

## Tees Valley Combined Authority Cabinet Agenda

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**Date:** Thursday, 23<sup>rd</sup> November, 2017 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 Bill Dixon (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)  
Alistair Hudson (Member of Tees Valley Local Enterprise Partnership)  
Mike Matthews (Member of Tees Valley Local Enterprise Partnership)  
Siobhan McArdle (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)

## **AGENDA**

- 1. Apologies for absence**
- 2. Declarations of Interest**
- 3. Minutes**

The minutes of the meeting held on 29<sup>th</sup> September, 2017 for confirmation

## Tees Valley Combined Authority Cabinet Agenda

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**4. Announcements from the Chair**

**5. Managing Director's Update**

Attached

**6. Budget 2018/19 and Investment Plan**

Attached

**7. Budget 2017/18 – Quarter 2**

Attached

**8. Education, Employment and Skills Strategy**

Attached

**9. Adult Education Budget**

Attached

**10. Intermediate Body Status for Tees Valley Combined Authority**

Attached

**11. Mary Ney LEP Review**

Attached

**12. Investment Update and Project Approval(s)\***

*\*This report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972*

**13. District Heating\***

*\*This report is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972*

## Tees Valley Combined Authority Cabinet Agenda

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### **14. Date of Next Meeting**

Thursday, 21<sup>st</sup> December, 10.00am

#### **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](mailto: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).

### **Declarations of interest relating to the Councils' commercial role**

4. The constituent councils of the Combined Authority are closely integrated with 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 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, or in which that council is a co-funder. 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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## TEES VALLEY COMBINED AUTHORITY CABINET

Cavendish House, Teesdale Business Park, Stockton-On-Tees at 10.00am on  
Friday 29th September, 2017

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### **ATTENDEES**

#### **Members**

Mayor Ben Houchen (Chair)  
Councillor Charles Rooney  
Councillor Christopher Akers-  
Belcher  
Councillor Bob Cook  
Councillor Bill Dixon  
Councillor Christopher Massey

Tees Valley Mayor  
Deputy Mayor of Middlesbrough  
Leader, Hartlepool Borough Council  
Leader, Stockton-on-Tees Borough Council  
Leader, Darlington Borough Council  
Deputy Leader, Redcar and Cleveland Borough Council

#### **Associate Members**

Darren Hankey  
Angela Howey  
David Soley  
Graham Robb  
Jerry Hopkinson  
Albert Pattison  
Mike Matthews

Member of Tees Valley LEP  
Member of Tees Valley LEP  
Member of Tees Valley LEP  
Member of Tees Valley LEP  
Member of Tees Valley LEP  
Member of Tees Valley LEP  
Member of Tees Valley LEP

#### **Apologies for Absence**

Mayor David Budd  
Councillor Sue Jeffrey  
Paul Booth  
Alistair Hudson  
Nigel Perry  
Siobhan McArdle

Mayor of Middlesbrough  
Leader, Redcar and Cleveland Borough Council  
Chair of Tees Valley LEP  
Member of Tees Valley LEP  
Member of Tees Valley LEP  
Member of Tees Valley LEP

#### **Officers**

Tony Parkinson  
Neil Schneider  
Andrew Nixon  
Andrew Lewis  
Sarah Brackenborough  
Julie Gilhespie  
Andy Bryson  
Gareth Roberts  
Mark Ladyman

Chief Executive of Middlesbrough Borough Council  
Chief Executive of Stockton-On-Tees Borough Council  
Monitoring Officer, Tees Valley Combined Authority  
Managing Director, Tees Valley Combined Authority  
Governance Manager, Tees Valley Combined Authority  
Director of Finance, Tees Valley Combined Authority  
Finance Manager, Stockton-on-Tees Borough Council  
Senior Manager, Mazars LLP  
Director for Economic Growth, Redcar and Cleveland  
Borough Council

James Ramsbotham

Chief Executive, North East Chamber of Commerce

<p><b>TVCA 27/17</b></p>	<p><b>DECLARATIONS OF INTEREST</b></p> <p>Mayor Ben Houchen declared an interest in item 9 as Chair of the South Tees Development Corporation Board.</p> <p>Graham Robb declared an interest in item 9 as a member of the South Tees Development Corporation Board.</p> <p>Graham Robb declared an interest, as Senior Partner of Recognition PR, as a procured provider of publicity services to the Combined Authority.</p>
<p><b>TVCA 28/17</b></p>	<p><b>MINUTES</b></p> <p>Consideration was given to the minutes of the meeting held on 27<sup>th</sup> July 2017.</p> <p>RESOLVED that the minutes of the meetings held on 27<sup>th</sup> July 2017 be confirmed and signed as a correct record.</p>
<p><b>TVCA 29/17</b></p>	<p><b>ANNOUNCEMENTS FROM THE CHAIR</b></p> <p>The Chair raised the topic of LEP Board member engagement, outside of Cabinet meetings, and ensuring that this was effective.</p> <p>An item on LEP Board member engagement would be added to a future agenda for further discussion.</p>
<p><b>TVCA 30/17</b></p>	<p><b>MANAGING DIRECTOR'S UPDATE</b></p> <p>Consideration was given to a report from the Managing Director, providing an update on key activities of the Combined Authority since the last Cabinet meeting.</p> <p>Members discussed the work being undertaken on proposals for a new garden town settlement in Tees Valley. This was a jointly commissioned piece of work between the HCA and the Combined Authority. Potential sites for this settlement were currently being identified and the Mayor noted that it was recognised that other areas also had potential for growth across all 5 boroughs.</p> <p>Members discussed the delay in the devolution of the Adult Education Budget to 2019 and requested that regular updates be given at Cabinet meetings.</p> <p>RESOLVED that the Managing Director's update be noted.</p>
<p><b>TVCA 31/17</b></p>	<p><b>ANNUAL STATEMENT OF ACCOUNTS 2016/17</b></p> <p>Consideration was given to a report presenting the Combined Authority's Statement of Accounts for 2016/17. Members noted the key points and thanked officers for their work.</p> <p>RESOLVED that the Annual Statement of Accounts for 2016/17 be approved.</p>
<p><b>TVCA 32/17</b></p>	<p><b>ANNUAL GOVERNANCE STATEMENT 2016/17</b></p>

	<p>Consideration was given to a report presenting the Combined Authority's Annual Governance Statement for 2016/17, which accompanies the Statement of Accounts for 2016/17.</p> <p>RESOLVED that the Annual Governance Statement for 2016/17 be approved</p>
<b>TVCA 33/17</b>	<p><b>TREASURY MANAGEMENT STRATEGY ANNUAL REPORT 2016/17</b></p> <p>Cabinet considered a report informing them of the performance against the treasury management and prudential indicators set in the Treasury Management Strategy, which had been agreed by Cabinet in April 2016.</p> <p>RESOLVED that the content of the Treasury Management Strategy Annual report 2016/17 be approved.</p>
<b>TVCA 34/17</b>	<p><b>SOUTH TEES DEVELOPMENT CORPORATION GOVERNANCE</b></p> <p>Consideration was given to a report regarding the Governance of the South Tees Development Corporation, including new appointments to the Board and the recommendation of the Independent Remuneration Panel for remuneration for members of the South Tees Development Corporation Board.</p> <p>A discussion took place around the proposed remuneration of the South Tees Development Corporation Board members. The Mayor proposed that remuneration was not appropriate and the recommendation of the IRP therefore be rejected. The proposal to reject the recommendation was seconded by Councillor Christopher Akers-Belcher.</p> <p>RESOLVED that:</p> <ul style="list-style-type: none"> <li>i. The formal establishment of the South Tees Development Corporation as a statutory body, with effect from 1<sup>st</sup> August 2017 and launched by the Prime Minister on 23<sup>rd</sup> August be noted</li> <li>ii. The Corporation Board's proposal for the appointment of Councillor Sue Jeffrey and Steve Gibson OBE as Joint Vice-Chairs and for the appointment to the Board of Anand Srinivasan is approved</li> <li>iii. STDC Board membership will be unremunerated.</li> </ul>
<b>TVCA 35/17</b>	<p><b>DATE OF NEXT MEETING</b></p> <p>The next meeting would be on Thursday 23<sup>rd</sup> November 2017.</p>

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## **AGENDA ITEM 5**

### **REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET**

**23 NOVEMBER 2017**

### **REPORT OF THE MANAGING DIRECTOR**

#### **MANAGING DIRECTOR'S UPDATE**

##### **SUMMARY**

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

##### **RECOMMENDATIONS**

For information and discussion.

##### **DETAIL**

#### **South Tees Development Corporation – Launch of Masterplan Consultation**

1. The South Tees Development Corporation reached an important milestone on 18<sup>th</sup> October with the launch of a public consultation on the masterplan for the site, at the Community Heart in Redcar. The event was attended by more than 250 regional business and political leaders and members of the public. The 25 year plan sets out the Development Corporation's regeneration goals for the area, alongside the necessary infrastructure investments and opportunities for inward investment. The consultation will tour the Tees Valley with a number of drop-in sessions for members of the public being held over the next six weeks.
2. In parallel, we continue to engage with central government, to secure the necessary funding for the operation, management and remediation of the South Tees site beyond the current financial year.

#### **Heathrow Airport Logistics Hubs**

3. The Tees Valley has been long-listed as a potential area for one of Heathrow Airport's logistic hubs, in preparation for the £16 billion project to expand capacity. The proposal brings together local companies to coordinate the supply chain, and ensure that local firms play a strong role in the delivery of the project. Subject to parliamentary approval, the project could start delivering as soon as 2021, and it is

therefore important that the Tees Valley is well prepared to maximise the opportunities for local business and jobs. Our involvement in this project has been strengthened by meetings between the Mayor and the CEO of Heathrow, and by the commitment of many local businesses to contribute. The South Tees site has been identified as a particularly suitable site for coordination of construction and logistics.

### **Carbon Capture and Storage**

4. Following the publication of the government's Clean Growth Strategy, efforts are stepping-up to develop an effective response from the Tees Valley. As home to the UK's largest concentration of CO<sub>2</sub>-producing industries, we have a significant role to play in supporting transformation, while ensuring the future sustainability of the UK's vital process, energy and advanced manufacturing sectors.
5. Tees Valley Combined Authority in partnership KPMG and NEPIC is working to identify a long-term programme of investment in Industrial Decarbonisation, ensuring our area makes a strong contribution to the UK's low carbon obligations. The Plan will identify priority developments in Carbon Capture Storage & Utilisation, district heating, the hydrogen economy (including its use for heat and transport) and large scale energy storage. The CCS project has now achieved 'Project of Common Interest' status, to be confirmed by the EU in November. PCI status demonstrates the strategic importance of the project within Europe, and will allow the project to apply for significant funding from the Connective Europe Facility to move the project forward. This €40 billion fund is only open to those projects that have achieved this status.

### **Routes to Work**

6. In March 2017 the Combined Authority was successful in securing £6 million from government to deliver the Routes to Work programme, with £1.5 million approved by Cabinet as match funding. The programme aims to support 2,500 people most distant and disengaged from the labour market.
7. The model of delivery will build upon the joint working that Local Authorities and their partners undertake at local level to support vulnerable people to address personal and social barriers. The model will centre on creating key workers that mentor and support the person to access a wide variety of support to assist them to move towards work. A flexible fund will be available to assist in removing specific barriers where no existing funding is available.
8. The five local councils are taking will take the lead in creating delivery plans for their locality, engaging with partners and support services as appropriate to their area. Engagement of additional partners, including the Voluntary, Community and Social Enterprise sector will expand the range of support services and offer direct referral routes to this programme.
9. The programme began in October 2017, initially on a small scale basis, using Combined Authority funding until the DWP funding is unlocked. Initially, the focus is on the development of local delivery plans, and establishing the key worker network.

More detailed local delivery plans will be completed and collated by the end of December, and a further update provided to Cabinet in February. Externally commissioned evaluation is a condition of this funding award, and initial engagement with national experts in this policy field is underway.

### **Tees Valley Skills Event**

10. The Tees Valley Skills Event 2017 took place on 21st September at Teesside University. Over 1600 young people aged 14–18, and 125 schools/college and learning provider staff members, attended from 30 Tees Valley schools/ colleges and other education establishments.
11. There were 75 exhibitor stands (of which 66 were individual organisations) exhibiting at the Tees Valley Skills Event. Exhibitors included local and national employers, universities and learning providers such as British Steel, EDF, EE, Elringklinger, Hart Biologics, JDR Cables, Nifco, Royal Navy, Sembcorp, Sirius Minerals, University of Leeds, Cumbria and Coventry University Scarborough campus as well as all Tees Valley FE and Sixth Form Colleges. Attendees took part in a range of interactive practice activities ranging from; virtual welding, carrying out keyhole surgery, creating circuits and taking finger prints.

### **Advanced Engineering International Exhibition**

12. The Business Investment team exhibited at the Advanced Engineering International Exhibition on the 1-2 November 2017 in Birmingham. It is the largest event for the advanced engineering sector in the UK. The event was very well attended and the team generated some strong leads.

### **Housing Investment Agreement**

13. Following agreement by the Cabinet in March 2017 to seek an Investment Agreement with the Homes and Communities Agency, further positive discussions have taken place to accelerate investment in the delivery of affordable homes. Details of a draft Investment Agreement are being finalised with the HCA, councils and other partners, and we hope to bring a final agreement to Cabinet in December, unlocking substantial additional investment in new homes and local communities.

### **FINANCIAL IMPLICATIONS**

14. There are no financial implications to this report.

### **LEGAL IMPLICATIONS**

15. There are no legal implications to this report.

### **RISK ASSESSMENT**

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

**Name of Contact Officer: Andrew Lewis**  
**Post Title: Managing Director**  
**Telephone No: 01642 527091**  
**Email Address: [andrew.lewis@teesvalley-ca.gov.uk](mailto:andrew.lewis@teesvalley-ca.gov.uk)**



**AGENDA ITEM 6**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET**

**23 NOVEMBER**

**REPORT OF THE  
MANAGING DIRECTOR**

**PORTFOLIO: INVESTMENT**

**BUDGET 2018-19 AND INVESTMENT PLAN**

**SUMMARY**

The Combined Authority is required to set out its Budget on an annual basis, and to consult publicly before its submission to Cabinet. We are also committed to review the Investment Plan, previously agreed in March 2017, in the light of new developments including the election of the Tees Valley Mayor. Together the Budget and Investment Plan provide the financial framework within which the Combined Authority will operate in the forthcoming financial year (2018-19) and over the medium-term. This report seeks approval from Cabinet for the publication of a draft Budget, and to proposed revisions to the Investment Plan. The Budget and Investment Plan will come back to Cabinet in February 2018 for approval on the terms set out in our constitution.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. Notes the draft Budget and refreshed Investment Plan; and
- ii. Agrees to publish the Budget in draft for public comment, and to actively seek views from stakeholders.

## TEES VALLEY COMBINED AUTHORITY BUDGET AND INVESTMENT PLAN

1. The Tees Valley Combined Authority was created in April 2016 and agreed its first Investment Plan in March 2017. For the first time, the Tees Valley was able to bring together multiple government funding sources, previously determined in Westminster and Whitehall, into a “single pot” for local decision-making. The Investment Plan described how £464 million of investment was being invested through a 5 year programme from 2016-2021. The Investment Plan also demonstrated how the Combined Authority would:
  - actively support project development;
  - respond flexibly to opportunities;
  - build an asset base to be used for future re-investment;
  - seek innovative partnership and commercial funding models;
  - continue to secure further resources into the local fund;
  - explore borrowing powers and take a commercial approach to assessing and managing risks;
  - invest in strong proposals for the best value for money; and
  - work to the agreed Assurance Framework.
2. The Combined Authority also committed to refresh the Investment Plan in autumn 2017, to reflect new priorities established by the first elected Tees Valley Mayor, and other developments. Following the review by the Mayor, we remain committed to the priorities set out in March 2016 and as a result are not proposing any change in the allocation of funds across our core themes, except to the extent that new funding has been secured.
3. The Combined Authority has made significant progress over the last six months in obtaining additional funding. As a result, the revised Investment Plan needs to reflect £19 million of additional funding secured for the Tees Valley, made up of:
  - £11 million of finance for business, allocated to the Tees Valley Combined Authority as a return from investment by previous North East regional funds;
  - £6 million of funding from Government to create the Routes to Work programme, to help people most distant from the labour market to find work;
  - £1.5m Great Places funding from Government to fund culture and tourism events in the region;
  - £0.2m funds from BEIS to contribute towards our existing growth hub service; and
  - £0.2m from Government to extend the careers and enterprise programme.
4. Since March 2017, the Combined Authority Cabinet has continued to make commitments in line with its Investment Plan priorities, committing a further £23 million to projects, including:
  - £7 million of Development Funding on proposals for future investment;
  - £7.5 million on Routes to Work;
  - £1.5 million to deliver the Great Places initiative;
  - £1.8 million from the Culture Programme;
  - £2 million in grants to support apprenticeships;
  - £2.3 million on local transport projects; and

- £1 million on other smaller investments.
5. Other adjustments to the funds available in the Investment Plan have been made as a result of external circumstances, being:
- a lower estimate of income from retained business rates from Enterprise Zones, of £4 million (2017-21), due to reductions in the rateable value of business properties compared to initial estimates; and
  - a £2 million reduction in funds as a result of fall in the value of Sterling compared to the Euro.
6. In addition, in October 2017 the Combined Authority secured £8 million in investment for local roads, which will be channelled directly to the lead local authorities so will not form part of the investment Plan. There are also further proposals in the pipeline to Government, including for investment in housing growth, in demonstrating Carbon Capture and Storage technology, and for major transport infrastructure. As and when these proposals are successful, their resource implications will be reflected in future versions of the Investment Plan.
7. The table below summarises the revisions to the Investment Plan since it was first published in March 2017. In total, the resources available to the Combined Authority over the five year period (2016-21) are now estimated at £477 million, of which £266 million has been committed to projects and programmes. This includes the Tees Valley's European funds, which have been guaranteed by Government through the Brexit process.

Summary	Total Funds Secured (£million)	Commitments (£million)	Available Funds (£million)
<b>Investment Plan Review - October 2017*</b>			
Direct TVCA Resources	£306	£196	£110
European Funding	£171	£70	£101
<b>Total Revised Investment Plan</b>	<b>£477</b>	<b>£266</b>	<b>£211</b>
<b><i>Changes Include:</i></b>			
<i>Additional Direct Resources</i>	<i>+</i> £19	<i>+</i> £23	<i>-</i> £4
<i>Enterprise Zone Income Change</i>	<i>-</i> £4	<i>n/a</i>	<i>-</i> £4
<i>Euro Exchange Rate</i>	<i>-</i> £2	<i>n/a</i>	<i>-</i> £2
<b><i>Net Change</i></b>	<b><i>+</i>£13</b>	<b><i>+</i>£23</b>	<b><i>£-10</i></b>

## European Funding

8. European funding will come to an end when the UK leaves the European Union. The government has, however, guaranteed that any financial commitments entered into before April 2019 will be covered by the UK government after Brexit. On this basis

we have continued to support the delivery of the Tees Valley's £170 million European Structural and Investment Funds (ESIF) allocated for the 2014-2020 period.

9. Following Cabinet agreement, the Combined Authority has applied for Intermediary Body (IB) Status for ESIF funding, which will give us greater involvement in the preparation and issuing of calls for projects and in the appraisal of projects. IB status for ERDF (business support, innovation, ICT and low carbon activity) has now been confirmed by DCLG and it is anticipated to be confirmed by DWP for ESF (skills and employment) activity shortly.
10. We will continue to maximise all opportunities to utilise the ESIF funds and encourage partners to develop proposals. The key challenge for most organisations is the availability of match funding, and we will work within our Investment Plan to facilitate the use of these funds for activities that will support the delivery of our Strategic Economic Plan.
11. We currently have £101 million of European Funds available and the next round of calls are due to be launched in December. The current pipeline for European funding is £34.4 million with a minimum requirement for £14 million match from these proposals. The Combined Authority will review its obligations in respect of match funding, and, if appropriate, will suggest changes to funding allocations to allow us to maximise the use of these funds.

#### **Teesside Pension Fund**

12. A Memorandum of Understanding has been signed with the Teesside Pension Fund (TPF), through which £200 million has been identified for investment in the area, to be delivered alongside the Combined Authority's own Investment Plan.
13. We are working with the TPF and its fund managers to establish projects from within our Investment Plan that would meet its investment requirements, with the intention of co investing. A number of current Expressions of Interest have been shared with the Fund's managers and advisers, and active discussions are under way between the Combined Authority, several of its partners and the fund managers to assess the potential suitability of those projects for investment in line with the Fund's investment parameters.

#### **South Tees Development Corporation**

14. South Tees Development Corporation was established on 1 August 2017 to develop the South Tees site in Redcar. The Masterplan for the site was officially launched on 18 October 2017 and STDC is currently engaging in public consultation on its plans.
15. We are working with the Board of STDC and civil servants at BEIS and DCLG to agree a funding package for the Development Corporation for the next 3 years which will allow it to work on site assembly, including (if required) utilising its compulsory purchase powers, as well as bring early investors to the site to kick start development. The Tees Valley Mayor has also held discussions with ministers. To ensure we can make progress in preparation for future development, we have made available £750,000 of development funding in the current year.

## **Project Development**

16. The Combined Authority is developing a future pipeline of investments, in response to proposals from partners, including the five constituent councils. There is currently an active pipeline of 31 proposals amounting to £152 million currently under assessment; although we expect this figure to fall as we work with partners to review, prioritise and explore alternative funding sources for those projects where this is appropriate.
17. The Combined Authority cabinet recognised at an early stage that providing resources to fund this type of development is a significant enabler to bringing major infrastructure projects forward on a timely basis. To allow this to happen it set up the £7 million Development Fund with delegated authority to the Combined Authority Managing Director, in consultation with the Mayor, to authorise up to £1 million on individual projects that meet the criteria.
18. The Development Fund has proved very valuable in allowing the Tees Valley to develop, challenge and refine proposals before they are brought to Cabinet for agreement. The Development Fund also allows the Combined Authority to strengthen the business cases for proposals to central government, and contributes to the high success rate of those proposals in securing additional investment. As projects supported by the Development Fund come forward successfully for investment, they repay the Development Fund, thereby recycling resources for re-investment into other projects.
19. Due to the success of the Development Fund which is now fully committed, it is proposed to supplement it by an additional £3 million, bringing the total funding available to £10 million (for allocation up to 2021). This would be financed by transferring the £3 million previously allocated under the Investment Plan for “flexible delivery” into the Development Fund. The Combined Authority Cabinet has now established a framework for devolved decision-making which can support the flexible response to urgent priorities from mainstream sources, and a separate flexible fund is therefore no longer necessary.
20. Further details of the programmes supported by the Development Fund are set out in Annex B. We expect some of the projects currently under development to come forward for decision over the next few months. The Combined Authority also continues to welcome additional Expressions of Interest from public and private sector partners, where there is a clear link to the delivery of the Strategic Economic Plan, and a strong business case for investment. Expressions of Interest can be submitted at any time. Initially we envisaged quarterly calls for partners to submit proposals within pre-set windows, but experience with the first round of proposals suggests that an open window approach will allow us to be more responsive to opportunities and accelerate delivery.

## **Finance for Business**

21. This Investment Plan makes 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 adds to the existing 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. This will be an important addition to our available funds, to ensure that

businesses that are able to grow and contribute to wider economic growth are not constrained by an inability to access funding to support their plans.

22. We intend to appoint a dedicated Business Finance Advisor who will co-ordinate access to this and the other funds (including the Northern Powerhouse Investment Fund), as well as working with the private sector to ensure that businesses can find the right funding for their requirements.

### **Sector Action Plans**

23. We commissioned the production of Action Plans covering 7 key sectors, delivered by independent economic consultants, Regeneris, working with businesses across the region. The purpose of this exercise was to provide a sectoral analysis in relation to the Combined Authority's published 25,000 jobs target as well as to identify actions that need to be undertaken to take these matters forward. These Action Plans are not primarily about financial allocation and will be brought to Cabinet in the near future. This budget includes a financial allocation of £2 million to cover the financial implications identified in the work to date.

### **Additional Priorities**

24. In addition to the programmes set out in this Investment Plan, the Tees Valley Mayor has made some specific additional commitments in his election campaign, which are currently under development by the Combined Authority. These include:

- A proposal to secure the future of Durham Tees Valley Airport. Initial discussions are underway with the current airport owners to secure a solution that is sustainable, viable and reflects value for money. Subject to progress with these discussions, proposals would then be brought forward to the Combined Authority Cabinet for approval; and
- Proposals to establish a viable and sustainable new garden town settlement. The Combined Authority is working closely with the Homes and Communities Agency on an initial assessment of the scope, scale and location of a new settlement. Further details will be brought forward when this assessment is complete.

### **Investment Themes**

25. The Combined Authority's Investment Plan published in March 2017 made indicative allocations of funding between the key themes of the Strategic Economic Plan. Revised allocations are summarised in the table below. Since March 2017, allocations have been adjusted to reflect:

- the additional funds £19 million secured by the Combined Authority, as set out in paragraph 3 above;
- re-assignment of £21 million of European Funding from Business Growth to Research and Development, Innovation and Energy to reflect a realignment of European priorities for these funds;
- a reduction of European Funding for Skills and Employment of £2 million, due to fluctuations in the exchange rate; and
- reductions in Enterprise Zone Income of £4 million, resulting in less available funding for enabling infrastructure.

26. No other changes are proposed. The broad priorities established by the March 2017 Investment Plan therefore remain on track, and no fundamental change to relative priorities is currently proposed.

<b>INVESTMENT THEME SUMMARY 2016/17 – 2020/21</b>					
<b>Theme</b>	<b>Notional Allocation £m</b>	<b>Committed Funds £m</b>	<b>Available Funds £m</b>	<b>TVCA Funds £m</b>	<b>ESIF £m</b>
Business Growth	105	48	57	23	34
Research, Development, Innovation & Energy	81	44	37	12	25
Education, Employment & Skills	116	60	56	15	41
Culture	12	3	9	8	1
Transport	115	94	21	21	0
Enabling Infrastructure	37	10	27	27	0
Project Development	10	7	3	3	0
Evaluation	1	0	1	1	0
<b>TOTAL</b>	<b>477</b>	<b>266</b>	<b>211</b>	<b>110</b>	<b>101</b>

27. The next sections of this report set out in more detail the latest position on each of the Investment Plan themes, identifying new developments and up-coming opportunities.

### **Business Growth**

28. Significant improvements have been made in the provision of business support through the expansion of Tees Valley Business Compass, and to access to finance for business through the establishment of the Northern Powerhouse Investment Fund. However, there are opportunities to develop more targeted approaches to supporting scale-up and potential scale-up businesses.

