Tees Valley Combined Authority Cabinet Agenda

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Date: Friday 25th October 2019, at 10.00am
Venue: Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY

Membership:
Mayor Ben Houchen (Tees Valley Mayor)
Councillor Heather Scott (Leader of Darlington Borough Council)
Councillor Shane Moore (Leader of Hartlepool Borough Council)
Mayor Andy Preston (Mayor of Middlesbrough)
Councillor Mary Lanigan (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:
Zoe Lewis (Member of Tees Valley Local Enterprise Partnership)
Professor Paul Croney (Member of Tees Valley Local Enterprise Partnership)
Jerry Hopkinson (Member of Tees Valley Local Enterprise Partnership)
Angela Howey (Member of Tees Valley Local Enterprise Partnership)
Mike Matthews (Member of Tees Valley Local Enterprise Partnership)
Mark South (Member of Tees Valley Local Enterprise Partnership)
Nigel Perry (Member of Tees Valley Local Enterprise Partnership)
David Soley (Member of Tees Valley Local Enterprise Partnership)
Graham Robb (Member of Tees Valley Local Enterprise Partnership)
Siobhan McArdle (Member of Tees Valley Local Enterprise Partnership)
Annabel Turpin (Member of Tees Valley Local Enterprise Partnership)
Vikki Jackson-Smith (Member of Tees Valley Local Enterprise Partnership)
Brenda McLeish (Member of Tees Valley Local Enterprise Partnership)

AGENDA

1. Apologies for Absence

2. Declarations of Interest

Attached

3. Minutes

Minutes of the meeting held on 26th July 2019 for confirmation

4. Matters Arising

5. Mayor's Update

Attached

6. Governance and Appointments

Attached

7. Investment Plan - £30m Business Growth Programme

Attached

8. Investment Plan Delivery Report

Attached

9 The Northern School of Art, New Middlesbrough Site/Facility

Attached

Appendix D is not for publication by virtue of paragraph 3 of schedule 12A of the Local Government Act 1972

10. Demand Responsive Transport

This report is not for publication by virtue of paragraphs 3 of schedule 12A of the Local Government Act 1972

11. Teesside International Airport

This report is not for publication by virtue of paragraphs 3 of schedule 12A of the Local Government Act 1972

12. Middlesbrough District Energy Network - Update

This report is not for publication by virtue of paragraphs 3 of schedule 12A of the Local Government Act 1972

13. Tees Valley Residual Municipal Waste Treatment Project

This report is not for publication by virtue of paragraphs 3 of schedule 12A of the Local Government Act 1972

14. Any Other Business

15. Date and Time of Next Meeting:

Friday 31st January 2020 at 10am

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: John Hart, 01642 524413 or john.hart@teesvalley-ca.gov.uk

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 the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, 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.

Minutes

TEES VALLEY COMBINED AUTHORITY CABINET

Cavendish House, Teesdale Business Park, Stockton-On-Tees at 10.00am on Friday 26th July 2019

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

ATTENDEES	
Members	
Mayor Ben Houchen (Chair)	Tees Valley Mayor
Councillor Heather Scott	Leader, Darlington Borough Council
Councillor Shane Moore	Leader, Hartlepool Borough Council
Councillor Mary Lanigan	Leader, Redcar and Cleveland Borough Council
Councillor Bob Cook	Leader, Stockton-on-Tees Borough Council
Associate Members	
Paul Booth	Chair of Tees Valley Local Enterprise Partnership
Angela Howey	Member of Tees Valley LEP
Jerry Hopkinson	Member of Tees Valley LEP
Annabel Turpin	Member of Tees Valley LEP
Apologies for Absence	
Mayor Andy Preston	Mayor of Middlesbrough
Darren Hankey	Member of Tees Valley LEP
Professor Paul Croney	Member of Tees Valley LEP
Graham Robb	Member of Tees Valley LEP
Mike Matthews	Member of Tees Valley LEP
David Soley	Member of Tees Valley LEP
Vikki Jackson-Smith	Member of Tees Valley LEP
Alby Pattison	Member of Tees Valley LEP
Mark South	Member of Tees Valley LEP
Nigel Perry	Member of Tees Valley LEP
Siobhan McArdle	Member of Tees Valley LEP
Brenda McLeish	Member of Tees Valley LEP
Officers and Others in Attendance	
Paul Wildsmith	Managing Director, Darlington Borough Council
Julie Danks	Chief Executive, Stockton on Tees Borough Council
Gill Alexander	Chief Executive, Hartlepool Borough Council
Sarah Robson	Corporate Director of Economic Growth, Enterprise and Environment, Redcar and Cleveland Borough Council
Tony Parkinson	Chief Executive, Middlesbrough Council
Linda Edworthy	Strategy Director, Tees Valley Combined Authority
Neil Cuthbertson	Finance Manager, Tees Valley Combined Authority
Sarah Brackenborough	Governance Manager, Tees Valley Combined Authority
Alison Fellows	Investment Director, Tees Valley Combined Authority
Tom Bryant	Head of Transport, Tees Valley Combined Authority

Gareth Roberts	Senior Manager, Mazars
Cameron Waddell	Partner, Mazars

TVCA 11/19	Mayor Houchen noted that although apologies had been submitted from Darren Hankey, Principal of Hartlepool College of Further Education, this would be his last meeting as the Further Education Representative. He noted thanks to Darren, on behalf of the Cabinet, for all his hard work. Zoe Lewis, Principal of Middlesbrough College would be the Further Education Representative for the next academic year.
TVCA 12/19	**DECLARATIONS OF INTEREST** None.
TVCA 13/19	**MINUTES OF PREVIOUS MEETING** RESOLVED that the minutes of the meeting held on 28th June be confirmed and signed as a correct record.
TVCA 14/19	**MATTERS ARISING** None
TVCA 15/19	**MAYOR'S UPDATE** Cabinet considered the Mayor's Update report. Mayor Houchen updated on some areas that were not included within the report. Following the announcement on British Steel a national support group chaired by the Secretary of State had been meeting weekly. All efforts were focused on achieving the sale of the whole of the business. There were several bidders currently in the due diligence process. Mayor Houchen committed to keeping all partners informed of progress. The re-brand of Teesside International Airport as it was now called had been well received. Mayor Houchen thanked Mark Cross in the Combined Authority's Communications and Marketing team for all of his work on the design for the re-brand, which had been delivered completely in-house. Progress had been made on accelerating national and local policy on freeports and support had been pledged by the new Prime Minister. RESOLVED that the Mayor's Update be noted.
TVCA 16/19	**DECISION OF OVERVIEW & SCRUTINY COMMITTEE CALL-IN** Mayor Houchen noted that there was no longer a call-in request.
TVCA 17/19	**GOVERNANCE AND APPOINTMENTS**

	The report set out various appointments including the Chair and Vice Chair nominations for the Overview and Scrutiny Committee, Audit and Governance Committee and Transport Committee. It also confirmed Zoe Lewis as the Further Education Representative on the Local Enterprise Partnership. It was reported verbally that Councillor Storey had been nominated as Chair of the Audit and Governance Committee and Councillor Harrison as Vice Chair. Councillor Lynn Pallister was nominated as the representative on the South Tees Development Corporation Audit and Risk Committee. The Cabinet discussed the changes to the political balance of the Overview and Scrutiny Committee and Audit and Governance Committee and agreed that, until this has been confirmed, that their nominations for Chair and Vice Chair should be deferred and re-considered. RESOLVED that: i. the nominations for Chair and Vice Chair of the Overview and Scrutiny Committee and Audit and Governance Committee be deferred and re-considered until political balance has been confirmed; ii. all other appointments as set out in the report be agreed.
TVCA 18/19	**STRATEGIC TRANSPORT PLAN** Cabinet was presented with the Strategic Transport Plan. The Tees Valley Combined Authority is the Local Transport Authority for the Tees Valley and had therefore led on the development of a draft Strategic Transport Plan. It was proposed that the Combined Authority consult on the plan with the public and key stakeholders between August and October 2019 through an online and paper-based questionnaire and at least one event within each local authority area. The Mayor thanked the team for their work on the draft plan and asked all partners to spread the message that the plan was open for consultation. RESOLVED that the draft Strategic Transport Plan be approved for the purposes of consultation between August and October 2019.
TVCA 19/19	**BUS NETWORK DELIVERY OPTIONS** The Cabinet considered a report on Bus Network Delivery Options. It was proposed that a new demand responsive model is piloted to provide better access for some of the rural communities in Darlington, Hartlepool and Redcar and Cleveland. The Combined Authority had also been exploring bus network delivery options in light of the Bus Services Act 2017 (the 2017 Act). A summary was provided of these new options and an update on developments within the Mayoral Combined Authorities in England. The Cabinet welcomed the report and reiterated the importance of piloting new approaches. RESOLVED that:

	i. the proposal to pilot a new demand responsive model to provide better access for some of the rural communities in Darlington, Hartlepool and Redcar & Cleveland be noted; ii. The proposal to explore further a new partnership agreement with bus operators be noted.
TVCA 20/19	**TEES VALLEY LOCAL INDUSTRIAL STRATEGY** Cabinet considered a report which outlined the draft Tees Valley Local Industrial Strategy for Cabinet consideration, prior to formal submission to government for final discussions and publication of the co-produced strategy. RESOLVED that the draft Tees Valley Local Industrial Strategy be agreed, subject to further discussion and agreement with government, and the agreement of any further amends in discussion with government, where they are consistent with the overall direction and principles of the emerging strategy be delegated to the Mayor and Combined Authority Chief Executive.
TVCA 21/19	**AUDIT COMPLETION REPORT** Cabinet considered a report and update letter which illustrated the latest findings of the external audit currently being carried out by Mazars LLP for the financial year ended 31st March 2019. RESOLVED that the contents of the External Auditor report and update letter on the latest position regarding the audit of the statement of group accounts for the Tees Valley Combined Authority, containing a Value for Money Opinion, be noted.
TVCA 22/19	**ANNUAL FINANCIAL STATEMENTS** Cabinet considered the draft Annual Financial Statements for 2018/19 and the next steps for completion and sign-off. It was noted that it had been a particularly complex process due to the group structure and additional subsidiaries and that this had affected the timescales. The latest drafts had also been presented to the Audit and Governance Committee and they had requested sight of the final reports, once completed. The Mayor thanked the auditors and the Combined Authority Finance team on their work to date. RESOLVED that: I. the draft Annual Financial Statements and the progress to date on finalisation be noted. II. final sign-off be delegated to the Chief Executive in conjunction with the Audit and Governance Committee having sight of the final audit letter and accounts.
TVCA 23/19	**APPOINTMENT OF DIRECTORS** Cabinet considered a report that asked for formal approval the appointment of the Director of Finance and Resources and the Director of Business and Skills in accordance with the Combined Authority Constitution.

	RESOLVED that: i. Gary MacDonald be appointed as Director of Finance and Resources; and ii. Chris Beck be appointed as Director of Business and Skills.
TVCA 24/19	**ANY OTHER BUSINESS** None.
TVCA 25/19	**DATE OF NEXT MEETING** Friday 25th October 2019

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 5

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

25 OCTOBER 2019

REPORT OF THE TEES VALLEY MAYOR

TEES VALLEY MAYOR'S UPDATE

SUMMARY

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

RECOMMENDATIONS

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

DETAIL

TEES VALLEY CAREERS.COM

1. Three Tees Valley applications were shortlisted and successful in the National Careers awards, these are:
    - SEND Champion of The Year – Catcote Academy, Hartlepool – Winners of this category.
    - Partnership of the Year – Carmel College, Darlington and Jacobs – Highly Commended (2nd place) in this category.
    - Careers Hub of the Year-TVCA - Commended (3rd place) in this category

CONSTRUCTION TRAINING

2. TVCA have been working with providers to respond to the national Construction Industry Training Board funding opportunity to set up "Onsite Experience Hubs" that will provide training linked to specific construction sites. Tees Valley is one of 20 LEP areas to be offered this opportunity. The initial closing date for applications was 11th Oct but this has since been extended to 25th November.

ADULT EDUCATION BUDGET

3. Adult Education Budget was successfully devolved on 1st August and first payments made to the 33 providers delivering Adult Education to Tees Valley residents. This marks an important first step in skills devolution and making the changes to the skills system required to ensure Tees Valley residents undertake and progress in learning relevant to the labour market.

APPRENTICESHIPS

4. TVCA have been working with the National Apprenticeship Service and the Department of Education (DfE) to ensure that national policy changes reflect the needs of Tees Valley businesses and as a result have been requested to join a further conversation with Senior Leaders in DfE to develop these policies further.

5. TVCA won the Apprenticeship Organisation Award at the Tees Valley BME awards held on Friday 20th September. This was in recognition of the support we have given to businesses to create apprenticeships.

NORTHERN POWERHOUSE PARTNERSHIP (NPP)

6. Brenda McLeish, LEP lead for Education, Employment and Skills has been requested to join the Northern Powerhouse Partnership Corporate Policy Board that will provide an opportunity to ensure Tees Valley is represented in developing the NPP policies.

