equipment
26511	Manufacture of electronic measuring, testing etc. equipment, not for industrial process control
26512	Manufacture of electronic industrial process control equipment
26513	Manufacture of non-electronic measuring, testing etc. equipment, not for industrial process control
26514	Manufacture of non-electronic industrial process control equipment
27200	Manufacture of batteries and accumulators
27400	Manufacture of electric lighting equipment
27510	Manufacture of electric domestic appliances
28220	Manufacture of lifting and handling equipment
28230	Manufacture of office machinery and equipment (except computers and peripheral equipment)
28240	Manufacture of power-driven hand tools
28250	Manufacture of non-domestic cooling and ventilation equipment
28290	Manufacture of other general-purpose machinery
28301	Manufacture of agricultural tractors
28302	Manufacture of agricultural and forestry machinery other than tractors
29100	Manufacture of motor vehicles
29201	Manufacture of bodies (coachwork) for motor vehicles (except caravans)
29202	Manufacture of trailers and semi-trailers
29203	Manufacture of caravans
29310	Manufacture of electrical and electronic equipment for motor vehicles and their engines
29320	Manufacture of other parts and accessories for motor vehicles
30120	Building of pleasure and sporting boats
30200	Manufacture of railway locomotives and rolling stock
30910	Manufacture of motorcycles
30920	Manufacture of bicycles and invalid carriages
30990	Manufacture of other transport equipment
32401	Manufacture of professional and arcade games and toys
32409	Manufacture of other games and toys
32500	Manufacture of medical and dental instruments and supplies
33110	Repair of fabricated metal products
33120	Repair of machinery
33130	Repair of electronic and optical equipment
33140	Repair of electrical equipment
33150	Repair and maintenance of ships and boats
33160	Repair and maintenance of aircraft and spacecraft
33170	Repair and maintenance of other transport equipment
33200	Installation of industrial machinery and equipment

PROCESS, CHEMICAL, ENERGY
4 digit SIC Code - CURRENT SIC CODES
0610 : Extraction of crude petroleum 0620 : Extraction of natural gas 1910 : Manufacture of coke oven products 1920 : Manufacture of refined petroleum products 2011 : Manufacture of industrial gases 2012 : Manufacture of dyes and pigments 2013 : Manufacture of other inorganic basic chemicals 2014 : Manufacture of other organic basic chemicals 2015 : Manufacture of fertilisers and nitrogen compounds 2016 : Manufacture of plastics in primary forms 2017 : Manufacture of synthetic rubber in primary forms 2020 : Manufacture of pesticides and other agrochemical products 2030 : Manufacture of paints, varnishes and similar coatings, printing ink and mastics 2041 : Manufacture of soap and detergents, cleaning and polishing preparations 2042 : Manufacture of perfumes and toilet preparations 2051 : Manufacture of explosives 2052 : Manufacture of glues 2053 : Manufacture of essential oils 2059 : Manufacture of other chemical products 2060 : Manufacture of man-made fibres 3511 : Production of electricity 3512 : Transmission of electricity 3513 : Distribution of electricity 3514 : Trade of electricity 3521 : Manufacture of gas 3522 : Distribution of gaseous fuels through mains 3523 : Trade of gas through mains 3530 : Steam and air conditioning supply 4222 : Construction of utility projects for electricity and telecommunications 3600 : Water collection, treatment and supply 3700 : Sewerage 3811 : Collection of non-hazardous waste 3812 : Collection of hazardous waste 3821 : Treatment and disposal of non-hazardous waste 3822 : Treatment and disposal of hazardous waste 3831 : Dismantling of wrecks 3832 : Recovery of sorted materials 3900 : Remediation activities and other waste management services
PROPOSED NEW SIC CODES FROM DECEMBER 2018
5200 Mining of lignite 6100 Extraction of crude petroleum 6200 Extraction of natural gas 7100 Mining of iron ores 7210 Mining of uranium and thorium ores 7290 Mining of other non-ferrous metal ores 8910 Mining of chemical and fertilizer minerals

DIGITAL & CREATIVE
4 digit SIC Code - CURRENT SIC CODES
1820 : Reproduction of recorded media 2620 : Manufacture of computers and peripheral equipment 2630 : Manufacture of communication equipment 5829 : Other software publishing 6110 : Wired telecommunications activities 6120 : Wireless telecommunications activities 6130 : Satellite telecommunications activities 6190 : Other telecommunications activities 6201 : Computer programming activities 6202 : Computer consultancy activities 6203 : Computer facilities management activities 6209 : Other information technology and computer service activities 6311 : Data processing, hosting and related activities 6312 : Web portals 7111 : Architectural activities 7312 : Media representation 7410 : Specialised design activities
PROPOSED NEW SIC CODES FROM DECEMBER 2018
5821 : Publishing of computer games 5911 : Motion picture, video and television programme production activities 5912 : Motion picture, video and television programme post-production activities 5913 : Motion picture, video and television programme distribution activities 5920 : Sound recording and music publishing activities 6010 : Radio broadcasting 6020 : Television programming and broadcasting activities 9003 : Artistic creation

CULTURE & LEISURE
4 digit SIC Code - CURRENT SIC CODES
9103 : Operation of historical sites and buildings and similar visitor attractions 9104 : Botanical and zoological gardens and nature reserve activities 9311 : Operation of sports facilities 8552 : Cultural education 9004 : Operation of arts facilities 9101 : Library and archive activities 9102 : Museum activities 7430 : Translation and interpretation activities
PROPOSED NEW SIC CODES FROM DECEMBER 2018
9001 : Performing arts 9002 : Support activities to performing arts

LOGISTICS
4 digit SIC Code - CURRENT SIC CODES
4646 : Wholesale of pharmaceutical goods 4651 : Wholesale of computers, computer peripheral equipment and software 4652 : Wholesale of electronic and telecommunications equipment and parts 4662 : Wholesale of machine tools 4663 : Wholesale of mining, construction and civil engineering machinery 4669 : Wholesale of other machinery and equipment 4671 : Wholesale of solid, liquid and gaseous fuels and related products 4672 : Wholesale of metals and metal ores 4675 : Wholesale of chemical products 4676 : Wholesale of other intermediate products 4677 : Wholesale of waste and scrap 4920 : Freight rail transport 4941 : Freight transport by road 4950 : Transport via pipeline 5020 : Sea and coastal freight water transport 5040 : Inland freight water transport 5121 : Freight air transport 5122 : Space transport 5210 : Warehousing and storage 5221 : Service activities incidental to land transportation 5222 : Service activities incidental to water transportation 5223 : Service activities incidental to air transportation 5224 : Cargo handling 5229 : Other transportation support activities
PROPOSED NEW SIC CODES FROM DECEMBER 2018
4612 : Agents involved in the sale of fuels, ores, metals and industrial chemicals 4614 : Agents involved in the sale of machinery, industrial equipment, ships and aircraft 4661 : Wholesale of agricultural machinery, equipment and supplies 4664 : Wholesale of machinery for the textile industry and of sewing and knitting machines

HEALTH CARE
4 digit SIC Code - CURRENT SIC CODES
2110 : Manufacture of basic pharmaceutical products 2120 : Manufacture of pharmaceutical preparations 3250 : Manufacture of medical and dental instruments and supplies 7211 : Research and experimental development on biotechnology 8610 : Hospital activities
PROPOSED NEW SIC CODES FROM DECEMEBR 2018
8621 : General medical practice activities 8622 : Specialist medical practice activities

BUSINESS & PROFESSIONAL SERVICES
4 digit SIC Code - CURRENT SIC CODES
6411 : Central banking 6419 : Other monetary intermediation 6420 : Activities of holding companies 6499 : Other financial service activities, except insurance and pension funding 6611 : Administration of financial markets 6612 : Security and commodity contracts brokerage 6619 : Other activities auxiliary to financial services, except insurance and pension funding 6621 : Risk and damage evaluation 6630 : Fund management activities 6910 : Legal activities 6920 : Accounting, bookkeeping and auditing activities; tax consultancy 8020 : Security systems service activities

CONSTRUCTION
5 digit SIC Code – PROPOSED NEW SIC CODES FROM DECEMBER 2018
41201 : Construction of commercial buildings 41202 : Construction of domestic buildings 42110 : Construction of roads and motorways 42120 : Construction of railways and underground railways 42130 : Construction of bridges and tunnels 42210 : Construction of utility projects for fluids 42220 : Construction of utility projects for electricity and telecommunications 42910 : Construction of water projects 42990 : Construction of other civil engineering projects 43290 : Other construction installation 43999 : Other specialised construction activities 43110 : Demolition 43120 : Site preparation 43130 : Test drilling and boring 43210 : Electrical installation 43220 : Plumbing, heat and air-conditioning installation 43290 : Other construction installation 43310 : Plastering 43320 : Joinery installation 43330 : Floor and wall covering 43341 : Painting 43342 : Glazing 43390 : Other building completion and finishing 43910 : Roofing activities 43991 : Scaffold erection 43999 : Other specialised construction activities

TEES VALLEY COMBINED AUTHORITY

CARE ACTIVITIES
4 digit SIC Code – PROPOSED NEW SIC CODES FROM DECEMBER 2018
8710 : Residential nursing care facilities 8720 : Residential care activities for learning difficulties, mental health and substance abuse 8730 : Residential care for the elderly and disabled 8790 : Other residential care activities

HUMAN HEALTH AND SOCIAL WORK ACTIVITIES
5 digit SIC Code – PROPSED NEW SIC CODES FROM DECEMBER 2018
86101 : Hospital activities 86102 : Medical nursing home activities 86210 : General medical practice activities 86220 : Specialist medical practice activities 86900 : Other human health activities 88100 : Social work activities without accommodation for the elderly and disabled 88990 : Other social work activities without accommodation

TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 13

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE HEAD OF FINANCE AND RESOURCES

BUDGET 2019-20 AND MEDIUM TERM FINANCIAL PLAN

SUMMARY

The Mayor is required to propose the budget for the Combined Authority on an annual basis, and is committed to consult publicly before its submission to Cabinet for approval. The Budget provides the financial framework within which the Combined Authority will operate in the forthcoming financial year (2019-20) and over the medium-term.

This report seeks approval from Cabinet for the publication of the draft Budget for consultation. Following consultation, and as required under the constitution, the Budget will be presented to Cabinet by the Mayor in January 2019 for approval.

RECOMMENDATION

i. It is recommended the Combined Authority Cabinet approve that the draft Budget is published for consultation.

DETAIL

BUDGET SUMMARY

1. Since the 2018-19 Budget was agreed a number of further investments against the single pot have been approved by Cabinet, these are detailed in **Appendix 1.**

2. This report sets out the proposed budget for 2019-20 and the medium term financial plan (MTFP) for the period to March 2023 (the Budget). The Budget presents all forecast income and expenditure for the plan period.

3. Income for the period 2019-23 is £444m, comprising £111m single pot income and £333m specific grant income. In addition, it is estimated that as at 31 March 2019 the Combined Authority will hold £69m in reserves which are already committed for approved projects and specific grant schemes and will be expended during the plan period. For the plan period the Authority has a total of £513m available resources at its disposal.

4. Committed expenditure for the period 2019-23 is budgeted at £418m with the remaining £95m available for further investment. Investment decisions regarding the remaining £95m are still to be determined and will be based upon the current investment prioritisation exercise which aims to set out investment priorities for the next ten years.

5. This Budget sets out the detail of the forecast income and expenditure for the plan period and identifies the funding that is available for further investment.

INCOME

6. Total income for the plan period is £444m comprising:

Income 2019-23	**£'000**
Single pot	111,290
Specific grant	332,714
Total income	**444,004**

7. In addition, £70m is held in reserves which are committed for approved projects and specific grant schemes and will be expended during the plan period. The following sections provide further detail on the income and related expenditure.