29. The Tees Valley has participated in a number of previous regional Access to Finance funds, which successfully lent money to businesses, who later repaid those loans. Where European Funding was involved, the agreements establishing the Funds specified that, providing certain conditions were met, recycled loans could remain within the region for further re-investment. The Tees Valley Combined Authority is now in a position to secure the benefit of that recycled funding support business growth, and to address gaps in the financial support currently available to local businesses. Additionally, existing single pot funds can be utilised to provide very flexible access to finance where other funds are not appropriate. By bringing together £11 million available from legacy funds, alongside £5 million identified from the Investment Fund, we propose to create a new business finance facility. This

additional £16 million funding could leverage a further £35 million of private investment.

### **Research, Development, Innovation & Energy**

30. With the launch of the Clean Growth Strategy, industrial decarbonisation is becoming an increasingly important Government priority, along with the decarbonisation of heat and transport. Tees Valley is uniquely positioned to offer the opportunity to develop, pilot, and commercialise new technologies needed for significant decarbonisation and position itself as a test bed for the UK and are in discussions with Government about bringing forward a proposal.
31. We are developing district heating projects which utilise waste industrial heat and will aim to take these projects through to delivery in 2019. We are working in partnership with other public sector bodies to provide a comprehensive scheme that will benefit the Tees Valley economy as well as contributing to the alleviation of fuel poverty.
32. The Government has announced £23 million for hydrogen refuelling stations and a £25 million fund to investigate the safety case for using hydrogen to heat residential houses; coupled with a £15 million bid to Ofgem by Northern Gas Networks. We would expect a proportion of this funding to be invested in the region and the Combined Authority.
33. Government has announced a Heat Recovery Fund aimed at supporting industrial companies to recover and use heat. We will be supporting companies to apply for this support.

### **Education, Employment & Skills**

34. The Combined Authority, working with its partners and local businesses, will focus on creating clear pathways for young people from education into good quality jobs and creating a skills system that provides business with the skills they need to grow. We will shortly be publishing the results of our plan to build the skills we need for a modern economy in the Tees Valley through our Inspiring our Future document.
35. To achieve this we will:
  - support innovation and collaboration between schools in addressing common challenges;
  - reduce the skills gaps experienced by employers in high growth sectors;
  - help businesses create more, higher level apprenticeships, leading onto high quality jobs;
  - expand the opportunity for young people to take up apprenticeships and access high quality technical education;
  - improve skill routeways to entry level and good, progressive jobs;
  - support people most distant from the labour market to secure and retain work;
  - improve and extend high quality Careers Education for all;
  - work with businesses to identify and plan for their future skills demands;
  - ensure local communities have access to high quality college and training facilities; and
  - enhance the role the Tees Valley's Higher Education institutions play in delivering economic growth.
36. In delivering all of these priorities we will ensure that business plays a leading role in setting priorities, identifying barriers, and delivering better outcomes, and that high



quality evaluation and research drives future improvements and helps the Tees Valley learn from experience.

37. As part of the signed devolution deal, the Adult Education Budget for the Tees Valley will be devolved to the Combined Authority provide local control of skills training for unemployed adults resident in Tees Valley. This is currently planned to take effect from August 2019. This is an important first step into devolution of skills funding, which could provide the evidence that greater alignment of skills funding to local need can deliver faster and more appropriate outcomes for economic growth. This opportunity enables the Combined Authority to influence the skills system in Tees Valley to better fit the needs of local people and businesses.

## **Culture and Tourism**

38. Central to our Culture and Tourism strategy is working towards a bid to be City of Culture 2025. Our cultural strategy involves investing in our heritage with the greatest potential to attract visitors and influence the visitor economy, investing in high quality festivals and events, supporting the creation of new events and festivals and building capacity within the cultural sector to create a stronger cultural ecosystem.
39. We have begun our investment in the large heritage sites connected to the Stockton and Darlington Railway, the Maritime heritage in Hartlepool and the 17th Century landscape at Kirkleatham. We have also invested in the Stockton International Riverside Festival, the Festival of Thrift and a new Waterfront Festival in Hartlepool. We have already engaged festival developers to initiate work on the 200th Anniversary of the Stockton and Darlington Railway in 2025. National Portfolio Organisation status has now been achieved for Middlesbrough Town Hall and for the collaboration between the five main museums,
40. We are discussing with the Arts Council how to secure joint investment in creating a step-change in opportunity and practice in Tees Valley. In terms of capacity building, particularly in relation to our forthcoming bid to be City of Culture, we are now developing 3-4 year development plans for each art form - theatre, film, literature and writing, dance, outdoor and combined arts, music and visual arts. We are beginning to discuss plans for our early City of Culture conversations with our communities. We will invite artists to bid to help develop this work.
41. Tourism product and business development will begin shortly and the team will engage with VisitBritain and VisitEngland on domestic and international marketing. The tourism team will work closely with colleagues in each authority and will focus on product development to create a much stronger understanding of what Tees Valley can offer visitors.
42. As part of the Stockton and Darlington railway heritage project we are currently compiling a bid to the Northern Cultural Legacy Fund which offers the potential to secure a grant for up to £4 million. In order to achieve this the bid requires match funding of £1.65 million for which we are currently exploring options for third party contributions.

## **Transport**

43. The Combined Authority has established four principal priorities for transport infrastructure:
- a new Tees Crossing;
  - improved East West Connectivity via the A66;

- Darlington Station improvements; and
  - improvements to the rail line between Teesport and Northallerton.
44. We will soon be publishing our Strategic Transport Plan which places an emphasis on assisting economic development and SEP delivery whilst recognising and improving the contribution our transport system makes to social and environmental objectives.
  45. Important objectives include reducing congestion and improving the operation of the Tees Valley Key Route Network (Roads), improving local, regional and national rail connectivity and delivering a better bus network for the area.
  46. Ensuring good access to key development sites such as the South Tees Development Corporation is also a key objective of the plan.
  47. Tees Valley partner authorities recently received £8.5 million from the National Productivity Investment Fund for 3 road improvement schemes in the Tees Valley area. There may be other rounds of this fund, and potentially another round of Highways Maintenance Challenge Fund for repairs to the existing network.
  48. Department for Transport are in the process of finalising their investment programme for their Road Investment Strategy 2. £15.2 billion was committed to RIS one for the period 2015-2020 and it is likely the investment figure for RIS2 will be similar. This provides an opportunity to source funding for our two large local Major Scheme projects - New Tees Crossing and Darlington Northern Bypass.
  49. Similarly it has been announced that £38 billion will be available for Network Rail's CP6 Investment Period from 2019-2024. The emphasis for this funding is on maintenance and renewal, but guidance on how to access monies for 'enhancements' is expected by the end of the year. This will allow an understanding of how financial contributions towards Darlington Station improvements, Middlesbrough Station improvements, extra platform capacity at Hartlepool station and investment in the Teesport to Northallerton rail line might be accessed.
  50. There are also opportunities for investment via the new Housing Infrastructure Fund, which allows funding for transport schemes that open up housing sites for development.

## **Infrastructure**

51. Significant work has been undertaken with the HCA, local authorities and key partners, which has included a detailed line by line analysis of all housing sites across Tees Valley. This work has identified actions to unlock these sites and accelerate housing delivery, including the need to significantly increase the provision of affordable housing in the intermediate market. We will deliver a 6 month action plan that focuses on the three key priorities of unlocking sites, accelerating delivery and increasing affordable homes provision.
52. We intend to work with Government to unlock funding to deliver the development of the STDC site, which is a long term project that expects to generate 20,000 jobs within the next 20 years.

## **Funding beyond 2021**

53. The current Combined Authority Investment Plan covers the period 2016-21, and no commitments have yet been made beyond that point. However, many of our functions, in areas such as transport and infrastructure, and to deliver the opportunities of the South Tees Development Corporation, need to take a longer term approach to investment. And some of the Expressions of Interest currently under consideration may involve commitments for funding, and commercial returns, which extend beyond 2021.
54. The Combined Authority also benefits from longer-term funding commitments from Government. The Devolution Deal secured a commitment from to an annual allocation of £15 million a year up until 2031, and our income from retained business rates on enterprise zones extends until 2037. As the Combined Authority starts to establish an asset base, we can take a longer term approach to our investments.
55. In addition, the Government has committed to granting borrowing powers to Mayoral Combined Authorities from 2018, within a borrowing limit to be determined. The Combined Authority has proposed to Treasury that our limit is set high enough that it will not constrain our ability to borrow according to the Prudential Code, which allows local authorities to borrow where a strong investment case exists, and the costs of borrowing can be met through the returns from investment.
56. Future Investment Plan reviews will therefore extend the horizon for investment into future years, as new borrowing powers are established and longer term commitments are brought forward.

## **Core Budget**

57. In order to deliver on our ambitious programme and meet the requirements of the Strategic Economic Plan, we need adequate core capacity within the Combined Authority team. The team now operates across a wide range of areas: delivering business support, securing inward investment, developing investment projects, promoting skills and employment, developing transport infrastructure and services, securing investment in new homes and communities, and promoting culture and tourism. The Combined Authority amalgamates a number of different functions which in other parts of the country are managed separately, including as the Tees Valley's Local Enterprise Partnership and Strategic Transport Authority. Functions have been secured from central Government, delivering responsibilities previously exercised in Whitehall, and not by drawing powers and funding from local councils.
58. As well as setting out longer-term priorities, and refreshing our Investment Plan, the annual Budget is an opportunity to review the core funding needed to deliver on those priorities. This is particularly necessary as the Combined Authority continues to take on new responsibilities from central Government, with more devolution on the way.
59. There is also scope for efficiency savings, as new responsibilities are delivered more effectively over time, and functions can be brought together to create synergies which release resources for other priorities. During 2017-18, the Combined Authority has secured 7% efficiency savings on its existing functions. The Combined Authority is committed to continue to review core costs and make efficiency savings where possible. A target of 5% savings has been set for 2018-2019.

60. As the Combined Authority grows and takes on additional responsibilities there is an increasing need to fund additional staff resources, in particular the requirements of the skills agenda means more local posts are required to manage these requirements. In addition we are expanding internal delivery capacity to minimise the need for external consultants. As a result the staff numbers will increase from 53 to 71 in the coming year. Of this increase 9 are funded by income provided to deliver the programmes to which the funds relate. The Combined Authority also hosts a number of other members of staff working on specific projects, including Business Compass and Routes to Work. We also work closely with the team responsible for the south Tees development corporation, with a number of joint posts
61. There remain some areas of cost pressure that are not fundable by income being received and therefore require a targeted budget increase. These are as follows:
- the Combined Authority is taking on new responsibilities for Education, Employment and Skills, as set out in paragraphs 33 to 36 of this report, and the published strategy “Inspiring Our Future”. The associated net core cost pressure is £220,000;
  - the Combined Authority is taking on a more pro-active regional promotion and communication role, in support of activities to attract inward investment and tourism, to encourage take-up of initiatives, to advocate on behalf of infrastructure proposal, and to engage the wider public and business community. The associated net core cost pressure is £100,000;
  - our revised Investment Plan proposes an expanded role for the Combined Authority in extending financial support for business: securing investment from existing Funds, and delivering additional finance for growing Tees Valley businesses. We propose to coordinate this from within the Combined Authority team, including by appointing a new Business Finance Adviser, with associated net core cost pressure of up to £130,000; and
  - additional pay and pension costs, in line with national local government pay arrangements, create a net cost pressure of £40,000.
62. It is proposed that these additional core cost pressures are met from an increased contribution from within the Combined Authority’s existing revenue resources. The overall position on core costs and their funding sources is set out in the table below.
63. The overall full-time equivalent staffing level is currently 53, and is estimated to rise to 70 over 2018-19, in line with new responsibilities. The Combined Authority’s annual payroll is likely to exceed the £3 million Apprenticeship Levy threshold, and as such the Combined Authority will have to contribute into the Apprenticeship Levy from 2018-19. The Combined Authority employs one apprentice, and a previous apprentice has successfully moved into a permanent role. We will look to increase our employment of apprentices in other areas, including the team responsible for supporting apprenticeships across the Tees Valley. The Combined Authority also proposes to meet the recommendations of the Living Wage Foundation, for a minimum hourly pay of £8.75.

	17/18 £'000	18/19 £'000
Salaries	2,691	3,789
Other Non Staffing Expenditure	959	865
<b>TOTAL EXPENDITURE</b>	<b>3,650</b>	<b>4,654</b>
LA Contributions	250	250
Local Enterprise Partnership Grant	610	500
Local Growth Fund	266	266
Contribution From Single Pot	2,394	3,021
Programme Management	0	321
Other Income	130	296
<b>TOTAL INCOME</b>	<b>3,650</b>	<b>4,654</b>

### Medium Term Financial Plan (MTFP)

64. We are required to report on our MTFP, which incorporates all of our income and costs from the Investment Plan and Core Budget, covering the period from 2018-19 and the following three years. This requirement takes us beyond the end of the current Investment Plan period to 2020/21.
65. For the purpose of the MTFP we have assumed income will continue into 2021/21, as will core costs, but we have not formally allocated any of these revenues to any Investment Plan area as these allocations will be done as we move forward, based on priorities at that time.

MEDIUM TERM FINANCIAL PLAN							
	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	TOTAL' £000	21/22 £'000
Local Growth Fund	37,799	27,989	13,708	9,416	14,207	103,119	0
Devolution	15,000	15,000	15,000	15,000	15,000	75,000	15,000
Enterprise Zones	533	1,091	1,517	1,678	3,152	7,971	4,445
Local Transport Plan	13,935	13,952	13,952	13,952	13,952	69,743	0
Loan Repayments & investment Income	1,020	2,501	1,025	1,668	568	6,782	513
Local Partnership Grant	500	610	500	500	500	2,610	500
Growing Places Fund	4,364	0	0	0	0	4,364	0
Education, Employment & Skills Specific Grants	1,258	1,488	2,050	2,050	1,021	7,867	0
Transport Specific Grant Schemes	2,067	4,268	1,109	1,051	0	8,495	0
Other Specific Grants	1,365	1,071	1,067	0	0	3,503	0
European Structural Investment Funds	339	1,836	7,921	2,874	0	12,970	0
ERDF Legacy	0	0	3,667	3,667	3,666	11,000	0
SSI Task Force	42,509	0	0	0	0	42,509	0
Concessionary Fares Income	16,505	16,599	16,599	16,599	16,599	82,901	16,599
Local Authority Contributions	2,472	250	250	250	250	3,472	250
Other Income	0	130	617	579	570	1,896	571
<b>TOTAL INCOME</b>	<b>139,666</b>	<b>86,785</b>	<b>78,982</b>	<b>69,284</b>	<b>69,485</b>	<b>444,202</b>	<b>37,878</b>
Business Growth	4,734	15,600	9,421	4,624	1,750	36,129	0
Research, Development, Innovation & Energy	699	7,367	13,578	9,000	0	30,644	0
Education, Employment & Skills	4,554	8,310	8,932	2,600	1,281	25,677	0
Culture & Tourism	0	1,400	1,617	350	0	3,367	0
Transport	21,237	21,727	19,986	17,403	13,952	94,305	0
Infrastructure	58	10,269	0	0	0	10,327	0
Development Pot & Evaluation	0	6,883	0	0	0	6,883	0
Core Costs	2,972	3,650	4,654	4,695	4,746	21,146	4,792
Concessionary Fares	16,505	16,599	16,599	16,599	16,599	20,804	16,599
SSI Task Force (not in investment plan themes)	10,306	10,840	0	0	0	1,756	0
Mayoral Election Costs	0	1,156	0	0	600	82,901	0
<b>TOTAL EXPENDITURE</b>	<b>61,065</b>	<b>103,801</b>	<b>74,787</b>	<b>55,271</b>	<b>38,928</b>	<b>333,852</b>	<b>21,391</b>
<b>AVAILABLE FOR NEW INVESTMENTS</b>	<b>78,601</b>	<b>(17,016)</b>	<b>4,195</b>	<b>14,013</b>	<b>30,557</b>	<b>110,350</b>	<b>16,487</b>

## **General Reserve**

66. We consider the need for unearmarked reserves within the context of the MTFP but 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 could lead to the need for a higher level of reserves than usual to make for robust budget planning. Where such items exist we will consider them on an annual basis. There is no such matter to consider in this budget report.
67. The General Balance Reserve was established at £650,000 last year. Guidance for Local Authorities dictates that 3% of net revenue expenditure should be held in the General Balance Reserve to manage risk and any unforeseen circumstances, and it is prudent for us to work towards applying that principle. The nature of Combined Authority expenditure is slightly different from other Local Authorities in that it incurs revenue expenditure over the Investment Plan period, so expenditure in individual years can fluctuate significantly. In addition to this we manage revenue expenditure on behalf of Government for which we take no risk.
68. For those reasons, 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 3% of this in the General Reserve. This requires us to set the General Reserve Balance at £677,000 which is an increase of £27,000 on last year. We anticipate that this will be funded from surpluses generated over budget in 2017/18 which will be held in the General Reserve.

## **Concessionary Fares**

69. The Combined Authority has delegated Transport powers for Concessionary Fares and these costs have to be attributable across the constituent Councils by way of agreed contributions. The 2018/19 position following negotiations with bus providers is expected to be finalised in March. For the purposes of this report it is assumed that these will remain at 2017/18 levels over this period and any variations to this will be reported to Cabinet.

## **Committed Resources**

70. The table in paragraph 65 sets out the Combined Authority Resource Position incorporating all funding and approved schemes. The unallocated line of the table sets out the funds available to the Combined Authority to commit to projects and programmes. More detail of the specific schemes approved and Development Fund allocations are provided in Annexes A and B respectively.

## **Council Tax Precept**

71. 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.
72. 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 2018-19, and has no plans to set a Council Tax precept in future years.

## **FINANCIAL IMPLICATIONS**

73. This report sets the budget for the Combined Authority.

## **LEGAL IMPLICATIONS**

74. 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. Under our constitution, we are also required to have an Investment Plan.

## **RISK ASSESSMENT**

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

## **CONSULTATION**

76. Consultation will be undertaken with the public and key stakeholders for a period from 24<sup>th</sup> November 2017 to 5 January 2018.

**Name of Contact Officer: Julie Gilhespie**

**Post Title: Finance Director**

**Telephone Number: 01642 5244400**

**Email Address: [julie.gihespie@teesvalley-ca.gov.uk](mailto:julie.gihespie@teesvalley-ca.gov.uk)**



## ANNEX A

Approved Commitments	INVESTMENT PLAN PERIOD					TOTAL
	2016/17	2017/18	2018/19	2019/20	2020/21	
	£'000	£'000	£'000	£'000	£'000	
Business Growth Grants	2,999	6,872	0	0	0	9,871
SSI Devolved Pot	0	6,492	0	0	0	6,492
BEIS Growth Hub	246	246	0	0	0	492
Sector Action Plans	43	37	0	0	0	80
Materials Processing Institute Open Access Technology Centre	1,107	117	0	0	0	1,224
Finance for Business	0	0	1,500	1,750	1,750	5,000
ERDF Business Compass	339	1,836	7,921	2,874	0	12,970
<b>Business Growth</b>	<b>4,734</b>	<b>15,600</b>	<b>9,421</b>	<b>4,624</b>	<b>1,750</b>	<b>36,129</b>
South Tees District Heating	127	224	0	0	0	351
City Deal CCS Project	279	173	0	0	0	452
Low Carbon Action Plan	115	162	0	0	0	277
Nuclear Study	0	30	0	0	0	30
Digital City	178	178	178	0	0	534
National Horizons Centre	0	1,100	7,400	9,000	0	17,500
Healthcare Futures Centre (Personalised Medicines)	0	4,000	6,000	0	0	10,000
Teesside Advanced Manufacturing Park - Phase 2 Development	0	1,500	0	0	0	1,500
<b>Research, Development, Innovation &amp; Energy</b>	<b>699</b>	<b>7,367</b>	<b>13,578</b>	<b>9,000</b>	<b>0</b>	<b>30,644</b>
AGE Grant	985	1,263	0	0	0	2,248
Careers & Enterprise	101	109	100	100	31	441
Routes To Work	0	1,250	2,500	2,500	1,250	7,500
Employment & Education & Skills Strategy	0	40	0	0	0	40
Cleveland College of Art & Design Hartlepool	3,468	834	0	0	0	4,302
NETA Skills Centre	0	824	0	0	0	824
Skills enhancement – Telecare and electric vehicles	0	130	0	0	0	130
Hartlepool Innovation Skills Quarter Phase 2	0	1,500	3,632	0	0	5,132
Kirkleatham Catering Academy and Walled Garden	0	1,000	1,700	0	0	2,700
Apprentice Grant	0	300	1,000	0	0	1,300
YEI Extension	0	1,060	0	0	0	1,060
<b>Education, Employment &amp; Skills</b>	<b>4,554</b>	<b>8,310</b>	<b>8,932</b>	<b>2,600</b>	<b>1,281</b>	<b>25,677</b>
Great Places	0	500	1,067	0	0	1,567
Destination Marketing Programmes	0	350	350	350	0	1,050
Festivals and Events	0	200	200	0	0	400
Heritage and Attraction Asset Capital Development	0	250	0	0	0	250
Building Cultural Capacity	0	100	0	0	0	100
<b>Culture</b>	<b>0</b>	<b>1,400</b>	<b>1,617</b>	<b>350</b>	<b>0</b>	<b>3,367</b>
Local Transport Plan	13,935	13,952	13,952	13,952	13,952	69,743
Pothole Action Fund	0	707	0	0	0	707
National Productivity grant	0	2,298	0	0	0	2,298
Local Sustainable Transport	990	0	0	0	0	990
DfT Access Fund	0	1,163	1,109	1,051	0	3,323
Transport Studies	99	328	0	0	0	427
DfT Local Majors Studies	650	100	0	0	0	750
Transport – Scheme Development Fund	100	370	0	0	0	470
Transport – Bus Network	30	0	0	0	0	30
Elwick By-pass	600	0	0	0	0	600

Middlesbrough Rail Station	100	0	0	0	0	100
Eaglescliffe Station	0	100	0	0	0	100
Bank Top Station Fesibility Study	0	12	0	0	0	12
Sustainable Access To Employment	1,193	2,307	2,400	2,400	0	8,300
Middlehaven Dock Bridge (Local Majors)	3,540	390	0	0	0	3,930
A689 Wynyard Improvement	0	0	2,525	0	0	2,525
<b>Transport</b>	<b>21,237</b>	<b>21,727</b>	<b>19,986</b>	<b>17,403</b>	<b>13,952</b>	<b>94,305</b>
Redcar Growth Zone	0	5,000	0	0	0	5,000
One Public Estate	58	386	0	0	0	444
Central Park Infrastructure	0	183	0	0	0	183
South Bank Wharf	0	1,000	0	0	0	1,000
Kirkleatham Business Park Industrial Units	0	500	0	0	0	500
Salters Lane Phase 1	0	2,200	0	0	0	2,200
Billingham Bio-Pharmaceutical Campus	0	1,000	0	0	0	1,000
<b>Infrastructure</b>	<b>58</b>	<b>10,269</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,327</b>
<b>Development &amp; Evaluation</b>	<b>0</b>	<b>6,883</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,883</b>
<b>INVESTMENT PLAN</b>	<b>31,282</b>	<b>71,556</b>	<b>53,534</b>	<b>33,977</b>	<b>16,983</b>	<b>207,332</b>
SSI Task Force Projects	10,306	10,840	0	0	0	21,146
Core Running Costs	2,972	3,650	4,654	4,695	4,746	20,717
Mayoral Election	0	1,156	0	0	600	1,756
Concessionary fares	16,505	16,599	16,599	16,599	16,599	82,901
<b>TOTAL EXPENDITURE</b>	<b>61,065</b>	<b>103,801</b>	<b>74,787</b>	<b>55,271</b>	<b>38,928</b>	<b>333,852</b>

## Development Funding

<b>DEVELOPMENT FUNDED PROJECT</b>	<b>AMOUNT</b>
CPI LGF	250,000
South Bank Wharf LGF	75,000
HBC ISQ LGF	233,000
South Tees Development Corp Loan	400,000
Highways Challenge Fund	200,000
Buses Act	80,000
Waste Strategy	400,000
Government Relocation Study	19,000
Ministry of Building Innovation	350,000
Development of Light Industrial Units at Kirkleatham Business Park EZ	30,000
Redcar Railway Station Business Quarter	50,000
Skippers Lane Industrial Estate Expansion	100,000
Feethams Grade A Office Development	100,000
Energy Life-Cycle Centre Potential Institute of Technology	300,000
Hartlepool Innovation & Skills Quarter Phase 2	505,000
Hartlepool Waterfront	680,000
Kirkleatham Estate Investment Project	415,000
River Tees Development Plan	130,000
Faverdale (Phase 1)	220,000
Darlington Station	300,000
South Tees Development Corporation Site Investigations	750,000
Durham Tees Valley Airport	500,000
Tesside Advanced Manufacturing Park	120,000
Eaglescliffe Station Western Access	576,000
Boho Next Generation	100,000
<b>COMMITTED FUNDS</b>	<b>6,883,000</b>

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## AGENDA ITEM 7

### REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

23 NOVEMBER 2017

### REPORT OF THE FINANCE DIRECTOR

## BUDGET 2017/18 – QUARTER 2

### SUMMARY

The purpose of this report is to update members on the financial position of the Combined Authority for the period ending 30 June 2017. The report also briefly sets out the current position in relation to the appointment of external auditors for the Combined Authority.

### RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority:

- i. Note the position on the Core Budget and General Reserve balance.
- ii. Note the changes and updated Resource position at Appendix A.
- iii. Note the allocations from the Development Fund and remaining balance identified in Appendix B.
- iv. Note the position on SSI Task Force funding.
- v. Note the position on the appointment of external auditors from 2018/19.

## DETAIL

### Core Budget

1. The following table details the budget and projected outturn for the core budget for the quarter ending 30 June 2017. The position will continue to be monitored and reviewed during the course of the year.

	Budget	Projected Outturn	Variance
	£000	£000	£000
Salaries Costs	2,691	2,651	(40)
Other Non Staffing Expenditure	959	965	6
<b>TOTAL EXPENDITURE</b>	<b>3,650</b>	<b>3,616</b>	<b>(34)</b>
LA Contributions	(250)	(250)	0
Local Enterprise Partnership Grant	(610)	(610)	0
Local Growth Fund	(266)	(266)	0
Contribution from Single Revenue Pot	(2,394)	(2,320)	74
Other Income	(130)	(170)	(40)
<b>TOTAL FUNDING</b>	<b>(3,650)</b>	<b>(3,616)</b>	<b>34</b>
<b>NET EXPENDITURE</b>	<b>0</b>	<b>0</b>	<b>0</b>

2. The overall underspend of £34k is mainly due staff vacancies and reduced support service charges offset by increased cost from new posts. Some of the new posts reflect financial and legal services being undertaken in-house and thus are directly associated with support service cost reductions.
3. Taking account of £40k of anticipated additional income for financial and communications services to the South Tees Development Corporation, the contribution needed from the single revenue pot will be reduced by £74k.

### Mayoral Election

4. The costs for the Mayoral election are still to be finalised as three authorities are still to submit their claims to the returning officer. Based on those received to date and the efficiency measures taken it is likely that there will be an underspend in this area. An updated position will be provided as part of the next quarterly budget update report to Cabinet.