NEW TEES CROSSING

7. The final Outline Business Case for the A19 River Tees Crossing Capacity Enhancement Scheme has been submitted to Government. Discussions are on-going with Government to secure a funding commitment to deliver the scheme, with an anticipated timeframe for construction of 2023 – 2027.

8. The A19 Tees Viaduct is the key north-south crossing of the River Tees. This section of the A19 currently carries 112,000 vehicles per day – the parallel A1(M) carries only 43,000 at the point at which it crosses the River Tees, emphasising the importance of the route. The current crossing is a congestion pinch point on the A19 with only 55% of journeys classed as being “on time” by Highways England.

9. The Capacity Enhancement Scheme will see a new two-lane bridge built parallel to the existing A19 viaduct to carry traffic travelling northbound and the existing structure widened to allow for an extra lane of southbound traffic. The scheme also provides a new ‘Portrack Relief Road’ to alleviate congestion on the local network and remove non-strategic traffic from the A19. In a public consultation 84% of consultees supported the need for additional capacity over the River Tees and 74% favoured the preferred Capacity Enhancement Scheme.

FINANCIAL IMPLICATIONS

9. There are no financial implications to this report.

LEGAL IMPLICATIONS

10. There are no legal implications to this report.

RISK ASSESSMENT

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

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AGENDA ITEM 6

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

25 OCTOBER 2019

REPORT OF THE CHIEF EXECUTIVE

GOVERNANCE AND APPOINTMENTS

SUMMARY

This report requests Cabinet ratification for the Membership, Chair and Vice Chair of the Combined Authority Overview and Scrutiny Committee and the Audit and Governance Committee. The Membership of both Committees has been amended slightly due to Constitutional changes to the calculation of political balance.
In addition to the above there are also changes to Statutory Officers of the Combined Authority which are necessitated from the recent organisation restructure.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet agrees the appointments as set out in this report.

DETAIL

Overview and Scrutiny Committee

1. The Membership of the Overview & Scrutiny Committee was reviewed in light of changes to political balance. The Committee membership was approved by Cabinet via correspondence once finalised.

2. At its meeting on 17th October 2019 the Tees Valley Combined Authority Overview and Scrutiny Committee nominated the following:

    - Councillor Norma Stephenson as Chair for the civic year 2019/20
    - Councillor Denise Rooney as Vice-Chair for the civic year 2019/20

Audit and Governance Committee

3. The Membership of the Audit & Governance Committee was reviewed in light of changes to political balance. The new Committee members are:
    - Cllr Barry Woodhouse (SBC)
    - Cllr Lauriane Povey (Substitute member SBC)

We are still awaiting nominations from Redcar & Cleveland Borough Council for both Committee member and Substitute member. These are expected to be provided in November following their Council meeting.

- Cllr TBC - (RCBC)
- Cllr TBC - (Substitute Member RCBC)

4. At its meeting on 15th October 2019 the Audit and Governance Committee nominated the following:
    - Councillor Matthew Storey as Chair for the Civic year 2019/20
    - Councillor Brenda Harrison as Vice Chair for the Civic year 2019/20

5. The Audit Committee are also required to nominate a representative to be on the South Tees Development Corporation Audit and Risk Committee. The Committee took the view that this position should be fulfilled by the member representing Redcar & Cleveland Borough Council. This nomination is therefore also delayed until a representative has been provided.

Statutory Officers

6. Due to changes in staffing within the Combined Authority it is necessary to change some of the appointed Statutory officers. Therefore:

    - Julie Prior is appointed as Data Protection Officer for the Combined Authority
    - Sharon Jones is appointed as Statutory Scrutiny Officer for the Combined Authority

LEP

7. Alby Pattinson has resigned from his position as a member of the LEP. As this reduces the overall size of the LEP Board to 20 persons, the maximum size stated by government, no replacement will be recruited at this time.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

9. The report relates to the Constitution of the Combined Authority which sets out the appropriate statutory framework.

RISK ASSESSMENT

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

CONSULTATION & COMMUNICATION

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

EQUALITY & DIVERSITY

12. As reported to Cabinet previously, there is a commitment from Cabinet to achieve a 50/50 gender balance and to increase overall diversity on the LEP by 2020. Overview & Scrutiny Committee have also carried out a study into a perceived lack of diversity in gender, sexuality, disability and ethnicity in the membership of the Tees Valley Combined Authority Cabinet and Committee membership. This study is now complete and findings and recommendations from this will be presented to Cabinet in July.

LOCAL ENTERPRISE PARTNERSHIP

13. The items in this report have been circulated to LEP members in advance of coming forward to Cabinet.

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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 7

REPORT TO THE TEES VALLEY COMBINED AUTHORITYCABINET

25 OCTOBER 2019

REPORT OF THE BUSINESS FINANCE MANAGER

INVESTMENT PLAN – £30M BUSINESS GROWTH PROGRAMME

SUMMARY

In line with the Tees Valley Combined Authority Investment Plan 2019-2029, an ambitious programme of business support and funding measures is being developed commencing from January 2020. The core of the offer will be the establishment of a new "Business Gateway" service, which will provide local businesses with a single point of entry to the range of business support, funding and finance options available to them regardless of business size, sector or nature of need.

Alongside the Business Gateway the Combined Authority is proposing to establish a £20m flexible fund to provide capital grants and working capital loans to business and to allocate £14.7m of funding to future business support programmes. This will ensure continuity of existing programmes whilst further developing the offer in line with emerging regional strategic priorities. Funding has also been earmarked to promote Tees Valley both nationally and internationally as a location for businesses to invest and grow.

Funding for the Business Growth Programme will come from a combination of funds allocated in the Combined Authority Investment Plan 2019-2029, external funding sources and other TVCA funding already earmarked to support business growth.

The purpose of this paper is to present the outline proposals to cabinet and receive approval to allocate the £30m of Investment Plan funding to a number of proposed activity streams. Once allocations are agreed, development of detailed operational plans will be completed for each sub-programme and programme activity will commence subject to approval of individual business cases, appraisal/due diligence and approval via delegated decision in accordance with the Tees Valley Combined Authority Assurance Framework.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. Approve the allocation of the £30m Business Growth Programme as follows:

Activity	Indicative Allocation £'m
Business Gateway Service	2.3
Capital grants and working capital support	15.0
Other business support programmes	11.0
Inward investment promotion	1.7
	30.0

ii. Approve that, in line with the Assurance Framework, decisions on the individual schemes within the programme and approval of their businesses cases are delegated to the Combined Authority Chief Executive in consultation with the S73 Officer, the Monitoring Officer and Tees Valley Management Group. Performance will be reported through the quarterly Investment Plan performance report.

DETAIL

Purpose of this paper

1. The Tees Valley Combined Authority Investment Plan 2019 to 2029 allocates a total of £146.5m to business growth activity which is split as follows:

   - **Unlock Sites for Business £116.5m** – Fully allocated to four priority projects
   - **Support Business Growth - £30m** – To date unallocated

2. The purpose of this paper is to allocate the £30m business growth element of the Investment Plan which, combined with existing funding allocations and programmes in development, will contribute to funding of the Business Gateway service and associated strands of programme support to business.

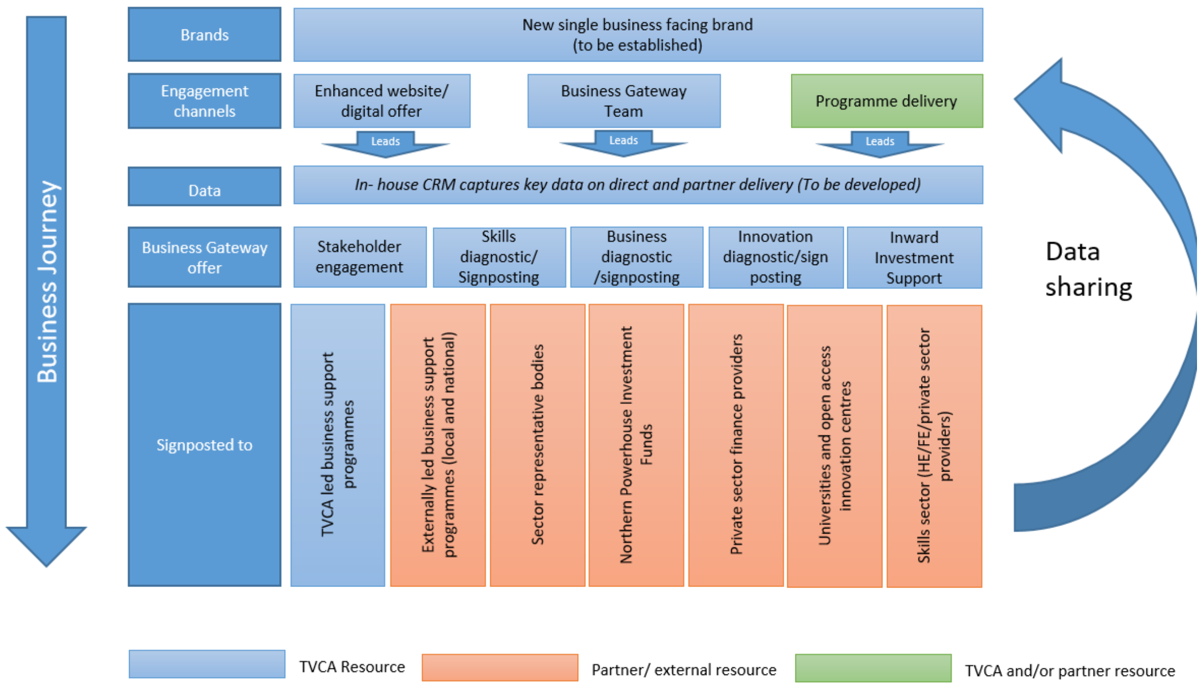
Background to Tees Valley Business Growth Programme

3. After three years of successful delivery of business growth support through the "Business Compass" ERDF project (which has provided advice and grant support to SME businesses), accompanied by capital grant support funded from central government in the wake of SSI, ambitious plans are being developed to enhance and further develop TVCA's offer to support business growth.

4. At the heart of the proposals is a new "Business Gateway" service which will provide a single access point to the full range of business support that is available to Tees Valley businesses. The new Business Gateway will provide information and brokerage into specific programmes of support based on a tailored needs assessment, supporting businesses as they move forward through their development journey. The gateway will incorporate and enhance "Growth Hub" activities currently funded by BEIS. The service will build upon the current grant focussed model working with businesses looking to start-up; grow/scale up; access grant funding; raise repayable finance; develop the skills of employees and management; access innovation support and diversify into export markets.

5. The core Business Gateway service will act as TVCA's interface with the business community providing a link between businesses and external providers of support (both public and private sector) and simplifying the process of accessing support. In addition, TVCA will deliver and/or directly fund a number of strategically important programmes where gaps exist in market provision. This includes the planned continuation of a general "Growth Fund" grant designed to incentivise businesses to invest in growth, by part funding the costs of external consultancy and related capital investment.

6. The anticipated journey through the Business Gateway is presented below:



7. Partners supported by TVCA will be required to share data on their provision, and details of businesses supported, allowing the Business Gateway to move businesses forward through the business support journey and also for the Business Gateway to introduce businesses that engage direct with delivery partners to any other support that may be appropriate for their needs. The data gathered will also be valuable to TVCA in understanding the needs of the local business community and designing future interventions and programmes of support.

Proposed allocation of £30m Business Growth funding

8. The core themes underpinning business growth investment priorities are to:

- Attract and support new businesses to Tees Valley;
- Support companies to introduce new products or processes;
- Support start-ups and the growth of new and existing businesses;
- Offer consistent support in Tees Valley for SMEs and large companies; and
- Extend or complement Tees Valley Business Compass services, particularly through sector specific support.

9 An analysis of the current planned pipeline of business support activity is provided below (Investment Plan allocations to be approved are shown in the left column of values):

	2019-29 Investment Plan	Other potential sources of funding {a}				Proposed
	Business Growth	ESIF resources	Other TVCA	Legacy ERDF	Other	Total
Programme activity	£'m	£'m	£'m	£'m	£'m	£'m
Business Gateway service	2.3	-	-	-	2.2	4.5
Capital grants and working capital support	15.0	-	5.0	-	-	20.0
Other business support programmes	11.0	1.6	-	3.8	-	16.4
Inward investment promotion	1.7	-	-	-	-	1.7
ERDF "Growth Fund"	-	6.7	-	-	-	6.7
Business Compass ERDF programme {b}	-	0.8	-	-	-	0.8
Skills support and engagement	-	1.9	0.9	-	0.3	3.1
SME collaboration/ innovation	-	-	1.4	-	-	1.4
	30.0	**11.0**	**7.3**	**3.8**	**2.5**	**54.6**

{a} - ESIF resources and "Other" potential sources of funding are subject to final application and approval from MHCLG and BEIS but represent current best estimate of programme funding. Legacy ERDF available is based on current estimates of returns attributable to Tees Valley.
{b} - Proposed extension of existing programme to provide continuity of grants up to new project approval

10 Historically, the Combined Authority's predecessor organisation used European Structural and Investment Funds ("ESIF") to fund its business support activity through the European Regional Development Fund ("ERDF") as it did not have access to other revenue funding streams. The Combined Authority has also used residual funds allocated to the region following the collapse of SSI, to provide incentives to support capital investment in and into the region.