SINGLE POT INCOME

8. Single pot income is defined as all Combined Authority income for which there is fully devolved discretion regarding expenditure. This income provides for new investment through the investment plan process and to meet Combined Authority core costs.

9. Forecast income for the budget period 2019-23 is £111m as follows:

Single pot income	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Local Growth Fund	13,708	9,416	14,217	0	0	**23,633**
Devolution	15,000	15,000	15,000	15,000	15,000	**60,000**
Enterprise Zones	2,475	4,120	5,379	5,557	5,977	**21,033***
Investment returns	789	844	623	946	491	**2,904**
LEP Grant	500	500	500	500	500	**2,000**
LA contributions	250	0	0	0	0	**0**
Mayoral capacity	1,000	1,000	0	0	0	**1,000**
Other income	180	180	180	180	180	**720**
Total	**33,902**	**31,060**	**35,899**	**22,183**	**22,148**	**111,290**

* The Enterprise Zone income includes expected receipts in relation to business rates for current enterprise zones located on the South Tees Development Corporation site. With the recent Budget announcement making South Tees a Special Economic Area which will allow for the local retention of additional business rates growth, there may be implications for EZ income.

Local Growth Fund

10. In total the Combined Authority has been allocated £103m through previous Local Growth Fund rounds. As at the end of March 2019 it is forecast that £86m will have been spent/committed with £17m remaining available for new investment in the plan period.

Devolution

11. Funding of £15m per year for 30 years was agreed as part of the devolution agreement with government. This funding is subject to a five year review. For the purpose of the budget plan period it is assumed that this level of funding will continue beyond the first five year review which will take place during 2020/21.

12. As at the end of March 2019 it is forecast that £39m will have been spent/committed with £65m remaining for new investment and contributions to core costs in the plan period, comprising £60m income to be received and £5.2m held in reserves.

Enterprise Zones

13. The Combined Authority retains business rate income from a number of designated enterprise zones (EZ). As the zones continue to attract more business the income generated is forecast to increase. For the plan period enterprise zone income is forecast to increase by over 140% from the expected 2018-19 outturn of £2.5m to £6m in 2022-23.

14. As with all EZ income streams there is an element of uncertainty surrounding the timing and value of the income however the premises that contribute to this increase are all currently under construction, for example MGT and Tees AMP, this provides a level of certainty behind the estimates. As at March 2019 it is forecast that £21m will be available for new investment and contributions to core costs in the plan period.

Investment Returns

15. A number of Combined Authority investments are made on a recoverable and/or commercial basis. In addition, reserves held provide a return through the Treasury Management policy. In total it is estimated that the Authority will receive £3m in the plan period through investment returns, a significant proportion of which is interest on cash balances.

Local Enterprise Partnership Grant, LA Contributions

16. The Combined Authority receives LEP grant of £500k per annum. In addition, the five constituent local authorities currently each provide £50k per annum to support the Combined Authority and match the LEP grant. For the plan period the LEP grant match can be met from other available income streams and therefore the Local Authority contribution is not required, providing a local authority saving of £1.0m over the plan period.

Mayoral Capacity Funding

17. Funding of £1.0m per annum was granted to Mayoral Combined Authorities with elected mayors for 2018-19 and 2019-20, to boost the new mayors' capacity and resources, this income has been absorbed into the single pot. No commitment has been provided by Government to fund capacity beyond this period.

Other income

18. Other income comprises of funds received from external recharges and contributions from South Tees Development Corporation for shared resources.

Council Tax Precept

19. Legislation requires Combined Authority Mayors to set a precept on the Council Tax, to support functions which cannot be funded through other sources of income. The Tees Valley Combined Authority is able to meet the costs of its functions entirely from resources it has secured as a result of the Devolution Deal and other income sources. The Tees Valley Mayor therefore proposes to set a zero precept for 2019/20, and will not set a Council Tax precept in future years.

SPECIFIC GRANT INCOME

20. Specific grant income relates to funding received by the Combined Authority for identified purposes. The range of Authority discretion varies across the specific grants ranging from very limited to quite wide. For example, there is significant flexibility on the transforming cities fund albeit within the constraint that it must be transport related investment. Whereas Great Places funding is for very specific projects following a bidding process and has little flexibility or discretion. All these funding streams do come with a degree of constraint in as to how they are applied, and therefore do not provide the fully devolved flexibility that single pot income does.

Specific grant income	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**Total £'000**
Transforming Cities Fund (DfT)	4,000	13,000	18,000	24,000	16,500	**71,500**
Routes to Work (DWP)	2,218	2,439	1,211	0	0	**3,650**
Growth Hub (BEIS)	246	246	0	0	0	**246**
Nat. Productivity Investment Fund (DfT)	3,274	5,050	0	0	0	**5,050**
Access Fund (DfT)	1,109	1,051	0	0	0	**1,051**
ERDF (Business Compass) (ERDF)	4,482	6,843	0	0	0	**6,843**
ERDF Legacy (MHCLG)	0	3,666	3,667	3,667	0	**11,000**
Great Places (HLF)	711	528	0	0	0	**528**
Adult Education Budget (DfE)	392	20,179*	30,000	30,000	30,000	**110,179**
Careers & Enterprise	60	50	21	0	0	**71**
Local Transport Plan (DfT)	13,943	13,943	13,943	13,943	13,943	**55,772**
Concessionary Fares Income (LAs)	16,706	16,706	16,706	16,706	16,706	**66,824**
Other	1,476	0	0	0	0	**0**
Total	**48,617**	**83,701**	**83,548**	**88,316**	**77,149**	**332,714**

* note the Adult Education Budget funding for 19/20 is less than future years as full devolution does not commence until part way through the year in August 2019

21. With the exception of the Transforming Cities Fund all the above specific grant incomes are required to be expended during the plan period.

Transforming Cities Fund

21. The Transforming Cities Fund was announced by Government in the 2017 Budget and Tees Valley was awarded a total of £59m funding to transform local public transport. This funding is to cover a 4 year period with £4m received in 2018/19 and the remaining £55m being received in the period covered by this plan. In the 2018 Budget the fund

was extended into 2022/23 and an additional £16.5m was awarded to the Tees Valley. The fund gives the Combined Authority freedom to invest on strategic transport priorities such as rail, bus rapid transit, cycling or other public and sustainable transport improvements.

Routes to Work

22. £6m of funding was secured over a 3 year period from 2017 to 2020, matched by £1.5m from the single pot, to provide holistic support to those long term unemployed aged 30 or over. The project identifies and provides support to address and overcome multiple barriers that some people face when trying to access work. The Service is monitored by the Combined Authority and delivered by the five Tees Valley Local Authorities through multiple service providers offering one-to-one tailored support.

BEIS Growth Hub

23. The Growth Hub support from BEIS was extended in until 2019/20 to ensure that all businesses in every region have access to a local Growth Hub. This funding is to allow the Growth Hubs to carry on building their reach, developing peer-to-peer networks, connecting businesses to the best support available from the private and public sectors and to target support on those businesses with the opportunity, ambition and greatest potential to grow.

National Productivity Investment Fund (NPIF)

24. Over £8m NPIF funding covering 2018/19 and 2019/20 was allocated to improve local road networks and public transport. One of the purposes of the fund is to ease congestion and provide upgrades on important roads. Applications for individual projects were assessed and approved by Department for Transport with the region receiving funding for Darlington Growth and Enterprise Zone Connectivity, A66/A171 Cargo Fleet Roundabout Improvement Scheme and A171 Swans Corner to Flatts Lane Improvement.

DfT Access Fund

25. Over £1m of funding per annum was awarded over a 3 year period covering 2017/20 and is being used to widely encourage the use of public transport, cycling and walking through the introduction of sustainable transport schemes, promotion and marketing. The funding also targets those who have difficulties to get back into work because of the restrictions accessing transport and the cost of travel affecting their ability to attend interviews. They will also benefit from discount bus travel and bike loans.

ERDF Business Compass

26. Funded by the ERDF to promote and support growth to SME’s the Business Compass service provides support to help with anything from developing a skilled workforce, accessing finance and grants and developing a growth strategy to finding the right location, product development, sales and marketing and starting up a new business. The Programme runs from January 2017 to December 2019. The Combined Authority is currently looking at options to extend this programme beyond this date.

ERDF Legacy

27. Funding has been recycled from previous regional ERDF funded investments, including the North East Jeremie Fund, to provide additional support for Tees Valley businesses seeking investment.

Great Places

28. Tees Valley Combined Authority has secured £1.5 million as part of the Heritage Lottery Fund and Arts Council England Great Place scheme to fund activities which will put arts, culture and heritage at the heart of the community. Led by Tees Valley Combined Authority, the Great Place – Greater Tees project will provide funding for a number of arts and cultural organisations across Tees Valley and support popular existing events as well as new initiatives.

Adult Education Budget

29. The AEB funding provides an estimate of £110m funding over the period with full devolution commencing August 2019 and aims to provide those aged 19 and over in the Tees Valley area with support into training and education to enhance skills in order to meet the skills requirements of employers. The Combined Authority will be working with a wide range of providers to align training to business needs and to prevent young people becoming long-term unemployed.

Careers & Enterprise Company

30. The Enterprise Adviser Network has been running since 2015 and is currently funded up till 2020. The network of advisors work with local schools and businesses to ensure every young person has the chance to access those meaningful employer encounters that play such a vital part in helping them decide their future path.

Local Transport Plan

31. As the transport authority for the Tees Valley the annual capital block funding allocations are passported through the Combined Authority to the constituent Local Authorities based on historical allocations. The Combined Authority role in this is transactional in enabling the funding to be transferred from Government to the Local Authorities.

Concessionary Fares Income

32. Under the role of transport authority the Combined Authority is responsible for passporting funding to the local bus operators via income received from the constituent authorities on an annual basis. The Combined Authority role in this is transactional in enabling the funding to be transferred from the Local Authorities to the bus operators.

EXPENDITURE

SINGLE POT INVESTMENT – COMMITTED (as at 30 October 2018)

33. All single pot investment is delivered through the Combined Authority Investment Plan.

Investment Plan	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Approved investments	41,747	28,011	16,307	1,995	340	**46,653**
Development fund commitments	6,000	832	-	-	-	**832**
Total	**47,747**	**28,843**	**16,307**	**1,995**	**340**	**47,485**

Approved investments incurring expenditure in the plan period

34. For the plan period forecast expenditure on approved investments equates to £47m, as presented in **Appendix 2**. These approved investments comprise 22 individual projects and programmes and a brief outline of each is set out below.

A689 Wynyard Improvements

35. In the original growth deals of 2014/15 £3m was allocated, subject to due diligence, to improve signalisation and widen five roundabouts on the A689 at Wynyard. Subsequently, Stockton Borough Council submitted a change request to vire money between approved schemes which resulted in a revised figure of £2.525m. This scheme will provide additional capacity on the A689 roundabouts to provide the local access required for the proposed housing developments in Wynyard and South West Hartlepool. This complements the recent improvements to the strategic road network that the Highways Agency has completed, to provide additional capacity at the A19/A689 Interchange, and their longer term commitment to providing the additional capacity required to accommodate future development traffic and wider traffic growth along the A19 between Norton and Wynyard. The Combined Authority is currently working with Stockton Borough Council on bringing forward this scheme.