### Combined Authority Investment Plan

5. Since the budget report in March to Cabinet there have been a number of new / additional funding and scheme approvals which are outlined below.
6. The Combined Authority has received an additional £22k of Local transport Plan funding above that previously expected from the Department of Transport.
7. At the Cabinet meeting in January it was agreed to continue the support of the Apprentice Grant for Employers scheme until 31<sup>st</sup> July 2017 to ensure that all businesses applying to the scheme would have access to the funding. Based on

applications received this is estimated to require an additional £712k from the investment plan. At the July Cabinet Meeting members approved £1.3 million for continued support for Apprenticeships under a revised delivery model, with the scheme commencing on 1<sup>st</sup> August 2017.

8. The Careers & Enterprise Company grant offer of £260k including match funding of £110k has been secured to enable the programme to continue for the next three academic years, until the end of the academic year 2019/20.
9. The Combined Authority secured an allocation of £246k for the continued Business Growth Hub programme, this is to be utilised as match funding towards the larger ERDF business compass scheme.
10. The Combined Authority has secured £1.567 million as part of the Heritage Lottery Fund and Arts Council England Great Place scheme. This includes £0.224 million match funding from the Tees Valley Combined Authority and other partners.
11. In March, the Combined Authority also approved £1.8m for Culture and Tourism from that set aside in the Investment Plan to be spent as follows:-
  - a. Events and Festivals £400k
  - b. Heritage and Attractions Capital Development £250k
  - c. Cultural Capacity Building £100k
  - d. Destination Marketing £1.05 million
12. The Government has awarded the Combined Authority an additional £6m in devolved funding for a pilot "Routes to Work" initiative that will support people aged 30 and over facing the greatest difficulties in accessing jobs. This includes people who have been out of work for a long period, those who face physical and mental health challenges, and those who have had a claim for Employment Support Allowance rejected. In addition to the Government funding the Authority is contributing £1.5m in match funding as approved in the Investment Plan over the three years of the programme.
13. Tees Valley Combined Authority has been allocated £13 million of finance for business as a return from investment by previous North East regional funds, proposals for which will be included in the Investment Plan refresh.
14. Although the Enterprise Zones have continued to grow there has been a reduction in estimated income from retained business rates of £4 million (2017-21). This is due to reductions in the rateable value of business properties compared to initial estimates.
15. The revised resource position incorporating approved schemes and funding, together with the first two quarters spend is shown in Appendix A. The position will be further considered as part of the Investment Plan Review due to be considered by Cabinet.

## Development Fund

16. The Development Fund was created to provide upfront investment in feasibility work to ensure that when proposals come forward under the Strategic Economic Plan priorities they are sufficiently developed for decision making and to allocate funding. Additional funding was allocated to the existing Development Fund as part of the Investment Plan approved by the Combined Authority Board in March. Allocations have been approved under agreed delegation arrangements. The position on funding and approved allocations is shown in Appendix B. Due to the success of the Development Fund the available resources are now fully committed, a proposal has been developed and is included in the Investment Plan and 18/19 Budget Report.
17. When schemes are developed and progress through due diligence the intention is that the Development Fund will be replenished from the funds allocated following the full scheme approval. An update will be provided as part of future reports.

## Task Force Funding

18. As reported to Cabinet in July as part of the Budget Outturn Report for last financial year the balance on Task Force Funding was £29.204 million at 31<sup>st</sup> March 2017. During the first two quarters of £4.092 million has been spent to support both businesses and individuals affected by the closure of SSI as well as provide wider economic benefits for the area. The following table shows the available funds and actual spend to date in 17/18.

	Opening balance 1.4.17 £0	Qtr 1 & 2 Spend 17/18 £0	Balance at 30.9.17 £0
Flexible Fund	4,562	1,165	3,397
Apprentices Support	873	208	665
Jobs and Skills Investment Scheme	3,060	1,017	2,043
Start-up advice and start-up grants	800	200	600
Supply Chain	8,418	1,502	6,916
Wider Economic Impact - Redcar Growth Zone	5,000	0	5,000
Devolved Funding Pot	6,491	0	6,491
<b>TOTAL</b>	<b>29,204</b>	<b>4,092</b>	<b>25,112</b>

19. We are currently in discussions with BEIS around the extension of the programmes into 18/19 and an update will be provided to Cabinet once these discussions are concluded.



## **External Audit Appointment Arrangements**

20. In January 2017 the Combined Authority Board agreed that Public Sector Audit Appointments Ltd be appointed to make the external audit appointment for the Combined Authority.

21. The PSAA have completed a national procurement to let audit contracts for five years commencing from 2018/19. The Combined Authority's current auditors, Mazars LLP have been successful and will be reappointed.

## **FINANCIAL IMPLICATIONS**

22. This report gives an update on performance against the budget for the Combined Authority.

## **LEGAL IMPLICATIONS**

23. None

## **RISK ASSESSMENT**

24. 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**

25. Not Applicable.

**Name of Contact Officer: Julie Gilhespie**  
**Post Title: Finance Director**  
**Telephone No. 01642 524400**  
**Email Address: [julie.gilhespie@teesvalley-ca.gov.uk](mailto:julie.gilhespie@teesvalley-ca.gov.uk)**

## Appendix A

	INVESTMENT PLAN PERIOD					TOTAL
	2016/17	2017/18	2018/19	2019/20	2020/21	
	£'000	£'000	£'000	£'000	£'000	
<b>Income</b>						
Local Growth Fund	37,799	27,989	13,708	9,416	14,207	103,119
Devolution	15,000	15,000	15,000	15,000	15,000	75,000
Enterprise Zones	533	1,091	1,517	1,678	3,152	7,971
Local Transport Plan	13,935	13,952	13,952	13,952	13,952	69,743
Loan Repayments & Investment Income	1,020	2,501	1,025	1,668	568	6,782
Local Enterprise Partnership Grant	500	610	500	500	500	2,610
Growing Places Fund	4,364	0	0	0	0	4,364
Education, Employment & Skills Specific Grant Schemes	1,258	1,488	2,050	2,050	1,021	7,867
Transport Specific Grant Schemes	2,067	4,268	1,109	1,051	0	8,495
Other Specific Grant Schemes	1,365	1,071	1,067	0	0	3,503
European Structural Investment Fund	339	1,836	7,921	2,874	0	12,970
ERDF Legacy	0	0	3,667	3,667	3,666	11,000
SSI Task Force	42,509	0	0	0	0	42,509
Concessionary Fares Income	16,505	16,599	16,599	16,599	16,599	82,901
Local Authority Contributions	2,472	250	250	250	250	3,472
Other Income	0	130	617	579	570	1,896
<b>TOTAL INCOME</b>	<b>139,666</b>	<b>86,785</b>	<b>78,982</b>	<b>69,284</b>	<b>69,485</b>	<b>444,202</b>
<b>Approved Commitments</b>						
Business Growth	4,734	15,600	9,421	4,624	1,750	36,129
Research, Development, Innovation & Energy	699	7,367	13,578	9,000	0	30,644
Education, Employment & Skills	4,554	8,310	8,932	2,600	1,281	25,677
Culture	0	1,400	1,617	350	0	3,367
Transport	21,237	21,727	19,986	17,403	13,952	94,305
Infrastructure	58	10,269	0	0	0	10,327
Development & Evaluation	0	6,883	0	0	0	6,883
SSI Related Schemes (not allocated to investment plan themes)	10,306	10,840	0	0	0	21,146
Core Running Costs	2,972	3,650	4,654	4,695	4,746	20,717
Mayoral Election	0	1,156	0	0	600	1,756
Concessionary fares	16,505	16,599	16,599	16,599	16,599	82,901
<b>TOTAL EXPENDITURE</b>	<b>61,065</b>	<b>103,801</b>	<b>74,787</b>	<b>55,271</b>	<b>38,928</b>	<b>333,852</b>
<b>AVAILABLE FOR NEW INVESTMENTS</b>	<b>78,601</b>	<b>(17,016)</b>	<b>4,195</b>	<b>14,013</b>	<b>30,557</b>	<b>110,350</b>

## Appendix B

<b>DEVELOPMENT FUNDED PROJECT</b>	<b>AMOUNT</b>
CPI LGF	250,000
South Bank Wharf LGF	75,000
HBC ISQ LGF	233,000
South Tees Development Corp Loan	400,000
Highways Challenge Fund	200,000
Buses Act	80,000
Waste Strategy	400,000
Government Relocation Study	19,000
Ministry of Building Innovation	350,000
Development of Light Industrial Units at Kirkleatham Business Park EZ	30,000
Redcar Railway Station Business Quarter	50,000
Skippers Lane Industrial Estate Expansion	100,000
Feethams Grade A Office Development	100,000
Energy Life-Cycle Centre Potential Institute of Technology	300,000
Hartlepool Innovation & Skills Quarter Phase 2	505,000
Hartlepool Waterfront	680,000
Kirkleatham Estate Investment Project	415,000
River Tees Development Plan	130,000
Faverdale (Phase 1)	220,000
Darlington Station	300,000
South Tees Development Corporation Site Investigations	750,000
Durham Tees Valley Airport	500,000
Tesside Advanced Manufacturing Park	120,000
Eaglescliffe Station Western Access	576,000
Boho Next Generation	100,000
<b>COMMITTED FUNDS</b>	<b>6,883,000</b>

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## **AGENDA ITEM 8**

### **REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET**

**23 NOVEMBER 2017**

### **REPORT OF THE HEAD OF EDUCATION, EMPLOYMENT & SKILLS**

### **PORTFOLIO: EDUCATION, EMPLOYMENT & SKILLS**

## **EDUCATION, EMPLOYMENT AND SKILLS STRATEGY**

### **SUMMARY**

This report presents the proposed Education, Employment and Skills Strategy for the period 2017-2021, for further consultation.

### **RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. Consider and comment on the strategy content
- ii. Agree that the document should be published for consultation, including further discussion with partners.

### **DETAIL**

1. The Education, Employment and Skills strategy; “Inspiring Our Future, the Tees Valley plan to build the skills we need for a modern economy” is attached as a separate document. It has been produced to provide a framework for future intervention and delivery by the Combined Authority and its partners. The development of this strategy has been informed by the Education, Employment and Skills Partnership Board and wider stakeholders. This includes the discussions held at the two strategic events hosted by the Board in June 2017. The strategy takes notice and builds upon the devolution deal, national and local policy direction and significant statistical analysis.
2. There are significant challenges in the Education, Employment and skills system in Tees Valley that include:
  - a. Skills shortages across most of our key sectors;
  - b. Too low numbers of learners choosing and achieving good grades in Science, Technology, Engineering and Maths subjects;

- c. 69% of our secondary schools are graded Good or Outstanding compared to 79% nationally;
  - d. Higher levels of unemployment compared to national averages-Tees Valley 4% compared to 1.9% nationally;
  - e. Youth unemployment (18-24) is more than double the national average;
  - f. Under-employment remains high creating a mismatch between the skills that residents have and those that businesses require.
3. The anticipated economic growth provides optimism that there will be significant job growth in Tees Valley both in terms of new jobs created and replacement demand for changes in the existing workforce. The strategy proposes six work streams that will provide a range of service improvements that will increase local people's awareness and access to these jobs.
  4. There are also significant strengths that Tees Valley has that we can build upon which include:
    - a. School performance is improving, on average;
    - b. Employment levels are rising at a rate higher than the national average;
    - c. More people are gaining higher level qualifications;
    - d. There are strong partnerships between businesses, Local Authorities, stakeholders and the Combined Authority.
  5. The creation of the Mayoral Combined Authority and the ongoing work with national government departments around devolution creates an opportunity to challenge and support national policy to benefit Tees Valley, including the planned skills funding devolution and delivering the Routes to Work pilot to support those most distant from the labour market to gain work.
  6. There are 6 key strands of work within the strategy that include:
    - a. Supporting educational innovation and collaboration;
    - b. Developing a skills system for business growth;
    - c. Supporting people most distant from the labour market;
    - d. Improving Careers Education for all;
    - e. Business challenge and workforce planning;
    - f. Enhancing the Higher Education role.
  7. A cross cutting theme will be Research, Evaluation and Analysis that will be integral to achieving success. This work will centre upon ensuring our work is evidence based, that we develop robust data to inform our current and future strategy, evidence improvement and outcomes achieved. An ambitious and objective programme of evaluation will be procured to objectively assess our progress against national and local benchmarks.
  8. The Education, Employment and Skills Partnership Board will create relevant work streams to take the key strands of work forward and host regular partnership events to ensure wider engagement.

### **Finalising the Strategy**

9. The development of the strategy has been informed by many partners. But in order to ensure that it remains relevant, ambitious and strategic it is planned to regularly review the document and update relevant data.
10. This initial strategy will be available for wider consultation on the Combined Authority's website until 5<sup>th</sup> January, and will be sent to key partners for comment,

alongside the consultation period for the budget. Comments received will be considered, and a final document will be presented to Cabinet in February.

## **FINANCIAL IMPLICATIONS**

11. The financial implications are incorporated into the wider Combined Authority's Investment Plan and are within the allocated budget. Additional opportunities for increasing access to national funding streams will be considered as they emerge.
12. The revenue and capital funding allocations are within the TVCA Medium Term Financial Plan.
13. The increased work to deliver the strategy will require further consideration of staffing requirements. These will be managed within the proposed Combined Authority budget.

## **LEGAL IMPLICATIONS**

14. There are no immediate legal implications from approving this strategy.

## **RISK ASSESSMENT**

15. Publication of the Education, Employment and Skills strategy is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.
16. Further development of the detailed delivery of the key strands of work will have risk assessments carried out as part of their ongoing implementation.

## **CONSULTATION**

17. Consultation and engagement has been with Local Authority officers, Chief Executives and Leaders, the Education, Employment and Skills Partnership Board and will be available to stakeholders and the public until 5<sup>th</sup> January for further consultation.

**Name of Contact Officer: Shona Duncan**  
**Post Title: Head of Education, Employment and Skills**  
**Telephone Number: 01642 528832**  
**Email Address: shona.duncan@teesvalley-ca.gov.uk**

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TEES VALLEY  
COMBINED  
AUTHORITY

TEES VALLEY MAYOR  
**BEN HOUCHEN**



# INSPIRING OUR FUTURE

Our 2018-21 plan to build the skills we need for a modern economy

## FOREWORD

Mayor Ben Houchen, Councillor Christopher Akers-Belcher, Paul Booth

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The Tees Valley Combined Authority has been created to drive economic growth and job creation across the region. With a newly elected Mayor and an ambitious Strategic Economic Plan, we are in the best possible position to take forward a locally-led approach to deliver a step change in the Tees Valley economy.

Raising educational attainment and skill levels is essential for our future success. It will help to attract new businesses, as well as increase the quantity and quality of jobs available. It will also support local people to access these jobs, and achieve their full potential.

The number of people in work has risen significantly in recent years, and we have lots of great businesses creating new and exciting jobs. However too many of our residents still struggle to find sustainable employment. We will address this by providing more flexible and joined up support with our partners, to ensure everyone has a better chance to gain work and learn new skills.

With powers and resources devolved to us from central government, we have an exciting opportunity to deliver the change that our area needs. We will deliver more flexible training by securing devolved responsibility for training and education for adults, and supporting more long term unemployed people move towards and into work via our Routes to Work Programme.

We will work with our local schools and colleges to help young people achieve their very best, and to make a successful transition from education into good quality jobs.

We will overhaul and expand careers education by creating a Tees Valley Careers initiative, bringing together schools and colleges with local employers, to provide the best possible opportunities for young people entering the world of work. And we will ensure we have high quality infrastructure of modern training facilities that motivate and encourage lifelong learning.

We have a unique opportunity to work in partnership across our region, to design more joined up and co-ordinated opportunities, which can deliver our ambitions for growth and prosperity. The Devolution Deal that we have agreed with government has provided us with new decision making powers and more local control of resources. But we can go much further, and will continue to work with government to bring more funding, powers and responsibilities into the Tees Valley, so that we can design an education and skills system that fully meets the needs of our people and businesses.

This Strategy builds on the interventions and the strong partnership working relationships that exist across Tees Valley. By working even closer together we will create an education and skills system that delivers strong economic growth for the future and establishes Tees Valley as one of the best places in the country to learn and work.



**Ben Houchen**, Tees Valley Mayor.

A handwritten signature in black ink, appearing to be 'Ben Houchen'.



**Cllr Christopher Akers-Belcher**,  
Tees Valley Cabinet Member for Education,  
Employment & Skills.

A handwritten signature in black ink, appearing to be 'C. Akers-Belcher'.



**Paul Booth**, Chairman, Tees Valley LEP

A handwritten signature in black ink, appearing to be 'Paul Booth'.





## INFLUENCING AND SHAPING THE DIRECTION OF EDUCATION, EMPLOYMENT AND SKILLS IN TEES VALLEY

This strategy reflects the new powers, funding and responsibilities secured by the Tees Valley Combined Authority. In total, the Combined Authority has identified investment of over £100 million for the period 2017-21, for investment in education, skills and employment. This is however only a small proportion of the £970m per year public expenditure devoted to education by schools, colleges and universities in the Tees Valley. It's therefore vital that the Combined Authority works in close partnership, to ensure that the Tees Valley's devolved funding adds value and spurs innovation and transformation, delivering high quality outcomes for local people and addressing long-standing barriers to opportunity.

The areas for intervention have been prioritised based upon consultation and analysis to identify the added value or gaps in the system that the

Combined Authority is best placed to address.

This strategy and delivery plan will be considered a working document, which is regularly reviewed and updated in consultation with our partners. It will also be published on the Combined Authority website; [www.teesvalley-ca.gov.uk](http://www.teesvalley-ca.gov.uk) at regular intervals, for wider comment to be received and considered.

This strategy will be an integral part of the Combined Authority's wider budget and Investment Plan.

The Combined Authority will regularly host strategic workshops for partners to engage and inform future policy and delivery for Education, Employment and Skills in Tees Valley. These will be widely publicised and highlighted on our website.

The Combined Authority has established an Education, Employment and Skills Partnership Board to bring together the key institutions responsible for the delivery of this strategy. The Partnership Board will receive regular reports for each of the strands of work, to provide challenge and support, to monitor progress, celebrate success and plan future activity.

“We have a unique opportunity to work in partnership across our region, to design more joined up and co-ordinated opportunities, which can deliver our ambitions for growth and prosperity.”

**Mayor Ben Houchen**  
Tees Valley Mayor

# THE CHALLENGE AND THE OPPORTUNITY

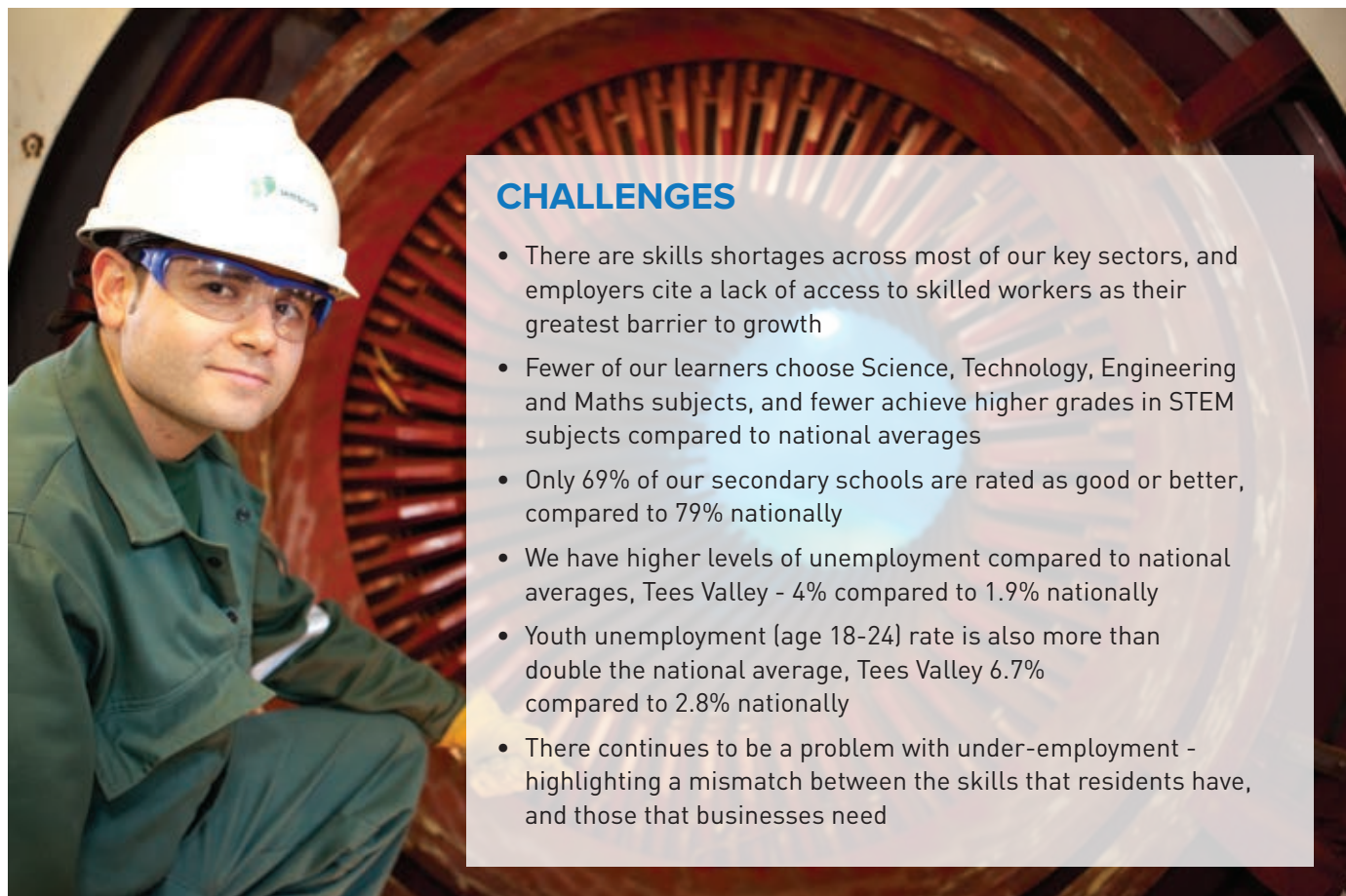
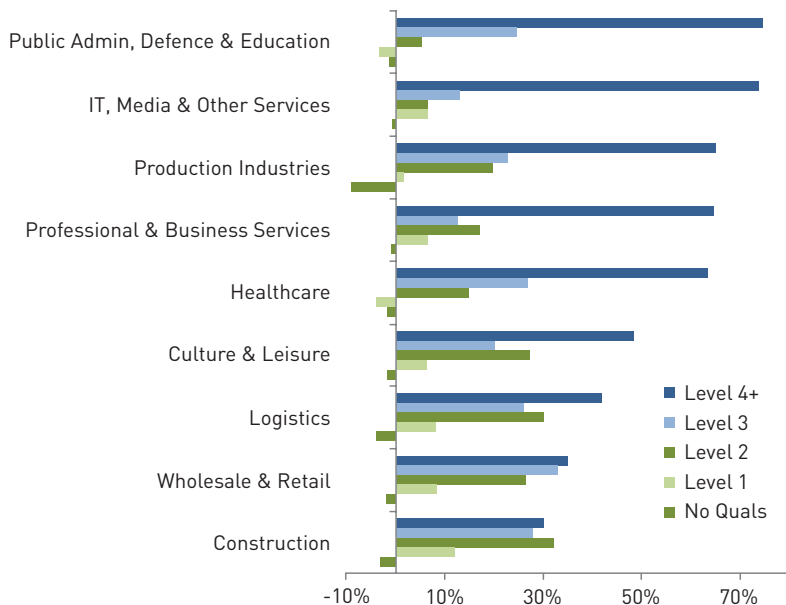
By 2024 -

**133,000**  
jobs available  
in Tees Valley

**17,000**  
new jobs

**116,000**  
replacement jobs

**% Skills required 2014 - 2024 by sector**



## CHALLENGES

- There are skills shortages across most of our key sectors, and employers cite a lack of access to skilled workers as their greatest barrier to growth
- Fewer of our learners choose Science, Technology, Engineering and Maths subjects, and fewer achieve higher grades in STEM subjects compared to national averages
- Only 69% of our secondary schools are rated as good or better, compared to 79% nationally
- We have higher levels of unemployment compared to national averages, Tees Valley - 4% compared to 1.9% nationally
- Youth unemployment (age 18-24) rate is also more than double the national average, Tees Valley 6.7% compared to 2.8% nationally
- There continues to be a problem with under-employment - highlighting a mismatch between the skills that residents have, and those that businesses need





## SECTORS FOR GROWTH

Over half of the new jobs created will require higher level technical, science and digital skills. 45% of these are considered to be in more senior and managerial roles. High growth is anticipated in:

- Advanced manufacturing
- Process, chemicals and energy
- Logistics
- Health and biologics
- Digital and creative
- Culture and leisure
- Business and professional services



## HIGH VOLUME EMPLOYMENT

46% of replacement jobs will be across a range of levels, including entry level jobs offered as part-time opportunities and apprenticeships. High volume replacement is expected in:

- Public administration, defence and education
- IT, media and other service industries
- Production industries
- Professional and business services
- Healthcare



## STRENGTHS AND OPPORTUNITIES

- School performance is improving – primary performance is consistently good and there has been a 15% improvement in secondary schools rated as good or above in the last four years
- Employment levels are rising at a rate higher than the national average
- More people are gaining higher level qualifications
- We have strong partnerships with business

## WHAT WILL CHANGE?

**The Tees Valley Combined Authority working with its partners and local businesses, will focus on:**

- Creating clear pathways for young people and adults to access good quality jobs, and
- Creating a skills system that provides business with the skills they require to grow

### TO ACHIEVE THIS WE WILL:

- Support innovation and collaboration between schools in addressing common challenges
- Reduce the skills gaps experienced by employers in high growth sectors
- Help businesses create more, higher level Apprenticeships, leading onto high quality jobs
- Expand the opportunity for young people to take up apprenticeships and access high quality technical education
- Create skill route ways to entry level and good, progressive jobs
- Support people most distant from the labour market to secure and retain work
- Improve and extend high quality Careers Education for all
- Work with businesses to identify and plan for their future skills demand
- Ensure local communities have access to high quality college and training facilities
- Enhance the role the Tees Valley's Higher Education institutions play in delivering economic growth



#### **In delivering all of these priorities we will ensure:**

- Business plays a leading role in setting priorities, identifying barriers, and delivering better outcomes
- High quality evaluation and research drives future improvements and helps the Tees Valley learn from experience



# SUPPORTING EDUCATION INNOVATION AND COLLABORATION

High quality schools are the core requirement of a successful education and skills system. The Tees Valley has made significant improvements in delivering better outcomes from its educational institutions. In 2013, 54% of secondary schools were rated as good or outstanding, but by 2017 this has risen to 69%. This is still not good enough.

Tees Valley partners, working with the Regional Schools Commissioner, have now established a Tees Valley School Improvement Board.