11 ESIF funds will cease to be available beyond December 2023 as a result of the UK's exit from the EU. Against this backdrop, indicative allocations of Investment Plan funds assume as far as possible that the Combined Authority (and its partners) will utilise ESIF resources through to 2023. Investment Plan resources will be used to fund programmes of support that are either ineligible or not suitable for European funding prior to the 2023 deadline. Thereafter it will be necessary to use Investment Plan resources to fund activity, alongside any funding allocated to the region by central government through the proposed "Shared Prosperity Fund" which is expected to replace the ESIF programme.

12 It is hoped that, in practice, the region will be able to access, at a minimum, the equivalent to the ESIF funds from the UK Shared Prosperity Fund and planned strands of delivery in this paper should therefore be considered as a "baseline offer".

Business Gateway - £2.3m

13 Local Enterprise Partnerships across the country offer a "Growth Hub" service with a broad remit to link businesses to appropriate support to help enable their growth plans. Since the beginning of 2017 the Combined Authority has subcontracted its Growth Hub partnering with Umi (Formerly BE Group) on an ERDF funded programme branded as "Business Compass".

14 Business Compass incorporates a core team of Growth Advisors, providing triage and signposting of businesses to appropriate support and includes four grant pots that provide financial support (equivalent to 33% of project value) for capital and revenue business growth projects. Support (advisory and grant) is restricted to ERDF eligible SME businesses.

15 Over the 2017-2019 delivery period Business Compass Business Fund will have had a significant impact, advising and signposting c1,400 businesses with 535 of these accessing a £7m grant pot. The programme is expected to leverage £14m of addition private sector investment and lead to a net employment increase in supported entities of 750 jobs.

16 From 2019 onwards it is proposed that the business advice and support aspects of this service will be brought in-house and the offer will be widened in scope to form the Business Gateway (as described above). The benefits of an in-house delivery model, separated from ERDF funding will be to increase flexibility to respond to emerging market needs/strategic priorities and to allow advice and support to be offered to all businesses regardless of ERDF eligibility criteria. Thus widening the reach and impact of the service.

17 A separate application is under way with MHCLG to secure further ERDF funding to provide continuation of the grant aspects of this service which will be delivered as part of the wider programme activity supported by the Business Gateway.

18 It is assumed that the Business Gateway will require around £0.5m of funding per annum (£4.5m over the nine years from 2020/21) to support staff costs, marketing/promotion, events and IT infrastructure. Plans assume that half of this requirement (£2.25m) will be funded by the Investment Plan with the remainder being supported by an annual grant received from BEIS.

19 A further £50,000 allowance has been included to cover professional fees and other costs of the transition to an in-house delivery model.

Capital grants and working capital support £15m (total programme value £20m incorporating £5m of existing approved TVCA funding)

20 TVCA currently offers a capital grant scheme to business of all sizes to support investment in capital projects that will contribute to growth and either create or safeguard sustainable jobs. Funding for this programme was secured in the immediate aftermath of the SSI closure to support companies most affected and initially the programme also offered working capital support to those businesses exposed directly to bad debts as a result of SSI's closure.

21 To date the business grants and working capital funding available through the SSI Task Force has supported 228 Tees Valley companies with grant offers over £13.8m, contracting with the private sector to deliver £64.4m of capital investment and supporting the creation and safeguarding of over 1,179 jobs. Over £2.3m of projects are currently in the pipeline including almost £1m of projects currently in due diligence.

22 The balance of uncommitted funds now available to support companies has reduced to below £1m. Given the success of the SSI Task Force programme, it is proposed that a total of £20m is allocated to create a new "flexible fund" to continue offering capital grants and also provide working capital loans to business. This fund will provide continuity of grant support whilst increasing TVCA's flexibility to support businesses to cope with the impacts of external economic factors (such as the UK's exit from the EU) by providing loans to support short term liquidity.

23 It is proposed that £15m of this is allocated from the 2019 to 2019 Investment Plan with the remaining £5m being taken from funds already approved to support business growth and it is anticipated that this level of funding will support delivery for around six years at current demand levels generating private sector leverage of at least £2 for every pound invested.

Business Support Programmes - £11m (total earmarked value £14.7m incorporating £3.7m uncommitted Legacy ERDF funding)

24 Our strategy is to maximise utilisation of ESIF resources through to the end of the current operational programme of funding in 2023. Beyond 2023, funding for business support activity will shift predominantly to Investment Plan resources and it is proposed that £11m is earmarked to support this activity in addition to any central government funding that may become available through the Shared Prosperity Fund.

Programme	Timing	Investment Plan £'000	Tees Valley ESIF £'000	Legacy ERDF £'000	Total £'000
Transitional provision - Growth Fund Grant	2019/20	750	-	-	750
Scaleup support programmes	2020/21 - 2025/6	600	-	-	600
Continuation of Growth Fund Grant	2023/4 - 2025/6	6,722	-	-	6,722
Continuation of Start up programme	2023/4 - 2025/6	1,890	-	-	1,890
Energy efficiency	2020/21 - 2023/4	253	1,617	-	1,870
Other programmes	2019/20 - 2028/29	785	-	3,779	4,564
Total Busines Support Programme allocation	**2019/20-2028/9**	**11,000**	**1,617**	**3,779**	**16,396**

Note: the above allocations are indicative only and are subject to change dependent on market demand. All expenditure will be approved subject to compliance with the Assurance Framework and development of a full business case.

25 **General** – Expenditure has been front loaded across the first seven years of the plan through to 2025/26 to ensure impact is focussed and realised as early as possible in the plan cycle. It is also anticipated that further funding may become available as the plan develops which can be deployed in later years.

26 **Growth Fund Grant** – is currently part of the Business Compass Project. An application is in progress with MHCLG to replace the grant with a successor scheme through to the end of the ESIF operational programme in 2023. However, due to approval timescales for the current programme and a high level of commitment of current grant funds, additional funds (estimate c £750,000) may be needed to ensure continuity of the grant offer through to implementation of the successor fund. Discussions are under way with MHCLG around the extension of existing ERDF funding through the transition, however if this cannot be achieved Investment Plan funds will need to be deployed.

27 **Start-up Programme –** Tees Valley's Start-up Programme is currently delivered by a third party funded by ESIF resources. This programme will be extended through to the end of the operational programme in 2023. It is assumed however that funding will be required from the Investment Plan resources from 2023/24 onwards.

28 **Scale-up Support** – In addition to growth support the Combined Authority has supported complementary, focussed scale-up programme activity at a cost of £50,000 to £100,000 per annum. It is assumed that support continues at this level in the Investment Plan period. Due to the relatively small size of these programmes they are

not typically suitable for ESIF resources and are assumed to be funded from Investment Plan resources throughout.

29 **Digital City –** Takes a lead on the strategic local priority of digital sector development and industrial digitalisation. Digital City is currently awaiting approval of an extension to its project activity through to the end of the ESIF operational programme in 2023, match funding has also been sourced with support from the Combined Authority. Accordingly, no budget is assumed in relation to Digital City in the above allocations as plans for the structure and financing for the Digital City offer beyond the latest funding cycle are yet to be developed.

30 **Other Programmes** – The Combined Authority is currently in the process of assessing market delivery gaps in areas of key strategic focus and where appropriate will look to develop programmes of support utilising ESIF resources through to 2023. These may include support for businesses around access to finance/investment readiness, productivity, supply chain development, and trade/export amongst others. The Investment Plan allocation for other programmes is likely to be utilised in providing match funding where necessary for these programmes.

31 **Energy Efficiency –** An ERDF funded programme is currently being developed to deliver advice, guidance and grant support to SME's based across the Tees Valley, focussing upon lowering energy costs and carbon output leading to increased business resilience to rising energy prices. It is proposed that the programme will offer fully funded on-site audits and recommendation reports for qualifying applicants, with the potential for 50% grant support for subsequent capital investment and improvement works.

Inward Investment Promotion - £1.7m

32 The Tees Valley has been a successful recipient of inward investment with over £1.7billion of private investment committed in the region since 2011.

33 The Tees Valley Strategic Economic Plan identifies the need for targeted inward investment within high growth, internationally competitive key sectors such as chemicals, health, innovation, energy, advanced manufacturing, logistics, digital, creative and business and professional services.

34 Whilst the approach to date has been successful, it is proposed that a more proactive and expansive approach to all aspects of inward investment including marketing the region is developed to attract inward investment. It is proposed that funding of £1.7million be made available for a period of up to five years to promote Tees Valley as a preferred location for inward investment. An Inward Investment Strategy and associated Marketing Plan outlining how this funding will be utilised will be agreed with our local authority and private sector partners.

35 The marketing activity will raise awareness of the region, its benefits and reasons to invest, work, live and learn within Tees Valley, and to visit it. It will augment other marketing communications activities and campaigns by the Combined Authority and partner organisations to assist with changing perceptions of Tees Valley and to promote it to national and international audiences.

Accessing the Business Growth Programme

36 It is anticipated that the Business Growth Programme will be launched from January 2019 and all services will be accessed through the Business Gateway. Businesses will be able to approach the gateway through an improved digital offer and a dedicated team of specialist staff available to meet directly with businesses.

37 Profile of the service will be raised by promotional activity at launch, including events, marketing and press coverage. On an ongoing basis the Business Gateway will maintain market engagement by working closely with key market intermediaries including professional advisors and representative bodies who are able to introduce the service to a wide client base.

38 Resourcing for the programme activity delivered by TVCA will be considered on a business case by business case basis and is likely to be comprised of a combination of new posts created within TVCA and externally procured specialists where appropriate.

Assurance Framework

39 In line with the Combined Authority Assurance Framework, a detailed Business Case will be produced for each strand of the £30m Business Growth Programme. These will undergo an independent appraisal and due diligence will be undertaken. The Combined Authority is required to publish business cases for projects over £5m on its website.

40 The anticipated outputs and outcomes will be considered in these Business Cases for each strand of activity and value for money will be assessed at both a project and programme level.

41 The delivery mechanism for each strand will be detailed in these business cases and where a programme is being delivered a Programme Management Framework will be developed identifying delegated arrangements for the approval of grants / individual elements of the programme.

42 If the indicative allocations in this report are agreed by Cabinet, approval of these businesses cases will be delegated to the Combined Authority Chief Executive in consultation with the S73 Officer, the Monitoring Officer and Tees Valley Management Group.

43 Performance will be reported through the quarterly Investment Plan performance report and amendments to the programme of over 10% will be brought back to Cabinet for approval.

FINANCIAL IMPLICATIONS

44 Within the Investment Plan 2019-2029, £30m is already allocated to deliver a Business Growth Programme, therefore this is not a new entry into the Investment Plan and has no further financial implications. This report sets out in more detail the indicative allocations for the existing allocation of £30m.

LEGAL IMPLICATIONS

45 There are no legal implications at this stage. A detailed Business Case will be produced for each strand of the £30m Business Growth Programme and the legal issues surrounding the delivery of each Business Case will be assessed at that time including procurement and state aid issues. Appropriate legal agreements shall be prepared as outlined in each Business Case in order to deliver each strand of business growth activity.

RISK ASSESSMENT

46 Key risks associated with this proposal are either the failure of programmes to effectively address the needs of business or the failure of interventions to take place in a timely manner leading to a potential lost opportunity.

47 Risks will be mitigated by prompt development of robust business cases for all new activity in line with the TVCA Assurance Framework.

CONSULTATION

48 Proposals to develop the Business Gateway offer and outline plans in the context of programme activity were presented to Tees Valley Management Group in June 2019. Consolation has also taken place with key delivery partners, business representative bodies and stakeholders at the June 2019 Business Compass Steering Group. A subsequent follow up meeting has been held with representatives of each of the five Local Authority economic development teams in August 2019.

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TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 8

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

25 OCTOBER 2019

REPORT OF STRATEGY & INVESTMENT PLANNING DIRECTOR

INVESTMENT PLAN DELIVERY REPORT

SUMMARY

The Combined Authority Cabinet approved a ten-year Investment Plan (2019-2029) in January 2019.

The plan sets out:-

- £588.2m to be invested across the key themes from the Strategic Economic Plan;
- Devolved funding to deliver specific activity including the Adult Education Budget and a range of Transport & Infrastructure funds; and
- Projects which are being delivered from the previous Combined Authority Investment Plan (2017-2019).

This report provides:-

- An overview of the ten-year Investment Plan financial performance;
- An update by theme on its delivery in the current year;
- An update on pipeline development;
- Highlights any risks;
- Sets out the current economic position on the targets from the Strategic Economic Plan;
- Direct outputs from the work of the Combined Authority; and
- Plans for further outcome and impact evaluation.

Appendix 1 is the Investment Plan Performance Dashboard (key messages below).