Apprentice Grant for Employers

36. The Apprentice Grant for Employers programme has the aim of supporting businesses (principally micro and small enterprises) that would not otherwise be in a position to recruit individuals aged 16 to 24 into employment through an Apprenticeship programme. Employers who recruit an apprenticeship and keep them in employment for at least 13 weeks receive a grant which goes some way to offsetting the cost involved in employing and investing in the development of an apprentice. The programme was devolved to Tees Valley in 2016/17 with £1.536m funding through the Skills Funding Agency. In January 2017 Cabinet approved further funding of £524k to continue the programme. In July 2017 Cabinet approved a further £1.3m funding to enable further continuation of the programme. Currently in delivery, the £1.3m funding is forecast to be expended by the end of 2019/20.

Business Finance Scheme

37. In February 2018 Cabinet approved an allocation of £5m through the Investment Plan to progress on the proposal to improve access to finance for business, by bringing forward new proposals for additional support for Tees Valley businesses seeking investment. Plans involve allocating £11 million of funding recycled from previous regional ERDF funded investments, including the North East Jeremie Fund, which will add to the approved £5 million business support allocation within the Investment Plan, to provide an initial £16 million funding allocation to business for propositions that are unable to access finance from other sources.

Careers & Enterprise Programme

38. The Enterprise Advisor Network programme provides support to connect local business with schools and colleges across the Tees Valley. Advisors support and enhance existing activities, ensure that the schools are aware of additional support available and identify what additional support the school requires to deliver improved careers education. Match funding of £110k has been provided to enable the extension of the careers initiative. Beyond this, funding for the initiative is to continue through the Cabinet approved Careers and Enterprise Initiative.

CPI Healthcare Futures Centre

39. In the original growth deals of 2014/15 £10m was allocated, subject to due diligence, for the CPI Healthcare Futures Centre, a new facility on the Enterprise Zone at Central Park which will allow organisations to develop and test medicine manufacturing technologies that can be applied in the new and emerging therapeutic supply chains. It will integrate with existing National Biologics Manufacturing Centre and the new Teesside University National Horizons Centre to form a strong cluster for the biologics sector. There are a number of factors that have resulted in a delay to the proposal progressing to funding agreement stage. The proposal is reliant on ERDF funding application and as a result changes were required to the funding model. The Combined Authority are progressing with the due diligence and the outcome of the ERDF application is awaited.

Building Cultural Capacity

40. In March 2017 Cabinet approved a £1.8m programme of culture activity, which included a £100k allocation for building cultural capacity. Activity regarding building cultural capacity is currently in delivery, with a forecast £25k remaining to be spent in 2019/20.

Culture - City Games & Cross Country

41. In March 2018 Cabinet approved, subject to due diligence, the allocation of up to £340k grant funding to the Great Tees City Games and Great Tees XCountry and 'in principle' funding for up to a further £1.575 million to secure the Games to take place after 2019 until 2025. The expenditure forecast for 2019 onwards is subject to the outcome of current delivery.

Culture - Destination Marketing Programmes

42. In March 2017 Cabinet approved a £1.8m programme of culture activity, which included a £1.05m allocation for a destination marketing programme. The programme is currently in delivery and aims to celebrate and communicate the very strong tourism assets Tees Valley already has, and ensure that we are ready to promote those which will be developed over the coming years. Focus has been put on to the creation of a destination marketing service with website, private sector engagement, product development and PR and marketing, and working closely with partner organisations to maximise success.

Delivering Sector Action Plans Programme

43. In February 2018 Cabinet approved an allocation of £1.9m through the Investment Plan for delivering sector action plans. It was agreed as part of the approval that individual projects would be approved on an individual basis as they come forward.

Education, Employment & Skills Strategy - Addressing Long Term Unemployment

44. In February 2018 Cabinet approved programme funding of £2m aimed at addressing long term unemployment through a targeted 15-18 programme of holistic support and a pilot a work experience programme for 16-18 year olds. The operating model for the delivery of these programmes is still to be developed with expenditure forecast across 2019/20 and 2020/21.

Education, Employment & Skills Strategy – Business Challenge and Workforce Planning

45. In February 2018 Cabinet approved programme funding of £1.5m for a programme of workforce planning support to businesses. The operating model for the delivery of this programme is still to be developed with expenditure forecast across 2019/20 and 2020/21.

Education, Employment & Skills Strategy – Creating a Tees Valley Careers & Enterprise Initiative

46. In February 2018 Cabinet approved funding of £3m for a programme of work to create a Tees Valley Careers and Enterprise Initiative. This programme will provide more effective, informed and high quality Careers and Enterprise education in all educational establishments including primary schools in the Tees Valley area. The aims of the new initiative will better align careers and enterprise education in schools to business needs and improve the experiences of young people to ensure they are better informed and prepared for work. The aim is to engage 1,000 businesses in careers education across all schools and from Key Stage 2, age 7 upwards. The operating model for delivery of the programme has been developed and is being presented to November Cabinet.

Education, Employment & Skills Strategy – Developing a Skills System for Business Growth

47. In February 2018 Cabinet approved funding of £2m for a programme of work to develop post-16 technical business led route ways. This programme aims to ensure skills provision is focused on meeting the skills gaps in the local economy by reducing the skills gaps by employers in high growth sectors. Helping businesses create higher level apprenticeships including degree level that lead to high quality jobs. Expanding the opportunity for young people to take up apprenticeships and access high quality technical education. Improving skills route ways to entry level and good progressive jobs. The operating model for the delivery of this programme is still to be developed with expenditure forecast across 2019/20 and 2020/21.

Education, Employment & Skills Strategy – Supporting Education Innovation and Collaboration

48. In February 2018 Cabinet approved funding of £2m for a programme of work to support education innovation and collaboration. The aim of the programme is to help meet the education workforce challenge by recruiting and retaining high quality teachers into the Tees Valley. It aims to improve high quality technical education routes for young people into high quality jobs and support collaborative pilot scheme that improve outcomes for pupils. The development of the operating model for the delivery of this programme is currently on hold subject to the detail of a Government announcement in October 2018 regarding the £24m Opportunity North East programme.

Feethams Grade A Office Development

49. In February 2018 Cabinet approved £3.23m investment for the construction of 3,264sqm of Grade A office accommodation in Darlington town centre. The budget identifies £3.13m forecast expenditure in 2019/20 and 2020/21. The remaining £100k has been recovered for previous development costs.

Hartlepool Centre of Excellence in Technical Training for the Creative Industries

50. Approved under delegated decision in December 2017 for £656k the centre aims to bring back into use the mothballed £4.5m Northern Lights Academy facility and turn it into a Centre of Excellence in Technical Training for Creative Industries for young people. It will target emerging technologies and industry growth sectors including traineeship and apprenticeships in TV and Film, Sound Production, Theatre and Live Event production and Digital Media.

Hartlepool Western Growth Corridor

51. Approved funding of £4.173m by Cabinet in July 2018, this project consists of the development of a by-pass for the Village of Elwick and an overbridge and compact grade separation at the current Elwick North junction to the A19, which will improve the strategic and local road network. This will provide a third main route into Hartlepool, enabling the development of significant levels of new housing in the West of the Borough.

Ingenium Parc – Phase 1

52. The project was approved by Cabinet in November 2017 and £3.9m was allocated in the provision of enabling infrastructure to unlock 11.5ha of key employment land located within Darlington's Eastern Urban Fringe to ensure it is development ready.

Routes to Work

53. As outlined in paragraph 23 of this report, £6m of Routes to Work programme funding was secured from the Department of Work and Pensions (DWP), matched by £1.5m from the Combined Authority. The programme provides holistic support from a range of service providers for those unemployed or economically inactive individuals aged 30+ across the Tees Valley area, who are deemed to need the most help and support to move back into work. This includes many elements with the primary focus being on the individual. It provides the opportunity to identify and address multiple barriers that some people face when trying to access work and does not solely focus on providing training courses. The Combined Authority match funding of £1.5m will only be expended after the £6m DWP funds have been utilised, hence it is forecast to be spent in 2020/21.

Sustainable Access to Employment Programme

54. This four-year £8.3m programme approved by Cabinet in January 2017 contributes to delivering a high value, low carbon economy by promoting the use of sustainable modes of transport to reduce congestion and cut emissions. It also aims to improve accessibility to employment opportunities for Tees Valley residents through the improvement of walking and cycling access between key employment and housing sites and access to existing transport networks. The remaining £1.2m of this programme will be delivered in 2019/20.

Sustaining 16+ Facilities Capital

55. In 2017 Cabinet approved an allocation of £3.5m for sustaining 16+ facilities capital. An open application process, the funding is available to support the sustainability of further education colleges following the post-16 education area review. For the budget plan period £2.535m of this funding remains available for capital investment.

Youth Employment Initiative Extension

56. In 2016 Cabinet approved an allocation of up to £2.06m to act as a required 25% match as part of the overall programme budget. This allocation secured up to an additional £6.188m of European Structural Fund for the Tees Valley.

Development fund commitments

57. For the plan period forecast expenditure on development funding equates to £0.83m. The detail of the projects to incur this expenditure are set out at **Appendix 2**.

SPECIFIC GRANT EXPENDITURE

58. Expenditure against specific grants broadly follows income receipt, descriptions of each is set out in the income section of this report apart from the SSI Task Force grants which is described below.

59. It is anticipated that at 31 March 2019 there will be £18m of specific grant income held in the balance sheet all of which will be expended during the plan period and all specific grant programmes will be completed within the budget plan period with the exception of the annual Adult Education Budget, Local Transport Plan and Concessionary Fares. A number of the grant schemes are delivered by the Combined Authority directly with associated staff resources which are funded directly from the grant itself.

60. There are currently no approved projects against the Transforming Cities Fund however for the purposes of this report a notional expenditure profile has been included. Once projects are approved this profile will be updated to reflect this.

61. During 2015/16 the Government announced an £80m funding package to provide economic support for those employees impacted (directly and indirectly) by the closure of the SSI plant in Redcar, of which £47m was channelled through the Combined Authority and managed by the SSI Task Force. To date 93% of the funding is committed and the remaining projects and programmes are currently working their way through the assurance process.

Specific grant expenditure	**2018/19 £'000**	**2019/20 £'000**	**2020/21 '000**	**2021/22 £'000**	**2022/23 £'000**	**Total £'000**
Transforming Cities Fund	0	0	5,000	27,000	43,500	**75,500**
Routes to Work	2,218	2,439	1,211	0	0	**3,650**
BEIS Growth Hub	246	246	0	0	0	**246**
National Productivity Investment Fund	3,274	5,050	0	0	0	**5,050**
DfT Access Fund	1,109	1,051	0	0	0	**1,051**
ERDF (Business Compass)	4,494	6,843	0	0	0	**6,843**
ERDF Legacy	0	3,666	3,667	3,667	0	**11,000**
Great Places	711	528	0	0	0	**528**
Adult Education Budget	392	20,179	30,000	30,000	30,000	**110,179**
Careers & Enterprise	60	50	21	0	0	**71**
SSI Task Force	8,256	14,209	0	0	0	**14,209**
Local Transport Plan	13,943	13,943	13,943	13,943	13,943	**55,772**
Concessionary Fares Income	16,706	16,706	16,706	16,706	16,706	**66,824**
Other	2,455	0	0	0	0	**0**
Total	**53,864**	**84,910**	**70,548**	**91,316**	**104,149**	**350,923**

CORE COSTS

62. More than 96% of all Combined Authority income is invested, with less than 4% being utilised for core costs. For the 2019/20 budget it is planned to remain within the current 2018/19 funding envelope for core costs and manage any budgetary pressures through efficiencies. The key budgetary pressure in 2019/20 to be managed through efficiencies is the pay award which equates to an additional estimated cost of £150k. Managing this additional cost pressure gives the Combined Authority a 2019/20 efficiency target of approximately 3%. In addition, one-off costs are incurred for mayoral elections, with the previously agreed budget of £0.6m for 2020-21.