The Board will undertake two roles:

**1.** The Department of Education's Sub Regional School Improvement Board (SRIB) that will identify need for support, oversee place based

school improvement and prioritise proposals for national School Improvement Funding.

**2.** Leadership of the Tees Valley approach and local collective action that will include all schools regardless of form to raise performance.

Responsibility for school improvement rests with schools and academies themselves. Local Authorities continue to have a statutory role to challenge and support schools to review performance.

The Combined Authority has no formal responsibilities for school improvement, but will welcome proposals to address the challenges

**The School Improvement Board will work with schools to develop innovative and collaborative proposals between schools in addressing common challenges; including:**

- 1.** Meeting the education workforce challenge by recruiting and retaining high quality teachers into the Tees Valley
- 2.** Improving high quality technical education routes for young people into high quality jobs
- 3.** Supporting collaborative pilot schemes that improve outcomes for pupils



Subject to Cabinet approval, £2 million has been identified by the Combined Authority to initiate an Education Innovation and Collaboration Fund, to be invested through two rounds of funding in spring 2018 and spring 2019.

# DEVELOPING A SKILLS SYSTEM FOR BUSINESS GROWTH

## Why is this a priority?

Businesses continue to tell us that they are unable to fill vacancies, and many unemployed people struggle to access jobs on offer, due to a lack of appropriate skills and qualifications. We have identified that activity is required to:

- Increase business intelligence that assists Further Education Colleges, Sixth forms, Local Authorities and Independent Training Providers to develop training provision that addresses current and future business demand
- Prepare for the technical vocational reforms and the anticipated demand for increasing work experience
- Increase the number of apprenticeships and enable progression to higher level apprenticeships

- Provide re-training opportunities that supports local people to access the changing labour market and take more flexible career paths.

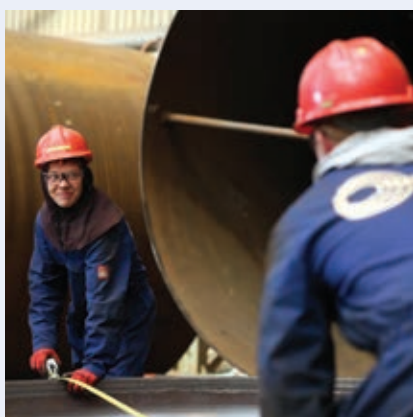
Skills provision has historically been complex and fragmented, however devolution presents an opportunity for Tees Valley. The Combined Authority will have the ability to align skills funding streams, for a more effective and joined up system that addresses local challenges and seizes opportunities to improve outcomes for residents and businesses across Tees Valley.

## What do we plan to do?

**Ensure skills provision is focused on meeting the skills gaps in the local economy by:**

- a. Reducing the skills gaps experienced by employers in high growth sectors
- b. Helping businesses create more and higher level Apprenticeships, including degree level that lead to high quality jobs
- c. Expanding the opportunity for young people to take up apprenticeships and access high quality technical education
- d. Improving skill route ways to entry level and good, progressive jobs

## We will:



- i. Develop a post 16 technical skills offer and curriculum
  - Prepare for T levels
  - Increase business influence of skills training



- ii. Deliver a devolved adult learning budget
  - Increase access to learning for adults
  - Align training to business needs
  - Reward progression
  - Enable second chance training offers



- iii. Support the creation of apprenticeship training
  - Increase the relevancy and quantity of apprenticeship training to economic growth
  - Create progressive apprenticeship routeways
  - Encourage the creation of degree apprenticeships





## SUPPORTING PEOPLE MOST DISTANT FROM THE LABOUR MARKET TO SECURE AND RETAIN WORK

### Why is this a priority?

Evidence shows us there are stark inequalities across Tees Valley for long term unemployed people and those facing multiple and complex barriers when accessing work.

This includes:

- Intergenerational cycles of under achievement
- High levels of unemployment and under employment compared to national averages
- Some of the highest 16-24 year olds unemployment rates in the country.

Removing barriers to work through targeted and multi-agency programmes will be a high priority to ensure we enable local people better access to existing jobs and those that will be created in the future.

Our approach will:

- Develop community-led solutions to engage those most distant from the labour market, with an ultimate goal of accessing work related activities
- Identify existing barriers and identify solutions for individuals - focused on targeted geographies and groups.

Whilst there is a plethora of good initiatives in Tees Valley, there is more we can do through joint working to better align support that achieves better and faster employment outcomes. There is also a need to develop a shared, robust evidence base that identifies what works and really makes a difference to the individual and which could contribute to long term sustainable economic change.

### What do we plan to do?

Ensure economic growth is inclusive and progressive, by:

- a. Ensuring greater coordination in the range of programmes and activities already operating
- b. Recognising and developing further what works in increasing employment for our most vulnerable residents
- c. Increasing the collaboration of provision

### We will:

- i. Support programmes for those furthest from the labour market
- ii. Deliver the Tees Valley Routes to Work pilot
- iii. Continue to support and improve our 18-24 year old programme of support

# TEES VALLEY ROUTES TO WORK

## EXAMPLE OF PROGRESS

A new and innovative approach will provide multi agency support to individuals that most need it to progress in their journey to a sustainable job. We will introduce a dynamic key worker to mentor the person and provide holistic, tailored support whilst challenging the support system. Alongside this we will challenge the support system to share information, provide progressive and joint approaches to removing barriers to work. We will also ensure more direct access to multi agency complementary services at the timescale required by the person.

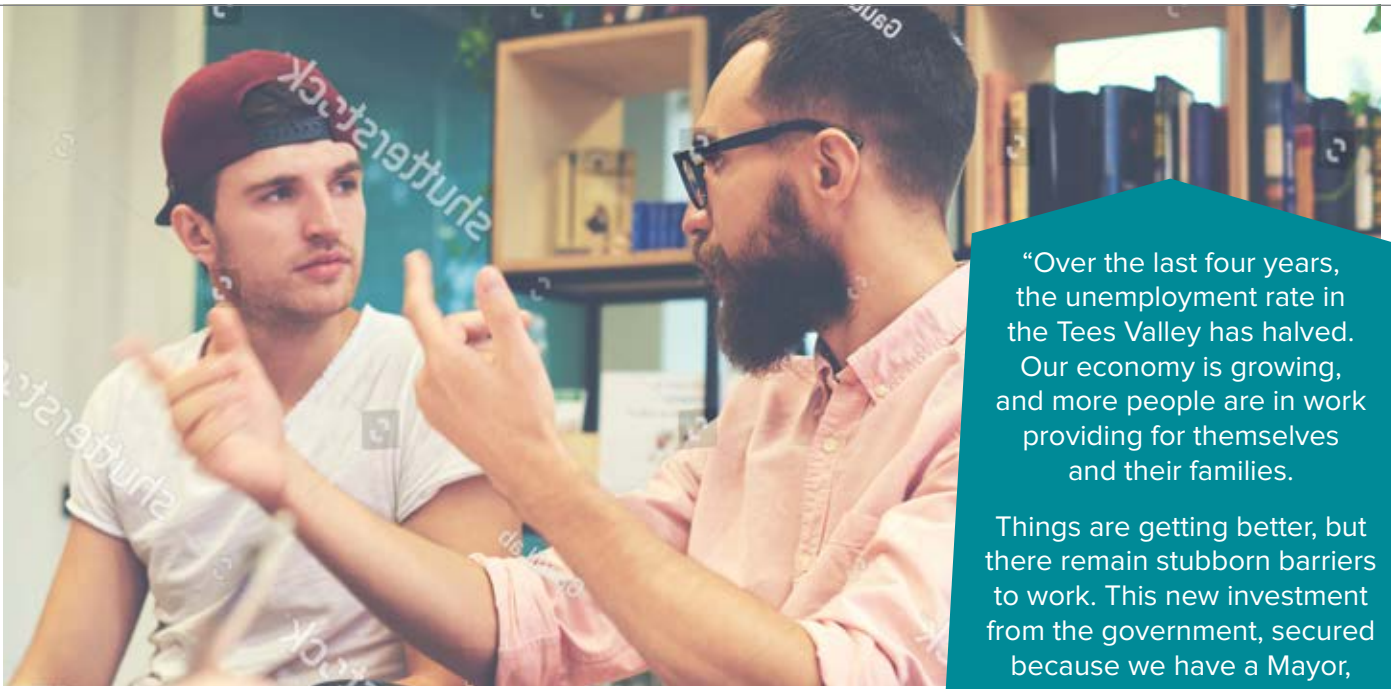


“The Routes to Work initiative gives the Tees Valley a great opportunity to demonstrate our commitment to work together to find local solutions to address the most complex economic and social challenges. I am confident we will make a real difference to improve the life chances of people across the Tees Valley”.

**Cllr Christopher Akers-Belcher**  
Tees Valley Cabinet Member for  
Education Employment and Skills

Tees Valley Combined Authority secured £7.5m for 3 years to deliver our largest innovative pilot.



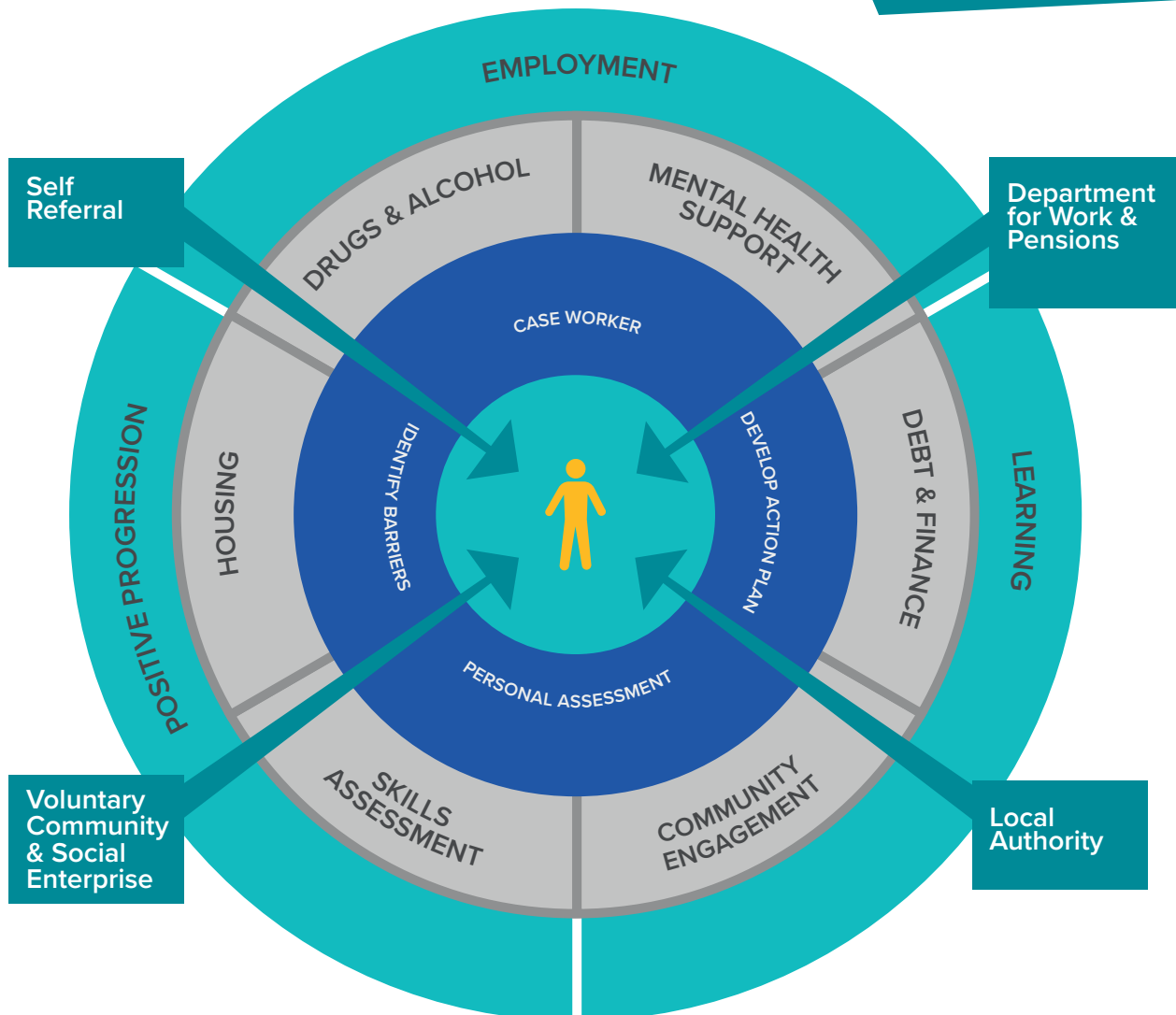


“Over the last four years, the unemployment rate in the Tees Valley has halved. Our economy is growing, and more people are in work providing for themselves and their families.

Things are getting better, but there remain stubborn barriers to work. This new investment from the government, secured because we have a Mayor, gives us a unique opportunity to address long-term unemployment.”

**Mayor Ben Houchen**  
Tees Valley Mayor

## ROUTES TO WORK DELIVERY MODEL





# CREATING A TEES VALLEY CAREERS INITIATIVE - IMPROVE AND EXTEND HIGH QUALITY CAREERS EDUCATION FOR ALL

## Why is this a priority?

Business leaders tell us that our available labour force is too often ill prepared for the world of work, particularly our young people.

Young people tell us that their career education can often be inadequate and does not sufficiently prepare them for the world of work. They have also requested more modern approaches to support their decision making, including the use of social media.

Tees Valley has some significant good practice in careers education, from which we can build:

- There are some pockets of excellence, particularly in our schools, which we can learn from to create a more consistent approach across the region
- The Combined Authority works closely with the national Careers and Enterprise Company to influence the local careers funding available in Tees Valley. It also delivers the Enterprise Advisor Network for careers which brings businesses and schools together to inform and enhance the school's careers programme.
- The Enterprise Adviser Network supports school's to implement a careers framework across all year groups



## What do we plan to do?

Building on our experience and learning to date, we will seek to improve co-ordination, and convene a consistent, high quality all age careers system across Tees Valley.

**We will ensure young people have access to high quality experiences of work and receive impartial careers advice so they are work ready by:**

- a. Delivering a new all age careers service offer for Tees Valley
- b. Creating a single, quality Tees Valley Careers framework for all schools
- c. Supporting schools to deliver the new service

## We will:

- i. Develop a careers pledge for all young people
  - ii. Implement a coordinated menu of quality assured careers activities for schools
  - iii. Develop a programme of activity that focuses on softer work ready skills, an enhanced experience of work and develops entrepreneurial skills
  - iv. Partner many more businesses with schools
  - v. Develop and implement a range of tools that enable young people to self-serve their careers research
  - vi. Interrogate the national adult careers provision to influence it's delivery in Tees Valley
- to shape and deliver careers education and become school governors





## BUSINESS CHALLENGE AND WORKFORCE PLANNING

### Why is this a priority?

Our future economic success requires an understanding of the new jobs and opportunities that will be created – so that our local labour force has the skills that businesses require. To achieve this we need to work much closer with businesses to identify and articulate their current workforce skills requirements and to plan for business growth in the future.

Businesses repeatedly tell us that they continue to have difficulty recruiting suitably skilled workers. This includes generic work skills and more technical and experienced people. Alongside this it can be challenging for businesses, especially smaller businesses, to identify their future skills needs.

The Combined Authority will work better with businesses to identify these skill requirements, including support to undertake workforce planning and create progressive

opportunities that could in turn release entry level roles for new recruits.

The future reform of Technical Education will include a demand for three month work placements.

We want to ensure that our businesses are supported to engage with this to create a more readily available experienced and skilled local workforce.

### What do we plan to do?

**We will ensure we are better informed by gaining robust evidence from businesses, that enables us to:**

- a. Better identify and plan for future workforce demand and predict future skills gaps
- b. Support businesses to create new experiences linked to the world of work.

### We will:

- i. Provide business support to carry out workforce planning, to identify current and future skills needs
- ii. Engage more businesses, particularly from our priority and high demand sectors to inform and deliver clear route ways into employment
- iii. Support businesses to create more work experience opportunities
- iv. Support employers to maximise the potential of their apprenticeship levy





## ENHANCE THE HIGHER EDUCATION ROLE IN DRIVING ECONOMIC GROWTH

### Why is this a priority?

To achieve our ambitions for economic growth, we need to increase the number of workers with higher level skills. Of the 133 000 jobs we anticipate will be available by 2024, it is estimated that 56% will be at Level 4 (HNC) and above. These include high skill managerial, professional or associate professional and technical occupations.

In 2015/16, 15% of young people aged 17-30 from Tees Valley entered Higher Education, compared to 19% nationally. The majority of our residents chose to study at Teesside University, or another University in the North East. We know that our residents have strong roots, and this provides us with a great opportunity to develop a strong source of local talent that supports regional growth and increases prosperity. To achieve this, the skills system as a whole must effectively support and prepare young people to pursue their aspirations in the region whilst also attracting new talent to the Tees Valley. This provides an opportunity to provide appropriate qualified young people that reflect the needs and long-term ambitions of the local

economy (for example in Advanced Manufacturing, Digital, Culture and Leisure, Logistics and energy/low carbon sectors).

Whilst there is a local role for locally based Universities and other Higher Education institutions to drive economic growth, there is also opportunity to learn from institutions outside of Tees Valley-nationally and internationally. This includes creating links with business; by undertaking educational research and supporting excellence; innovation; leading infrastructure growth; developing opportunities for commercialisation; and as employers.

### What do we plan to do?

Locally, we will work with Teesside University to maximise their role as an anchor institution. As part of this, we will assist the creation of more specific degree routeways that link to economic growth, including degree level apprenticeships.

We will also work closely with relevant Universities to develop their role in driving economic growth. This will increase support for innovation, research and development, as well as opportunities for commercialisation.



### We will:

- i. Work collaboratively with Universities and research institutes that have links to the Tees Valley economy
- ii. Support greater engagement between local businesses and relevant Universities and research institutes
- iii. Support innovative research and development linked to economic growth, and opportunities for commercialisation
- iv. Support the creation of degree level apprenticeships

# RESEARCH, ANALYSIS AND EVALUATION

The Refreshed Strategic Economic Plan: the Industrial Strategy for the Tees Valley and the Education, Employment and Skills Strategy sets the strategic ambition for the region for the next ten years and are both reflective of our existing best forecasts and are set sufficiently challenging so as to affect the necessary step change within the economy.

However, good policy making must be both adaptable and readily attributable: that is reflective of changing economic and political circumstances, focused on outcomes rather than stated outputs and ensuring that innovation tempers all considerations of deliverability.

Our ongoing investment in research, analysis and evaluation supports this need for attributable benefits and adaptability in policy design, through:

- The development of detailed logic models in support of appraisal and

evaluation, which not only provide clear metrics for measuring progress against a scorecard of targets but also a mechanism for assessing value for money;

- The use of longitudinal studies and randomised control groups, assess the impact of specific activities and not only correctly attribute outcomes in multi partner projects, but also enable more routine 'in programme' adjustment to delivery;
- The increasing use of open data sources in support of research and analysis, as a means of identifying and developing more applicable interventions sourced from both a wider evidence base and range of partners; and
- The use of 'bespoke research' based on local need, develop policy goals which influence national policy, rather than simply interpreting national policy locally.



## PRIORITY WORK

Tees Valley now has devolved responsibility to deliver the Routes to Work programme, and will soon have local control of the Adult Education Budget in 2019. As part of our emerging research, analysis and evaluation framework we will utilise the logic model approach to develop interventions which are truly reflective of local need in Tees Valley and also demonstrate the added value of devolution to Government. Our approach will focus on the follow common research questions for both programmes:

### 1. Rationale for intervention:

- Justification of the proposed activities to the target groups
- Assess disconnect between providers, employers and potential workforce
- Identify what success will look like

### 2. Inputs:

- Assessment of timeliness
- Value for Money assessment

### 3. Outputs:

- Assess changes in delivery programmes
- Measure performance against targets

### 4. Outcomes:

- Measure changing behaviours
- Assess increase in sustainable employment, business productivity and satisfaction
- Influence future provision

In June 2017 we published a strategic analysis of Education Performance-0-19 and the Employment and Skills analysis. These are available at [www.teesvalley-ca.gov.uk](http://www.teesvalley-ca.gov.uk) The Combined Authority will continue to publish twice a year a detailed data analysis of the Education, Employment and Skills in Tees Valley, this will be widely publicised and available on our website.



# INVESTMENT PLAN

Capital funding for Skills - Ensuring local communities have access to high quality college and training facilities.

Revenue Funding - Sustaining delivery of education, employment and skills support

The Combined Authority's Investment Plan includes £118m revenue and capital funding for Education, Employment and Skills. Over £50m has been committed to a range of projects and programmes. There remains significant opportunity to continue this investment and to influence new funding opportunities.

In Tees Valley we are fortunate to have high quality Further Education facilities, following significant capital investment in recent times. Therefore in future the Skills Capital Investment will be directed towards

projects that support the aim to ensure high quality facilities are available in each of our major towns to provide easily accessible general further education. These facilities will support skills training that creates pathways for our local people to access work, particularly in our growth and high demand sectors. This capital investment could also support niche training provision and refurbishment for specialisation or development that supports sustainable adult skills provision.

## FUNDED PROJECTS

To date we have invested capital in the following skills infrastructure projects:



Additional requests for funding that will contribute to the skills capital infrastructure in Tees Valley are in the Combined Authorities pipeline of potential projects.



# INVESTMENT IN EDUCATION EMPLOYMENT AND SKILLS 2017-21\*

SEP Priority	Overarching objective to be addressed	Activities	Budget				Outcomes/impact to be achieved
			Inv. Fund	AEB	ESF	Other	
1. <b>Driving up standards in secondary schools</b>	Education Innovation and Collaboration Fund	Education Workforce Challenge	£2m		£1m		Improving pupil outcomes
		14-16 Technical Route ways					
		Pilot Activity					
2. <b>Age 16+ Skills for Business Growth</b>	Improve post-19 learning linked to business growth	Adult Education Budget		£32m (tbc)	£8m	DfE (tbc)	Skills provision better aligned to business need
	Business led skills development	Develop post-16 technical business led route ways	£2m			DfE (tbc)	Young people and unemployed adults better able to progress towards work
							Businesses better able to recruit
3. <b>Inclusive Growth – addressing unemployment</b>	Reduce long-term unemployment	Deliver the Routes to Work programme	£1.5m			£6m	Decreased long-term unemployment for those most distant from the labour market
		25+ employability programmes			£4m		
	Reduce the number of 16-18 year olds that are Not in Education, Employment or Training (NEET)	Implement a targeted 15-18 programme of holistic support	£1m		£2.4m		Reduction in numbers of 16-18 year olds that are NEET
		Pilot a work experience programme for 16-18 year olds	£1m		£1m		
	Reduce 18-24 unemployment	Fully evaluate the impact of the current YEI programme to inform a future 18-24 programme			£4m		Reduction in 18-24 unemployment
4. <b>Careers Initiative</b>	To provide a quality careers service to all	Tees Valley careers education framework	£3m			CEC (tbc)	Improved destinations for young people once they leave statutory education
		Careers pledge to all pupils					
		CEC Enterprise Adviser Network – employer engagement					
		Experience of work					
		Adult careers					
		Resources development, including self-serve social media solutions					
5. <b>Workforce Development and Planning</b>	To provide a readily available and skilled workforce	Priority and high demand sector workforce development programme			£15m	ESFA (tbc)	Reduction of the skills gap as reported by businesses
		Workforce planning support to businesses	£1.5m		£1.7m	ESFA (tbc)	
		Skills support for redundancy			£1m	ESFA (tbc)	
6. <b>Apprenticeships</b>	To increase the number of apprenticeships created	Provide activities to promote and increase access to Apprenticeship's	£3m				Improve employment and skills levels
		Pilot to provide brokerage and support to priority sector businesses to create higher and degree apprenticeship opportunities	£40k				Improve the quality, suitability and work readiness of young candidates via apprenticeship route ways
7. <b>Improve and sustain 16+ training facilities</b>	To provide a high quality post-16 education training facilities linked to demand	Investment requests that improve facilities	£3.5m				Improved facilities that link to creating a sustainable post-16 infrastructure

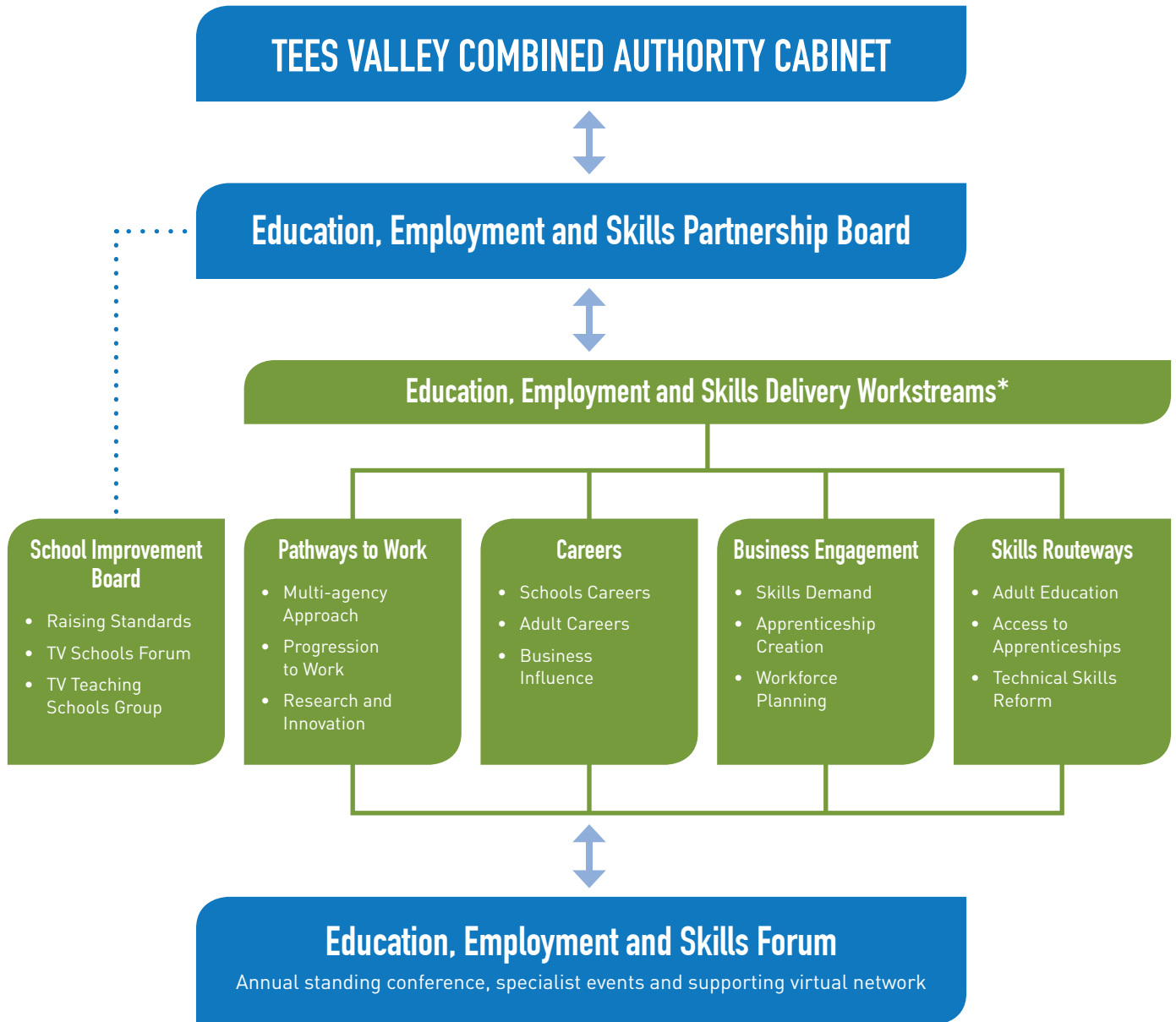
\* The information presented is indicative, subject to processes for allocation and so may change.