Of the ten-year Investment Plan (2019-2029):-

- 9.3% has been spent to date with a further 6.5% approved (Q1 of Year 1);
- 46.5% is in business case development; and
- 37.7% uncommitted.
- We have estimated that the Investment Plan has the potential to secure approximately 32,000 jobs by 2029;
- The economic indicators used to monitor the SEP targets are broadly moving in a positive direction with an increase in productivity and new businesses.

In this financial year (2019/20):-

- We are forecast to deliver 15% of the overall Investment Plan in Year 1;
- Of which, 70.9% has been approved, 25.2% is in business case development and 3.9% is currently formally uncommitted.
- 61.9% of the annual projected spend, has been delivered in Q1; therefore
- 38.1% is forecast to be delivered in Q2-Q4.

This delivery report will be produced on a quarterly basis; the financial information is based on data for the period April-June 2019 which is Quarter 1 of 2019/20, with the qualitative project updates being as recent as possible.

RECOMMENDATION

It is recommended the Combined Authority Cabinet:-

i. Notes the contents of the report; and
ii. Provides any feedback on the matters covered.

DETAIL

INVESTMENT SUMMARY

1. The dashboard in Appendix 1 provides a high-level overview of the Investment Plan. **Table 1:** Sets out the allocations by theme and year as agreed in the Investment Plan 2019-2029. Any changes (such as securing additional funds) will be highlighted clearly each quarter.

2. In line with financial good practice the Medium Term Financial Plan sets the budget for a four-year period. Therefore, the expenditure has been set out annually for year 1 through to 4 and then aggregated in year 5-10.

3. All investments are subject to due diligence through the Combined Authority Assurance Framework agreed with Government. This requires a Business Case to be developed in line with the HM Treasury Green Book and due diligence to be undertaken from which recommendations are made to Cabinet or (where delegations are in place) the Combined Authority Chief Executive, Tees Valley Mayor and Portfolio Holder.

4. **Table 2:** Sets out for each theme how projects are progressing through the assurance process and spend to date to provide an indicator of performance. Stages are defined below and in future this table will highlight any changes by quarter:

   - **£92.9m Approved** –Approved and In Delivery;
   - **£273.6m Business Case Development** – Agreed priority in the Investment Plan subject to Business Case approval; and
   - **£221.7m Uncommitted** – The value remaining to deliver the rest of the Investment Plan priorities.

5. Of the uncommitted funding the following are indicative allocations as agreed in the Investment Plan:

   - £132m to deliver the Integrated Transport Programme, which is subject to Cabinet approval, currently on the forward plan for January 2020 (See Transport Section of this report);
   - £40m for the continuation of the Employment & Skills Programme of activity from April 2021 onwards. More detailed plans will be subject to future Cabinet approval;
   - £30m to deliver a Business Growth Programme; further detail is provided for consideration at Cabinet in a separate paper; and
   - £20m to deliver Research, Development & Innovation (See separate section of this report).

6. The following business cases are currently being developed. As projects are taken to Cabinet or through delegated arrangements and are approved, changes to the budgets will be reflected in this report the following quarter.

Project	Theme	Investment Plan Amount	Status
The Northern School of Art FE Relocation	E, E & S	£14.5m*	October Cabinet
Demand Responsive Transport	Part of Integrated Transport Programme	£2.5m	October Cabinet
Boho Next Generation	Business Growth	£20m	In Development** Expected Sign Off October 2019
City of Culture	Culture & Tourism	£10.7m	January Cabinet
Destination Marketing	Culture & Tourism	£3m	January Cabinet
Festivals & Events	Culture & Tourism	£6.3m	January Cabinet
Hydrogen Transport (OLEV) Match Funding	Transport	£1.75m	January Cabinet
Stockton and Darlington Railway Heritage Quarter	Culture & Tourism	£20m	In Development** Expected Sign Off August 2020
Revitalising Redcar	Business Growth	£20m	In Development**
Riverside Northshore Development	Business Growth	£20m	In Development**
Hartlepool Waterfront	Culture & Tourism	£20m	In Development**
Indigenous Growth Fund	Place	£50m	In Development** Expected Sign Off October 2019
Middlesbrough Station***	Transport	£20m	In Development**
Darlington Station***	Transport	£25m	In Development**
South Tees Development Corporation Infrastructure & Land Acquisition	Business Growth	£44.3m	In Development**
Advance commitments made to date for development of a number of these business cases.		-£4.45m	Approved through delegated decisions.
Total Business Case Development		**£273.6m**	

**Some financial return expected, details will be set out in the recommendations to Cabinet.*
*** Cabinet agreed allocation, the business case sign off is delegated to Chief Executive and the S73 Officer.*
**** Part of the Integrated Transport Programme, projects have been approved by Cabinet subject to Business Case.*

7. Spend profiles have been estimated for the above projects in the Investment Plan, which will become more accurate as we progress through the business case development process. This quarterly report will identify any changes or re-profiling.

8. The following projects have been approved and are moving into delivery:

Transport

- Teesside Airport: Acquisition and Development;
- Urban Traffic Management System: Urgent Replacement Equipment;
- Eaglescliffe Rail Station: Business Case Development; and

- Integrated Transport Programme (ITP): Development and Pilot Project

Business Growth

- Boho Next Generation: Business Case Development, Site Assembly & Preliminary Works
- South Tees Development Corporation Infrastructure & Land Acquisition

Culture & Tourism

- Stockton – Darlington Railway Heritage Quarter: Business Case Development & Acquisition
- First Phase of Festivals & Events

Place

- Indigenous Growth Fund: Pipeline Development

9. **Table 3:** Sets out for each theme the forecasted expenditure set out in the original Investment Plan and highlights any changes.

10. The original Investment Plan forecasted spend in this financial year (2019/20) as £107.1m across all themes. This has been revised to £86m this quarter (-£21m). This is predominantly due to the delays in purchasing the remaining South Tees Development Corporation (STDC) land, which is subject to compulsory purchase. The impact of this means we will delay borrowing until required.

11. A further £120m of funds are secured for specific purposes, including Adult Education, Transport & Infrastructure and existing projects agreed in the previous Combined Authority Investment Plan (2017-2019).

12. **Table 4:** shows the quarterly spend forecasts and the actual spend each quarter and highlights any changes.

13. Details of any changes or key points are explained under each theme in this report.

14. Commercial propositions may come forward that do not have a financial impact on the Investment Plan as a borrowing case can be made. Separate reports will be provided to Cabinet in these cases.

THEME BREAKDOWNS

15. This section of the report sets out for each theme the approval and spend position to date, provides project and programme updates by exception and highlights any risks.

16. Thematic dashboards will be produced to provide more detail for each portfolio holder and relevant advisory groups on the projects and programmes within each theme.

THEME: TRANSPORT

17. Over ten years a total of £256.7m has been allocated to transport. Our aim is to improve connectivity within Tees Valley, across the Northern Powerhouse, the UK and the world.

Transport Allocation for 2019/20	
Investment Plan Allocation	£47.9m
Spend to Date (Q1)	£42.2m
Forecasted Spend (Q2-Q4)	£8.2m
Balance (-/+)	£2.5m
Revised Annual Profile 2019/20	£50.4m
Of which, Approved	£47m
Risk in Year	**Low**
Overall Investment Plan Risk	**Medium**

18. This original allocation was for the acquisition and working capital for the Airport and to start delivery of the Integrated Transport Programme (ITP).

19. This theme is currently categorised as 'Low Risk' in this financial year as we have accelerated delivery of the capital programme; and 'Medium Risk' to the delivery of the overall Investment Plan. The ITP is a large investment programme made up of complex projects and programmes, which are all at different stages of development and dependent in many cases on external factors.

20. It includes major schemes such as Darlington and Middlesbrough Rail Stations, which are in the process of developing business cases and are dependent on securing significant external funding (further detail at point 27 below).

TEESSIDE INTERNATIONAL AIRPORT

21. The Combined Authority finalised the purchase of the Airport in January 2019, of which £41.1m has been spent including the £40.2m purchase of the Airport and the operational costs to date which has been transferred to Goosepool (2019) Limited, the company which holds the shares in the Airport.

22. Key appointments have been made with Phil Forster as Head of Airport Development, and Martin Waters as Executive Director of Goosepool.

23. In the first few months of ownership, progress in delivering the business plan has been made with new flights announced to Palma and Majorca.

24. The name was changed from Durham Tees Valley Airport back to Teesside International Airport in July with a new logo and branding launched.

25. The capital programme has been accelerated with £2.6m to be spent on a range of improvements to the airport in this financial year.

STRATEGIC TRANSPORT PLAN

26. The draft Tees Valley Strategic Transport Plan was approved by Cabinet in July to go out for consultation with the public. This will be delivered through the ITP the detail of which will be considered for formal approval by Cabinet in January 2020. The remaining 2019/20 transport allocation of £5m is forecasted to be spent in Quarter 3 and 4. The development of the ITP will be monitored closely, and business cases are currently being developed for projects.

PIPELINE DEVELOPMENT

27. A major part of the ITP is funded through the Transforming Cities Fund (TCF) which is devolved to the Combined Authority to invest in projects that ‘transform connectivity through improved public transport and active travel infrastructure, reducing congestion and enhancing air quality’. Allocations are based on an annual profile set by the Department for Transport (DfT). We are not contractually bound by the annual profiles, however, if we delay delivery this could impact on future allocations, therefore it is prudent to meet the annual profiles where possible.

28. Once the full programme has been approved by Cabinet, which is on the forward plan for January 2020, the Combined Authority will work with project sponsors to accelerate development of business cases and delivery where possible, therefore no further action is currently required but it will be monitored closely.

THEME: EDUCATION, EMPLOYMENT & SKILLS (EES)

29. Over ten years a total of £55m has been allocated to Education, Employment & Skills: £40m for the continuation of the Employment & Skills Programme of activity from April 2021 onwards and £15m to deliver capital priorities. Our aim is to increase educational attainment, produce the skilled workforce that businesses need and increase lifetime opportunities for our residents. A further £29m annually, to deliver Adult Education provision across Tees Valley was devolved to the Combined Authority.

Education, Employment & Skills Allocation 2019/20	
Investment Plan Allocation	£7.5m
Spend to Date (Q1)	£0m
Forecasted Spend (Q2-Q4)	£5.2m
Balance (-/+)	-£2.3m
Revised Annual Profile 2019/20	£5.2m
Of which, Approved	£0m
Risk in Year	**Medium**
Overall Investment Plan Risk	**Medium**

30. The original allocation was forecast for the Northern School of Art Further Education Relocation project as an identified priority in the Investment Plan (subject to Business Case, which is being presented to Cabinet in a separate paper on 25 October).

31. This theme is currently categorised as 'Medium Risk' in this financial year as the forecasted expenditure is not yet approved. This will change to 'Low Risk' against the revised profile, if Cabinet approves the business case.

32. A revenue allocation to deliver the continuation of the Education, Employment and Skills Programme is not required in this financial year, as activity from the previous investment plan period is still in delivery with £500,000 spent in Quarter 1 and a further £3.4m projected to the end of the financial year.

33. This theme is currently categorised as 'Medium Risk' to delivery of the overall Investment Plan. The remaining allocation is for one large Education, Employment & Skills programme of activity yet to be developed. Evaluation of the current programme will be undertaken before developing the next stage.

THE NORTHERN SCHOOL OF ART FURTHER EDUCATION RELOCATION

34. The Combined Authority has worked collaboratively with the Northern School of Art and Middlesbrough Council on this business case and detailed recommendations for the relocation of the Northern School of Art's Further Education Campus in Middlesbrough are presented to Cabinet in a separate report. As a specialist asset in Tees Valley the growth of this establishment will bring wider economic benefits, not only through its direct location but raising the profile of Tees Valley and contributing to the growth of the creative sector.

35. If approved by Cabinet, forecasted spend for this year is £5.2m. Therefore £2.3m will be carried forward to next year and will be fully utilised by Quarter 2 of 2020-21.

ADULT EDUCATION PROVISION

36. Following a procurement exercise, the number of providers was reduced from 273 to 33, and delivery began in August. We are forecast to spend £20m in this financial year as expected (pro-rata as the £29m allocation was based on academic years). The programme is being monitored closely on a monthly basis and future updates will be provided.

THEME: BUSINESS GROWTH (INC.ENABLING INFRASTRUCTURE)

37. Over ten years a total of £146.5m has been allocated to Business Growth: £116.5m to unlock key sites for business and £30m to support businesses. Our aim is to diversify the economy, support more business start-ups, develop high growth potential businesses and key growth sectors.

Business Growth & Infrastructure Allocation 2019/20	
Investment Plan Allocation	£38.7m
Spend to Date (Q1)	£11.3m
Forecasted Spend (Q2-Q4)	£5.7m
Balance (-/+)	-£21.7m
Revised Annual Profile 2019/20	£17m
Of which, Approved	£12.3m
Risk in Year	**Medium**
Overall Investment Plan Risk	**Low**

38. £35.7m of this allocation was for STDC land purchases and site remediation and £3m for the Tees Valley Business Growth Programme.