	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Core costs	4,813	4,813	4,813	4,813	4,813	**19,252**
Mayoral election	-	-	600	-	-	**600**
Total	**4,813**	**4,813**	**5,413**	**4,813**	**4,813**	**19,852**

63. The table below sets out the proposed core costs budget for 2019/20 and the previously agreed budget for 2018/19. A more detailed breakdown of running cost budgets are provided at **Appendix 3**.

Core costs	2018/19	2019/20
Salaries	3,113,332	3,113,332
National Insurance	340,722	340,722
Pension Contribution	478,858	478,858
Other Staffing Costs	15,000	15,000
Total Staff Costs	**3,947,912**	**3,947,912**
Premises	336,000	336,000
General Running Costs	369,000	369,000
Marketing & Communications	160,000	160,000
Non-Salary Expenditure	**865,000**	**865,000**
TOTAL EXPENDITURE	**4,812,912**	**4,812,912**

64. In the current year we are projecting savings of approximately £292k, comprising £341k underspend on salaries (vacant posts and vacancies filled during year) offset by an additional £49k in non-staffing costs (a one-off backdated premises charge, additional expenditure for the purchase of a secure file sharing facility and Chief Executive recruitment costs).

RESERVES

65. We consider the need for unearmarked reserves within the context of the MTFP on an annual basis, recognising that in some years there may be schemes or developments that present special forecasting risks or lead to a need to cover a time lag between spending and receipts, and therefore could lead to the need for a higher level of

reserves than usual to make for robust budget planning. There are no such matters to consider in this budget report.

66. Good practice guidance for Local Authorities is that a proportion of net revenue expenditure should be held in the General Balance Reserve to manage risk and any unforeseen circumstances. As agreed in the 2018/19 Budget we consider that the appropriate way of identifying the net revenue of the Combined Authority for this purpose is to take the average of the risk-based revenue that we expect to receive over the period of the MTFP and hold a proportion of this in the General Reserve. This would require us to set the General Reserve Balance at £842k which would represent a reduction of £120k from current levels. However, we are proposing to not action this reduction and leave the general reserve at £962k.

67. Due to the transformational nature of Combined Authority investment the in-year receipt of income is not, nor intended to be, aligned to in-year investment. As a Mayoral Combined Authority the devolution arrangements enable funds to be carried forward to align with the timing of investment priorities and longer term strategic aims rather than incur expenditure by an arbitrary in-year deadline. As a consequence funds received will be held in reserves until required for investment. Likewise, if investment requirements exceed available reserves and in-year income the Combined Authority has the power to borrow against future income streams to fund investment priorities.

68. The reserves held can be classified under Single Pot Reserves and Specific Grant Reserves. The balances across the plan period are set out below.

Single Pot	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Opening Balance	70,509	51,483	48,887	63,066	78,441
To/From Reserves	(19,026)	(2,596)	14,179	15,375	16,995
Closing Balance	51,483	48,887	63,066	78,441	95,436

Specific Grants	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Opening Balance	23,456	18,209	17,000	30,000	27,000
To/From Reserves	(5,247)	(1,209)	13,000	(3,000)	(27,000)
Closing Balance	18,209	17,000	30,000	27,000	0

BORROWING

69. In January 2018 the Combined Authority was granted borrowing powers by Government up to an agreed cap of £571m in 2019/20 and £774m in 2020/21. Borrowing powers provide substantial additional financial flexibility for the Combined Authority, allowing borrowing against future income to finance upfront investment. The levels are strict maximums set by the Treasury, and do not imply that the Combined Authority will be borrowing to this level. Debt limits will instead be set by Cabinet, on the basis of approved business cases for individual projects, and within the overall debt position reported to Cabinet quarterly.

70. As with local authorities, borrowing can only take place when strict conditions are met, as determined by the Director of Finance in her statutory role in compliance with the prudential code. There must be a designated income source to repay the finance costs of borrowing before it can be approved

71. To date funding requirements for investments have not exceeded available funds and therefore the borrowing powers have not been acted upon. Although borrowing has not been required to date Cabinet have approved the use of prudential borrowing powers against two investments, namely Tees AMP £6.15m and Feethams £3.23m.

72. The currently approved expenditure set out in this paper indicates that expenditure for the plan period will be met from expected income and current reserves. However, this

position is subject to the ongoing review of investment plans and the Treasury Management Policy has been amended to accommodate such borrowing if needed within the plan period.

AVAILABLE FOR INVESTMENT

73. As at 30 October 2018 £95m remains available for single pot investment within the plan period based on current known income streams and committed expenditure. A prioritisation exercise is currently being undertaken to identify a 10 year investment strategy. The profiling of this expenditure is dependent on the outcome of the prioritisation exercise and it is expected that there will be further commitment of funds within the plan period as prioritised projects are approved.

74. The current amount available for investment as outlined above is based on known income streams until 2023, if we extended the known income streams out to 2029 to cover the 10 year prioritisation period this would make available an additional £103m for investment, and gives an available for investment balance of £198m.

75. The above does not take account of any further grants that we may be awarded from Central Government. We are awaiting details of how the UK Shared Prosperity Fund will operate and what level of funding we may receive from this fund which is due to go out to consultation later in the year.

MEDIUM TERM FINANCIAL PLAN 2019-23

76. Income and expenditure for the plan period, including the proposed 2019/20 budget is summarised in the medium term financial plan as set out in **Appendix 4**. The medium term financial plan is also set out based on Investment Plan themes at **Appendix 5**.

NEXT STEPS

77. Subject to Cabinet approval the Budget will be subject to a period of consultation as set out below in paragraph 81 below. The results of the consultation and proposed final budget will be reported to Cabinet in January 2019. In line with the budget process as set out in the constitution and if required, an additional Cabinet budget meeting is provisionally scheduled for February 2019.

FINANCIAL IMPLICATIONS

78. This report sets the budget for the Combined Authority under the context of the agreed Investment Plan. This report does not propose any amendments to the Investment Plan.

LEGAL IMPLICATIONS

79. As a Mayoral Combined Authority we are legally required to set a budget for the coming financial year and a Medium Term Financial Plan covering the coming financial year and the three years thereafter.

RISK ASSESSMENT

80. This Budget is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

81. Consultation will be undertaken with the public and key stakeholders for a period from 30 November 2018 to 6 January 2019.

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Appendix 1

Investments against the single pot approved by Cabinet since the 2018-19 Budget was agreed

	£ '000
Feethams Grade A Office Development	3,230
Snow Centre	250
Education, Employment & Skills Strategy	10,500
Kirkleatham Catering Academy and Walled Garden	3,660
Culture: City games	1,915
Culture: Rugby League World Cup Bid	250
Annimersion	39
Middlesbrough Station	2,500
Darlington Station	3,000
Stockton Riverside College - Redcar College IT Infrastructure	968
TVCA Hydrogen Transport Deployment Bid	80
TWI Joint Hydrogen Business Development Manager	60
Hartlepool Western Growth Corridor	4,173
National Museum of the Royal Navy Hartlepool	499
Liberty Steel Grant	1,000
Liberty Steel Loan	3,600
TOTAL	**35,724**

Forecast expenditure on approved investments in the plan period

SINGLE POT APPROVED INVESTMENTS EXPENDITURE	Projected by end of 18/19	2019/20	2020/21	2021/22	2022/23	MTFP TOTAL	Approved project total
		£'000	£'000	£'000	£'000	£'000	£'000
A689 Wynyard Improvements	0	2,525				2,525	2,525
Apprentice Grant For Employers	850	450				450	1,300
Business Finance Scheme	0	1,500	1,750	1,750		5,000	5,000
Careers & Enterprise Programme	50	60				60	110
CPI Healthcare Futures Centre (Personalised Medicines)	0	3,750	6,250			10,000	10,000
Culture: Building Cultural Capacity	75	25				25	100
Culture: City games & Cross-Country	340	340	340	245	340	1,265	1,605
Culture: Destination Marketing Programmes	672	378				378	1,050
Delivering Sector Action Plans Programme	0	1,900				1,900	1,900
Education, Employment & Skills Strategy - Addressing long term unemployment (15-18 programme & work experience)	0	1,000	1,000			2,000	2,000
Education, Employment & Skills Strategy - Business challenge and workforce planning	0	750	750			1,500	1,500
Education, Employment & Skills Strategy - Creating a TV Careers & Enterprise Initiative	500	1,250	1,250			2,500	3,000
Education, Employment & Skills Strategy - Developing a skills system for business growth	0	1,000	1,000			2,000	2,000
Education, Employment & Skills Strategy - Supporting education innovation and collaboration	0	1,000	1,000			2,000	2,000
Feethams Grade A Office Development	0	1,663	1,467			3,130	3,130
Hartlepool Centre of Excellence in Technical Training for the Creative Industries	312	344				344	656
Hartlepool Western Growth Corridor	1,500	2,673				2,673	4,173
Ingenium Parc - Phase 1	2,300	1,600				1,600	3,900
Routes to Work	0		1,500			1,500	1,500
Sustainable Access To Employment Programme	7,092	1,208				1,208	8,300
Sustaining 16+ Facilities Capital	0	2,535				2,535	2,535
Youth Employment Inititive Extension	0	2,060				2,060	2,060
TOTAL	**13,691**	**28,011**	**16,307**	**1,995**	**340**	**46,653**	**60,344**
DEVELOPMENT FUND APPROVED EXPENDITURE							
District Heating Commercialisation Stage	100	400	0	0	0	400	500
Eaglescliffe Station Western Access	329	329	0	0	0	329	658
Kirkleatham Estate Investment Project	312	103	0	0	0	103	415
TOTAL	**741**	**832**	**0**	**0**	**0**	**832**	**1,573**

Running cost budgets 2019/20

Budget Heading	Budget 2019/20
Premises	
Electricity	33,000
Rates	87,000
Rents and Leases	196,000
Repairs and Maintenance Condition	8,000
Cleaning and Domestic Contracts	12,000
	336,000
Transport	
Transport Fares - Payroll	12,000
Transport Fares - Non Payroll	60,000
	72,000
General Running Costs	
Catering, Food & Drink	2,000
Equipment/Furniture/Materials	3,000
Room/Facility Hire	3,000
ICT - Hardware	3,000
ICT - Software / licences	30,000
Insurance	35,000
Printing & Photocopier	1,000
Professional Fees & Consultancy	6,000
External Audit Fees	30,000
Stationery	2,000
Subscriptions & Memberships	32,000
Staff Expenses	15,000
Telecommunications	4,000
Mail Services	1,000
	167,000
Support Costs	
Financial Support (including Treasury Management, VAT advice)	20,000
Internal Audit	2,000
Risk Management & Insurance	2,000
ICT	33,000
Printing	7,000
HR	12,000
Voice & Data Network	29,000
Monitoring Officer / Legal Support	24,700
	129,700
Marketing & Communications	160,000
Total Running Costs Budget	**864,700**

Medium Term Financial Plan 2019-23

MEDIUM TERM FINANCIAL PLAN	2019/20	2020/21	2021/22	2022/23	TOTAL
	£'000	£'000	£'000	£'000	£'000
Single Pot Income	31,060	35,899	22,183	22,148	**111,290**
Specific Grant Income	83,701	83,548	88,316	77,149	**332,714**
TOTAL INCOME	**114,761**	**119,447**	**110,499**	**99,297**	**444,004**
Approved Investments	28,011	16,307	1,995	340	**46,653**
Development Fund Commitments	832	0	0	0	**832**
Specific Grant Expenditure	84,910	70,548	91,316	104,149	**350,923**
Core Costs	4,813	5,413	4,813	4,813	**19,852**
TOTAL EXPENDITURE	**118,566**	**92,268**	**98,124**	**109,302**	**418,260**
TRANSFER TO / FROM RESERVES	**-3,805**	**27,179**	**12,375**	**-10,005**	**25,744**
Usable Reserves Opening Balance	69,692	65,887	93,066	105,441	
Transfer To / From Reserves	-3,805	27,179	12,375	-10,005	
USABLE RESERVES CLOSING BALANCE	**65,887**	**93,066**	**105,441**	**95,436**	