# STRATEGIC SUMMARY TABLE

The Tees Valley Strategy for Education, Employment and Skills is summarised within the framework below.

	Objectives (“why?”)	Properties (“what?”)	Routes to Delivery (“how?”)
<b>Supporting innovation and collaboration in Education</b>	To add value to the education of our young people to ensure they achieve the best they can and have good progression outcomes once they leave statutory education. This will contribute to the improving attainment levels of our pupils and school performance.	<ul style="list-style-type: none"> <li>• Improve the recruitment and retention of good teachers</li> <li>• Develop technical route ways for 14-16 year olds</li> <li>• Pilot new activities that enhance educational outcomes for our pupils</li> </ul>	<ul style="list-style-type: none"> <li>• Create an Education Innovation and Collaboration Fund</li> <li>• Support the Tees Valley Regional Schools Commissioner and Tees Valley School Improvement Board</li> <li>• Identify national funding gaps and provide investment where appropriate</li> </ul>
<b>Developing a skills system for Business Growth</b>	To provide better training route ways directly linked to businesses skills needs	<ul style="list-style-type: none"> <li>• Create technical training route ways</li> <li>• Prepare for technical education reform in 2020</li> <li>• Improve adult training to provide inclusive access</li> <li>• Provide adult skills that enable progression and better outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Devolve Adult Education Budget</li> <li>• Engage with DfE to implement T levels for technical education</li> <li>• Engage with businesses to inform skills provision</li> <li>• Increase apprenticeship offer</li> </ul>
<b>Supporting people most distant from the labour market to secure and retain work</b>	To reduce long term unemployment and the numbers of young people that continue to be out of work. Businesses continue to tell us they find it difficult to recruit locally. Levels of disengagement within our most deprived communities is a concern that results in residents not fulfilling their potential and continuing to be reliant on the welfare state.	<ul style="list-style-type: none"> <li>• Increase the support for long term unemployed residents, especially those most distant from the labour market</li> <li>• Increase access to jobs in priority and high demand sectors</li> <li>• Increase the alignment of support</li> <li>• Simplify the access to the varied skills and employment support</li> </ul>	<ul style="list-style-type: none"> <li>• Implement the Routes to Work pilot</li> <li>• Develop 16-18 work experience pilot</li> <li>• Implement 16-18 holistic support</li> <li>• Develop and implement a new 18-24 support programme</li> </ul>
<b>Creating a Tees Valley Careers Initiative</b>	To improve and simplify the career information and education available to residents of Tees Valley. The level of information available is confusing and lacks co-ordination. Businesses continue to feedback that too many applicants for jobs lack the basic knowledge of the work place and what skills are expected by employers.	<ul style="list-style-type: none"> <li>• Better align school careers education to business needs</li> <li>• Provide better labour market information and detail regarding employment route ways</li> <li>• Increase the experience of work</li> <li>• Increase the quantity and quality of adults careers education linked to business demand</li> </ul>	<ul style="list-style-type: none"> <li>• Engage and partner more businesses in schools to shape and deliver careers education and information</li> <li>• Produce better and more accessible publications and social media tools</li> <li>• Develop a progressive pledge of activity for all students that enhances their career decision making</li> <li>• Implement a programme of events and activities that schools can access on a call off basis</li> <li>• Influence the procurement of the new Adult Careers Service</li> <li>• Work with the provider of the Adult Careers Service to enhance this service in line with Tees Valley requirements</li> </ul>
<b>Business challenge and workforce planning</b>	To challenge and support businesses to create more jobs and opportunities that residents can access.	<ul style="list-style-type: none"> <li>• Increase business workforce planning to identify growth and skills needs.</li> <li>• Increase the knowledge of priority and high demand sectors skills needs</li> </ul>	<ul style="list-style-type: none"> <li>• Provide business brokerage and support for workforce planning</li> <li>• Engage more businesses in shaping the skills offer</li> <li>• Provide incentives and support to businesses to create more opportunities including jobs, work experience and volunteering experiences</li> <li>• Support businesses to maximise access to the Apprenticeship levy</li> </ul>
<b>Enhance the Higher Education role in driving economic growth</b>	To ensure the Tees Valley higher education institutions are fully integrated to influence and provide support to achieve economic growth	<ul style="list-style-type: none"> <li>• Increase innovative research and development linked to support the growth of Tees Valley businesses</li> <li>• Increase engagement between higher education institutions and businesses</li> <li>• Increase the availability of degree level apprenticeships</li> </ul>	<ul style="list-style-type: none"> <li>• Support Teesside University to be an anchor institution in Tees Valley</li> <li>• Work collaboratively with appropriate universities</li> <li>• Create degree apprenticeships</li> <li>• Host events that bring together business and higher education institutions</li> </ul>

# TEES VALLEY COMBINED AUTHORITY EDUCATION, EMPLOYMENT AND SKILLS INFRASTRUCTURE



\*Workstreams will change to respond to key priorities and may need task and finish groups to meet as required for the duration of the activity.



# CONTACT

[info@teesvalley-ca.gov.uk](mailto:info@teesvalley-ca.gov.uk)

[www.teesvalley-ca.gov.uk](http://www.teesvalley-ca.gov.uk)



**AGENDA ITEM 9**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET**

**23 NOVEMBER 2017**

**REPORT OF THE HEAD OF  
EDUCATION, EMPLOYMENT & SKILLS**

**PORTFOLIO: EDUCATION, EMPLOYMENT & SKILLS**

**ADULT EDUCATION BUDGET**

**SUMMARY**

This report updates Cabinet on proposals for devolution of the Adult Education Budget, supporting training opportunities for people over 19, now scheduled from Autumn 2019. Following discussions with DfE officials, it proposes an approach to the enhanced involvement of the Combined Authority in an interim arrangement for the year preceding devolution.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. Note the government's commitment to implement devolution from 2019, rather than 2018, and the discussions between officials to establish an appropriate transition arrangement for 2018-19;
- ii. Agree that the Combined Authority should secure an effective transition arrangement for 2018-19; which secures as much flexibility as possible over priorities for adult skills, strengthens genuine influence, and supports an effective lead into full devolution from 2019;
- iii. Delegate to the Managing Director, in consultation with the Mayor and Portfolio Holder for Education, Employment and Skills, the establishment of arrangements to maximise the influence of the Combined Authority and its partners during 2018-19.

## DETAIL

### Background

1. The Adult Education Budget (AEB) is an element of national skills funding that is provided to equip adults over the age of 19 with the skills and learning they need for work, apprenticeship or further learning. This includes provision for statutory entitlements such as first full level 2 qualifications; and maths and English qualifications. AEB is currently administered by the Education and Skills Funding Agency (ESFA). We, and other devolution areas, sought full devolution of this funding; in order to raise local skill levels, promote reform and improved performance, and strengthen the links between training and local job opportunities.
2. The Devolution Deal signed with government in 2015 included agreement to devolve the AEB to the Combined Authority from August 2018. The Department of Education (DfE) has encountered significant delays in developing a plan to enable devolution, including the delays in being able to place an Order with parliament that is required to enable devolution of this budget. As a result devolution of this budget is now delayed by 12 months and is planned for August 2019. It is important to stress that delay is not a result of any failure on the part of the Tees Valley to meet the so-called “readiness conditions” agreed as part of the Devolution Deal.
3. The Tees Valley Mayor, Leaders and Mayors of other Combined Authority areas have expressed serious concerns about this delay to the commitments entered into by government, and will continue to express these concerns. In parallel, we have continued a dialogue with DfE to secure a sensible transition arrangement during the 2018-19 academic year, enabling the Tees Valley to secure some of the benefits of devolution as soon as possible, and supporting a smooth transition to new responsibilities.

### Options for Transition in 2018-2019

4. In August, when DfE announced the delay for devolution, they proposed two options for the transitional academic year 2018/19 as an interim arrangement. The two options are:
  - a. An influencing option where the Combined Authority steer the use of the funding by influencing the Education and Skills Funding Agency to purchase relevant skills provision, as set out in locally developed delivery plans.
  - b. A delegated option where the funding is delegated from the Secretary of State to the Combined Authority under Section 16 of the Localism Act that would provide local direct contracting and management of training providers, whilst local commitment to undertake DfE systems and processes.
5. Combined Authority officers from Tees Valley and eight other Combined Authorities have been working closely with DfE and ESFA officers to explore the detail behind both options. Regular workshops and communication has taken place and much detail explored. Within the group of Combined Authorities, Tees Valley has been particularly willing and ready to take on additional responsibilities during the transition year; reflecting the effective local partnership arrangements we have in place. We have, however, been careful to ensure that additional responsibilities are manageable, properly resourced, and allow genuine flexibility to make a difference in our area.

6. The detail around the two options is:

Delegation

- a. The Secretary of State for Education (SoS) delegates AEB functions and funding to the Combined Authority
- b. The Combined Authority would act as an agent of the SoS and within a rigid set of parameters set out in a delegation agreement and would commission skills provision, fund providers and manage delivery. This would not apply to full devolution.
- c. The Combined Authority would be required to satisfy the SoS regarding a set of stringent practical readiness conditions, including handling provider risk and intervention on financial and quality matters, prior to any delegation agreement being entered into.
- d. This option enables the Combined Authority to exercise greater control over AEB but with a greater share of risk and requires all relevant systems, policies and practices to be in place in a very short timeframe
- e. Commissioning and procurement processes would be required to be completed by January 2018

Influencing

- a. The Combined Authority would work closer with DfE colleagues to prepare for full devolution in 2019
- b. A set of terms will be developed through which the Combined Authority may be able to influence a proportion of the 2018/19 funding allocated to training providers, colleges and local authorities.
- c. DfE will continue to consider the Combined Authority's performance data requirements
- d. The combined Authority's strategic skills plan will be discussed and agreed with DfE as an opportunity to establish alignment of provision with national policies
- e. This option enables less direct control over AEB but does not require the implementation of new systems and practices.

7. Having considered both options in detail, officers recommend that, whilst the delegation option is the closest to full devolution, the way it is specified by DfE creates too many risks for the Combined Authority, without adequate corresponding benefits. In summary, our concerns are that:
- a. The Secretary of State has yet to conclude if delegation is achievable within the Localism Act.
  - b. Clarity of the detail and the legal basis of the delegated option proposed is not provided by DfE at this point and so cannot be assessed by the Combined Authority.
  - c. The operational readiness conditions are not finalised so resource implications cannot be assessed.
  - d. That timescales and rigidity of DfE parameters for flexibilities for the delegation option are impractical, in particular the required commissioning timescale for the transition year.
  - e. That the delegated option could create additional risk for providers receiving this funding
8. We also consider that there is limited benefit to the influencing option, beyond the opportunity to provide a necessary development year for closer working with DfE. In practice, the degree of influence could be inadequate to meet our objectives for the Tees Valley. Officers have therefore worked closely with senior DfE, DWP and ESFA

officers to establish a joint working relationship that has enabled Tees Valley to propose an enhanced option (effectively a “third option” which resolves some of the limitations of the original proposals set out by DfE). This has been positively received and is continuing to be explored within central government.

9. The enhanced proposal includes two additional requests:
  - a. A stronger joint governance arrangement to oversee funding allocations and contracting management in 2018/19.
  - b. A higher degree of flexibility in the funding rules, building on the positive track-record established through the SSI Task Force.
10. These enhancements would achieve an improved level of knowledge to the Combined Authority of training providers’ provision, direct influence of funding allocations to national providers (approximately 200), more learners to benefit from this funding stream, and improvements to the skills provision directly linked to employers’ needs. It is therefore recommended that further discussions continue with the DfE to develop a 2018-19 arrangement on the basis of:
  - a. Rejecting the delegation option, as currently specified;
  - b. Seeking to improve on the influencing option;
  - c. Seeking extensions to strengthen joint governance and added flexibility.

### **Next Steps**

11. Officers have consulted the Mayor and Cabinet Portfolio Member throughout these discussions, while making clear that a formal response to the proposed options depends on agreement from the full Cabinet. We are now at the point our position needs to be confirmed. It is therefore recommended that Cabinet agree the approach to the transition year set out in this report. Under established delegation powers, the Cabinet could then delegate to the Managing Director, in consultation with the Mayor and Portfolio Holder, the finalisation of these arrangements.

### **FINANCIAL IMPLICATIONS**

12. The full financial delegation of the Adult Education Budget is now due for Autumn 2019, and further agreements will be required by Cabinet at that point. During the transition year 2018-19, central government would remain financially accountable for the AEB.
13. Internal staffing resources are required to prepare for devolution of the AEB. A business case has been submitted to DfE to request funding for the period prior to devolution, and a decision is expected imminently. The draft Combined Authority Budget, also on this Cabinet agenda, identifies some additional capacity for Education, Skills and Employment, which will be considered through that process. The relevant Combined Authority team is currently undertaking a review and restructure to meet new responsibilities, and a revised structure will identify a lead officer to ensure the effective project management of the transition to devolution.

### **LEGAL IMPLICATIONS**

14. The delegated option raised significant legal issues, and would be the first use of the relevant powers under the Localism Act. For other options, the legal issues are much less significant, since there would be no fundamental transfer of legal responsibility. Any relevant legal issues and implications are being considered as



part of the discussions with DfE over each option, and will be considered further as formal agreements are brought forward.

## **RISK ASSESSMENT**

15. The level of risk for the delegation option could be significant, and on that basis it is not recommended. The risk associated with other options is much lower, since no formal transfer of legal or financial responsibility would take place. Significant issues of risk are likely to arise from devolution after 2019, which will be considered separately and advised to the Cabinet in advance of devolution.

## **CONSULTATION**

16. Formal consultation is not necessary but detailed discussions have been undertaken with Local Authorities, Colleges of Further Education via a steering group, Local Authority officers, Chief Executives and Leaders.

**Name of Contact Officer: Shona Duncan**  
**Post Title: Head of Education, Employment and Skills**  
**Telephone Number: 01642 528832**  
**Email Address: shona.duncan@teesvalley-ca.gov.uk**

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**AGENDA ITEM 10**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET**

**23 NOVEMBER 2017**

**REPORT OF THE  
STRATEGY DIRECTOR**

**PORTFOLIO: INVESTMENT**

**INTERMEDIATE BODY STATUS FOR TEES VALLEY COMBINED AUTHORITY**

**SUMMARY**

This paper seeks agreement for Tees Valley Combined Authority to become an Intermediate Body for European Structural and Investment Funds from November 2017. It sets out the rationale for securing Intermediate Body status and provides an overview of responsibilities. Subject to Cabinet agreement, a Memorandum of Understanding will be signed between the Combined Authority and the Managing Authorities to formalise the transfer of powers.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet agrees:

- i. Tees Valley becomes an Intermediate Body from November 2017;
- ii. Responsibilities and working arrangements set out in paragraphs 11-13 form the basis of a Memorandum of Understanding between the Combined Authority and the Managing Authorities (Department for Communities and Local Government and Department for Work and Pensions for ERDF and ESF respectively);
- iii. Responsibility for agreeing the Memorandum of Understanding with the Managing Authorities is delegated to the Managing Director.

## **BACKGROUND**

1. The Tees Valley Devolution Agreement (signed October 2015) included a commitment for the Combined Authority to become an Intermediate Body. This would give some control and influence over decision making in respect of the remaining 2014-2020 ESIF Programme, on the basis of strategic fit with operational programmes and local conditions. It would also allow Tees Valley to integrate and align investments with other aspects of the devolution deal, to select projects for investment, to improve performance and maximise economic impact.
2. Looking ahead, Intermediate Body status was intended to pave the way for greater control of future EU funding programmes, potentially full control as is the case in London for the 2014-2020 Programme. This would be of far greater benefit to the area, significantly increasing the ability to stimulate growth in the local economy through a co-ordinated funding approach, tailored to meet local need.
3. It was originally anticipated that IB status would relate to the 2014-2020 ESIF programme, and that greater local control could be secured for EU funding programmes post 2020. However, the EU referendum in June 2016 created uncertainty about the future of the UK ESIF Programme beyond Brexit. Progress to secure Intermediate Body status was therefore paused until more was known about the longer term approach for both the current programme and successor arrangements.

## **CURRENT POSITION – ESIF 2014-2020 AND SHARED PROSPERITY FUND**

4. In October 2016, Government announced that all ESIF funding commitments under contract before the UK leaves the EU would be honoured by HM Treasury, even if contracts went beyond the date of Brexit. More is also becoming clear about UK successor arrangements for EU funding. Government has confirmed that structural fund money which comes back to the UK following Brexit will be used to create a UK Shared Prosperity Fund. The fund will also replace the current Local Growth Fund and other funds may be put into it. This will be designed to reduce inequalities between communities, and funds are intended to help deliver sustainable, inclusive growth based on the Industrial Strategy.
5. Consultation on the design of the Shared Prosperity Fund has started and will continue into 2018. Tees Valley has been involved with initial discussions targeted at Combined Authorities, and more formal consultations are planned.
6. Tees Valley will make a case for greater local control of the Shared Prosperity Fund than was available through the ESIF Programme. Our ambition would be to see Shared Prosperity resources devolved through our Single Pot, coming without restrictions for use as capital or revenue, enabling a streamlined approach to evaluation and providing local flexibility to join up resources and deploy them in a way that can best deliver priorities in our Industrial Strategy.

## **INTERMEDIATE BODY STATUS**

7. Now that more is known about the national direction of travel, it is considered timely to secure Intermediate Body for Tees Valley Combined Authority. This would apply to remaining funds in the current programme (£83.8m, £16.6m of which relates to recently closed calls and £2.2m is currently in open calls). It will also put the

Combined Authority in a stronger position for local management and control of Shared Prosperity funds.

8. The following functions will become the responsibility of the Combined Authority under Intermediate Body arrangements:
  - Developing local strategic fit content for call design
  - Carrying out assessment and appraisal of local strategic fit for outline and full applications
  - Deciding on local strategic fit content for project calls (seeking advice from the ESIF sub-committee to inform decision making)
  - Providing advice on the timing of calls to the Head of the Local Growth Delivery Team
  - Assessing outline and full application for local strategic fit and deciding which to approve (seeking advice from the ESIF sub-committee to inform decision making)
  - Providing advice to the Managing Authorities on Value for Money and Deliverability selection criteria
  - Having regular review meetings with the Local Growth Delivery Team to discuss performance information and agree actions as appropriate.
9. All of these tasks fit with existing roles and responsibilities of Combined Authority staff. The Combined Authority intends to access Technical Assistance resource to support delivery of Intermediate Body status. It is intended that this resource is used to cover relevant aspects of current staff roles. In taking on the new responsibilities, the Combined Authority will be required to demonstrate a clear separation of functions between staff undertaking Intermediate Body tasks, and those involved in bidding for European funds.
10. The Combined Authority submitted a bid for Intermediate Body status in September 2017. This set out:
  - A description of the Combined Authority and its suitability to be an Intermediate Body
  - Management and control systems of the Combined Authority
  - Organisational governance and staff capacity to deliver Intermediate Body functions (including separation of functions and managing conflicts of interest)
  - Ways of working - data and risk management.
11. DCLG has completed their consideration of the proposal. They are satisfied that the Combined Authority has demonstrated an appropriate management and control environment is in place, and that it can now be designated as an Intermediate Body for the purposes of implementing ERDF in the Tees Valley LEP area. A Memorandum of Understanding has been signed by DCLG as the Managing Authority for ERDF. We are awaiting confirmation from DWP that we can move to IB designation for ESF. It is recommended that Cabinet delegates responsibility to the Combined Authority Managing Director to sign the ERDF Memorandum on behalf of the Authority, and also to sign the ESF Memorandum once it is in place.

## **FINANCIAL IMPLICATIONS**

12. IB status would mean that the Combined Authority is liable for any financial corrections imposed as a result of an “irregularity” or “systemic irregularity” due to an act or omission of the Combined Authority which relates to a delegated task. The value of any financial correction would be no more than the amount of defrayed

expenditure directly attributable to the identified irregularity or systemic irregularity. Financial liabilities will be underwritten by the Combined Authority.

13. Robust processes and practices are in place to ensure the risk of irregularities is minimised, including performance monitoring of projects, supported by a data sharing agreement between the Combined Authority and the Managing Authority. Each contract awarded is done so on an individual basis, and therefore irregularities on one contract would have no impact on others. Strong governance arrangements are also in place, recognised by government through the Single Pot Investment Framework, which is used to monitor all investments. Whenever grants are awarded to delivery bodies, strong contracts will also be put into place to transfer the risk onto the deliverer, thereby and reducing the risk to the Combined Authority. Risk of financial liability would only apply to the Combined Authority in the issuing of contracts to delivery bodies.

## LEGAL IMPLICATIONS

14. The Memorandum of Understanding signed between the Combined Authority and the Managing Authorities will set out the ERDF and ESF tasks that will be delegated to Tees Valley Combined Authority as an Intermediate Body for the purposes of Article 123(6) of Regulation (EU) No 1303/2013, and will constitute a formal written record of that arrangement, as required under Article 123(6).

## RISK ASSESSMENT

15. The following risk assessment has taken place, and will form part of the submission pack to the Managing Authorities.

<b>Responsibility / Liability</b>	<b>Risk</b>	<b>Mitigating action</b>
Undertaking the scope of activities associated with Intermediate Body status	Lack of staff capacity	Intention to draw down Technical Assistance resource to support staff roles (equivalent of 1 FTE for ERDF and ESF at Grade K - £39,867 with on costs)  Confirmation of existing staff capabilities, reflected in job descriptions
Irregularity in operating arrangements	Conflict of interest between staff undertaking IB functions, and those potentially bidding for ESIF funds	Sensitive posts identified and ways of working clearly set out in working arrangements
Irregularity in operating arrangements	Errors in determining the strategic fit of a project	Decisions to be made in line with SEP and ESIF Strategy  Auditable records kept of decision making
Performance monitoring	A delay in access to performance information, particularly for high priority, high risk projects, or those that are under performing	Data sharing agreement and ways of working between the Combined Authority and Managing Authority to be agreed from the outset

<p>Financial liability – for the value of any financial corrections as a result of irregularity / systemic irregularity arising from any act or omission of the Intermediate Body which relates to a delegated task.</p>	<p>Irregularities from inefficient working practices</p>	<p>Robust processes and working practices in place to ensure the risk of irregularities is minimised, including performance monitoring of projects supported by a data sharing agreement between Combined Authority and the Managing Authority.</p> <p>Strong governance arrangements are also in place, recognised by government through the Single Pot Assurance Framework, which is used to monitor all investments.</p> <p>Whenever grants are awarded to delivery bodies, strong contracts will be put into place to transfer the risk onto the deliverer, thereby and reducing the risk to TVCA.</p>
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## CONSULTATION

16. Becoming an Intermediate Body was agreed to in the Tees Valley Devolution Deal, therefore no consultation has taken place, as this was a policy to which the Combined Authority was already committed.
17. Discussion with relevant staff and the Managing Authorities have shaped the detail of the proposal pack.

**Name of Contact Officer: Geraldine Smith**  
**Post Title: Policy Manager**  
**Telephone No. 01642 524432**  
**Email Address: Geraldine.smith@teesvalley-ca.gov.uk**

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## AGENDA ITEM 11

### REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

23 NOVEMBER 2017

### REPORT OF THE MANAGING DIRECTOR

#### MARY NEY LEP REVIEW

##### SUMMARY

This report summarises the outcome of the recently published “Review of Local Enterprise Partnership Governance and Transparency”, led by Mary Ney, Non-Executive Director, DCLG Board.

##### RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. note the conclusions of the Mark Ney review;
- ii. note that, as a Combined Authority, the Tees Valley meets or exceeds the standards required as a Local Enterprise Partnership.
- iii. agree to implement procedural changes to conflicts of interest recording, and whistleblowing policy, to ensure the Tees Valley remains fully compliant with national best practice.

##### DETAIL

1. The role of LEPs across the country has developed considerably since 2010, with a variety of models in place for the accountable body arrangements. Following concerns that some LEPs may not be fully compliant with government requirements for governance and transparency, an internal review was put in place, conducted by a Non-Executive Director from the DCLG Board.
2. The review looked at whether current systems provide sufficient assurance to central government that LEPs fully implement existing requirements for appropriate governance and transparency, whether the requirements are sufficient and where improvements can be made.
3. The review focused on the National Assurance Framework in place for LEPs, culture and accountability, structure and decision-making, conflicts of interest, complaints,

the role of the section 151 officer, transparency and government oversight and enforcement. The full report is attached at Appendix 1.

4. The report makes a number of recommendations, including increased focus and designated time on governance and transparency through the Annual Conversation process, where government officials meet with the Combined Authority to review performance. These recommendations have already been incorporated in to the upcoming Annual Conversation process, which is due to commence later this month.
5. As a Combined Authority, we are required to publish a range of information which exceeds the requirements placed on LEPs through the Assurance Framework. For example, we are legally required to publish an annual governance statement alongside our annual accounts, and this will be submitted as part of our upcoming Annual Conversation process with government. The Tees Valley also meets scrutiny, transparency and democratic accountability standards which exceed those applying to the LEP network as a whole.
6. The review highlighted a couple of areas where further procedural improvements will ensure that we stay at the forefront of best practice:
  - The report highlights the responsibility of Councillors to consider the interests they hold as council leaders/cabinet members for council land holdings and commercial interests, and to ensure these are declared appropriately (see paragraph 6.2 of the report). Members are asked to ensure that these interests are disclosed for each Cabinet meeting;
  - The Combined Authority will extend its existing complaints policy to fully cover whistleblowing/confidential reporting from third parties/the public.
7. Cabinet is asked to note the review and this report, and agree to implement the procedural changes identified in paragraph 6.