39. Performance in this financial year is currently ‘Medium Risk’ as there is a forecasted underspend of £21.7m. This is predominantly due to the delays in purchasing the remaining STDC land, which is subject to compulsory purchase. The impact of this means we can delay borrowing, therefore no action is currently required but it will be monitored closely.

40. The indicative allocations for the £30m Business Growth Programme of support are set out in a separate Cabinet report. If the indicative allocation is approved by Cabinet, business cases for each activity will be developed and approved through the appropriate delegated decision route. It is forecast that the first funds and activity will become operational in January 2020 and therefore the full £3m allocation will not be spent this financial year.

41. We have accelerated the development of robust business cases for the strategic capital projects in the Investment Plan (updates below point 46-52) with expenditure of £3m forecast in this financial year.

42. This theme is currently categorised as ‘Low Risk’ to delivery of the overall Investment Plan, as the majority of expenditure is progressing well through business case development, with approvals anticipated in the next quarter of approximately £50m.

SOUTH TEES DEVELOPMENT CORPORATION (STDC) SITE ACQUISITION

43. South Tees Development Corporation completed the purchase of 1,420 acres of land which represents over 50% of developable land in the Development Corporation area. As a direct result of the purchase £14million of Government funding was unlocked allowing early redevelopment of part of the site to take place to attract new business and investment. The purchase of remaining elements of the land was initially forecast to start within 2019/20; however due to issues relating to a CPO this has now been delayed.

PIPELINE DEVELOPMENT: STRATEGIC PRIORITIES

44. There are recognised investment priorities in the Investment Plan with a Combined Authority allocation of up to £20m each (subject to business case approval). Therefore, in line with the Assurance Framework, approval of the business case is delegated to the Combined Authority Chief Executive in consultation with the Management Group, the Section 73 Officer and the Monitoring Officer.

BOHO ‘THE DIGITAL CITY’ (MBC)

45. This project will unlock the continued growth of the digital cluster at the Boho Zone in Middlesbrough and is critical to ensure that the accommodation pipeline can respond to demand in a timely manner. The project will be part of a Master Plan to deliver growth in this area of Middlesbrough by creating better links to Middlehaven, developing the Old Town Hall, the integration of a modern and complementary residential offer and the creation of development plots to attract commercial investment.

46. The delivery of the masterplan will leverage a range of funding and the £20m will specifically fund the development of:

- phase 1A modern modular units (C. 10,000 sqft) – short term 'pressure valve' expansion space with 9 to 12-month delivery timescale;
- phase 1B expansion space – Boho 10 (c. 105,000 sqft) – iconic flexible workspace, with the ability to host major presentations and sector meetings; and
- associated servicing, parking, public realm works and landscaping.

47. An advance of up to £1m was approved through the appropriate delegated decision route as set out in the Assurance Framework for priority projects, to fund the following activities:
    - Design through to RIBA Stage 4;
    - Submission of planning;
    - Site acquisition; and
    - Implementation of key infrastructure such as utility, broadband provision and enable suitable power supply for the development.

48. Completion of the business case is anticipated in October 2019 and the project will leverage significant private investment.

REVITALISING REDCAR & CLEVELAND (RCBC)

49. Work is underway to identify all elements within this programme. A business case will follow, and updates will be provided in future reports.

RIVERSIDE NORTHSHORE DEVELOPMENT (SBC)

50. This project will better connect the riverside with Stockton High Street and increase the active use of the riverside. It aims to repurpose the Town Centre, diversifying the current use by increasing commercial, residential and leisure use, and expanding the Northshore development.

51. A business case is being developed and this project aims to leverage significant private investment and other funding. Updates will be provided in future reports.

THEME: CULTURE & TOURISM

52. Over ten years a total of £60m has been allocated to Culture & Tourism. £20m for a programme of activity including destination marketing, festivals & events and City of Culture development and £40m for two capital priorities: Darlington – Stockton Railway Heritage Quarter and Hartlepool Waterfront. Our aim is to build cultural vibrancy in our communities and change external perceptions of Tees Valley through the arts, cultural and leisure offer whilst making the area more attractive to investors, workers and visitors.

Culture & Tourism Allocation 2019/20	
Investment Plan Allocation	£1m
Spend to Date (Q1)	£0m
Forecasted Spend (Q2-Q4)	£4m
Balance (-/+)	+£3m
Revised Annual Profile 2019/20	£4m
Of which, Approved	£2.2m
Risk in Year	**Medium**
Overall Investment Plan Risk	**Low**

53. This original allocation was forecast for expansion and continuation of the culture & tourism programme. However, activity from the previous investment plan period is still in delivery, with £175,000 spend in Q1 and a further £675,000 projected to the end of the financial year.

54. We have accelerated the development of a robust business case for the Stockton – Darlington Railway Heritage Quarter, a strategic capital project in the Investment Plan (update below point 61-63) with expenditure of £1.9m forecast in this financial year.

55. Performance in this financial year is currently 'Medium Risk' as the future programme of activity is not yet approved and is forecast for approval in January 2020.

56. This theme is currently categorised as 'Low Risk' to delivery of the overall Investment Plan. Project updates below.

PIPELINE DEVELOPMENT

HARTLEPOOL WATERFRONT (HBC)

57. This project will see development of the Hartlepool Waterfront which could include a visitor attraction, further growth of the National Museum of the Royal Navy, a hotel and event space. This is a recognised investment priority in the Investment Plan with a Combined Authority allocation of up to £20m (subject to business case approval), therefore in line with the Assurance Framework, approval of the business case is delegated to the Combined Authority Chief Executive and Section 73 Officer.

58. Site investigations are currently underway to determine the physical constraints and opportunities on the site to help inform the options development. This will help inform any commercial discussions with potential investors.

59. HBC is working closely with the National Museum of the Royal Navy and has recently entered an MOU with them. Representatives from the Combined Authority will be part of the programme board throughout the development of the project.

60. A business case is being developed and the project aims to leverage significant private investment and other funding. Further updates will be provided in future reports.

DARLINGTON - STOCKTON RAIL HERITAGE QUARTER (DBC)

61. This project will develop and deliver a new visitor attraction and museum at the Railway Heritage Quarter in Darlington. It is part of the wider Railway Heritage Programme to implement a full interpretation plan and connect other key sites of conservation, interest and importance along the 26 miles and beyond. This is a recognised investment priority in the Investment Plan with a Combined Authority allocation of up to £20m (subject to business case approval), therefore in line with the Assurance Framework, approval of the business case is delegated to the Combined Authority Chief Executive and Section 73 Officer.

62. A masterplan has been produced considering the viability and options with high level costings. An advance of up to £1.9m was approved through the appropriate

delegated decision route as set out in the Assurance Framework for priority projects to fund the following activities:

- Review of the Masterplan;
- Design through to RIBA Stage 3; and
- Urgent site acquisitions.

63. A business case is being developed with completion anticipated in August 2020 and the project aims to leverage other funding.

THEME: RESEARCH, DEVELOPMENT & INNOVATION (R, D & I)

64. Over ten years a total of £20m has been allocated to Research, Development, Innovation & Energy. Our aim is to introduce new processes and practices which reduce carbon emissions, increase productivity and the availability of high value jobs.

R, D & I Allocation 2019/20	
Investment Plan Allocation	£2m
Spend to Date (Q1)	£0m
Forecasted Spend (Q2-Q4)	£0m
Balance (-/+)	£2m
Revised Annual Profile 2019/20	£2m
Of which, Approved	£0m
Risk in Year	**Medium**
Overall Investment Plan Risk	**Medium**

65. The original allocation was identified to begin delivery of the ten-year R, D & I investment programme. This theme is currently categorised as 'Medium Risk' in both this financial year and the overall investment plan. However, the Business & Skills Director started in September and will lead the review of the Tees Valley Innovation Strategy and the membership and remit of the advisory group.

66. This will identify the priority areas where the Combined Authority aims to focus the £20m Investment Plan allocation and may subsequently result in open calls for projects. We have not revised the profile as it is likely this will progress in this financial year. Several projects are in the pipeline and the Combined Authority is working closely with key stakeholders.

THEME: PLACE

67. Over ten years a total of £50m has been allocated to create the Indigenous Growth Fund. Each of the five boroughs that make up the Tees Valley has distinct economic assets and opportunities and it is essential that we can unlock these opportunities for residents of the whole of Tees Valley.

68. With an allocation of £10m for each local authority area, our aim is to accelerate the supply of good quality homes across the whole housing market, revitalise our town centres and urban core, bring forward surplus public and blighted brownfield land for development and strengthen our commercial property offer. It is up to each Local Authority to determine its indigenous priorities and it is encouraged that the £10m be used in a way that maximises the economic return, including recycling of these funds wherever possible and leveraging other private and public-sector funds to deliver increased impact.

Place Allocation 2019/20	
Investment Plan Allocation	£10m
Spend to Date (Q1)	£1.25m
Forecasted Spend (Q2-Q4)	£8.75m
Balance (-/+)	£0m
Revised Annual Profile 2019/20	£10m
Of which, Approved	£1.25m
Risk in Year	**Low**
Overall Investment Plan Risk	**Low**

INDIGENOUS GROWTH FUNDS

69. The Combined Authority has developed a business case for the delivery of the £50m programme across Tees Valley. This includes details of how each local authority will make its investment decisions to ensure they fit with the requirements of the programme and our assurance framework.

70. This is a recognised investment priority in the Investment Plan with a Combined Authority allocation of up to £50m (subject to business case approval) therefore in line with the Assurance Framework, approval of the business case is delegated to the Combined Authority Chief Executive in consultation with the Management Group, the Section 73 Officer and the Monitoring Officer.

71. Performance in this financial year and over the lifetime of the Investment Plan is currently 'Low Risk' as the business case is expected for sign off in October and delivery can quickly commence.

INVESTMENT PLAN (2017-2019): PROJECTS AND PROGRAMMES

72. £95m was committed in the previous Investment Plan to several Projects and Programmes. The following section of the report provides an update on their progress. In addition to this commitment, there was an underspend from earlier years of £8.9m. Therefore, the total across the ten-year period (2019-2029) is now £103.8m. This section of the report, provides project updates by exception.

Previous Investment Plan Commitments: 19/20 Allocation	
Investment Plan Allocation	£64.5m
Spend to Date (Q1)	£10.8m
Forecasted Spend (Q2-Q4)	£38.5m
Balance (-/+)	£15.2m
Revised Annual Profile 2019/20	£49.3m
Of which, Approved	£48.8m
Overall Risk Rating	**Low**

73. The Investment Plan is made up of several income sources: one of the major capital programmes is the Local Growth Fund which has run from 2015/16 and will end in 2020/21. This was devolved through the Growth Deal in 2014. The Combined Authority did not exist at this time, therefore accountability for this fund was devolved to the Local Enterprise Partnership (LEP).

74. Several areas invested these funds in large transport schemes, whilst our programme was fitted to local need at that time and as a result the £118m has

supported 46 capital projects. This brought additional challenges in programme management and accelerating delivery. It is acknowledged that programmes take time to deliver, however in the last two years we have accelerated delivery and as a result the Tees Valley LEP is performing 19th out of 38 LEPs (at the end of 2018/19), from our previous position at 37 out of 38 (in 2016/17).

75. The following projects are completing their business cases to seek final approval to move into delivery. As recognised priorities with an allocation approval of business cases is delegated to the Combined Authority Chief Executive and Section 73 Officer.

TRANSPORT: A689 WYNYARD JUNCTION IMPROVEMENTS (HBC/SBC)

76. The scheme will deliver a package of improvement measures along the A689 corridor in County Durham, Stockton-on-Tees and Hartlepool to improve capacity, journey time reliability and facilitate housing and business growth. It seeks to secure external funding from the national Major Road Network (MRN) Scheme and a bid was submitted in July 2019, with a decision expected very soon. The Combined Authority will finalise its due diligence when the funding package is clear.

A19 GRADE SEPARATION JUNCTION, ELWICK BYPASS & HARTLEPOOL WESTERN LINK (HBC)

77. This project will deliver infrastructure works to provide an overbridge and compact grade separation at the current Elwick North junction to the A19. In addition, a new by-pass to the north of Elwick village. The scheme will support growth ambitions enabling delivery of approximately 1,500 dwellings and a new strategic infrastructure route from Hartlepool to the A19, whilst also addressing safety concerns. It is dependent on securing external funding from Homes England.

78. Work on the business case is ongoing and there is an expected delay on delivery due to the need for land acquisitions.

EDUCATION, EMPLOYMENT & SKILLS AND CULTURE & TOURISM: INNOVATION, SKILLS QUARTER PHASE 2 (HBC)

79. This project will build on the Hartlepool Innovation & Skills Quarter which is home to the Northern School of Art HE Campus, the BIS which offers creative workspace for small businesses and the Church Street regeneration. It will deliver the regeneration of a Grade 2 listed building into commercial premises, additional teaching space for the Northern School of Art and commercial film studios. This business case is in the final stages of development, therefore final approval is not yet in place; it is anticipated in October 2019.