Medium Term Financial Plan 2019-23 – Investment Plan Themes

EXPENDITURE BY INVESTMENT PLAN HEADINGS	2019/20	2020/21	2021/22	2022/23	TOTAL
	£'000	£'000	£'000	£'000	£'000
Business Growth	23,800	6,884	5,417	0	**36,101**
Research, Development, Innovation & Energy	3,750	6,250	0	0	**10,000**
Education, Employment & Skills	33,117	37,732	30,000	30,000	**130,849**
Culture	1,271	340	245	340	**2,196**
Transport	26,450	18,943	40,943	57,443	**143,779**
Enabling Infrastructure	6,600	0	0	0	**6,600**
Development Pot	832	0	0	0	**832**
INVESTMENT PLAN EXPENDITURE	**95,820**	**70,149**	**76,605**	**87,783**	**330,357**
SSI Schemes Not In Investment Plan	1,227	0	0	0	**1,227**
Concessionary Fares	16,706	16,706	16,706	16,706	**66,824**
Core Running Costs	4,813	5,413	4,813	4,813	**19,852**
NON-INVESTMENT PLAN EXPENDITURE	**22,746**	**22,119**	**21,519**	**21,519**	**87,903**
TOTAL EXPENDITURE	**118,566**	**92,268**	**98,124**	**109,302**	**418,260**

TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 14

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE HEAD OF FINANCE AND RESOURCES

BUDGET REPORT – QUARTER 2 (2018/19)

SUMMARY

The purpose of this report is to provide an update on the financial position of the Combined Authority for the period ending 30 September 2018 and present a revised Medium Term Financial Plan (MTFP).

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority:

i. Note the quarter 1 financial position as at 30 September 2018; and
ii. Note the revised Medium Term Financial Plan.

DETAIL

Core Budget

1. The table below details the quarter 2 budget and actual spend for the core budget as at 30th September 2018.

	Qtr2 Budget	**Actual @ Sept**	**Variance To Date**
	£'000	**£'000**	**£'000**
Staffing Costs	1,974	1,748	(226)
Other Non Staffing Costs	635	670	35
TOTAL EXPENDITURE	**2,609**	**2,418**	**(191)**
Single Revenue Pot Contribution	0	0	0
Mayoral Capacity Funding	0	(1,000)	(1,000)
Grants & Contributions	(519)	(519)	0
TOTAL FUNDING	**(519)**	**(1,519)**	**(1,000)**
NET EXPENDITURE	**2,090**	**899**	**(1,191)**

2. As at the end of September 2018 there is an underspend of £191k against the budgeted expenditure. There has been an underspend against salaries of £226k as a result of posts being vacant during the period whilst recruitment processes have been ongoing towards to the approved staffing levels. Non staffing expenditure is currently overspent by £35k which is predominantly as a result of a one off additional service charge.

3. The table below details the budget and projected outturn for the core budget as at the end of quarter 2. The position will continue to be monitored and reviewed during the remainder of the financial year.

	Budget	Projected Outturn	Variance
	£'000	**£'000**	**£'000**
Staffing Costs	3,948	3,607	(341)
Other Non Staffing Costs	865	914	49
TOTAL EXPENDITURE	**4,813**	**4,521**	**(292)**
Single Revenue Pot Contribution	(3,180)	(1,888)	1,292
Mayoral Capacity Funding	0	(1,000)	(1,000)
Grants & Contributions	(1,633)	(1,633)	0
TOTAL FUNDING	**(4,813)**	**(4,521)**	**292**
NET EXPENDITURE	**(0)**	**0**	**0**

4. The total projected underspend for 2018/19 is £292k. Salaries are projected to underspend by £341k during the year due to the phased implementation of recruitment towards the agreed staffing levels. This underspend is partly offset by additional non staffing costs of £49k for a one-off backdated premises service charge, additional expenditure for the purchase of a secure file sharing facility and recruitment costs associated with chief executive post.

5. The additional £1m Mayoral Capacity Grant which was awarded for the year together with the projected underspend gives a reduced call on the single pot of £1.292m.

Progress Against Medium Term Financial Plan (MTFP)

6. Cabinet approved the MTFP at its meeting on 5 February 2018. As part of the agreed budget process it is required to report progress against the MTFP to Cabinet on a quarterly basis. Since the MTFP was set there have been a number of changes as a result of subsequent investment decisions and additional funding being secured.

7. In addition to the changes mentioned above there are also annual amendments relating to movement between years for previously approved expenditure and income to give the revised projected levels for each year.

8. The following sections outline amendments to the MTFP since being set in February and the revised plan is presented at Appendix 1.

MTFP Income

9. The table below sets out the revised income position for the MTFP.

Income	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	87,827	97,118	89,039	63,554	337,538
Additional income	392	20,179	30,000	43,943	94,514
Movement In Years	-5,384	504	1,213	3,667	0
Revised Projection	**82,835**	**117,801**	**120,252**	**111,164**	**432,052**

10. Since the previous update the Adult Education Budget has now been built into the plan at the estimated values based on information provided by ESFA. This includes transitional arrangements and totals £80.6m over the period covered by this plan.

11. The Local Transport Plan funding for 2021/22 has now been including into the plan based on current levels of £13.9m.

MTFP Expenditure

12. The table below sets out the revised total approved expenditure for the MTFP.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	122,120	77,838	54,150	25,449	279,557
Additional Commitments	3,162	25,372	34,991	70,943	134,468
Movement In Years	-20,193	15,438	3,300	1,995	540
Revised Projection	**105,089**	**118,648**	**92,441**	**98,387**	**414,565**

13. The revised projection for expenditure in 2018/19 is £105m and at the end of quarter 2 the spend against this forecast is £42.8m.

14. The following sections outline these MTFP changes by each of the SEP themes.

Business Growth

15. The table below sets out the revised expenditure position for Business Growth.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	18,160	17,140	5,417	3,667	44,384
Additional Commitments	0	0	0	0	0
Movement In Years	-9,517	6,660	1,467	1,750	360
Revised Projection	**8,643**	**23,800**	**6,884**	**5,417**	**44,744**

16. The revised projection for expenditure in 2018/19 is £8.6m and at the end of quarter 2 the reported spend against this forecast is £1.3m. It is expected that expenditure will accelerate during the remaining periods as delivery on the Business Compass grant scheme increases, the sector action plans are further developed and the construction of business accommodation at TAMP and Feethams commences.

Research, Development, Innovation & Energy

17. The table below sets out the revised expenditure position for Research, Development, Innovation & Energy.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Previously Projected	15,995	3,750	6,250	0	25,995
Additional Commitments	140	0	0	0	140
Movement In Years	185	0	0	0	185
Revised Projection	**16,320**	**3,750**	**6,250**	**0**	**26,320**

18. Since the previous report was set an additional £140k has been committed as follows:

- As reported to Cabinet in September £60k was committed to develop a proposal to meet a call by the Office of Low Emission Vehicles (OLEV, part of DfT) for deployment of Hydrogen Vehicles and refuelling infrastructure.

- £80k was committed through delegated authority to match fund a hydrogen business development role employed by TWI which was also reported to Cabinet in September.

19. The revised projection for expenditure in 2018/19 is £17.3m and at the end of quarter 2 the reported spend against this forecast is £8.8m. Overall, expenditure projections ae on track with the majority if expenditure related to the Teesside University National Horizons project which is progressing to plan.

Education, Employment & Skills

20. The table below sets out the revised expenditure position for Education, Employment & Skills.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Previously Projected	12,195	9,694	5,898	0	27,787
Additional Commitments	392	22,708	30,000	30,000	83,100
Movement In Years	-2,548	715	1,833	0	0
Revised Projection	**10,039**	**33,117**	**37,731**	**30,000**	**110,887**

21. Since the quarter 1 budget report was set an additional £83 million has been ring-fenced as follows:

- As referenced in paragraph 10 The Adult Education Budget has now been built into the medium term financial plan at the estimated values based on information provided by ESFA. This includes transitional arrangements and totals £80.6m over the period covered by this plan.

- The investment plan originally ring-fenced £3.5m for Sustaining 16+ Facilities Capital, in the Quarter 1 budget report it was reported that £968k had been committed to IT Infrastructure project at Redcar College. A spend profile has been notionally allocated to the remaining £2.5m and this has been incorporated into the MTFP subject to specific projects being approved for this funding.

22. The revised projection for spend in 2018/19 is £10m and at the end of quarter 2 the reported spend against this forecast is £1.8m. Although the spend for the first half of the year is lower than anticipated the Kirkleatham catering academy project has now commenced and expenditure will catch up in the coming quarter. This along with accelerated delivery of the Routes to Work programme and commencement of delivery of the Skills strategy will see spend increase as the financial year progresses.

Culture and Tourism

23. The table below sets out the revised expenditure position for Culture & Tourism.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	3,450	425	340	0	4,215
Additional Commitments	499	0	0	0	499
Movement In Years	-1,049	847	0	245	43
Revised Projection	**2,900**	**1,272**	**340**	**245**	**4,757**

24. As reported to Cabinet in July £499k was awarded to the National Museum of the Royal Navy Hartlepool to support the wider Hartlepool Waterfront Masterplan.

25. The revised projection for expenditure in 2018/19 is £2.9m and at the end of quarter 2 the reported spend against this forecast is £308k. Overall, expenditure is on track with expected increases through the delivery of the Great Places, destination marketing programmes and Museum of the Royal Navy Project

Transport

26. The table below sets out the revised expenditure position for Transport.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	28,358	23,502	13,952	0	65,812
Additional Commitments	1,491	2,664	4,991	40,943	50,089
Movement In Years	-284	284	0	0	0
Revised Projection	**29,565**	**26,450**	**18,943**	**40,943**	**115,901**

27. Since the quarter 1 budget report was set an additional £50m has been ring-fenced as follows:

- There are currently no approved projects against the Transforming Cities Fund however for the purposes of this report a notional expenditure profile has been included of £32m within the current plan period. Once projects are approved this profile will be updated to reflect this.

- The Local Transport Plan funding for 2021/22 has now been including into the plan based on current levels of £13.9m as referenced in paragraph 11.

- At Cabinet meeting in July £4.2m was committed to bring forward the construction of the Hartlepool Western Growth Corridor.

28. The revised projection for expenditure in 2018/19 is £29.6m and at the end of quarter 2 the reported spend against this forecast is £17m which is in line with projections.

Infrastructure

24. The table below sets out the revised expenditure position for Infrastructure.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	11,506	1,000	0	0	12,506
Additional Commitments	0	0	0	0	0
Movement In Years	-5,583	5,600	0	0	17
Revised Projection	**5,923**	**6,600**	**0**	**0**	**12,523**

29. The revised projection for spend in 2018/19 is £5.9m and at the end of quarter 2 the reported spend against this forecast is £300k. Spend will be accelerated in the coming months as work on the Kirkleatham Estate project progresses.

Development Fund

30. The table below sets out the revised expenditure position for the Development Fund.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	5,465	727	0	0	6,192
Additional Commitments	640	0	0	0	640
Movement In Years	-105	105	0	0	0
Revised Projection	**6,000**	**832**	**0**	**0**	**6,832**

31. Since the quarter 1 report £640k has been committed to developing a business case for Northern School of Arts and also to carry out a Business Accommodation review for the Tees Valley to inform investment decisions.