#### **FINANCIAL IMPLICATIONS**

8. There are no financial implications to this report.

#### **LEGAL IMPLICATIONS**

9. There are no legal implications to this report.

#### **RISK ASSESSMENT**

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

**Name of Contact Officer: Andrew Lewis**  
**Post Title: Managing Director**  
**Telephone No: 01642 527091**  
**Email Address: [andrew.lewis@teesvalley-ca.gov.uk](mailto:andrew.lewis@teesvalley-ca.gov.uk)**



Department for  
Communities and  
Local Government

# Review of Local Enterprise Partnership Governance and Transparency

Led by MARY NEY, Non-Executive Director, DCLG Board



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Department for Communities and Local Government  
Fry Building  
2 Marsham Street  
London  
SW1P 4DF  
Telephone: 030 3444 0000

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# REVIEW OF LOCAL ENTERPRISE PARTNERSHIP GOVERNANCE AND TRANSPARENCY

## 1. Introduction to Local Enterprise Partnerships

- 1.1 Local Enterprise Partnerships (LEPs) were established as locally-derived business-led partnerships between the private and public sector that would drive local economic growth. There are now 38 LEPs and their role has developed considerably since 2010. They now have responsibility for around £12billion of public funding and are the mechanism for channelling the Local Growth Fund to localities. Each LEP has the flexibility to determine the details of its governance and accountability arrangements and there are a variety of models including those that have remained as partnerships, local authority Section 101 committees, community interest companies and companies limited by guarantee. Public funding for LEPs is directed via a local authority in the area of the LEP, which is appointed to undertake the accountable body role. The government also appoints Relationship Managers – regionally based civil servants who provide LEPs with day to day advice and support, and are the main channel of engagement between the LEPs and central government.
- 1.2 Each year the Department conducts a performance review (known as an Annual Conversation) with each LEP to review their progress on Growth Deal delivery over the past 12 months. The Annual Conversation also considers a range of issues, including governance and transparency. This leads to an agreed set of actions and next steps, if there are any issues to be addressed either by the LEP or by central government.
- 1.3 As the role of LEPs has developed, the government has reviewed the statement of arrangements it expects to see in place within the LEP and for the accountable body role. This is set out in the National LEP Assurance Framework and is one element of the wider assurance system, which also comprises LEP reporting to government on agreed outputs, evaluation frameworks and annual performance conversations. The National Assurance Framework sets out what government expects LEPs to cover in their local assurance frameworks. The last revision of the National Assurance Framework was issued in November 2016 in order to strengthen the rules which LEPs must follow to ensure greater transparency on how public money is spent. It required LEPs to review their arrangements and publish their own local assurance framework on their websites by 28 February 2017. It also required Section 151 officers to certify that a framework had been agreed and was being implemented to these new standards by writing to the DCLG Accounting Officer. At that deadline, DCLG found that not all LEPs were fully compliant, for instance not all documents were available on websites. However, all LEPs have now published their local assurance frameworks on their websites and Section 151 officers have certified compliance.

1.4 Following concerns raised about the governance and transparency arrangements of some LEPs, the Public Affairs Committee also looked at the role of LEPs in July 2016 and reported that DCLG '[...] should enforce the existing standards of transparency, governance and scrutiny before allocating funding. LEPs themselves also need to be more transparent to the public by, for example, publishing financial information'. The government has now put in place this internal review of LEP governance and transparency conducted by a Non-Executive Director from the DCLG board with the following terms of reference:

'To review whether the current systems provide sufficient assurance to the Accounting Officer and Ministers that LEPs fully implement existing requirements for appropriate governance and transparency; to consider whether the current requirements for LEPs are sufficient; and to make recommendations for improvements.'

It should be noted that this review has not investigated any specific allegations which are being pursued separately by the National Audit Office. In addition, in the time available, it has not been able to look in detail at every LEP and accountable body, to identify how arrangements are implemented in practice as part of normal business. The approach to the review is set out in paragraph 2.

## 2. Approach to the Review

2.1 The review commenced on 28 April 2017 and was required to be completed in a six week period. The approach has been to review key documents, view a sample of LEP websites and engage with a variety of stakeholders from the LEP sector in order to obtain an overview of both issues and practice. The focus has been on governance and transparency and not on other aspects of the assurance system such as those dealing with effectiveness or value for money. Whilst, in the time available, it has not been possible to undertake a deep dive into the practice of every LEP and accountable body, it is considered that sufficient information and views have been gathered to enable recommendations to be made to improve assurance.

2.2 Attached at Appendix A is the list of documents reviewed. In addition, a number of discussions have been held:

- Meeting with a Group of LEPs CEOs;
- Telephone conversations with seven LEP Chairs;
- Meeting with a Group of Section 151 officers;
- Telephone conversations with four council leaders/elected Mayors who sit on LEP boards;
- Follow-up meeting with a Group of CEOs of LEPs to test out findings.

Meetings were also held with:

- British Chamber of Commerce
- LEP Network
- Chartered Institute of Public Finance
- National Audit Office.

### 3. Overview of Findings

- 3.1 All those who contributed welcomed the review and expressed a shared desire to ensure that LEPs provided the highest standards of stewardship of public money. There was a widespread view that the sector should work collectively and avoid reputational damage from any inconsistencies in governance arrangements and transparency. In addition, some private sector board members were concerned that their association with weak practice in governance and transparency would have potential reputational implications for their companies. LEP board members are generally not remunerated albeit the role and expectations of time commitment have increased as the workload of LEPs has developed. A number of private sector participants in this review referred to the ethos of making a public service contribution. It is important that this ethos is supported and that proposals to achieve good governance are proportionate.
- 3.2 Some LEPs have a history of establishing robust governance arrangements and to some extent the National Assurance Framework lags behind the practice on the ground in these places. There is a general recognition that additional clarity on the requirements in the National Assurance Framework would assist in raising standards and consistency of stewardship across the sector. This was not seen by those participating as detracting from the flexibility for LEPs to develop local arrangements but rather assisting them with the journey they were on. Overall there appears to be commitment from the LEPs to meeting the requirements of the National Assurance Framework but issues remain on the effectiveness of implementation in some cases. This would be mitigated by additional clarity in the National Assurance Framework which is proportionate, as well as by increasing the sharing of best practice, peer challenge and support across the sector.
- 3.3 The British Chamber of Commerce, in conjunction with the Confederation of British Industry (CBI), the Engineering Employers' Federation (EEF), the Federation of Small Businesses (FSB) and the Institute of Directors (IoD), has also recommended improvements particularly on the financial information which should be published.
- 3.4 There is also a need to consider the position of public sector members on LEP Boards in the context of the changing role of local authorities and their increased involvement in commercial enterprises and alternative delivery mechanisms. This is currently somewhat underdeveloped in terms of LEP governance implications and is referred to below in greater detail.
- 3.5 A feedback session has been held with a group of CEOs of LEPs to test out the emerging findings and broad support was received to the range of issues which would be addressed in the recommendations. In addition a feedback discussion with CIPFA was also supportive of the proposals.



## 4. Culture and Accountability

- 4.1 As with any organisation, the establishment of an embedded culture across the LEP is a prerequisite to assurance that governance arrangements are fit for purpose and are being adhered to. This requires direct and proactive leadership from the Chair and CEO of the LEP to own the establishment of a culture of strong adherence to good governance and clarity about standards. At present the National Assurance Framework requires written assurance from the Section 151 officer that standards are being met. Whilst the Section 151 officer has a critical role to play, it is insufficient to place reliance on this alone. **It is recommended that the National Assurance Framework requires a brief formal assurance statement on an annual basis from the leadership of the LEP (i.e. the Chair and CEO), on the status of governance and transparency within their organisation and which can be explored in greater detail during the Annual Conversation process with government. This statement to be published on the website.** (See also section 10 below).
- 4.2 It will have the benefit of making the LEP itself more directly and publically accountable and will reinforce the role of the Chair and CEO in developing the culture and dealing with matters of good governance within their organisation. It will assist in formalising good practice, which is already being developed in some LEPs. To assist in establishing an organisational culture, LEPs need to put in place their own statements of their values and the standards of conduct expected from board members and senior staff. Indeed, a number of LEPs already have such statements in place. In some cases these expectations are based on the Nolan Principles of public life, but in others they are framed in terms of requirements of company board directors and do not sufficiently embrace the dimension of public sector accountability. This is inadequate as it does not reflect the dual dimension (i.e. public and private) of the role of board members. **It is recommended that the current National Assurance Framework requirement for LEPs to have a code of conduct, which all board members and staff sign up to, should explicitly require the Nolan Principles of public life to be adopted as the basis for this code.**
- 4.3 The National Assurance Framework should be explicit that the code of conduct for board members should address the way in which the board conducts business; the role of the board member; dealing with conflicts of interest; declarations of interest and transactions, gifts and hospitality; policy on fees and expenses. Information on some aspects was not always easily found on LEP websites and is essential to ensure transparency. For instance, not all websites state that the board member role is unremunerated. One instance of a reference to the position of Board members undertaking contracted work/services for the LEP itself was seen. This is a potential conflict of interest which should be avoided wherever possible and the code should be explicit and transparent about its approach to such situations should they arise.

## 5. Structure and Decision-Making

5.1 Each LEP has developed its own arrangements for decision-making which reflects its legal structure, the complexity and needs of the locality and compliance with requirements to ensure value for money, local engagement and democratic accountability. However, the review identified a number of key features of these decision-making processes which promote assurance on good governance. These are:

- a clear strategic vision and priorities set by the Board which has been subject to wide consultation against which all decisions must be judged;
- open advertising of funding opportunities;
- a sub-committee or panel with the task of assessing bids/decisions
- independent due diligence and assessment of the business case and value for money;
- specific arrangements for decisions to be signed off by a panel comprising board members from the local authority, in some cases including a power of veto;
- Section 151 officer line of sight on all decisions and ability to provide financial advice;
- use of scrutiny arrangements to monitor decision-making and the achievements of the LEP.

It is not appropriate to be descriptive on the specific arrangements which should be adopted due to the variety of structures **but it is recommended that the National Assurance Framework draws explicit attention to the importance of LEP decision-making structures accommodating these separate components of good governance and that they form an essential part of assurance and ensuring probity.**

5.2 Local assurance frameworks describe arrangements for decision-making, including urgent decisions and decisions in the absence of a formal meeting. Whilst there may be some exceptional circumstances requiring urgent decisions, extra care is needed in such circumstances to ensure propriety and to comply with the normal rigours of the decision making process. **Local assurance frameworks should set out that ALL decisions must be subject to the normal business case, evaluation and scrutiny arrangements; there must be a written report with the opportunity for the Section 151 officer to provide comments, that the conflicts of interest policy will apply to decision makers regardless of whether there is a formal meeting, and that decisions should be recorded and published in the normal way, regardless of how they are taken. It is recommended that the National Assurance Framework includes requirements in relation to this.**

## 6. Conflicts of Interest

6.1 The National Assurance Framework requires the publication of a conflicts of interest policy and a register of interests for each board member. Whilst LEPs comply with this requirement, the content of policies and approach to publication varies considerably and is dependent on the overall cultural approach within the organisation (see 5. above). For instance, some statements seem to focus on registering directorships only, exclude land and property

interests and any significant household member interests. Others seem to either use a proforma from another public body rather than having their own bespoke proforma or display board members' register from another public body. The conflicts of interest policy should be based on compliance with standards which promote good governance, transparency and stewardship. Given the wide variety of approaches currently operating it is suggested that there is a need to be more explicit about requirements to ensure consistency of standards. In addition, policies need to be clear on how conflicts are managed, the action to be taken when conflicts arise and the recording of that action. Policies should also make clear that consideration of conflicts of interest is not reserved for formal decision-making meetings and should be applied to any activity or involvement of the board member in the work of the LEP. **It is therefore recommended that the National Assurance Framework sets out specific requirements on the principles which each LEP must incorporate into its conflicts of interest policy and how it is implemented which includes:**

- **All board members taking personal responsibility for declaring their interests and avoiding perceptions of bias. This should be evidenced by producing and signing of their register of interests and publication on the website.**
- **Use of a bespoke proforma for collection and publication of the information which ensures all categories of interest are systematically considered.**
- **Categories of interest to include employment, directorships, significant shareholdings, land and property, related party transactions, membership of organisations, gifts and hospitality, sponsorships. Interests of household members to also be considered.**
- **Action in response to any declared interests applies to any involvement with the work of the LEP and is to be recorded.**

6.2 Whilst such declarations may be more familiar to public sector board members, it should be born in mind that it is not sufficient to merely refer to the councillors' declaration on the authority's website as some LEPs seem to do: a councillor's interest as a member of the LEP board may be different. Councillors will need to consider the interests they hold as council leaders/cabinet members for council land and resources, as well as for aspects of the council's commercial interests. As councils increasingly broaden their commercial undertakings and investment in land and property for income generation purposes, as well as the increasing use of council owned companies and trusts, there is increasing scope for conflict. Council leaders will need to consider the declarable interests this may give rise to in relation to their board membership of the LEP.

6.3 Similarly, it is in the nature of the role of LEPs that industrial and commercial expertise amongst board members should be utilised in developing strategies and decision-making, but which also has the potential to raise issues of conflict. The policy should explain how scenarios of both of these types will be managed without impacting on good governance. Not all policy statements address this explicitly and **it is recommended that the National Assurance Framework requires LEPs to include in their local statements how scenarios of potential conflicts of interest of local councillors, private sector and other**

**board members will be managed whilst ensuring input from their areas of expertise in developing strategies and decision-making, without impacting on good governance.**

## 7. Complaints

- 7.1 The National Assurance Framework requires LEPs to publish a complaints policy. Whilst LEPs comply with this requirement, very few refer to a whistleblowing policy. Whistleblowing arrangements which provide confidentiality to the complainant are an important measure in securing good stewardship of public resources and need to be part of anti-fraud policies. **It is recommended that the National Assurance Framework requires the publication of a whistleblowing policy and arrangements for confidential reporting of allegations of untoward concerns by third parties/ the public.**

## 8. Section 151 Officer

- 8.1 Public funding for LEP programmes is held and managed by a local authority acting as an accountable body. The National Assurance Framework requires the Section 151 officer of the accountable body to provide reassurance on the activity of the LEP and outlines the accountable body arrangements which the LEP should have in place. Given the volume of public funding which LEPs have available, this role is a significant workload and a significant area of risk for Section 151 officers. Overall LEPs and Section 151 officers report good working relationships and a variety of arrangements in place to meet requirements. In the main, the arrangements and the role have developed over time, as LEPs have grown. In some areas they remain on that basis and in others have developed into Memorandums of Understanding or Service Level Agreements.
- 8.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) publishes guidance on 'The role of the Chief Financial Officer'. Specifically of relevance to this role in LEPs is the need for the CFO to be 'actively involved in, and able to bring influence to bear, on all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the overall financial strategy.'
- 8.3 This review identified that LEPs have a variety of arrangements in place for the Section 151 officer to have line of sight and involvement in key decision making bodies including the LEP Board and in the main have the opportunity to bring influence to bear and provide their advice. However, it would be helpful if the National Assurance Framework provided additional clarity on the expectations of the role of the section 151 officer and the substance of how LEPs need to work with that role. **It is therefore recommended that further clarity is provided in the National Assurance Framework on the role of Section 151 officers and it is suggested that this be developed in consultation with CIPFA.** This will need to consider the mechanisms the Section 151 officer uses to fulfil their role, their requirements in terms of access to decision-making bodies, ability to provide written and verbal financial advice, role of their

transactional services, operation of normal checks and balances in approving expenditure, management of risk of fraud and corruption, monitoring of programme spend against resources, treasury management and borrowing, role of internal audit and external auditors and provision of an audit opinion for the LEP, visibility of reporting arrangements to both the accountable body and the LEP, production of accounts, inter-relationship with the LEP's own accounts, if relevant. The clarification of the role of the Section 151 officer could also consider the scope for the LEP CEO and the Section 151 officer to provide a formal joint Annual Governance statement which is reported to the LEP Board. **It is also recommended that the National Assurance Framework sets a requirement for the Section 151 to provide a report to the Annual Conversation on their work for the LEP and their opinion with a specific requirement to identify any issues of concern on governance and transparency.**

8.4 Finally, although not directly within the remit of this review, very many participants raised the difficulties experienced in financial programming which arise from the tension between LEP Programmes, which are by their nature longer term and spread over more than one financial year with complex phasing profiles, and the annualised budgets, sometimes with late notification of resources, and year on year uncertainty provided by government funding arrangements. Both LEPs and accountable bodies reported frustration with the diversion of effort on managing these tensions and associated risks. This could also impact on good governance if late and speedy decisions are made by LEPs which give insufficient time for all the checks and balances of the normal processes. The annual uncertainty of funding also has the consequence of some LEP staff being on fixed term contracts which is counter-productive in terms of efficiency and may have unintended impacts on good governance if it leads to insufficient organisation stability and continuity. **It is therefore recommended that government give some thought to what flexibility might be available to smooth funding allocations to LEPs over a longer period.**

## 9. Transparency

9.1 A number of the above recommendations refer to the need for publication of information in order to provide transparency and avoid any suggestion of untoward use of public resources. In addition, the National Assurance Framework sets out the requirements on publication of agendas, minutes and decisions etc. There remains some inconsistency across LEPs in how this is approached. The review of a sample of websites identified the following areas needing further attention in some cases:

- Publication of the approach to the appointment of board members and providing information on the time board members commit.
- Publishing the policy on claiming of expenses by board members. For instance, it is understood that some LEPs adopt the local authority code whilst others have a policy of no claims.
- Including an item 'Declarations of Interest' on all agendas and ensuring minutes record any declarations and the action taken e.g. to leave the meeting and not take part.

- Approach to publishing agendas, meeting reports and minutes varied widely from LEPs who have adopted the Local Authority Standards including public meetings, those who hold no meetings in public, those who only publish the agenda page and do not publish meeting reports, and those who record no information on confidential matters. With the exception of those LEPs following the Local Authority Standards, it is not always clear what criteria are applied for dealing with matters in private.

**It is therefore recommended that the National Assurance Framework provides additional guidance on expectations on publication of agendas, meeting papers and decisions.**

9.2 The differing legal basis for LEPs does result in a variety of requirements on LEPs to publish financial information and accounts. However, the LEP's own accounts will not necessarily cover those projects supported by the LEP where the funding is managed by the accountable body. In addition, the accountable body may include some financial information in their own accounts. However, this may provide only high level financial data and insufficient granularity on the detail of decisions and performance of funded programmes. In order to achieve greater transparency of financial data, co-operation and agreement between the LEP and the Section 151 officer on how best to provide financial data is needed. **It is recommended that more explicit guidance would be helpful and that this should be developed as part of the work on the role of the Section 151 officer referred to at paragraph 8.3 above. In particular, in addition to the publication of accounts, it is recommended that the LEP maintains on its website a published rolling schedule of the projects funded giving a brief description, names of key recipients of funds/contractors and amounts by year.**

9.3 A number of LEPs, but not all, refer to the role of scrutiny in overseeing their performance and effectiveness. Some LEPs are scrutinised from time to time by their accountable body Overview and Scrutiny function. This is an area for further development which would give increased independent assurance. Given the different structures across LEPs it is not appropriate to specify any particular approach to scrutiny. It is an area which could benefit from the sharing of good practice/'what works' to assist LEPs in shaping their own proposals. **It is recommended that LEPs report on this in their annual assurance statement (see paragraph 4.1 above) during the Annual Conversation process.**

## 10. Government Oversight and Enforcement

10.1 Government has a number of mechanisms which provide oversight of LEP performance and functioning including the National Assurance Framework, the assurance provided by the Section 151 officer, the Annual Conversation sessions with each LEP, and the government's LEP Relationship Manager who

also attend LEP Boards and have more detailed knowledge of the LEPs' functioning. Government has also made the allocation of funding conditional on compliance with requirements set out in the National Assurance Framework.

10.2 The Annual Conversation session with each LEP is a key opportunity for scrutiny and for holding LEPs to account. The focus of these conversations will be on the LEPs, strategy, its achievement of outcomes, value for money and delivery of programmes and individual projects. **It is recommended that the annual conversations have strengthened focus and designated time to examine the performance of LEPs in relation to governance and transparency and to discuss the assurance statements (see recommendation at paragraph 4.1 above) and the report of the Section 151 officer.**

10.3 This review has identified that whilst LEPs may be complying with the National Assurance Framework in terms of publication requirements, the approach to implementation locally will vary. The recommendations in this report seek to provide additional assurance without impacting on the ability to determine the detail that suits their local situation. In the main this will lead to the required improvements. However, there may be a residual need for government to be able to undertake a deep dive from time to time to provide assurance on the approach to implementation and how governance arrangements work on the ground. The LEP Relationship Manager has a key role in providing insight into that and it is important to ensure that they have the skills to identify the effectiveness of practice, perhaps using a good practice tool. In addition they should ensure that concerns about compliance are addressed by the LEP and have clear routes to escalate issues within government in a timely manner. They should contribute to the risk assessments to identify those LEPs who would benefit from a deep dive of their arrangements. **It is recommended that a risk based approach should be used to identify LEPs where a deep dive on governance and transparency would be of assistance. It is further recommended that this deep dive is undertaken by someone with no direct involvement with the specific LEP.**

10.4 The National Assurance Framework makes clear that serious non-compliance could result in delays to or loss of funding. **It is recommended that government sets out in the National Assurance Framework its approach to considering delay or withholding of funding for non-compliance so that LEPs have a clear and early understanding of the matters they need to address and the timescale to be met. In considering delay or withdrawal of funding from a LEP, government should consider the impact on the programme and the arrangements for projects to continue where appropriate under alternative mechanisms.**

## 11. Best Practice

11.1 The LEP Network currently supports a number of initiatives to share good practice and to provide support to LEPs at board and CEO level. This review identified a strong appetite amongst LEPs to further develop the sharing of



good practice, buddying arrangements, peer review and support, induction programmes for new chairs and for board members. The LEP Network receives a small amount of funding from government as well as a fee from its members. The support it can give on best practice is therefore limited. However, supporting self-improvement across the sector is a valuable mechanism and **it is recommended that government continue to support this work and discusses with the LEP Network how best to take this forward.**

## 12. Conclusion

12.1 This review has identified a number of measures which would give greater assurance to the Accounting Officer and government on the governance and transparency of LEPs. It found a sector which has a strong understanding of its responsibilities for stewardship of public funding and the need to improve its governance accordingly. There has been some historical concern that the strength of the LEP model, in providing private sector leadership of economic growth in localities, should not be damaged by an overly bureaucratic approach. This review has found that there is on the ground recognition that strong and proportionate governance arrangements can be pursued with overall benefit and safeguarding to all involved without becoming overly bureaucratic. In practice, some LEPs have already made their own choices to go beyond the current National Assurance Framework requirements and would welcome greater clarity in the NAF so that the sector as a whole can be seen to be excellent and effective stewards of public resources. The recommendations made in this report are intended to strengthen the improvement journey and are felt to be proportionate to the need for good governance and probity whilst promoting the uniqueness of the private-public relationships which the LEPs provide. These recommendations if supported should be taken forward in partnership with the LEPs and with accountable bodies and in doing so, consideration may need to be given to the resources and capacity of both to respond effectively.

12.2 Finally, I would like to thank all those who took part in this review and gave their time to provide information and views. I am particularly grateful that contributors were able to work to such short notice. I would also wish to acknowledge the work and support provided by the Cities and Local Growth Unit in undertaking this review.

Mary Ney  
NED DCLG BOARD  
JUNE 2017.

## ANNEX A. Documents Consulted During the Review

1. National Audit Office report on *Local Enterprise Partnerships* – Mar 2016
2. Public Accounts Committee report on *Cities and local growth* – 1 July 2016

3. Public Accounts Committee report on *Devolution in England* – 18 Dec 2016
4. National LEP Assurance Framework - (Nov 2016 and Dec 2014)
5. Government response to PAC reports in *Treasury minutes* - Dec 2016
6. Table of Chronology on LEP Assurance and Accountability
7. Local Growth Fund Accountability and Assurance Process Map
8. Examples of LEP Local Assurance Frameworks
9. Single Pot Assurance Framework guidelines; examples of Single Pot areas
10. Daily Mail articles and background (including government response)
11. Recent NAO letter from Aileen Murphie to Jacqui Ward on Daily Mail follow up and suggestions for improvement
12. Business Representative Organisations note on LEP reform
13. Summary from the recent assurance and transparency spot checks following Section 151 officer letters
14. Examples of Section 151 officer letters
15. CIPFA. 'The role of the Chief Financial Officer'.
16. CIPFA. 'Managing the Risk of Fraud and Corruption'.
17. CIPFA/IFAC 'Good Governance in the Public Sector'.

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DEFINED IN PARAGRAPH 3 OF PART 1 OF SCHEDULE 12A TO THE LOCAL  
GOVERNMENT ACT 1972**

**AGENDA ITEM 12**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET**

**23 NOVEMBER 2017**

**REPORT OF THE  
INVESTMENT DIRECTOR**

**PORTFOLIO: INVESTMENT**

**INVESTMENT UPDATE AND PROJECT APPROVAL(S)**

**SUMMARY**

The purpose of this Report is:-

- to update Cabinet on progress with delivery of the Investment Plan; and
- to seek approval in respect of £1.7 million additional Combined Authority funding for the Salters Lane (Ingenium Park) Phase 1 project in Darlington.

This Report should be read in the context of the Budget 2018-19 and Investment Plan Report which is also being presented at this Cabinet meeting.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:-

- i. Notes progress to date with the delivery of the Investment Plan, including levels of funding currently committed and in the pipeline; and
- ii. Subject to the satisfactory completion of due diligence under our Assurance Framework, approves the allocation of additional funding for the Salter's Lane (Ingenium Park) Phase 1 project in Darlington, as follows:-
  - £1.6 million of investment on a shared risk and reward basis; and
  - £0.1 million LGF grant.

## PROGRESS WITH DELIVERY OF THE INVESTMENT PLAN

1. As set out in the first section of the Budget & Investment Plan Report, the Combined Authority is making good progress in delivering the Investment Plan that was agreed in April of this year, covering the delivery of £464 million of investment up to 2021.
2. By way of update to Cabinet, Teesside University's National Horizons Centre Growth Deal Project is one of our largest programmed investments, having been announced in the original Growth Deal agreed with Government, with £17.5m awarded. This project has now completed due diligence and the final recommendations were considered by Management Group at their meeting on 1st November. Work will start on site in December.
3. During the period since April we have:-
  - a. secured or are in the process of securing £19 million of additional funds from a variety of sources, with further funding bids in progress;
  - b. made £23 million of additional commitments to projects and programmes of activity;
  - c. established a strong pipeline of projects that we are working to bring forward (£152 million); and
  - d. Agreed a Memorandum of Understanding with the Teesside Pension Fund to enable the potential investment of up to £200 million of pension funds into projects in the Tees Valley.
4. In terms of our pipeline of projects the first call for proposals under the new Investment Plan closed in May 2017 and 31 proposals were received from a range of partners. These were then reviewed and discussed with the submitting partner – to date 16 have had Development Funding approved and are progressing to work up their business cases; 11 are progressing to business case without needing Development Funding; 4 are either still under discussion or not proceeding at this time. 7 additional proposals have been received since this application window closed, and these are currently at the appraisal stage.
5. By way of update on all projects:-
  - a. £7 million Development Funding has already been committed, the Budget Report contains a list these commitments. We are working to get the necessary Funding Agreements drafted, agreed and signed as quickly as possible. This Development Funding will support the development of robust business cases to enable projects to come forward for appraisal and approval more efficiently - in all cases this business case work will include the requirement to explore alternative sources of funding and commercial opportunities.
  - b. A number of projects have submitted Business Cases to TVCA requesting investment of £26 million. Annexe A sets out a list of these projects and the stage they have reached in terms of approvals.
  - c. Business cases are in development with partners for a further £104 million; and
  - d. Additionally, known projects currently in development total approximately £22 million.