BUSINESS GROWTH: CO-INVESTMENT FUND

80. This project is subject to a separate report to Cabinet at the October meeting. The proposal is to use the £5m together with £15m from the Investment Plan 2019-29 Business Growth allocation to create a £20 business fund that will support both capital and working capital through grant and loan mechanisms.

RESEARCH, DEVELOPMENT & INNOVATION: CPI HEALTHCARE FUTURES CENTRE

81. This project aims to create an open-access innovation facility and incubator space at Central Park in Darlington. It will also provide outreach support to support and attract SMEs to the Tees Valley. The project has applied for match funding from the

European Regional Development Fund (ERDF) and is anticipated to support 35 businesses and create 14 jobs with wider non-monetised benefits in terms of cluster development due to its co-location to the National Biologics Manufacturing Centre and the National Horizons Centre and raising the profile of Tees Valley.

IMPACT OF THE INVESTMENT PLAN

82. The original Tees Valley SEP set a target to create 25,000 net additional jobs in ten years. This was revised in 2016 as part of the SEP refresh. This target is not solely linked to the Combined Authority activities but is for the Tees Valley economy as a whole. To reach the 25,000 target Tees Valley would need to out-perform the UK growth rate in a number of sectors and see significantly smaller decline in others. In the current economic climate this is extremely challenging.

83. The work of the Combined Authority will contribute significantly to this target and we have a Monitoring & Evaluation Framework (May 2018) which is applied to all activities to:
    - Provide local accountability to the public, partners and local stakeholders;
    - Comply with external scrutiny requirements;
    - Identify the impact of the activity and benchmark against comparable programmes; and
    - Develop an evidence base for input into future business cases.

84. We have committed to produce a ‘Logic Model’ for all projects and programmes which sets out the inputs, activities, outputs, outcomes and impact for each. This will be our baseline for evaluation and is the starting point of business case development.

CHALLENGES

85. As defined by Government, to date we have monitored outputs directly delivered from the projects and programmes as these can be measured and evidenced. We report these to Government on a regular basis and our performance is assessed on both spend and outputs. Government has identified that areas across the country are reporting to slightly different definitions and will be undertaking a review to ensure that consistent information is provided.

86. For example, Tees Valley currently reports on direct jobs which we are confident can be measured and evidenced, as the wider outcomes can only be captured through evaluation later. However, other areas are including indirect jobs in their reporting, which means in some cases we are reporting lower numbers. In preparation for the Government review we are undertaking a piece of work to ensure that all outcomes are captured and reported. The outcome of this piece of work will be a full report looking at all projects and programmes delivered since the first year of the Growth Deal in 2015/2016, identifying the indirect jobs and wider outcomes that we anticipate from our interventions, and this will be the baseline for future evaluation.

87. The dashboard shows two levels of information:

- The SEP targets which are monitored using economic indicators (subject to time lags on data); and
- The delivery of outputs which are monitored directly throughout project and programme delivery. We have undertaken some initial forecasting on the indirect jobs and future years of the plan, which will be refined.

NEXT STEPS

88. We will:
    - Develop a dashboard for each theme to provide more detail for thematic portfolio holders and advisory groups on the individual projects and programmes;
    - Share the completed outcomes and impact report with Cabinet and update the dashboard accordingly; and
    - Commission an evaluation annually to assess performance in terms of the wider outcomes and impacts from our interventions to be reported to Cabinet.

FINANCIAL IMPLICATIONS

89. This is intended to be a regular report on delivery against the Investment Plan.

LEGAL IMPLICATIONS

90. None related to this report.

RISK SUMMARY

91. The table below summarises the current risk rating for each theme both in year and over the lifetime of the Investment Plan. Detail is provided in each thematic section in this report.

Theme	Risk in Year	Investment Plan Risk
Transport	Low	Medium
Education, Employment & Skills	Medium	Medium
Business Growth	Medium	Low
Culture & Tourism	Medium	Low
Research, Development & Innovation	Medium	Medium
Place	Low	Low
Investment Plan (2017-2019):	Low	

CONSULTATION

92. This report has been considered at Tees Valley Management Group, Chief Executives and Local Enterprise Partnership Board / Informal Cabinet.

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Email: sarah.walker@teesvalley-ca.gov.uk
Telephone Number: 01642 526057

Investment Plan - Quarterly Performance Monitoring
Quarter 1 April - June 2019 - Overall Summary

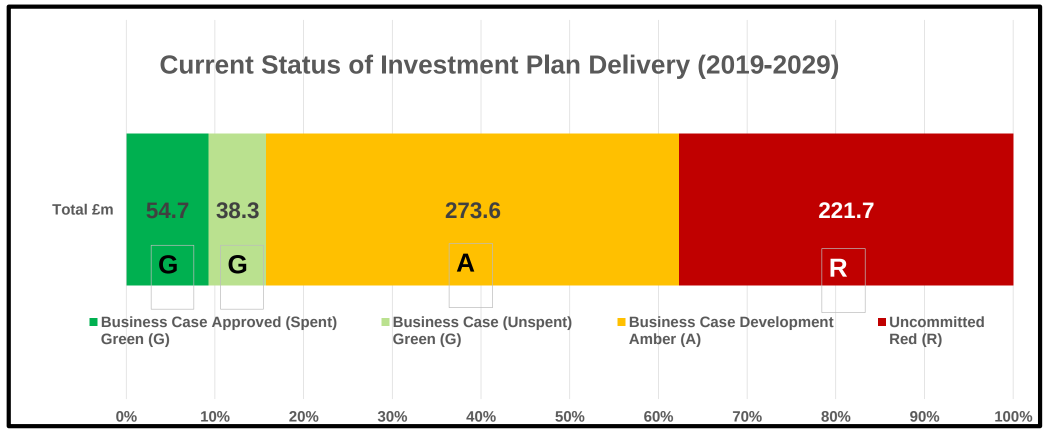
Ten-Year Investment Plan (2019-2029) Update at Q1 Apr-Jun 2019

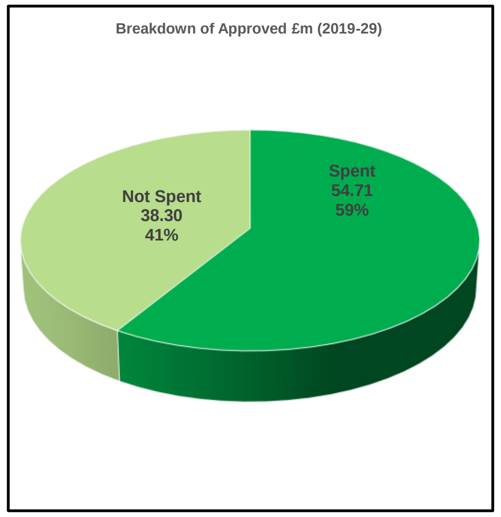
TABLE 1) Investment Plan Allocations 2019-2029	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/29 £'m	Total 2019/29 £'m	Total Previous Quarter £'m	Change in Allocation Since Previous Quarter £'m	Investment Plan Risk Rating
Transport	47.9	19.6	26.6	36.3	126.3	**256.7**	256.7	0.0	Medium
Education, Employment & Skills	7.5	7.5	5.0	5.0	30.0	**55.0**	55.0	0.0	Medium
Business Growth	38.7	19.2	29.2	19.2	40.2	**146.5**	146.5	0.0	Low
Culture & Tourism	1.0	11.0	11.0	15.0	22.0	**60.0**	60.0	0.0	Low
Research, Development & Innovation	2.0	2.0	2.0	2.0	12.0	**20.0**	20.0	0.0	Medium
Place	10.0	10.0	10.0	10.0	10.0	**50.0**	50.0	0.0	Low
Total	**107.1**	**69.3**	**83.8**	**87.5**	**240.5**	**588.2**	**588.2**	**0.0**	

TABLE 2) Investment Plan Progress & Spend	Business Case Approved £'m	Business Case Development £'m	Uncommitted £'m	Total £'m		Spend to Date £'m	Of the Approved Balance to Spend £'m	Spend Since Previous Quarter £'m
Transport	76.2	49.3	131.2	**256.7**		42.2	34.1	42.2
Education, Employment & Skills	0.0	14.5	40.5	**55.0**		0.0	0.0	0.0
Business Growth	13.3	103.2	30.0	**146.5**		11.3	2.0	11.3
Culture & Tourism	2.2	57.8	0.0	**60.0**		0.0	2.2	0.0
Research, Development & Innovation	0.0	0.0	20.0	**20.0**		0.0	0.0	0.0
Place	1.3	48.7	0.0	**50.0**		1.3	0.1	0.0
Total	**93.0**	**273.5**	**221.7**	**588.2**		**54.7**	**38.3**	**54.7**

Risk Rating: Based on Liklihood and Impact	
Low (L)	On Track
Medium (M)	Plan in Place Monitor Closely
High (H)	Action Plan Required

Progress Rating	
Green (G)	Approved / Spent
Amber (S)	Business Case Development
Red (R)	Uncommitted





Key Points

Since the Investment Plan was agreed in January 2019:

£93m (17%) of investment has been approved, of which £55m has been delivered.

Currently projects & programmes up to a total value of £273.5m are developing business cases; of which

£14.5m is being presented to Cabinet in October for a decision.

The 'uncommitted funds' are allocated to activities to be further defined. The £30m Business Growth Programme is going to Cabinet in October for approval.

Investment Plan - Quarterly Performance Monitoring
Quarter 1 April - June 2019 - Overall Summary

Investment Plan - Performance To Date (Q1 Apr-Jun 2019)

TABLE 3) Projected Expenditure by Theme 2019/20	Expenditure Forecasts 2019/20 Original Investment Plan	Previous Quarter	Projected Expenditure	Change Since Original Investment Plan	Change Since Previous Quarter	Risk in Year
	£'m	£'m	£'m	£'m		
Transport	47.9		50.4 ↑	2.5		Low
Education, Employment & Skills	7.5		5.2 ↓	-2.3		Medium
Business Growth	38.7		17.0 ↓	-21.7		Medium
Culture & Tourism	1.0		4.0 ↑	3.0		Medium
Research, Development & Innovation	2.0		2.0 →	0.0		Medium
Place	10.0		10.0 →	0.0		Low
Sub Total	**107.1**		**88.6** ↓	**-18.5**		

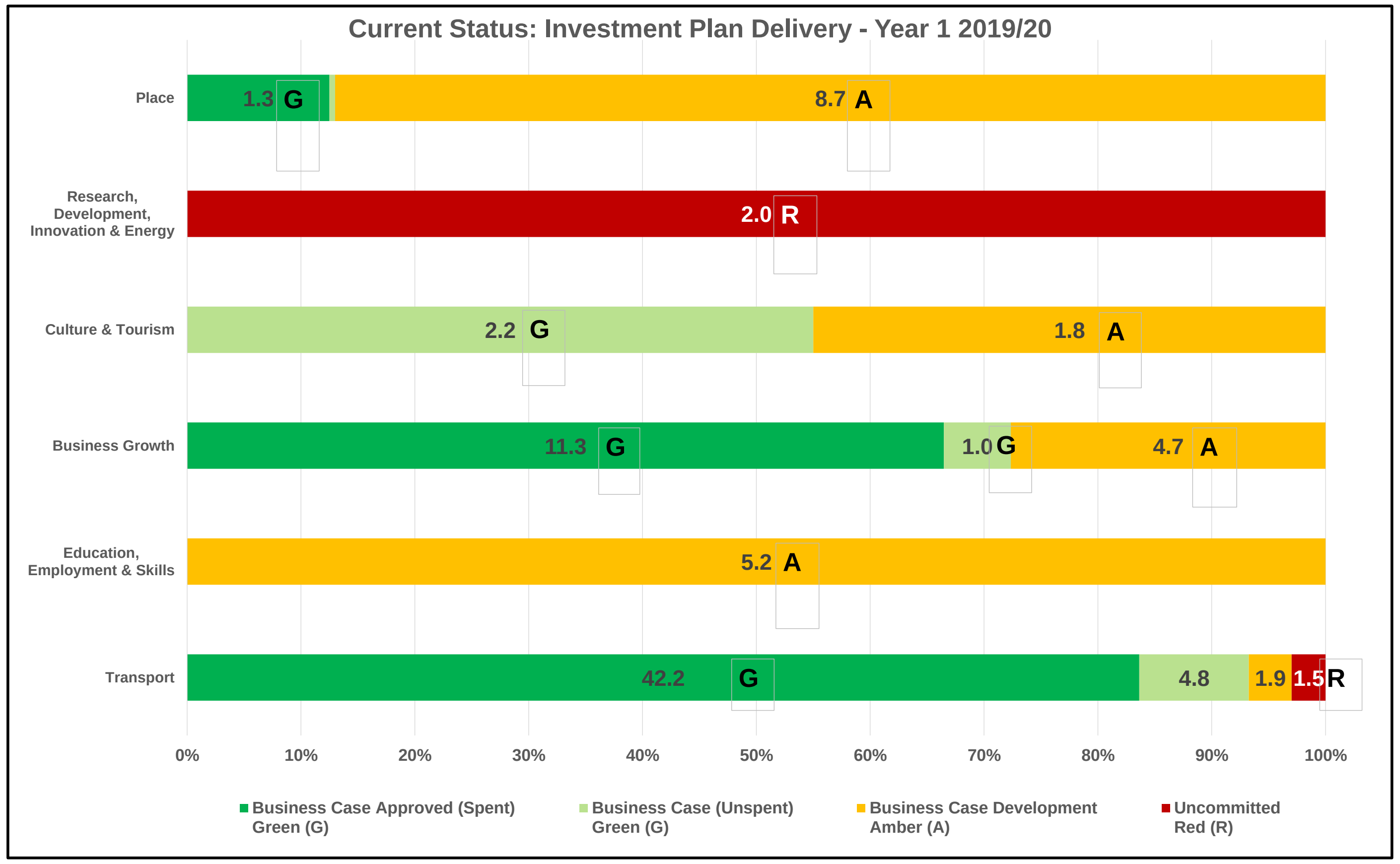
TABLE 4) Quarterly Expenditure 2019/20	Q1 Apr - Jun	Q2 Jul - Sept	Q3 Oct - Dec	Q4 Jan - Mar	Total 2019/20	Total Previous Quarter	Change Since Previous Quarter
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Forecasted	54.8	7.2	9.2	17.4	88.6	107.1 ↓	-18.5
Actual	54.8	0.0	0.0	0.0	54.8	0.0 ↑	**54.8**
Difference (+/-)	**0.0**	**-7.2**	**-9.2**	**-17.4**	**-33.8**	**0.0**	
Cumulative	**0.0**	**-7.2**	**-16.4**	**-33.8**			