SSI Task Force Funds

32. Under the SSI task force projects there was £1.6m slippage from 2017/18 into 2018/19. This is as a result of agreement with BEIS to extend the projects and gives a revised spend of £5.7m over the MTFP.

Concessionary Fares

33. There has been an additional £443k built into the Concessionary Fares expenditure across the medium term as a result of revised agreement with the bus operators which is fully funded from additional income. This has resulted in revised expenditure of £66.8m over the period.

FINANCIAL IMPLICATIONS

34. This report gives an update on performance against the budget for the Combined Authority and updated the Medium Term Financial Plan.

LEGAL IMPLICATIONS

35. None

RISK ASSESSMENT

36. This Budget Report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

37. None

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APPENDIX A

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	TOTAL £'000
Income					
Local Growth Fund	13,708	9,416	14,217	0	**37,341**
Devolution	15,000	15,000	15,000	15,000	**60,000**
Enterprise Zones	2,475	4,120	5,379	5,557	**17,531**
Local Transport Plan	13,943	13,943	13,943	13,943	**55,772**
Transforming Cities Fund	4,000	13,000	18,000	24,000	**59,000**
Loan Repayments & Investment Income	1,105	3,634	1,178	1,361	**7,278**
Local Enterprise Partnership Grant	500	500	500	500	**2,000**
Adult Education Budget	392	20,179	30,000	30,000	**80,571**
Education, Employment & Skills Specific Grant Schemes	2,282	2,489	1,232	0	**6,003**
Transport Specific Grant Schemes	4,636	6,101	0	0	**10,737**
Other Specific Grant Schemes	2,116	774	0	0	**2,890**
European Structural Investment Fund	4,542	6,843	0	0	**11,385**
ERDF Legacy	0	3,666	3,667	3,667	**11,000**
Concessionary Fares Income	16,706	16,706	16,706	16,706	**66,824**
Local Authority Contributions	250	250	250	250	**1,000**
Mayoral Capacity Funding	1,000	1,000	0	0	**2,000**
Other Income	180	180	180	180	**720**
TOTAL INCOME	**82,835**	**117,801**	**120,252**	**111,164**	**432,052**
Approved Commitments					
Business Growth	8,643	23,800	6,884	5,417	**44,744**
Research, Development, Innovation & Energy	16,320	3,750	6,250	0	**26,320**
Education, Employment & Skills	10,039	33,117	37,731	30,000	**110,887**
Culture	2,900	1,272	340	245	**4,757**
Transport	29,565	26,450	18,943	40,943	**115,901**
Infrastructure	5,923	6,600	0	0	**12,523**
Development & Evaluation	6,000	832	0	0	**6,832**
SSI Related Schemes (not allocted to investment plan themes)	4,472	1,227	0	0	**5,699**
Core Running Costs	4,521	4,894	4,987	5,076	**19,478**
Mayoral Election	0	0	600	0	**600**
Concessionary fares	16,706	16,706	16,706	16,706	**66,824**
TOTAL EXPENDITURE	**105,089**	**118,648**	**92,441**	**98,387**	**414,565**

AGENDA ITEM 15

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE HEAD OF FINANCE AND RESOURCES

TREASURY MANAGEMENT STRATEGY – ANNUAL REPORT 2017/18

SUMMARY

This report informs Cabinet of the performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the Authority in January 2017.

RECOMMENDATION

i. It is recommended that the Combined Authority Cabinet note the content of the report.

DETAIL

Introduction

1. The Authority operates under the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

2. This report fulfils the Authority's legal obligation to have regard to the CIPFA Code.

3. The Authority's Treasury Management Strategy for 2017/18 was approved at Cabinet on 31st January 2017. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's Treasury Management Strategy.

External Context

Economic commentary

4. 2017-18 was characterised by the push-pull from expectations of tapering of Quantitative Easing (QE) and the potential for increased policy rates in the US and Europe and from geopolitical tensions, which also had an impact.

5. The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in calendar 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth momentum generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.

6. The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018. Consumers felt the squeeze as real average earnings growth, i.e. after inflation, turned negative before slowly recovering. The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020. The Withdrawal Treaty is yet to be ratified by the UK parliament and those of the other 27 EU member states and new international trading arrangements are yet to be negotiated and agreed.

7. The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February *Inflation Report* indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.

8. **Financial markets:** The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

9. The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.

Credit background:

Credit Metrics

10. The rules for UK banks' ring-fencing were finalised by the Prudential Regulation Authority and banks began the complex implementation process ahead of the statutory deadline of 1st January 2019. As there was some uncertainty surrounding which banking entities the Authority would be dealing with once ring-fencing was implemented and what the balance sheets of the ring-fenced and non ring-fenced entities would actually look like, in May 2017 Arlingclose advised adjusting downwards the maturity limit for unsecured investments to a maximum of

6 months. The rating agencies had slightly varying views on the creditworthiness of the restructured entities.

11. **Money Market Fund regulation:** The new EU regulations for Money Market Funds (MMFs) were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility Net Asset Value (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

Other developments:

12. In February, Arlingclose advised against lending to Northamptonshire County Authority (NCC). NCC issued a section 114 notice in the light of severe financial challenge and the risk that it would not be in a position to deliver a balanced budget.

13. In March, following Arlingclose's advice, the Authority removed RBS plc and National Westminster Bank from its counterparty list. This did not reflect any change to the creditworthiness of either bank, but a tightening in Arlingclose's recommended minimum credit rating criteria to A- from BBB+ for FY 2018-19. The current long-term ratings of RBS and NatWest do not meet this minimum criterion, although if following ring-fencing NatWest is upgraded, the bank would be reinstated on the Authority's lending list.

Local Authority Regulatory Changes

14. **Revised CIPFA Codes:** CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.

15. The 2017 Prudential Code introduces the requirement for a Capital Strategy which provides a high-level overview of the long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability. Where this strategy is produced and approved by full Authority, the determination of the Treasury Management Strategy can be delegated to a committee. The Code also expands on the process and governance issues of capital expenditure and investment decisions.

16. The Authority will be preparing the Capital Strategy for the 2019/20 financial year.

17. In the 2017 Treasury Management Code the definition of 'investments' has been widened to include financial assets as well as non-financial assets held primarily for financial returns such as investment property. These, along with other investments made for non-treasury management purposes such as loans supporting service outcomes and investments in subsidiaries, must be discussed in the Capital Strategy or Investment Strategy. Additional risks of such investments are to be set out clearly and the impact on financial sustainability identified and reported.

18. **MHCLG Investment Guidance and Minimum Revenue Provision (MRP):** In February 2018 the MHCLG (Ministry of Housing, Communities and Local Government) published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

19. Changes to the Investment Guidance include a wider definition of investments to include non-financial assets held primarily for generating income return and a new category called “loans” (e.g. temporary transfer of cash to a third party, joint venture, subsidiary or associate). The Guidance introduces the concept of proportionality, proposes additional disclosure for borrowing solely to invest and also specifies additional indicators. Investment strategies must detail the extent to which service delivery objectives are reliant on investment income and a contingency plan should yields on investments fall.

20. The definition of prudent MRP has been changed to “put aside revenue over time to cover the Capital Financing Requirement (CFR)”; it cannot be a negative charge and can only be zero if the CFR is nil or negative. Guidance on asset lives has been updated, applying to any calculation using asset lives. Any change in MRP policy cannot create an overpayment; the new policy must be applied to the outstanding CFR going forward only.

21. **MiFID II:** As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria was met which includes having an investment balance of at least £10 million and the person(s) authorised to make investment decisions on behalf of the authority have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

22. The Authority has met the conditions to opt up to professional status and has done so in order to maintain its erstwhile MiFID II status prior to January 2018. The Authority will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Local Context

23. On 31st March 2018, the Authority had net investments of £91.0m arising from its revenue and capital income and expenditure, an increase on 2017 of £12.98m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.17 Actual £m	2017/18 Movement £m	31.3.18 Actual £m
General Fund CFR	0.00	0.00	0.00
Less: Other debt liabilities	0.00	0.00	0.00
Borrowing CFR	**0.00**	**0.00**	**0.00**
Less: Usable reserves	-87.32	-7.61	-94.93
Less: Working capital	9.30	-5.37	3.93
Net investments	**-78.02**	**-12.98**	**-91.00**

24. The Authority's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2018 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

	31.3.17 Balance £m	2017/18 Movement £m	31.3.18 Balance £m	31.3.18 Rate %
Long-term borrowing Short-term borrowing	0.00 0.00	0.00 0.00	0.00 0.00	
Total borrowing	**0.00**	**0.00**	**0.00**	**0.00%**
Long-term investments Short-term investments Cash and cash equivalents	0.00 50.01 28.01	0.00 14.99 -2.01	0.00 65.00 26.00	
Total investments	**78.02**	**12.98**	**91.00**	**0.46%**
Net investments	**-78.02**	**-12.98**	**-91.00**	

Note: the figures in the table are from the balance sheet in the Authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

25. The increase in total investments in table 2 represents funding received in advance of expenditure.

Borrowing Activity

26. The Authority at the 31st March 2018 had received the relevant powers required to borrow but did not enter into any borrowing agreements. All expenditure of a capital nature was funded through grants and contributions.

Investment Activity

27. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18, the Authority's investment balance ranged between £131.0m and £91.0m million due to timing differences between income and expenditure. The year-end investment position is show in table 3 below.

Table 3: Investment Position (Treasury Investments)

Counterparty	Amount £	Rate %	Start Date	Maturity Date
Nat West SIBA	3,000,000	0.15%	n/a	Call Account
Bank of Scotland	5,000,000	0.50%	06-Mar-18	06-Jun-18
Bank of Scotland	5,000,000	0.36%	06-Oct-17	06-Apr-18
Coventry Building Society	5,000,000	0.44%	11-Oct-17	11-Apr-18
Goldman Sachs	5,000,000	0.43%	29-Dec-17	06-Apr-18
Santander 95 days notice	10,000,000	0.60%	17-Aug-15	95 day Notice
Birmingham City	5,000,000	0.47%	22-Jan-18	23-Apr-18
Leeds City	5,000,000	0.40%	19-Oct-17	19-Apr-18
Merthr Tydfil	5,000,000	0.50%	22-Dec-17	23-Apr-18
Northamptonshire	5,000,000	0.55%	05-Oct-17	05-Jul-18
Stirling	3,000,000	0.50%	23-Nov-17	23-May-18
Suffolk County	5,000,000	0.75%	09-Mar-18	08-Jun-18
Surrey Heath Council	2,000,000	0.50%	22-Nov-17	22-May-18
Telford & Wrekin	5,000,000	0.75%	15-Mar-18	15-Jun-18
Standard Life	10,000,000	0.29%	06-Oct-16	Money Market Fund
Federated	10,000,000	0.29%	06-Oct-16	Money Market Fund
Insight	3,000,000	0.28%	17-Dec-16	Money Market Fund
	91,000,000	**0.46%**		

28. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

29. In furtherance of these objectives, and due to the high level of investments diversification was required so that limits with counterparties set within the treasury management strategy were not breached during the year. Funds were diversified between Money Market Funds, Banks and Local Authorities. Due to the developing capital expenditure plans of the Authority it was not prudent to diversify further into higher yielding asset classes during 2017/18. The progression of risk and return metrics are shown in the extracts from Arlingclose quarterly investment benchmarking in table 4 below.

Table 4: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Rate of Return
31.03.2017	4.76	A+	81%	43	0.39%
30.06.2017	4.34	AA-	68%	39	0.32%
30.09.2017	4.53	AA-	68%	40	0.30%
31.12.2017	4.49	AA-	56%	69	0.40%
31.03.2018	4.35	AA-	62%	35	0.48%
Similar LAs	4.14	AA-	48%	39	1.07%
All LAs	4.24	AA-	55%	35	1.05%

**Weighted average maturity*

30. Due to the interest rate rise during 2017/18 the Authority has been able to secure higher rates as the year progressed and initial investments matured. The intention during 2018/19 is to invest funds over longer periods which will mean the authority should achieve higher rates of return.