The Combined Authority is also working on a further pipeline of proposals and emerging priorities that are at an earlier stage in their development process, and these will come forward for consideration through the system in due course.

6. Initially we envisaged quarterly calls for partners to submit proposals, but this resulted in a larger than expected number of funding requests all being received at the same time, which then took some time to process. We suggest that proposals for TVCA funding can be submitted at any time - an open window will allow us to spread the workload, respond more quickly and flexibly to opportunities and accelerate agreement of funding and therefore delivery.
7. The total of requests for TVCA investment currently stands at £152 million, £54 million over the level of currently available funds, excluding borrowing (please see Budget & Investment Plan Report for further detail).
8. The current pipeline for European funding is £34.4 million with a minimum requirement for £14 million match from these proposals. £101 million of European Funds is also potentially available to the Tees Valley. DCLG has notified us that the next call window will be delayed - instead of launching in November this will now happen in December to account for the Autumn statement. The call will still close on 26<sup>th</sup> January 2018. We have expressed concern about the shortened period of time for applications, particularly over the Christmas period, but this is the national position. We will begin engaging with partners in preparation for the call so applicants can begin work on their outlines before the call opens officially. We do not foresee any significant changes resulting from the Autumn statement but will make it clear to partners if changes do occur. Further work is being undertaken to encourage other projects with potential for European funding to come forward in response to these calls.
9. Our process for receiving, reviewing, appraising and approving projects has been established in line with the agreed Assurance Framework that was agreed with Government as part of the original Tees Valley devolution deal. This Framework prescribes how the Combined Authority will ensure accountable and transparent decision making, and how we must appraise projects and monitor and evaluate schemes to ensure value for money and that funds are spent lawfully. The Government is currently reviewing its assurance framework requirements nationally, and we will have the opportunity to review our Framework in that context during 2018. However, since the agreement of the Investment Plan in April this year we have already been working to ensure that our appraisal and due diligence arrangements are efficient and that the costs of our due diligence are minimised as much as possible, while maintaining the robustness of our systems.

#### **SALTERS LANE (INGENIUM PARK) PHASE 1, DARLINGTON**

10. In our original Local Growth deal with Government, £2.2 million was allocated to Salters Lane Phase 1 by way of grant funding, and this is already in our programme; this funding was to improve the service road to the site to meet potential increased

capacity, install essential infrastructure (roads, services and utilities) and establish the first four plots for development.

11. Since that LFG submission, further work by Darlington Borough Council has confirmed that the actual cost of the total project now required is £5.5 million. The additional costs are predominantly linked with the need to undertake a significant upgrade to the Yarm Road/McMullen Road roundabout, identified as a result of the feasibility work undertaken since the previous tranche of funds approved, as well as increased costs for electricity supply and improvements to the Morton Palms Business Park.
12. As part of the consultation exercise undertaken when masterplanning the site, demand was identified from an existing manufacturer/employer for a further c.50,000 sqm of distribution space, and there have been several enquiries from inward investors and indigenous companies seeking to grow, for which Darlington has been unable to offer a “shovel ready” site for development.
13. This is one of Darlington’s key new employment sites (as well as being on an Enterprise Zone) and it comprises 40 hectares of gross land (29 hectares developable land). The additional funding will enable the following phase 1 infrastructure:-
  - a. Improvements to the Yarm Road roundabout;
  - b. Improvements to Salters Lane (0.4km) service road corridor;
  - c. 0.3km internal infrastructure within Ingenium Park;
  - d. Utilities upgrade within Ingenium Park adding 2 plots of serviceable industrial land and some ecological mitigations;
  - e. Improvements to Alderman Best Way to take it to adoption standard; and
  - f. The provision of a 160 space car park to remove on-street parking on Alderman Best Way.
14. The total £5.5 million funding for the Phase 1 project will be made up as follows:-
  - a. £2.2 million LGF grant, already secured (see above);
  - b. £0.1 million additional LGF grant;
  - c. £1.6 million investment from the Combined Authority, on a shared risk and reward basis (in connection with the release of plots for development); and
  - d. £1.6 million match provided from Darlington Borough Council through a range of funding sources such as NPIF, local resources and transport funding.
15. The proposal supports the delivery of the Strategic Economic Plan, in terms of the supply of sites and premises for business growth, and in terms of place by addressing brownfield public sector land. Our appraisal summary has been provided to the Cabinet as an exempt item, as it contains commercially sensitive information. It will be made available on the TVCA website following the decision (commercially sensitive information may be redacted).
16. The business case demonstrates that the proposal will enable future growth for both existing and potential new businesses and will facilitate the creation of:-
  - a. c.45,000 sqm of commercial floor space;

- b. up to 611 indirect and 46 construction jobs;
- c. £53,980,000 GVA; and
- d. £25.4 million private sector leveraged funds.

The quantification of all the benefits of the scheme is difficult currently, as it is hard to calculate now the likely level of private sector development costs and investment. This analysis will be developed further through the due diligence process, and we recommend that for this project the economic due diligence required should be procured externally. We will use the outputs from the due diligence work for this project to improve our formal methodology for assessing and quantifying project benefits for future projects under our Assurance Framework.

17. Approval is therefore sought from Cabinet to provide further funding totalling £1.7 million as set out at 14(b) and (c) above, subject to the completion of the required external due diligence.

## **FINANCIAL IMPLICATIONS**

18. In terms of overall delivery of the Investment Plan, the financial position is as set out in the Budget & Investment Plan Report.
19. The approval by Cabinet of the additional funding for Salters Lane, as set out in this Report, means that that additional funding will be committed and the project will be entered into the investment delivery programme, subject to satisfactory completion of appropriate due diligence in accordance with the Tees Valley Assurance Framework.

## **LEGAL IMPLICATIONS**

18. There are no legal issues arising from the Investment Plan generally; any legal issues in respect of any of the projects arising from the Plan will be dealt with when considering the project specific funding arrangements in each case.
19. Any legal issues arising in respect of the funding arrangements for the Salters Lane works will be addressed in the funding agreement for the project.

## **RISK ASSESSMENT**

20. As with any other specific project, any risks associated with the funding of the Salters Lane project will be managed through the terms of our funding agreement for the project, and monitored through our normal monitoring and reporting mechanisms.
21. The delivery of the Investment Plan more generally is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

## **CONSULTATION**

18. It is not considered necessary to consult on this specific project, over and above:-
- a. consultations programmed for our budget 2018-19; and
  - b. the local consultations DBC have already undertaken in respect of the scheme.

**Name of Contact Officer:** Alison Fellows  
**Post Title:** Investment Director



**Telephone Number:** 01642 527096

**Email Address:** [alison.fellows@teesvalley-ca.gov.uk](mailto:alison.fellows@teesvalley-ca.gov.uk)

## **ANNEX A**

### **5 Business Cases been received to date for the following projects:-**

- Salters Lane/Ingenium Park (see earlier in this Report). £2.2 million in the current Growth Deal programme as grant, request for an additional £1.7million Combined investment. Infrastructure and improvements on the road network.
- Centre of Excellence in Technical Training (Hartlepool, former Northern Lights Academy) £874,900 Combined Authority capital and revenue grant matched with £214,369 HBC match. Refurbishment and initial revenue support for a currently mothballed facility – funding approved.
- Elwick Bypass - £17 million Combined Authority loan. The NPIF bid announcements have now been made and Elwick Bypass did not receive funds in this round. This business case cannot go to Cabinet for an investment decision until the outcome of the outstanding HCA Infrastructure Fund bid, as this will determine the level of TVCA investment required - currently awaiting the outcome of bid which (if successful) will reduce the Combined Authority's investment requirement significantly. Strategic road improvements to unlock further sites for development. Aim: December Cabinet decision (dependent on timing of HCA announcement).
- Port Clarence Logistics Limited – £300,000 Combined Authority capital grant/£300,000 private sector match. Site infrastructure improvements through an access road and river dredging. Funding approved.
- Teesside Advanced Manufacturing Park – £7.65 million Combined Authority investment, total investment £22.5 million, joint investment with Middlesbrough Council and developer. Remediation and development of proposed Advanced Manufacturing Park in Middlesbrough. Aim: December/January Cabinet decision.

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Annex B

**THIS ANNEX IS CONFIDENTIAL AS IT CONTAINS EXEMPT INFORMATION AS DEFINED IN PARAGRAPH 3 OF PART 1 OF SCHEDULE 12A TO THE LOCAL GOVERNMENT ACT 1972**

**RESTRICTED:**  
**Tees Valley Investment Fund Appraisal Summary**

Summary of Proposal					
<b>Lead Organisation:</b>	Darlington Borough Council				
<b>Name of Proposal:</b>	Salters Lane (Ingenium Parc) Masterplanning and Phase 1				
<b>Location:</b>	Darlington				
<b>Investment Programme:</b>	Business Growth, Enabling Infrastructure,				
<b>Amount of Investment Requested:</b>	<b>Original Request:</b> £1.6m (Loan), £2.2 (LGF previously allocated) at EOI stage. <b>Revised Request:</b> £1.6m investment (on the basis of shared risk and reward), £0.1m additional LGF grant and £2.2m original LGF grant.				
<b>Total Cost:</b>	<b>Original Cost:</b> £4,400,000 at EOI stage. <b>Revised Cost:</b> £5,000,000.				
<b>Form:</b>	<b>Capital</b>	<b>X</b>	<b>Revenue</b>	<b>Both</b>	
Development Funding Request:					
Description:					
<p>The project will provide enabling infrastructure to unlock a key employment site on Darlington’s Eastern Urban Fringe. In the original Local Growth Deal, £2.2m was been allocated to Salters Lane - this was to improve the service road to the site to meet the increased capacity, install essential infrastructure (roads, services and utilities) and establish the first 4 plots ready for development. Since this submission, feasibility, site investigations and detailed design of the Salters Lane project has confirmed that the actual cost to deliver this project is £5m. The additional costs are predominately linked with the need to undertake a significant upgrade to the Yarm Road/McMullen Road Roundabout which was identified as a result of the feasibility work, as well as increased costs for electricity supply and improvements to Morton Palms Business Park.</p> <p>As part of the consultation exercise undertaken when master planning the site, this has led to the identification of a demand from a major existing manufacturer/employer to develop c.50,000sqm of distribution space on Salter’s Lane / Ingenium Parc. Also, there have been several recent enquiries by inward investors and indigenous companies seeking to grow, for which Darlington has been unable to offer a site that is “shovel ready” for development.</p> <p><b>Note:</b> The project detail has not been provided on the proposal form, therefore this has been taken from the original LGF submission.</p>					

## Business Case Appraisal

**Business Case Appraiser Name: Sue Donnelly, Project Development Officer**

Case 1 - Strategic Case	
<b>Partnerships:</b>	
Not applicable. DBC are not working in partnership. This project is solely a DBC project.	
<b>0 points</b>	
<b>Links to SEP activities:</b>	
This project directly supports two priorities within the Strategic Economic Plan:	
<b>Business Growth</b>	
<ul style="list-style-type: none"> <li>○ Support Business Growth</li> <li>○ Developing Business Accommodation</li> </ul>	
<b>Enabling Infrastructure</b>	
<ul style="list-style-type: none"> <li>○ Unlocking Sites for Development.</li> </ul>	
This project will unlock 11.5ha of key employment land as it will ensure that it is 'development ready'. This directly addresses the challenge of providing industrial sites and premises, brownfield blight and public sector land and strengthening the offer of commercial property.	
<b>3 points</b>	
<b>EZ, Strategic Housing Site or Key Employment Site:</b>	
Project will be located within Darlington's Eastern Growth Zone which takes in the key employment sites of Yarm Road Industrial Estate and Business Park, Morton Palms Business Park, Lingfield Point, Link 66 and the Aero Centre.	
<b>1 point</b>	
<b>Notes:</b>	
A separate EOI was received for infrastructure improvement at Morton Palms Business Park, this is now included in this project.	
<b>Score (out of 5):</b>	<b>4</b>

SMART Objectives:			
<b>Satisfactory</b>	X	<b>Satisfactory with Conditions</b>	<b>Unsatisfactory</b>
<b>Appraiser Comments &amp; Conditions:</b>			
Smart objectives have been provided for the entire project.			
Installation of essential infrastructure on Ingenium Parc to create 11.5ha of developable land and 160 space car park for Morton Palms.			

Infrastructure will comprise one upgraded roundabout, 0.4km of upgraded road, 0.3km of new road, the provision of 5 utilities to the site, creation of 11.5ha of developable land and the creation of 160 space car park.

The site is wholly owned by DBC. Site investigations and all necessary studies are in place.

The project has been fully costed, ownerships are in place and a detailed project plan has been developed.

The project development has started, has a clear plan setting out the timing of key milestones with a clear end date.

**Environmental Sustainability:**

<b>Satisfactory</b>	X	<b>Satisfactory with Conditions</b>		<b>Unsatisfactory</b>
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**Appraiser Comments & Conditions:**

An issue has been identified with Great Crested Newts - there will be a requirement to translocate to sustainable urban drainage ponds which will include long term management and maintenance. The risk log identifies the issues around this and the need to liaise with the Friends of Maidendale Nature Reserve to obtain agreement - as medium to high risk with the potential for relatively high impact.

**Equality:**

<b>Satisfactory</b>	X	<b>Satisfactory with Conditions</b>		<b>Unsatisfactory</b>
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**Appraiser Comments & Conditions:**

This is an infrastructure project however the Public Sector Equality Duty requires DBC to have due regard in all its activities.

**Case 2 - Economic Case**

**Score either BCR or supporting impacts**

Metric	Value
<b>Headline impacts:</b>	
Jobs created - Direct	80 (2020/21) <i>Applicant states direct but these appear to be indirect</i>
Jobs created - Indirect	531
Jobs safeguarded	0
GVA increase	£53,980,000
Construction jobs	46
Indirect private sector leverage	£25,420,500
<b>Benefit Cost Ratio (BCR)</b>	<b>BCR requires further work</b>
<b>Score – BCR (out of 5)</b>	<b>TBC</b>

Metric	Cost per output	Score
<b>Supporting Impacts:</b>		
<b>Business growth</b>		
New enterprises created, no.		
Enterprises receiving support, no.		
Of which, for:		
- Investment readiness		
- Innovation		
- Export activity		
- Housing units		
- Other		
Enterprises receiving support for first-time, no.		
Enterprises receiving grants, no.		
Enterprises receiving financial support (non-grant), no.		
Enterprises cooperating with research institutions, no.		
Enterprises receiving non-financial support, no.		
<b>Research, Development, Innovation and Energy</b>		
Researchers working in improved facilities		
New to market products		
New to firm products		
Households with improved efficiency		
Decrease energy consumption in public buildings (kwh)		
HG reduction		
<b>Skills</b>		
Individuals supported, no.		
Apprenticeships supported, no.		
Apprenticeships (Level 2), no.		
Apprenticeships (Level 3), no.		
Apprenticeships (Level 4), no.		
Traineeships, no.		
Progression into employment, no.		
Further learning/training, no.		
Training/learning places, no.		
Learners assisted, no.		
Participants, no.		
Participants (below 25 years of age) who are unemployed OR inactive (not in education or training)		
Participants (aged 25-29 years of age) who are unemployed OR inactive (not in education or training)		

Unemployed (including long term unemployed) participants		
<b>Culture</b>		
Increase in no. of visitors		
Sqm cultural space		
<b>Transport</b>		
Sqm business accommodation		
Sqm of land remediated		
Km of railway		
Km of road		
<b>Infrastructure &amp; development</b>		
Sqm business accommodation		
Sqm of land remediated		
Km of railway		
Km of road	0.7	
<b>Housing</b>		
Housing units		
<b>Other</b>		
Parking provision (spaces)	160	
New Employment Land (sq/m)	111,500	
Utilities	5	
<b>Score (Average) – Supporting impacts (out of 5)</b>		<b>N/A</b>

**Notes:**

**The Economic Case will be scored on the BCR where available or the Supporting Impacts and TVCA benchmarks.**

**The score for this project is to be based on a revised BCR.**

**Headline Impacts**

Figures revised total jobs created 657, of which:

**80 Direct Jobs (logistics)** – Applicant has been challenged and confirms these are direct jobs as a result of the investment:

531 Indirect Jobs

46 Construction Jobs

**RECOMMENDATION: TVCA will require further evidence at due diligence of the direct nature of these jobs.**

It is anticipated that any private investment that follows on from the project will create these jobs. Methodology has been provided.

GVA Increase - £53,980,000 – Methodology provided. Will this not be as a result of the follow on investment?



**Supporting Outputs**

Km of road – 0.7 newly built and resurfaced roads.  
 New employment Land – 11.5ha developable land  
 Parking – 160  
 Provision of Utilities – 5  
 Commercial floorspace is not included but application states that 45,000sqm will follow as a result of this project

**Appraisers Comments:**

**The BCR requires further work.  
 External due diligence is recommended on the economic case.**

**Evidence of Need:**

<b>Satisfactory</b>	X	<b>Satisfactory with Conditions</b>		<b>Unsatisfactory</b>	
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**Appraiser Comments & Conditions:**

The applicant states that consultation has been undertaken as part of the master planning of Ingenium Parc. This has led to the identification of demand from a logistics operator that provides services to a major existing manufacturer to develop approx. 20,000sqm of distribution space.

There are also a number of other live enquiries from companies wishing to take between 2 and 10ha of developable land that would be suited to Ingenium Parc.

Evidence suggests that the creation of development ready employment sites will attract investment that will not only address the growing need for employment land to support Darlington’s Economic Growth, but will also address the wider economic issues in Tees Valley. Job creation and increase in GVA will follow as a result of this project.

**Options Analysis:**

<b>Satisfactory</b>	X	<b>Satisfactory with Conditions</b>		<b>Unsatisfactory</b>	
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**Appraiser Comments & Conditions:**

Applicant considered 5 options:

**Proposed TVCA investment – Chosen Option** - Install enabling infrastructure at Salters Lane to open up 11.15 ha developable employment land at Ingenium Parc, road improvements to Alderman Best Way and the creation of 160 parking spaces to address barriers to growth on Morton Palms Business Park.

The chosen option represents the best value in terms of the anticipated outputs – this is Phase 1. It is expected that Phase 2 could be funded by the disposal of the plots delivered via Phase 1.

**Reduced TVCA investment** – Install enabling infrastructure to open less than 11.15ha developable employment land. This is the minimum required to deliver the proposed outcomes

**Increased TVCA investment** – Install enabling infrastructure to open up 41ha of developable employment land. The demand is for plots up to 10ha. Also the timescale for development of the full site is such that it does not warrant full development at this stage.

**Do nothing** – Due to current barriers that have been identified it is likely that this option would see no investment in the site therefore not opening up a key employment site for development.

**Other – Develop alternative site** – other plots within DBC ownership have been considered, however they do not offer the size or scope for the kind of development offered by this site. This is due to its proximity to other large engineering firms, employment sites and access to transport links

**Dependencies on other proposals occurring after to generate the estimated outputs?**

Application state that this project is not reliant on other projects however the indirect jobs and increase in GVA will be delivered by the follow on private sector investment.

**Score – Dependencies on proposals occurring after (out of 2)**

**0**

**Nationally Significant:**

**Brief explanation of how the proposal is of national significance.**

N/A

**Economic Strategy & Intelligence**

**Keith Wilson, TVCA Economic Strategy & Intelligence Manager**

Concern regarding the calculation of the BCR and the benefits attributed to the project. Further work is required.

**RECOMMENDATION: Independent due diligence recommended on the economic case.**

**Transport**

**Fran Manancourt, TVCA Transport Team**

Elements of this project will result in:-

- A reduction in travel time delays;
- Improved air quality through the efficient movement of traffic;
- Unlocking development site; and
- Improving the road user experience and creating the right conditions for new investors and existing business to invest further.

Concern regarding supplying parking as this will have been constrained through planning to encourage alternate access to the existing businesses. Other than the provision of cycleways alongside the new carriageway there is no mention of how to tackle existing and future car usage.

**RECOMMENDATION: DBC to work closely with the planning team to ensure**

**the strategy to encourage more sustainable transport choices is upheld.**

Breakdown of construction costs provided but not whether it is part of the roundabout improvement, resurfacing works, new road or new pedestrian/cycleways, therefore it is difficult to compare to other schemes.

**RECOMMENDATION: External due diligence on the costs to ensure they are value for money and align with the NPIF requirements.**

**Case 3 – Commercial Case**

Aspect	Status	Score (out of 2)
Feasibility study	Required – in progress	1
Land ownership	Already complete – DBC own	2
Planning permission	Required – in progress	1
Detailed design	Required – in progress	1
Dependency on other proposals occurring <u>before</u> for delivery	No – outputs are reliant of leverage after delivery but not before.	2
Risk	Risk log complete – a couple of environmental issues recorded as medium/high impact with significant likelihood. Procedures are in place to monitor risks and the risk log will be regularly monitored and updated.	1
<b>Score – total (out of 12):</b>		<b>8</b>

**Notes:**

**The business case proposed the additional funds were a loan from TVCA to DBC. A meeting took place between the TVCA Finance Director and DBC to discuss alternative options for investment.**

The following was agreed:

The loan element of the investment will be c. £1.6m (max) of the c. £5.5m total cost of the overall scheme. The timing and value of the repayment of the loan will be wholly dependent upon the successful sale of the development sites.

That the Council will be actively marketing the site and that TVCA will be entitled to a share of all Phase 1 land receipts at a rate of 17/50 (34%) as and when sales take place. On the basis that the investment is risk-based, TVCA will only be entitled to 34% of sales proceeds which means that TVCA share proportionately in any loss or profit over the lifetime of the Ingenium Parc Phase 1. The maximum we will repay is 34% of actual disposal proceeds but it will not be capped at £1.6m (shared risk / reward).

The revised funding package of £5.5m is:-  
 Local Growth Fund £2.3m  
 Tees Valley Combined Authority £1.6m  
 Darlington Borough Council £0.6m  
 NPIF Grant £1m

**Procurement:**

<b>Satisfactory</b>	X	<b>Satisfactory with Conditions</b>		<b>Unsatisfactory</b>	
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**Appraiser Comments & Conditions:**

Procurement will be done in accordance with DBCs Contract procedure rules. DBCs Principal Lawyer (commercial) has overseen the proposed procurement processes.

**Legal & Commercial**

**Julie Prior, Legal and Commercial Manager**

The funding will be provided largely as a loan on TVCA standard loan terms and there are no property issues given the land is already in DBC's ownership. On this basis, there are no specific concerns on a legal or commercial nature at this point (other than State Aid compliance – see below).

**Case 4 - Financial Case**

<b>Year(s) of spend</b> <i>Tick all that apply</i>		
	2017/18	<b>X</b>
	2018/19	<b>X</b>
	2019/20	
	2020/21	
	2021/22	
	2022/23	
	2023/24	
<b>Aspect</b>	<b>Notes</b>	<b>Score</b>
<b>Financial instrument (out of 5)</b>	Mix of grant an investment on a shared risk/return basis – therefore scored 2.5 as there is a partial financial return to TVCA. Advance of £300k to be paid (£100k grant and £200k loan).	2.5
<b>Public match (out of 2)</b>	£600,000 contribution from DBC £1,000,000 NPIF grant	2
<b>Private match (out of 2)</b>	No private match	0
<b>Public-Private funding ratio (out of 3)</b>	No private match	0
<b>Score – total (out of 12)</b>		<b>4.5</b>

<b>Costs / Payback / Assets used as match / Market Costs &amp; Assumptions</b>			
<b>Satisfactory details of the above have been provided?:</b>	<b>Yes</b>	<b>X</b>	<b>No</b>
<b>If No, enter appraiser comment:</b>			
<b>Quarterly Financial Breakdown (Total Project Costs)</b>			
<p>A breakdown of eligible expenditure under cost headings and a profile of all funding sources by quarter needs to be provided by the applicant for approval by TVCA.</p> <p>This will form the quarterly payment schedule and basis of the claim and monitoring pack.</p>			
<b>Finance Manager</b>			
<b>Neil Cuthbertson, TVCA Accountant</b>			
<p>As the applicant is a Local Authority there is no financial risk associated with the organisation which would impact upon the deliverability of the project.</p> <p>The proposed costs have been compiled in accordance with the organisations rates and policies – and these will be checked more thoroughly during the due diligence process along with the assumptions that have been made. A study of the cashflow headings does not flag up any issues around eligibility of expenditure.</p> <p>The match funding for this project is confirmed, however one point to note is that in the project funding cashflow it is indicated the NPIF funding is to be utilised over 3 financial years – this cannot be the case. TVCA issued the NPIF grant to DBC and the terms and conditions of this grant are that this funding is for 2017/18 only – therefore the funding profile needs to be amended to reflect this.</p>			



<b>Case 5 - Management Case</b>		
<b>Aspect</b>	<b>Notes</b>	<b>Score (out of 3)</b>
<b>Mgmt. structure</b>	Management structure has been described in detail including a description of activities.	1
<b>Key milestones</b>	Milestones are limited. Further information needs to be provided and agreed with TVCA during due diligence.	1
<b>State-aid</b>	State aid advice has been sought from Principal Solicitor at DBC. Information is missing and has been chased on a number of occasions. Due diligence required.	0
<b>Score – total (out of 3)</b>		<b>2</b>

Milestones				
Feasibility study			14/11/2017	
Detailed design			20/11/2017	
Planning permission			27/11/2017	
Date tender issued			Various (DBC will be principal contractor)	
Date contract let			01/12/2017	
Work start date			14/02/2018	
Practical completion date			30/09/2019	
Site open			30/09/2019	
Site Investigations:				
Satisfactory	X	Satisfactory with Conditions		Unsatisfactory
<b>Appraiser Comments &amp; Conditions:</b> Site investigations are complete for the parking provision at Alderman Best Way and are currently underway at the western gateway to Ingenium Parc at Salters Lane. These include bore hole and inspection pits and are due to be concluded in October 2017. Report expected November 2017.				
Track Record of Applicant:				
Satisfactory	X	Satisfactory with Conditions		Unsatisfactory
<b>Appraiser Comments &amp; Conditions:</b> DBC has experience of delivering infrastructure projects of this scale.				
Partners:				
Satisfactory	X	Satisfactory with Conditions		Unsatisfactory
<b>Appraiser Comments &amp; Conditions:</b> There are no partners.				
Evaluation:				
Satisfactory	X	Satisfactory with Conditions		Unsatisfactory
<b>Appraiser Comments &amp; Conditions:</b> DBC is happy to agree monitoring and evaluation requirements with TVCA.				
Exit Strategy:				
Satisfactory	X	Satisfactory with Conditions		Unsatisfactory
<b>Appraiser Comments &amp; Conditions:</b> This is an infrastructure project that will deliver developable land.				