Key Points

Since the Investment Plan was agreed in January 2019, we are now forecasting that we will spend £88.6m in this financial year which is £18.5m less than originally forecast. This is predominantly due to the delays in purchasing the remaining South Tees Development Corporation Land, which is subject to CPO. The impact of this means we can delay borrowing.

Of the £88.6m anticipated spend, we have spent £54.8m (61%) to date.

Currently no commitments have been made under Research, Development, & Innovation allocation with a forecasted spend of £2m in this year. There are no concerns in the long term on this theme as a strong pipeline is being developed. See notes in full delivery report.



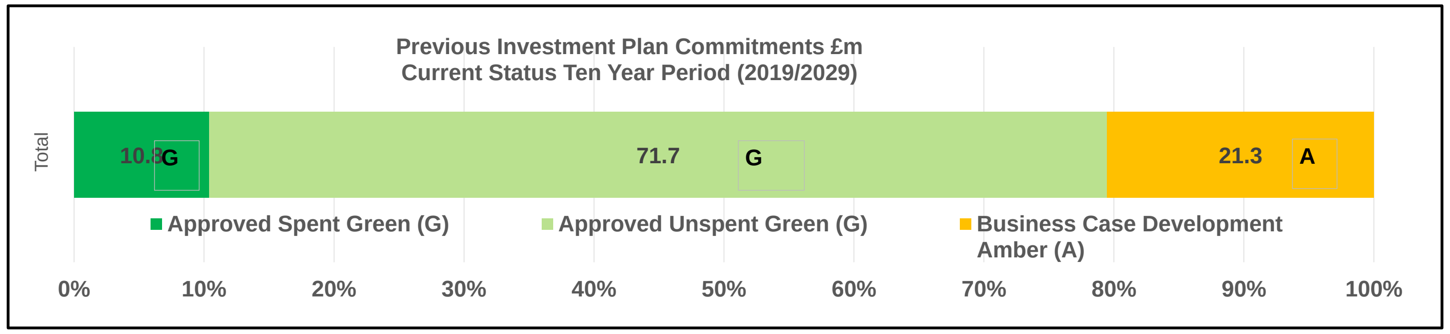
Previous Investment Plan Delivery Progress (2017-2019)

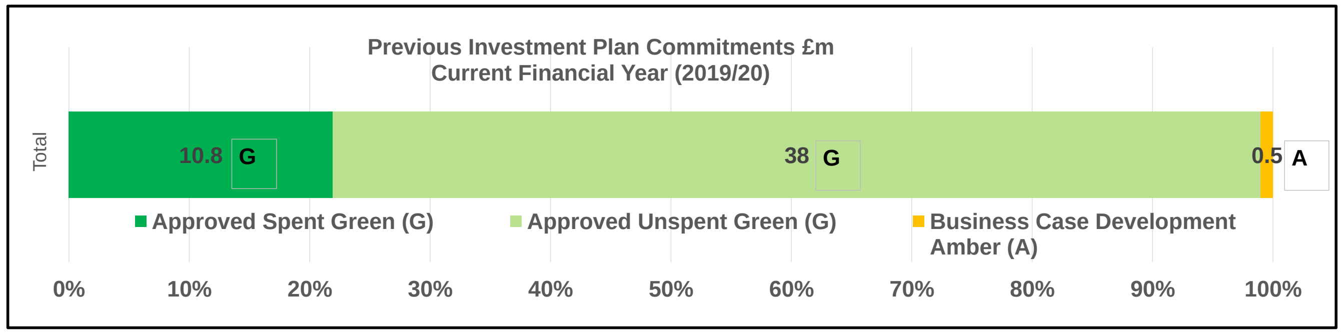
TABLE 5) Overall Expenditure Investment Plan 2017-2019	2019/20	2020/21	2021/22	2022/23	2023/29	Total 2019/29	Total Previous Quarter	Change Since Previous Quarter	Overall Risk Rating
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	
Forecast	49.3	36.7	14.0	2.8	1.0	**103.8**	**94.9** ↑	**8.9**	Low
Business Case Approved	48.8	26.2	5.5	1.0	1.0	**82.5**	82.5 →	**0.0**	
> Delivery (spend)	10.8	0.0	0.0	0.0	0.0	**10.8**	0.0 ↑	**10.8**	

Key Points

There is an increase in expenditure of £8.9m across the period of the Investment Plan. This is as a result of an underspend in 2018/19 which has been carried over. The following projects are developing their business case with approval expected in the next quarter to move into delivery:

- CPI Healthcare Futures Centre £10m Allocation
- Hartlepool Innovation Skills Quarter Phase 2 £4m Remaining Allocation
- Co-Investment Fund £5m Allocation
- A689 Wynyard Improvements - £2.3m





Investment Plan - Quarterly Performance Monitoring
Quarter 1 April - June 2019 - Overall Summary

Strategic Economic Plan: Impact (Current Position)

SEP Target 25,000 Net New Jobs (Up 55%)	2015	2016	2017	2018	Cumulative Total	Direction of Travel	
	299,000	289,000	293,000	Jan 2020			
	Net New Jobs	- **10,000**	- **6,000**	**TBC**	- **6,000**	R	**From 2016 - 2017 the economy has grown by net 4,000 jobs, which is well above the anticipated 2,500 per year. Data for 2018 is expected in January 2020.** **Source:** ONS, NOMIS, Jobs density **Definition:** The total number of jobs is a workplace-based measure and comprises employees, self-employed, government-supported trainees and HM Forces.

SEP Target GVA £ Per Hour (Up 30%)	2015	2016	2017	2018	Cumulative Total	Direction of Travel	
	29.4	29.8	30.5	Feb 2020			
	GVA £ Per Hour	- **0.40**	**1.1**	**TBC**	**0.7**	G	**Definition:** ONS's preferred measure of productivity is Gross Value Added (GVA) per hour worked. This measure removes employment rate, economic inactivity, demographic and commuting considerations with GVA per head and work pattern issues with GVA per job. SEP target – GVA per hour worked: 30% Growth: reducing gap to 94% of UK average. **Source: ONS: Sub-regional Productivity: Labour Productivity (GVA per hour worked and GVA per filled job) indices by Local Enterprise Partnership.**

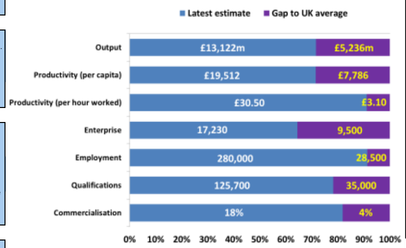
SEP Target 2,000 New Businesses (Up 10%)		2016	2017	2018	Cumulative Total	Direction of Travel	
		17,100	17,500	17,230			
		New Businesses	**400**	- **270**	**130**	G	**The Tees Valley has experienced growth in the number of businesses in the region. This is based on micro, small, medium and large enterprises as recorded by ONS. The strongest growth has been in micro enterprises which would suggest start ups and entrepreuneurs. The annual figures for 2019 will be released on 2nd October 2019.** **Source:** ONS, NOMIS, UK Business Counts - Enterprises **Definition:** The number of businesses is recorded as the number of enterprises live at a reference date in March. An enterprise is the smallest combination of legal units which has a certain degree of autonomy withn an Enterprise Group.

SEP Target 40,000 New Residents (Up 6%)		2016	2017	2018	Cumulative Total	Direction of Travel	
		670,950	672,500	674,300			
		New Residents	**1,550**	**1,800**	**3,350**	G	**This is based on the most recent data available on the overall population. The annual figures for 2019 wil be released in Summer 2020. Figures are showing an increase in overall population, however there is a decrease in the population of working age residents (16-64) and we have an ageing population with low levels of inward migration.** **Source:** ONS, NOMIS, Population Estimates **Definition:** Mid-year population estimates are based on results from the latest Census of Population with allowance for under-enumeration.

SEP Target NVQ Level 4+ (Up 20%)		2016	2017	2018	Cumulative Total	Direction of Travel	
		31.0	30.0	31.0			
		% Qualified 16-64 yr olds	- **1.0**	**1.0**	-	= A	**Definition:** This is the percentage of Tees Valley residents of working age (16-64) that are qualified to NVQ Level 4 or above. The annual figure for 2019 will be released April 2020. **Source: ONS, NOMIS, APS**

SEP Target CO2 Emissions Tonnes (Down 25%)		2016	2017	2018	Cumulative Total	Direction of Travel	
		7,373	6,875	Jun 2020			
		Kilotonnes	- **498**	**TBC**	- **498**	G	**Definition:** This is the amount of CO2 released in terms of kilotonnes. The annual figure for 2018 will be released in June 2020. **Source: HM Government, UK local authority and regional carbon dioxide emissions national statistics: 2005-2017** **Baseline 2005 data - 17,715 Kt CO2**

Productivity Scorecard
Source: TVCA Analysis [Date]



This shows the Tees Valley performance against the UK average against a number of metrics.

Key areas for productivity are enterprise, skills and commercialisation:
- Low levels of enterprise: 64.5% of UK average
- Skills deficit: 30% of 16-64yr olds have level 4+ qualification, this is 38.6% nationally
- Low levels of commercialisation: 18% of businesses introduced new or significantly improved products or services, 81.8% of UK average.

Employees by Sector

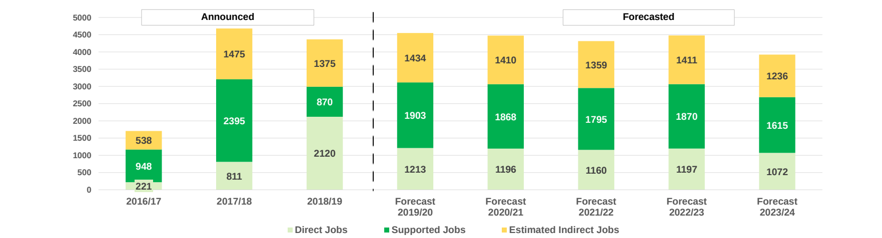
Sector	Number of Employees	Employment %
Chemical and Process	5,780	2
Raw Materials and Agriculture	4,120	2
Advanced Manufacturing	19,020	7
Healthcare	35,640	14
Other Public Services	53,230	20
Energy and Circular Economy	6,470	2
Other Private Services	36,410	14
Construction	12,370	5
Creative, Culture and Leisure	32,150	12
Other Manufacturing	8,560	3
Logistics	15,450	6
Professional and Business Services	26,200	10
Digital	6,680	3
Biologics	360	0
Total	**262,440**	**100**

Source: ***Tees Valley Economic Assessment 2018 Forecast***
BRES Employee Data Expected January 2020

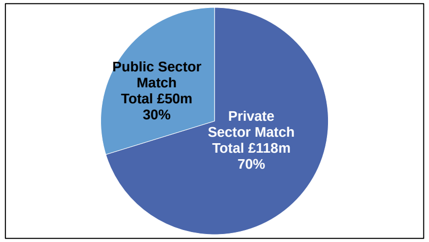
Investment Plan - Quarterly Performance Monitoring
Quarter 1 April - June 2019 - Overall Summary

Combined Authority Outputs

Jobs



Match Funding & Leverage £m



£340m of Cap Ex from Business Investment supported by the Combined Authority since 2016

30% (£57.9m) of Combined Authority Investment made since 2016 will be returned.