Financial Implications

31. The outturn for investment income received in 2017/18 was £0.395 million on an average portfolio of £109.03 million.

Other Non-Treasury Holdings and Activity

32. Although not classed as treasury management activities, the 2017 CIPFA Code now requires the Authority to report on investments for policy reasons outside of normal treasury management. This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons. The Authority did not hold any of these types of investments during 2017/18.

Compliance Report

33. The Director of Finance is pleased to report that the majority of treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy with the exception of one of the investment limits shown in table 6.

34. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 5 below.

Table 5: Debt Limits

	2017/18 Maximum	31.3.18 Actual	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Borrowing	0.0	0.0	0.0	10.0	✓
PFI & finance leases	0.0	0.0	0.0	0.0	✓
Total debt	**0.0**	**0.0**	**0.0**	**10.0**	✓

35. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was above the operational boundary for 0 days during 2017/18.

36. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

Type of Institution	2017/18 Maximum	31.3.18 Actual	Financial Limit	Time Limit	Complied
UK central government (irrespective of credit rating)	£3m	£0m	Unlimited	Unlimited	✓
UK local authorities, Police & Crime Commissioners, Fire Authorities	£40m	£35m	£10m each	1 – 3 years	✓
UK banks with AAA, AA+, AA, AA-, A+ and A credit ratings	£35m	£25m	£15m each	1 year unsecured / 2 years secured	✓
UK banks with A- credit rating	£0m	£0m	£10m each	6 month unsecured / 1 year secured	✓
UK banks with BBB+ credit rating	£18m	£3m	£2.5m each	100 days unsecured / 6 months secured	*X*[1]
UK money market funds	£50m	£23m	£10m each	Unlimited	✓
UK building societies with AAA, AA+, AA, AA-, A+ and A credit ratings	£5m	£5m	£10m each	1 year unsecured / 2 years secured	✓
UK building societies with A- credit rating	£0m	£0m	£5m each	6 month unsecured / 1 year secured	✓
UK building societies with BBB+ credit rating	£0m	£0m	£1m each	100 days unsecured / 6 months secured	✓
UK building societies without a credit rating with assets greater than £250m	£0m	£0m	£5m each	6 month unsecured / 1 year secured	✓

Banks with AAA, AA+, AA, AA-, A+ and A credit ratings domiciled in AAA rated sovereign countries	£0m	£0m	£5m each	1 year unsecured / 2 years secured	✓

**see Table 4 above for values with individual counterparties as at 31st March 2018*.

37. [1]This breach relates to the Authority's own bank Nat West which is used for day to day banking transactions and concerned funds placed in the Authority's transactional account in order to cover payments being made using BACS over the Christmas period. The Audit and Governance Committee considered this issue at its meeting on 27 September 2018 where it was resolved that a mechanism be developed in order to report technical compliance breaches such as this, which are "pre-approved and well-considered".

Treasury Management Indicators

38. The Authority measures and manages its exposures to treasury management risks using the following indicators.

39. **Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principle invested was:

	31.3.18 Actual	31.3.18 Actual	2017/18 Limit	Complied
Upper limit on fixed interest rate exposure	£68m	75%	100%	✓
Upper limit on variable interest rate exposure	£23m	25%	100%	✓

40. Fixed rate investments and borrowings are those where the rate of interest is fixed at the point of investment. All other instruments are classed as variable rate.

41. **Principal Sums Invested over 365 days:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2017/18	2018/19	2019/20
Actual principal invested beyond year end	£0m	£0m	£0m
Limit on principal invested beyond year end	£60m	£60m	£60m
Complied	✓	✓	✓

PRUDENTIAL INDICATORS 2017/18

42. **Introduction:** The *Local Government Act 2003* requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code is to ensure, within a clear framework, that the capital investment

plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

43. This report compares the approved indicators with the outturn position for 2017/18. Actual figures have been taken from or prepared on a basis consistent with, the Authority's statement of accounts.

44. **Capital Expenditure:** The Authority's capital expenditure and financing is summarised as follows.

Capital Expenditure and Financing	2017/18 Estimate £m	2017/18 Actual £m	Difference £m
Total Expenditure	**64.2**	**43.15**	**-21.05**
Capital Receipts	0	0.00	**0**
Grants & Contributions	64.2	40.33	**-23.87**
Revenue	0	2.82	**2.82**
Borrowing	0	0.00	**0**
Total Financing	**64.2**	**43.15**	**-21.05**

45. **Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
General Fund	0.0	0.0	**0.0**
Total CFR	**0.0**	**0.0**	**0.0**

46. **Actual Debt:** The Authority's actual debt at 31st March 2018 was as follows:

Debt	31.03.18 Estimate £m	31.03.18 Actual £m	Difference £m
Borrowing	0.0	0.0	**0.0**
Finance leases	0.0	0.0	**0.0**
Total Debt	**0.0**	**0.0**	**0.0**

47. **Operational Boundary for External Debt:** The operational boundary is based on the Authority's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary and Total Debt	**31.03.18 Boundary** **£m**	**31.03.18 Actual Debt** **£m**	**Complied**
Borrowing	0.0	0.0	✓
Other long-term liabilities	0.0	0.0	✓
Total Debt	**0.0**	**0.0**	✓

48. **Authorised Limit for External Debt:** The authorised limit is the affordable borrowing limit determined in compliance with the *Local Government Act 2003* It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit and Total Debt	**31.03.18 Limit** **£m**	**31.03.18 Actual Debt** **£m**	**Complied**
Borrowing	10.0	0.0	✓
Other long-term liabilities	0.0	0.0	✓
Total Debt	**10.0**	**0.0**	✓

49. **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**31.03.18 Estimate %**	**31.03.18 Actual %**	**Difference %**
General Fund	0%	0%	0%

FINANCIAL IMPLICATIONS

50. Treasury Management Investment activity during 2016/17 generated income of £395k.

LEGAL IMPLICATIONS

51. None.

RISK ASSESSMENT

52. This Treasury Management Strategy annual report is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

53. Not applicable.

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TEES VALLEY COMBINED AUTHORITY

AGENDA ITEM 16

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

REPORT OF THE HEAD OF FINANCE AND RESOURCES

ANNUAL AUDIT LETTER

SUMMARY

The Annual Audit Letter summarises the work that our auditors (Mazars) have undertaken as the auditors for the Tees Valley Combined Authority for the year ended 31 March 2018. Although the letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

RECOMMENDATION

It is recommended the Combined Authority Cabinet note the Annual Audit Letter.

DETAIL

1. The Annual Audit Letter summarises the work that our auditors (Mazars) have undertaken as the auditors for the Tees Valley Combined Authority for the year ended 31 March 2018. Although the letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

2. The auditors responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of the audit letter provide details on those responsibilities, the work the auditors have done to discharge them, and the key findings arising from their work. This includes detail on:

    - Audit of the financial statements
    - Other information published alongside the audited financial statements
    - Value for money conclusion
    - Reporting to the group auditor
    - Statutory reporting

FINANCIAL IMPLICATIONS

3. None.

LEGAL IMPLICATIONS

4. None.

RISK ASSESSMENT

5. This item is categorised as low risk.

CONSULTATION

6. Not applicable.

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Annual Audit Letter

Tees Valley Combined Authority (and Group)

Year ended 31 March 2018

CONTENTS

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Tees Valley Combined Authority (the Authority) and Tees Valley Combined Authority Group (the Group) for the year ended 31 March 2018. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	Our report issued on 27 July 2018 included our opinion that the financial statements: • give a true and fair view of the Authority's and Group's financial position as at 31 March 2018 and of the expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
Other information published alongside the audited financial statements	Our report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	Our report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 27 July 2018 we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.
Statutory reporting	Our report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.

2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements	**Unqualified**

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and Group and whether they give a true and fair view of the Authority's and Group's financial position as at 31 March 2018 and of the financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's and Group's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit and Governance Committee. We call this our trivial threshold.

The table below provides details of the overall materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on approximately 2% of gross revenue expenditure.	£1.537m for the Authority and for the Group.
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£46,000

2. AUDIT OF THE FINANCIAL STATEMENTS

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's and Group's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit and Governance Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls (Authority and Group) In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk by performing audit work in respect of: • accounting estimates impacting on amounts included in the financial statements; • significant transactions outside the normal course of business; and • journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our work provided the assurance we sought. We found no indication of management override of controls.
Defined benefit liability valuation and associated IAS19 entries (Authority and Group) The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We discussed with key contacts any significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and consider the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the NAO.	Our work provided the assurance we sought. We found no indication of material estimation error in respect of pensions.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

Our work did not identify any significant internal control deficiencies in 2017/18 to report, and there are none from 2016/17 to follow up.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

Our auditor's report, issued to the Authority on 27 July 2018, stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2018.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	• Constitution in place which is available on the Authority's website, which includes financial regulations and Assurance Framework, Delegation to officers and Code of Conduct. • Devolution deal in place and available on the Authority's website. • Authority has a Strategic Economic Plan (SEP) plan in place for the period 2016 to 2026 available on the Authority's website. • Management team in place. • No data quality issues in respect of performance information we are aware of. • Audit and Governance Committee meets on a quarterly basis, and oversees internal and external audit, risk management and treasury management; albeit quoracy of meetings has been a challenge in 2017/18. • Medium term planning is undertaken and budget plans are in place; current Medium Term Financial Plan (MTFP) covers the period 2017/18 to 2020/21, and is updated at least annually. • Periodic reporting to Cabinet in the year. • Management assurance framework in place together with risk register. • Devolution deal implementation plan incorporates high level risks. • Detailed presentation on risk management arrangements and key risks to March 2017 Audit and Governance Committee. • Programme of Internal Audit work at the Authority delivered by Stockton BC's IA function (under delegated arrangements). • 2017/18 draft Annual Governance Statement produced, and final approved by Cabinet.	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	• MTFP in place for the period the period 2017/18 to 2020/21. • Nature of the Authority's funding and expenditure (i.e. largely grant income which is then paid out to approved schemes linked to the SEP) does not indicate any significant risk to achievement of strategic priorities in the short term. Potential Brexit risks being monitored. • Authority does not have any significant assets of its own and no items meet the capitalisation threshold and hence no Property, Plant and Equipment, and as such does not have an 'asset register', but does maintain a list of equipment, IT etc. • Significant element of the Authorities funding is being used to deliver capital projects. These assets are however not held by the Authority. SEP identifies future large scale capital schemes/priorities. • HR and payroll functions provided by Stockton BC and Authority relies on HR policies and procedures shared with the BC. The Authority is continuing to review capacity as its responsibilities continue to further develop.	Yes
Working with partners and other third parties	• Nature of the Authority is such that in order to deliver its strategic priorities it is required to work closely with the 5 LAs in the Tees Valley and other public and private organisations. • Authority structure includes the Tees Valley Local Enterprise Partnership (LEP). LEP members are drawn from a wide range of other public bodies and private companies. • SEP and website identify organisations that the Authority is working with in order to achieve its strategic priorities; Tees Valley Strategic Transport Plan – Connecting the Tees Valley. • The Authority has written procedures for procuring products and services, which are within its Constitution (part 6).	Yes

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Strategy Memorandum, we reported that we had not identified any significant value for money audit risks. We kept this under review throughout our audit and were satisfied that there were no significant risks apparent.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Below testing threshold**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Authority which must be responded to publically.