Appraisal Score:			
Section	Score	Factor	Final Score (max 10 per case)
Strategic case	4	2	8
Economic case*	TBC	1.43	TBC
Commercial case	8	0.83	6.7
Financial case	4.5	0.83	3.8
Management case	2	3.33	6.7
<b>TOTAL SCORE</b>			<b>25.1</b>
<b>TOTAL SCORE AS %</b>			<b>50%</b>

*\*Economic case to be scored after further work and due diligence.*

Appraisal Recommendations:		
Do Not Approve	<b>Approve with Conditions</b>	Approve
<p><b>Are all sections <i>Satisfactory</i>?</b>  <b>If any are <i>Satisfactory with Conditions</i> or <i>Unsatisfactory</i> - comment below with suggested conditions</b></p>		
<p>1. Further work to be undertaken on the BCR, aligned with DCLG updated guidance for infrastructure projects. Economic Case is yet to be scored.                  2. Formal legal opinion and missing State Aid information to be provided and assessed by TVCA Legal and Commercial Manager.</p>		
<p><b>Do any sections require external Due Diligence?</b>  <b>e.g. project costs</b></p>		
<p>3. Economic Case                  4. Costs</p>		
<p><b>What additional information/evidence is required to complete due diligence?</b></p>		
<p>As above.</p>		

<b>Sign off</b>			
<b>Initial appraiser signature:</b>		<b>Date:</b>	26 <sup>th</sup> October 2017
<b>Lead appraiser signature:</b>		<b>Date:</b>	10 <sup>th</sup> November 2017

<b>Final Appraisal Outcome</b>			
<b>Delegated Decision Ref OR Date of Cabinet Meeting:</b>	23 <sup>rd</sup> November 2017		
<b>Panel Discussion Date &amp; Attendees:</b>	10 <sup>th</sup> November 2017 Finance Director, Julie Gilhespie Investment Director, Alison Fellows Investment Manager, Sarah Walker		
<b>Record of Decision:</b>	To commit a further £1.7million to the project on a shared/risk reward basis 17/50 (34%).		
<b>Funding Source:</b>	Local Growth Fund		
<b>Government Reporting Process:</b>	Logasnet		
<b>Finance Director:</b>		<b>Panel Date:</b>	10 <sup>th</sup> November 2017



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**THIS REPORT IS CONFIDENTIAL AS IT CONTAINS EXEMPT INFORMATION AS  
DEFINED IN PARAGRAPH 3 OF PART 1 OF SCHEDULE 12A TO THE LOCAL  
GOVERNMENT ACT 1972**

**AGENDA ITEM 13**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET**

**23 NOVEMBER 2017**

**REPORT OF THE INNOVATION  
AND TECHNOLOGY MANAGER**

**PORTFOLIO: INNOVATION**

**DISTRICT HEATING**

**SUMMARY**

This report provides an update on the proposal for a significant District Heating system, initially focused on Middlesbrough town centre, and connecting the James Cook Hospital and Teesside University. The Combined Authority has now completed an Outline Business Case for the Project. The Project proposes to use waste heat and electrical power from a nearby anaerobic digester (owned by the private sector) and/or a gas fired Combined Heat and Power (“CHP”) unit and distribute the heat and electricity to public buildings in the town. It offers the scope for further expansion and the network is developed over time, including to residential properties.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. Note progress in developing the Middlesbrough District Heating project
- ii. Agree that the Combined Authority should negotiate and enter into Memoranda of Understanding with the key energy off-takers (the Hospital Trust and University) to confirm intention to off-take (subject to commitment on price)

- iii. Agree that the Combined Authority should negotiate and enter into an “in principle” supply agreement with the owner of the anaerobic digestion plant to agree terms for the supply of heat and electricity to inform the Project going forward;
- iv. Agree that, in principle, if a business case can be proved, and investment can be funded by the Combined Authority’s borrowing powers without impact on other investment priorities, the Combined Authority would be prepared to be an investor in the Project;
- v. To gauge the level of investor interest, alongside the Combined Authority, while retaining a significant degree of public sector control; and
- vi. Delegate to the Managing Director an allocation from the Combined Authority’s Development Fund to support the next (pre-procurement) phase of the project, and to seek contributions from other partners and from central government, up to a total value of £500k.

If Cabinet supports these recommendations, a further report would be brought forward in summer 2018, with a further update on the Project, and to consider the business case for proceeding with an investment proposal.

## DETAIL

1. A district energy scheme is essentially central heating on an urban scale, which brings significant fuel efficiencies (and hence cost savings, carbon dioxide reductions and air quality improvements) to the area served. Heating and electricity are provided centrally by “energy centres” which deploy energy from technologies such as highly efficient CHP plants, waste heat from industrial processes, geothermal energy and other sources. In many cases the electricity which is also produced can be delivered by means of new wires laid in the same trenches as the hot water pipes at a lower cost to the consumers than Northern Power Grid. This is because private electrical wires do not have to pay for regulatory costs imposed on national distribution networks.
2. Studies into district energy started in 2010 when Parsons Brinckerhoff were commissioned to investigate the opportunity across the whole Tees Valley area. They identified thirteen clusters of potential energy consumption, which they then narrowed down to five (one in each council area). Redcar and Cleveland Borough Council then commissioned Ramboll to study the supply of waste heat from Wilton to Middlesbrough but the distance was too far for it to be viable at this stage. Funding was then secured through the Tees Valley City Deal, and Middlesbrough Council obtained “HNDU” funding from BEIS which, together, have paid for the studies leading to this opportunity.
3. In parallel, Stockton Borough Council also obtained City Deal support for studies, which they have been taking forward in respect of industrial sites north of the Tees. Over time, it may be possible to link these schemes across the River, but at this stage they are being taken forward separately.
4. This report therefore focuses on the opportunity for an energy scheme for Middlesbrough town centre, extending as far as James Cook Hospital, as shown in **APPENDIX 1**. We understand from BEIS that this one of the bigger schemes proposed in the UK and that it is also has some of the highest rates of return, so will be a nationally-significant flagship project.

## Details of the Scheme

5. The technical outline design and business case of the Middlesbrough District Energy scheme has been prepared on behalf of the Combined Authority and Middlesbrough Borough Council by AECOM and Grant Thornton. Legal advice on commercial structures was provided by Bond Dickinson.
6. The project is structured in three phases:
  - a. The first phase will deliver a combined heat and power plant at James Cook University Hospital providing heat and power to the site. The hospital's current heat contract comes to an end on 31<sup>st</sup> June 2019, structuring this element as the first phase allows the project to meet this timeline. This has a capex of £10million.
  - b. The second phase is the development of a district heating and electricity network in Middlesbrough Town Centre using a combined heat and power plant (located on Richmond Street) with an additional connection to an existing anaerobic digester (located on Forty Foot Road) which would provide heat and power. The financial model is based on taking heat from the purpose built CHP to ensure economic resilience, however the cheaper heat will be used from the anaerobic digester while it is available to improve the economic returns and carbon impacts. The capex for this phase is £24.5million.
  - c. The third phase is to join the hospital and town centre together to optimise the economics and pick up new consumers. The capex of this element is £3.5million.
7. All heat supplies are backed-up by gas fired boilers to provide resilience; all electricity supplies are backed-up by the Northern Power Grid.
8. The anaerobic digestion plant on Forty Foot Road on Riverside estate has been operational for approx. 2 years. This processes waste food into biogas which is burned in reciprocating engines<sup>1</sup> to generate renewable electricity. None of the heat from these engines is currently being captured, and since these engines are there, already 'paid for', running and renewable, it is clear they are a better technical option than installing new gas CHP fuelled engines.
9. However, commercially contracting with that private sector third party would expose the district energy project to the risk of that company failing. Therefore we have technically designed the scheme for the town centre to have its own CHP, yet still connect to the anaerobic digestion plant. Our base case economic model assumes that our own CHP is used to provide the heat and power (and the rates of return of the base case are lowered to reflect that), but most likely the anaerobic digestion plant will supply the heat and power, in which case we will benefit from an upside scenario. Despite this very prudent position on our part, the prospect of supply from the anaerobic digestion plant is real – the Combined Authority is keen to achieve the even greater carbon savings this option presents, and we have agreed Heads of Terms with the anaerobic digestion plant. There are further spin off benefits, such as the potential to lay a gas pipe in the heat network trenches to distribute biogas to consumers in the area.

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<sup>1</sup> These engines are very similar to the CHP plant the project will install; they just don't have the equipment at the moment to recover the waste heat. The project will fund the relatively modest cost fitting of heat recovery to those engines as part of the capex.

10. Other heat sources which have been considered include:
- a. river source heat pumps (only heat available),
  - b. the ECO2 biomass power station being built at Port Clarence (only heat available),
  - c. a second anaerobic digestion plant operational on South Bank (further away and we don't need two, but viable and remains an option),
  - d. waste industrial heat from chemical industry (too far away but potential to use in future as the network develops, particularly via a potential connection with the scheme being developed by Stockton Borough Council near the Newport Bridge or the new Tees crossing).
11. The life of the pipes and wires in the ground is over 40 years, so that is the timescale of the project and it is common for the offtake contracts with customers to be for the same timescale. The energy sources however are more likely to be renewed on a 12-15 year cycle, allowing consumers on the whole network to easily benefit from advances in technology.
12. The main offtakers of the scheme are James Cook University Hospital which is responsible for 60% of the heat offtake, Teesside University with 23% of total heat demand, Middlesbrough Council with 3%, and other buildings including the combined court, magistrate's court, police station and Middlesbrough College with 14% demand. The initial offtakers are >97% public sector and >97% built (measured by energy consumption) and therefore low risk. All these offtakers are interested in the scheme. It is proposed that the major offtakers are asked to enter into MoUs confirming their offtake, mitigating the project's risk and allowing the business case to proceed.
13. The South Tees NHS Trust's long term contract for heat supply to James Cook Hospital expires mid-2019 and the existing assets are inefficient and require renewal. The Trust is eager to obtain energy costs savings and carbon savings and they would install a combined heat and power plant in isolation if the wider district energy scheme was not to go ahead. The hospital's alternative would be structured as a PFI, which they are keen to avoid, and their executive team is keen to be collegiate with the public sector locally. The Trust recognises that neither their own scheme nor ours could be delivered by mid-2019, but their eagerness to obtain benefits quickly presents a one-off opportunity now for this project to secure the hospital's energy demand as an anchor customer (representing over half the demand to be supplied by the project initially).

### Energy Cost Savings and Carbon Reduction

14. Electricity and heat will be sold to the customers at 90% of their alternative acquisition cost (electricity from the grid and heat from gas boilers). The fixed portion of the contract will be indexed against RPI and will be fixed at level which allows the Special Purpose Vehicle to cover the capital costs of building the Network. The variable portion of the contract will be indexed against the gas price. The net present values of these savings are calculated to be as follows:

Customer	NPV of the 10% energy saving	% offtake
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NHS Trust	£12.3m	60%
University	£2.8m	23%
Middlesbrough Council	£0.9m	3%
Others	£2.6m	14%

15. The CO<sub>2</sub> emissions savings resulting from the scheme are 1,394 tCO<sub>2</sub>pa assuming the scheme runs only on gas CHP. If the upside scenario occurs and we use the anaerobic digester the carbon savings are 6,743 tCO<sub>2</sub>pa.

### **Commercial Structure**

16. The intention is to establish a special purpose vehicle (SPV), which will own the district energy infrastructure assets, including the pipes, energy centre buildings, and CHP engines. It would not own the Anaerobic Digester but would have a contractual relationship with this company. The Private Wires would be owned by the SPV.

17. Potential commercial structures range from wholly public sector owned through to a majority private sector shareholding. The Combined Authority will bring forward a recommendation to Cabinet in summer 2018 on the preferred commercial structure including and analysis of the benefits and disadvantages of each model.

18. Discussion with offtakers and soft market testing with potential private sector investors are currently underway to identify what other potential sources of funding are available to the Project and on what terms. This market testing will also include the Teesside Pension Fund.

19. The SPV would procure a design, build, operate and maintain contract from an experienced operator. This operator will be responsible for metering and billing the customers. The SPV would also contract with other providers such as the alternative heat and power source(s), gas and power connections, and any land requirements.

### **Project Delivery**

20. To significantly reduce the Project's risk, it is proposed that, by early Spring 2018, each of the major off-takers must have entered into a Memorandum of Understanding with the Combined Authority to confirm their commitment to Offtake from the Network (subject to commitment on price); and to share the development costs of the Project. The off-take commitment is a prerequisite to the Combined Authority's willingness to progress further with the Project, since without a firm commitment from the anchor partners, the risk of the Project would rise significantly.

21. In addition, the following activities are also to be performed by the Combined Authority before the end of the year, at the Combined Authority's risk:

- a. Writing tender specifications for advisors (legal, financial, and technical);
- b. Holding in principle discussions with candidate advisors;
- c. Writing job descriptions for project team and prepare recruitment documents; and
- d. Preparing a draft joint working agreement.

22. The indicative timetable for the Project is as follows:

- Early spring 2018. Final agreement on funding model, commercial structure and procurement approach.
  - Spring. Re-submit to Cabinet for approval to continue.
  - Spring - Summer 2018. Complete the planning of the procurement. This will include any early work to commence dealing with long lead-in capital items (if any), planning permission for new CHP buildings and pre-procurement supplier engagement.
  - Summer 2018 to Autumn 2019. Procurement and finalisation of commercialisation, culminating in the final approval and financial close. Detailed commercialisation will be undertaken including signing major contracts with heat and electricity suppliers and offtakers, and the business case finalised.
23. An initial development budget of £500k is required to cover the pre-procurement phase. The spend of this development funding will be subject to a series of decision gates, the first being once the Memorandum of Agreement is entered into with the offtakers.
24. There is the potential for a grant from BEIS to contribute to the development fund, if this is successful, the Combined Authority's contribution will be reduced accordingly.
25. The Combined Authority will be the accountable body for the development budget and procurement prior to the SPV being established, and will lead the project until delivery when it will transfer to the SPV.

## FINANCIAL IMPLICATIONS

26. As described in paragraph 9, the gross capital investment is around £40 million. However, because cost beyond 2023 can be met from returns generated through the Project itself, the net capital expenditure is estimated at £23.5 million. The form, profile and extent of Combined Authority investment, alongside other potential investors, will be the subject of a further cabinet approval.
27. The project's current estimated Internal Rate of Return (IRR) for the base case is 10.97%, pre financing cost, nominal and pre-tax. The project post-tax IRR is 10%. It is expected that the IRR will be optimised during pre-procurement by refining the financial model, with some scenarios suggesting a more significant return.
28. The spend profile of the total capex investment over the three phases is shown in **Appendix 2** and the cash available for debt service over the 40 project life is shown in **Appendix 3**.
29. To date £420,000 has been spent on the project by TVCA (sourced from the City Deal grants from government) and £160,00 spent by MBC (two thirds from BEIS and one third match) to reach an outline technical design, economic model and outline business case. This expenditure has been managed by TVCA who formed a governing steering group with expert oversight provided by the Department for Business, Energy and Industrial Strategy. The Outline business Case includes an analysis to ensure there has been no "optimism bias" to date on the part of the development team. The next stage of work will require a development budget of £500k to move from Outline Business Case (now) to commence procurement. This will be sourced from the Combined Authority's Development Fund, and potentially from other partners and central government.

## **LEGAL IMPLICATIONS**

30. In order to minimise the risk that the procurement process becoming abortive, the Memorandum of Agreement will ask the offtakers to confirm their shared commitment to offtake heat and energy from the Network and to provide a share of the costs of developing the Project.
31. The Combined Authority will seek to include provisions dealing with cost implications of breaching the shared commitments set out above. The aim of these provisions will be to ensure to the extent possible that the Party in breach reimburses the other Parties for any abortive procurement costs incurred as a result of that breach.
32. There are no further legal implications at this time.

## **RISK ASSESSMENT**

33. The district energy market in the UK is relatively immature. There is a relatively small number of potential private sector equity partners who have a demonstrable track record market. This is compounded by the public sectors relative lack of knowledge of district energy, since that is likely to increase our reliance of the private sector partners. With the help of BEIS, we have therefore engaged in soft market testing with those entities with good track records and, so far, the results have been positive.
34. There is significant risk that one of the other Parties may drop out as energy offtakers before financial close, which we have sought to mitigate by asking them to complete a similar approvals process to this. The maximum value at risk in total is the £1m development budget (or TVCA's share of this, as described above) and we are further seeking to mitigate this via a development grant from BEIS and by putting in place a Memorandum of Agreement (see Legal Implications section above). In addition, heads of terms for energy supply have been provided to them as well as the techno-economic model used to set the pricing.
35. In order to keep the hospital on board (as by far the largest anchor customer) we will be undertaking to deliver that aspect of the project first (it happens to be one of the technically easier elements of the project to procure and build). In order to protect them against their risk that TVCA or one of the other Parties withdraws unexpectedly, we will structure the procurement such that it can be reduced in scope to focus in on just their solution in isolation if necessary.
36. The risk of customer demand reducing to the point where costs are not recovered will be addressed via a fixed price element in the charging structure
37. District energy schemes are mature in Scandinavia, so most of the technical risks are well understood and managed. However, in the UK some early schemes have failed to achieve their efficiency targets or have established pricing formulae which have actually increased customer's costs. The work to date has therefore been tested for 'optimism bias' by Grant Thornton. Since this is to some extent Grant Thornton checking their own work, this will need to be repeated by others. Other risks in this category are that costs are assumed to be too low (standard benchmarks have been used) or that energy price projections are incorrect (approved government figures have been used).
38. A further risk for a forty year project is that the technology is superseded. To some extent that is already predicted, as beyond year 15 we do not view gas combined heat and power as a sufficiently low carbon solution. However the energy source assets



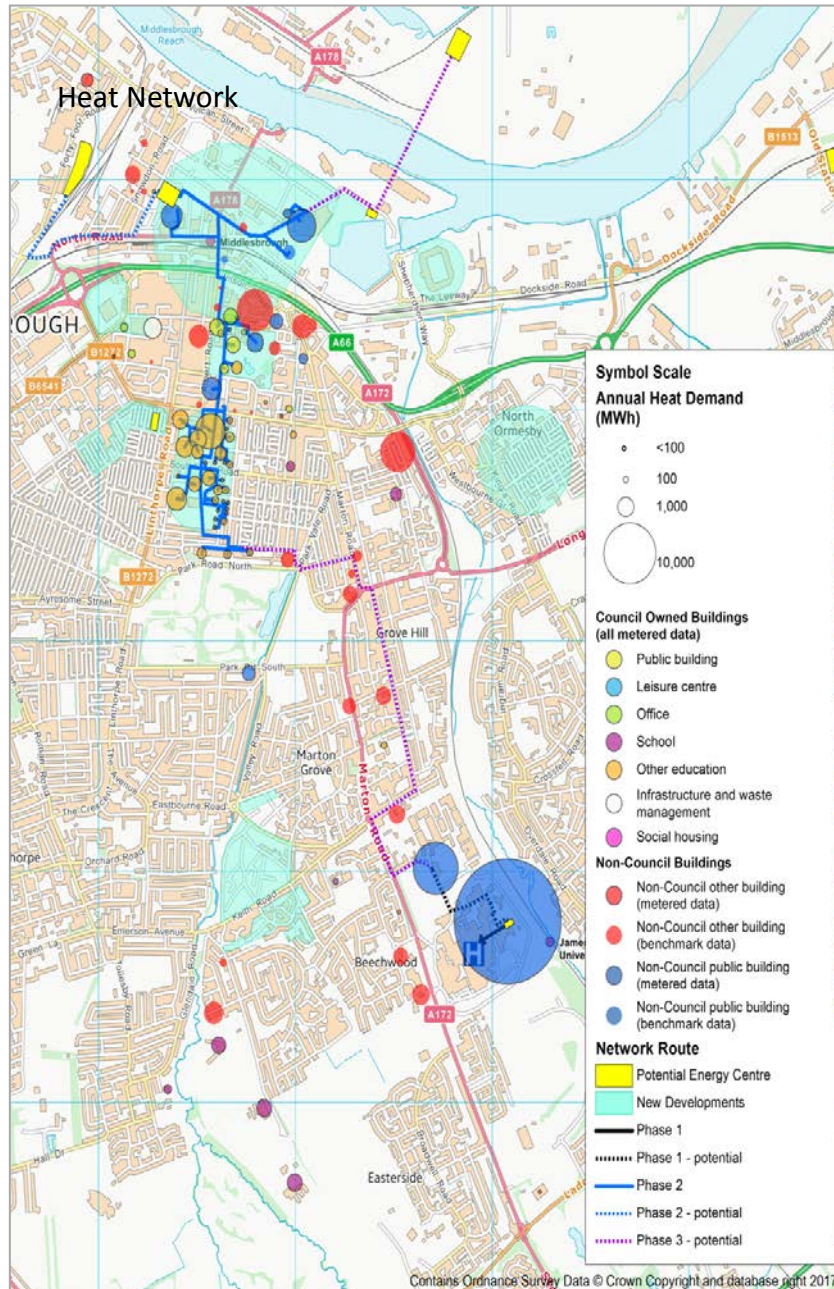
(engines) are budgeted to be renewed on a 15 year cycle, so that presents the opportunity to convert to the next technology at that time.

39. There is a risk that the Combined Authority does not get borrowing powers or that the borrowing cap is too limited to be able to invest the £10m. However those powers are expected to be presented to Parliament soon, and should be approved in January before we sign the MoU with the other Parties.

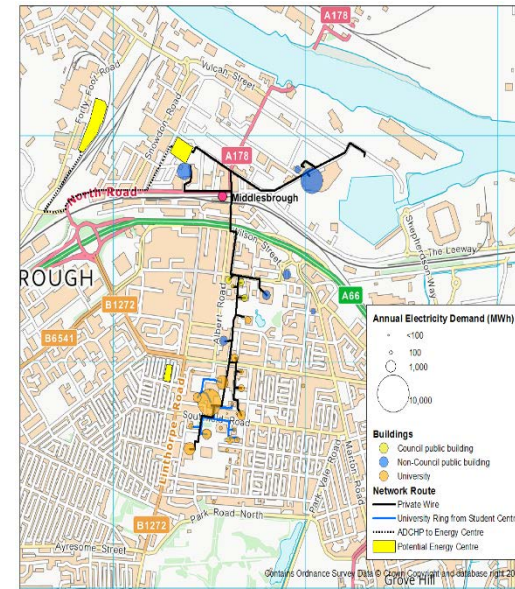
**Name of Contact Officer: Sarah Tennison**  
**Post Title: Innovation and Technology Manager**  
**Telephone No. 01642 524440**  
**Email Address: [sarah.tennison@teesvalley-ca.gov.uk](mailto:sarah.tennison@teesvalley-ca.gov.uk)**

Technical Background Papers are available from the Combined Authority on request.

## Appendix 1 Extent of the initial heat and private wire networks

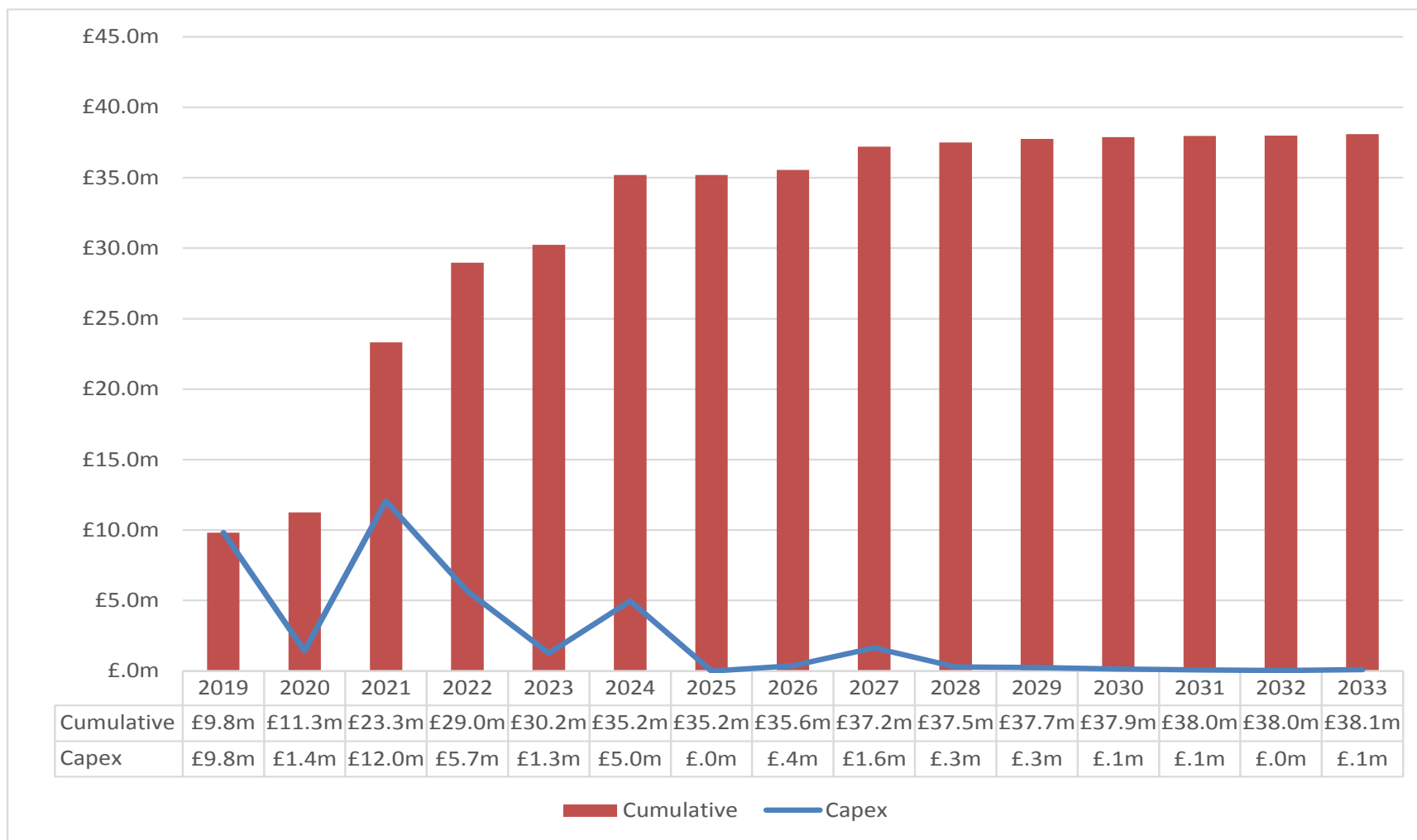


## Private Wire Network



The diameters of the circles marking the buildings are proportional to the energy consumption of the buildings.

**Appendix 2** Capex and Cumulative Capex (in £ millions). Dates are Year Beginning October of that year (based on Financial Close 1 Oct 2019)



**Appendix 3** Cashflow Available for Debt Service. Year Beginning October of that year (based on Financial Close 1 Oct 2019)