We have not exercised any of these statutory reporting powers.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 27 July 2018.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Governance Committee in May 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£30,000	£30,000
Other non-Code work	Nil	Nil

Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.

6. FORWARD LOOK

Financial outlook and operational challenges

The Authority has a MTFP in place and keeps it updated. To some extent, it's long term funding arrangements remain unclear as a result of the UKs planned exit from the European Union, and the impact this will have on European funding streams, and funding from the UK central government. Officers are keeping the position under close review.

Effective prioritisation of projects is key if the Authority is to deliver its ambitions and the Authority will also need to keep its own internal control arrangements under review as it takes on new devolved functions to ensure they remain fit for purpose, including the devolution of the Adult Education Budget for which it has been preparing for some time, as well as the oversight it has over the South Tees Development Corporation.

How we will work with the Authority

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise. A key focus in the coming year will be the adoption of IFRS 9 Financial Instruments, a new standard for 2018/19 , which changes the approach to financial assets and accounting for impairment.

Looking further ahead, IFRS 16 Leases is a new standard to be adopted from 2019/20, which establishes a new model for lessees and removes existing classifications of operating and finance leases.

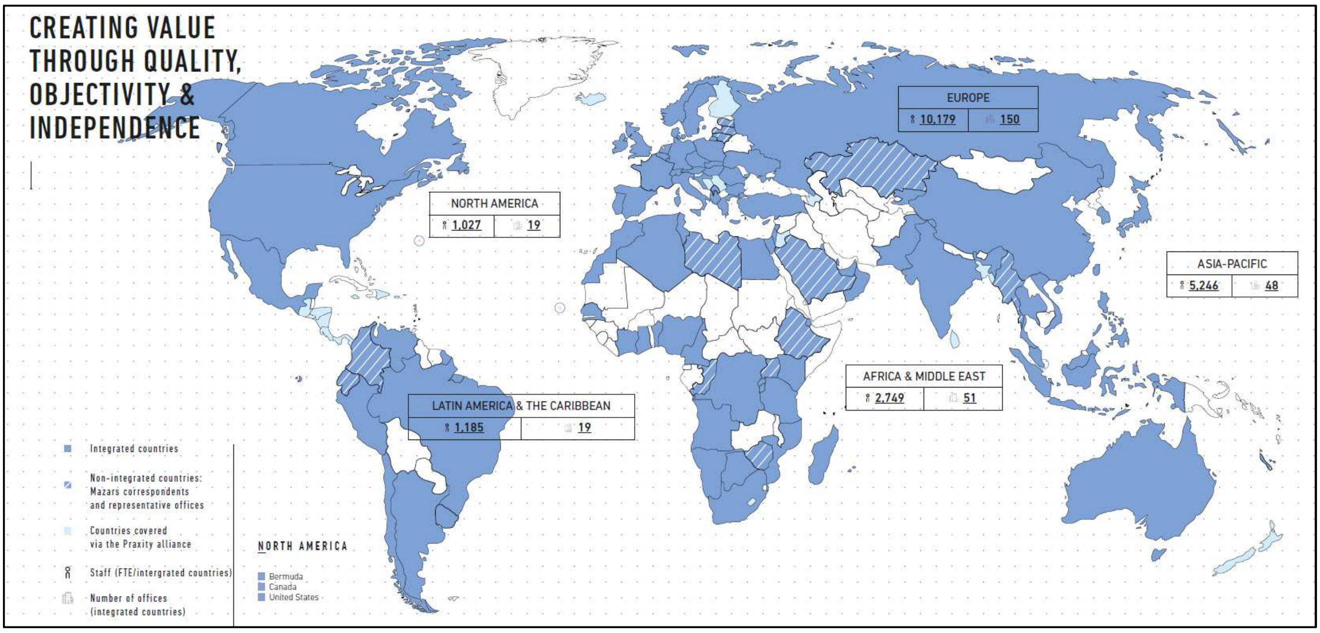
We will continue to offer accounting workshops to finance officers and the audit team will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

MAZARS AT A GLANCE

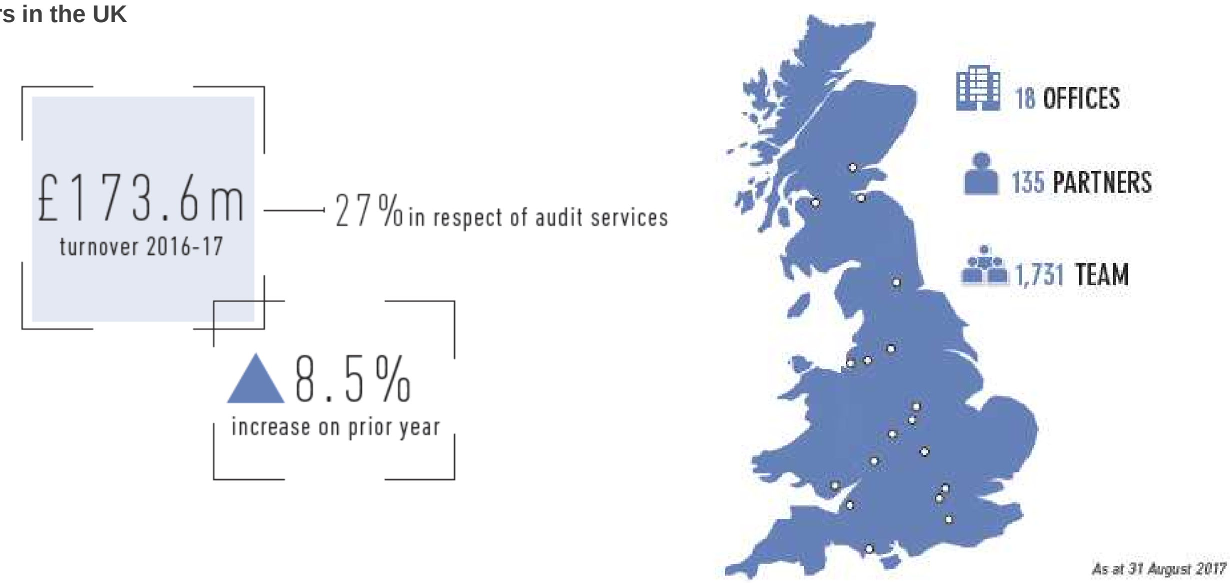
Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

Mazars Internationally



Mazars in the UK



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MAZARS

NOT FOR PUBLICATION BY VIRTUE OF PARAGRAPHS 1 AND 2 OF SCHEDULE 12A LOCAL GOVERNMENT ACT 1972

AGENDA ITEM 17

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

30 NOVEMBER 2018

Report of:
Ben Houchen, Tees Valley Mayor
Stephen Harker, Leader of Darlington Borough Council
Christopher Akers-Belcher, Leader of Hartlepool Borough Council
David Budd, Mayor of Middlesbrough
Sue Jeffrey, Leader of Redcar & Cleveland Borough Council
Bob Cook, Leader of Stockton-on-Tees Borough Council
Paul Booth, Chair of the Tees Valley Local Enterprise Partnership

APPOINTMENT OF HEAD OF PAID SERVICE

SUMMARY

This report seeks formal approval for the appointment of the Head of Paid Service (Chief Executive) for Tees Valley Combined Authority (TVCA) in accordance with paragraph 89 of the TVCA Constitution.

This report sets out a summary of the recruitment and selection process which has been undertaken, and makes a recommendation for appointment.

RECOMMENDATION

The TVCA Appointment Panel recommends that the Combined Authority Cabinet approves the appointment of Julie Gilhespie as TVCA Head of Paid Service (Chief Executive).

DETAIL

1. A recruitment process to identify a Head of Paid Service for TVCA commenced in the summer of 2018 in order to identify a successor for Mr Andrew Lewis (Managing Director of TVCA).

2. The selection process has involved:

    - A search process using Recruitment Consultants Gatenby Sanderson. This search was supported with national and local advertising.

    - A selection process led by the formal appointment panel, made up of the Tees Valley Mayor, the five Local Authority Leaders and the Local Enterprise Partnership Chair (the TVCA Cabinet), and supported by Gatenby Sanderson. This involved a process of longlisting and shortlisting, based on reviews of applications and initial interviews.

    - This culminated in a final selection process on the 20th and 21st November 2018 which involved a final assessment of candidates by the formal appointment panel (the TVCA Cabinet), a panel of business representatives from the Local Enterprise Partnership, a panel of other public sector and voluntary representatives and a panel of the Local Authority Chief Executives.

3. The final stage in the process is to seek formal approval of the appointment from the TVCA Cabinet in line with the requirements as set out in paragraph 89 of the TVCA Constitution.

FINANCIAL IMPLICATIONS

4. All costs associated with the appointment process and with the ongoing employment are covered in the TVCA Medium Term Financial Plan.

LEGAL IMPLICATIONS

5. The appointment process has been approved by the TVCA Monitoring Officer**.**

RISK ASSESSMENT

6. This matter is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

7. As noted in the detail of the report above, the TVCA Cabinet, business representatives from the Local Enterprise Partnership, other public and voluntary sector representatives and the Chief Executives of the 5 Local Authorities have been involved in the selection process.

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Agenda Item 20

FOR INFORMATION

Cabinet agreed at its meeting on 27th July 2017 to establish a mechanism for delegated decisions, which could be taken between meetings.

It was agreed that this delegation would apply only if certain conditions were met:

1. Any commitment of funds have already been assigned by Cabinet for that purpose; for example through the specification of an overall programme within the Investment Plan;
2. The total sum involved is no more than £1 million;
3. The proposal reflects an established Combined Authority policy position, and does not raise novel or contentious issues which require debate with the full Cabinet. (In order to assure this, discussions would generally have taken place through the appropriate officer forum); and
4. The proposal is subject to the established Combined Authority assurance framework, as agreed with central government.

If these conditions are met, proposals are put jointly by officers to the Mayor and Cabinet Portfolio member. Either can refuse the proposal, or determine that a full Cabinet discussion is necessary. Decisions are reported to Cabinet and the Overview and Scrutiny Committee.

Decisions made under these delegated arrangements since 27th July 2018 Cabinet are listed below:

Decision	Amount	Date
Hartlepool Waterfront Festival 2018 Investment to allow the festival's continued development in becoming a 21st century annual maritime arts festival that reflects on Hartlepool's sea-based heritage, provides a more attractive, artistic and impactful cultural offering in Hartlepool and ensures arts and cultural activity can be experienced by a diverse range of audiences.	63,755	08/10/2018
Middlesbrough Art Weekender Middlesbrough Art Weekender (MAW) is a three day, grassroots contemporary arts festival held in Middlesbrough. The event provides a showcase for emerging local and international contemporary artists. Through seminars, workshops, exhibitions and performances, MAW will build on its founding year, nurturing legacy and creating a site of excellence in the Tees Valley for the creative industry and contemporary art practices.	14,920	08/10/2018

Decision	Amount	Date
Rotary Way Cycle Route To construct 1.2km of new shared use cycleway alongside Rotary Way in Darlington from Rotary Way/Centurian Way roundabout to the existing toucan crossing on West Auckland Road.	217,665	22/10/2018
NCN Route 14 Servicing To provide 0.475km of improved cycleway and walkway on the NCN14 route from Cowbridge Beck to North Burn beside Cowpen Bewley Country Park.	61,857	22/10/2018
Local Industrial Strategy Development Consultancy support to support the development of the Tees Valley Local Industrial Strategy.	100,000	04/10/2018
New Tees Crossing To continue works on developing the business case for the New Tees Crossing project whilst awaiting the decision from DfT on potential design and construction funding for this project.	300,000	01/11/2018
Darlington Link Road To continue works on developing the business case for the Darlington Link Road project whilst awaiting the decision from DfT on potential design and construction funding for this project.	250,000	31/10/2018