JOBS ANNOUNCED AND FORECASTED

Other

Total Direct Jobs Contracted from April 2016 to March 2019 = 3,152
Total Supported Jobs Announced from April 2016 to March 2019 = 4,213
Total Estimated Indirect Jobs from April 2016 to March 2019 = 3,388
Total from April 2016 to March 2019 = 10,753

From April 2019 - End August 2016 - 157 jobs and £12m of Cap Ex has been supported through inward investment.

These forecasts are based on current levels of investment and assume no further borrowing. They are threfore based on only th e single pot monies currently available. If the Combined Authority borrows to maximise and accelerate investment thse figures are likely to be higher.

It should be noted that forecasts only provide an estimate, as a number of assumptions have been made and a standard ONS muli tplier applied. However it provides an indicator of future jobs and indirect jobs resulting from investment by the Combined Authority.

Forecasts should only be used as an indicator and cannot be treat as targets.

Cost Per Job 2016/17-2018/19	Direct Jobs	Direct + Indirect Estimates	Direct + Supported Jobs	Direct + Supported + Indirect Estimates
Total Jobs	3,152	6,540	7,365	10,753
Total Expenditure	**£108,635,309**			
Cost Per Job	£34,466	£16,611	£14,750	£10,103
Expenditure ***(Business Growth and R, D & I)***	**£67,060,477**			
Cost Per Job	£21,276	£10,254	£9,105	£6,237

COST PER JOB

Based on the last three years of investment the cost per job range is set out above.

A large proportion of Combined Authority investment is about creating the right infrastructure to accelerate private sector g rowth through making Tees Valley an attractive place to do business.

Direct jobs generally come from investment to support business growth and research, development & innovation.

Investment made in transport schemes, (where direct jobs are not a natural output) aims to improve access to employment oppor tunities for residents or making Tees Valley more attractive to businesses and to unlock further development or housing.

DATA NOTES

Direct Jobs = From Combined Authority Investment

Supported Jobs = From Inward Investment and ERDF Projects supported by the Combined Authority.

2017/18 was high due to 1,108 ERDF jobs reported. Jobs from Inward Investment was 1287.

Indirect Jobs = Estimated Jobs Unlocked as a Result of Combined Authority Investment.

Estimated Indirect Jobs Source: EMSI Input-Output model. Sector SIC definitions from Regeneris Sector Action Plans.

All figures include new and safeguarded jobs reported at the time of announcement or contracting
Actual jobs are monitored over the lifetime of Combined Authority Investment Projects

Forecasts included up to the end of the Medium Term Financial Plan.

Other Contracted Outputs		Direction of Travel
Skills: Individuals Supported to Gain NVQ Level 4+ Qualifications	5,260	For use in Future Quarters
R, D & I: New to Firm Products / Processes	70	For use in Future Quarters
Business Growth: Number of Businesses Supported	3,143	For use in Future Quarters
Business Growth: Commercial Floorspace (Sqm)	128,690	For use in Future Quarters
Place: Unlocked New Houses	1,449	For use in Future Quarters

WIDER IMPACT TO BE ASSESSED THROUGH AN ANNUAL EVALUATION

GVA

Follow on Investment

Indirect Jobs

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Appendix D to this report is not for publication by virtue of paragraphs 3 of schedule 12A of the Local Government Act 1972

AGENDA ITEM 9

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

25 OCTOBER 2019

REPORT OF STRATEGY & INVESTMENT PLANNING DIRECTOR

EDUCATION, EMPLOYMENT & SKILLS

THE NORTHERN SCHOOL OF ART, NEW MIDDLESBROUGH SITE/FACILITY

SUMMARY

This report considers the request from The Northern School of Art (the School) for investment to relocate its existing Further Education (FE) facility from Acklam in Middlesbrough to a town centre location, and in doing so to support its ambition to become a specialist University in Tees Valley.

The project involves the demolition and sale of the current site (which has reached the end of its economic life) and building 5,400sqm of specialist teaching space at a more central Middlesbrough location. This will not only safeguard the School's sustainability but also support its growth, deliver one of the recommendations from the Department for Education (DfE) Tees Valley Area Review (2016) to support specialist provision, unlock the School's potential to gain University status and also contribute to the wider regeneration of Middlesbrough and Tees Valley.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. notes the request from the School for £14.5m of Combined Authority funding to support the £14.85m project as described in this report;

ii. based on the recommendations and conditions in this report and the funding appraisal, approves the request for £7.25m of non-repayable grant and up to a maximum of £7.25m repayable grant which has an initial repayment on sale of the existing site and further repayments if the agreed profit targets are met; and

iii. authorises the Combined Authority Chief Executive to take all necessary steps to negotiate and complete appropriate funding agreements with the School on the basis set out in this report, taking account of any issues arising as a result of meeting the appraisal conditions (detailed in Appendix 1).

DETAIL

Project Description

1. The School is the only specialist provider of post-16-degree level teaching in the creative sector in the North East and is a key asset in Tees Valley. It has received an Outstanding Ofsted rating since 2009 and a Teaching Excellence Framework (TEF) Gold rating for its undergraduate teaching. 80 % of its FE students go on to higher education (HE) and it has the best graduate satisfaction and employability rate in the North of England.

2. The DfE Tees Valley Area Review (2016) recommended that the School should continue its current successful model of delivery and should focus on quality provision in its specialism of art & design. It was also recognised as being financially viable as an independent college. The School secured its name change from the Cleveland College of Art and Design (CCAD) to the Northern School of Art from the Secretary of State in 2018.

3. The School currently operates from two sites, with HE provision delivered from its campus at the Innovation & Skills Quarter in Hartlepool and FE provision from its Acklam campus in Middlesbrough. This project aims to move the current FE facility from Acklam (where the building has reached the end of its economic life) into Middlesbrough town centre, to facilitate the growth of the School and contribute to the wider regeneration of the area.

4. In addition, the School has begun the process of seeking to transition to the HE sector in 2020 and has the ambition to become the second university in Tees Valley by 2025. To do this, the School must be able to demonstrate sustainability and meet the stringent financial viability test set by the Office for Students (OFS) to achieve sector transfer, which is the first step in this transition to University status. Its current FE facilities restricts its growth, but in addition the quality of the Acklam facilities is in any event a threat to the sustainability of the School.

5. The demographic changes anticipated in Tees Valley up to 2027 forecast growth in the numbers of 16-18-year olds of 13% (or 3,112 individuals). The biggest anticipated growth is in 16-year-olds at 15% (or 1,135 individuals). If the project is not delivered, a specialist key Tees Valley asset is at risk as it will become increasingly difficult to sustain the School (in terms of both FE and HE) without the opportunity to increase its student numbers.

6. The critical success factors are:
    - Sustainable growth for the School;
    - Increased alignment of the curriculum to the needs of businesses;
    - Supporting and growing the supply of skilled individuals entering the creative sector;
    - Delivering a new facility that is visible, accessible and of appropriate specification for effective and future proof delivery of teaching in creative industry disciplines; and

- Supporting place regeneration in both Middlesbrough and Tees Valley.

7. The project has the potential to deliver additional net benefits of £24.8m of gross value added (GVA) to Tees Valley up to 2040/41. When set in the context of a £14.5m investment, this produces a Benefit Cost Ratio (BCR) of 1.7. If the School were to close due to its inability to grow and sustain its operations and ultimately achieve its ambition to become a university, the potential loss of benefits would be in the region of £117.6m of GVA, or a BCR loss of 6.24.

Assurance and Appraisal Outcome

8. In line with the Combined Authority's Assurance Framework (2018) a full business case was submitted by the School and a full appraisal has been undertaken in line with HM Treasury Green Book principles.

9. Appendix 1 provides a summary of the appraisal outcome for each section of the Green Book five-point business case, and the Authority's recommended conditions. It is recommended that authority is delegated to the Combined Authority Chief Executive and S73 Officer to sign off these conditions.

10. The business case and completed appraisal will be published on the Combined Authority's website in accordance with the Assurance Framework.

11. The Combined Authority funding will also be subject to its standard capital funding terms and conditions, which will include appropriate restrictions on the permitted use and disposal of funded assets.

Evidence of Need

12. The School's current FE campus at Acklam is not suitable for teaching in the creative sector in the 21st century: it lacks the scope for development as it is on a constrained site and it lacks the ability to cope with the projected growth in student numbers. The campus has evolved in a piecemeal fashion over the last 50 years, meaning that internal spaces are not configured to meet the current and future needs of the School. The infrastructure is now almost 60 years old and has reached the end of its economic life. The project will enable the School to be housed in more flexible, environmentally friendly and efficient accommodation, more in tune with a 21st century learning establishment with the high-quality reputation it currently holds.

13. The quality of the School's Middlesbrough estate is the worst of any college in the Tees Valley. Almost 90% of the estate remains in the lowest two national condition levels (Category III: less than ideal for the requirements; Category IV: use with extreme difficulty/not suitable). Without major investment, the condition of the estate will continue to deteriorate to the point where major investment will have to take place to rectify health and safety concerns. Such spending would inevitably come at the expense of investment in the teaching and student experience, with consequential quality and reputational risks.

14. The Green Lane campus is located in Acklam/Linthorpe, a residential suburb poorly served by public transport, which means the School has to make significant efforts to transport students in, with 9 subsidised bus routes reaching across the Tees Valley and out into County Durham and North Yorkshire. These traffic movements (together with staff travel) could be significantly reduced by the proposed move to a location well served by public transport, benefiting the environment and sustainability of those public transport links.

15. The School aims to transition to the HE sector and become the second university in the Tees Valley within the next 6 years, bringing significant benefit to the region. The first stage of this journey depends on the quality of provision, alongside strong governance, management and financial viability. The biggest threat to transition is the ongoing liability posed by the Middlesbrough campus and its potential impact on future financial viability. Becoming a Higher Education Institute (HEI), and university, will mean greater access to innovation and other forms of funding (such as the Creative Clusters programme and successors) that will bring wider benefits to the Tees Valley.

16. Funding had been earmarked for the School by the Learning and Skills Council (LSC) in 2008 but this was withdrawn when Government called a halt to the Building Colleges for the Future programme. The scale of the investment required, and the financial regulations the School must adhere to, mean that public support would be required for a project of this nature. There is no other capital fund for FE investment and the Government's expectation is that capital funds would be made available by Local Enterprise Partnerships (LEPs) or devolved authorities.

17. The School has undertaken a thorough options appraisal, considering further refurbishment of their existing premises and new build, and also a range of available sites and property options. A final independent assessment of options was undertaken by Cushman Wakefield, which resulted in the identification of the Denmark Street site in central Middlesbrough as the preferred option.

18. Following the selection of the Denmark Street site, and during the preparation of the full business case, a further option emerged due to Durham University Stockton campus buildings becoming available. Although the site selection exercise had already been undertaken the unique and exceptional nature of academic buildings becoming available within Tees Valley led to their evaluation as a potential relocation solution. However, it was concluded that whilst each of the three campus buildings could potentially meet the space requirements of the School, the indicative costs of acquisition, reconfiguration and refurbishment were, at best, equivalent to a new build option, and potentially significantly higher. It was therefore concluded that the Durham University campus be discounted in the site selection process.

Strategic Fit and Benefits

19. The project contributes to four of the six priorities in the Strategic Economic Plan (SEP):

a. Education, Employment & Skills: improving the specialist FE college with a real opportunity for it to become a university, supporting a SEP priority sector in developing a skilled workforce;

b. Place: contributing to wider economic regeneration with a more central town centre location, and raising the reputation of Tees Valley both domestically and potentially internationally;

c. Culture & Tourism: through growth and capacity building in the creative sector; and

d. Business Growth: the statistics currently demonstrate approximately 35% business start-up for graduates, alongside a talent retention rate of approximately 70%. If the School achieves its ambition to become a university, this could see wider impact in business growth in this sector and beyond, through inward investment and indigenous growth.

20. The Higher Education and Research Act (2017) was intended to create a new regulatory framework for HE and increase competition and student choice. It established a new framework for the registration of new providers and a new route to gaining degree awarding powers (DAPs). In 2017 the School was encouraged by the Chief Executive of the Higher Education Funding Council for England (HEFCE - the then regulator) to seek both DAPs and its transfer to the HE sector, as this would bring benefits in terms of recruitment and profile.

21. The School is one of only two specialist art and design FE Colleges left in England (Hereford being the other). This is because since 1992 many art colleges have either merged with larger institutions or have made the transition to university/DAPs status.

22. The School's proposal therefore mirrors the successful strategy of other specialist art and design colleges, all of which claim to have experienced significant growth in student numbers since being awarded university status:

- Bournemouth and Poole College of Art, became the Arts University Bournemouth (AUB) in December 2012;
- Norfolk Institute of Art &, which became the Norwich University of the Arts - from January 2013;
- The Jacob Kramer College in Leeds became Leeds Arts University in August 2017; and
- Plymouth College of Art & Design became a HEI in 2014 and was awarded degree awarding powers (TDAP) in 2019, and is presently consulting on its name change, as a result of having gained university status.

23. As a result of becoming a university, the institutional profile will be raised domestically (bringing the potential for additional student recruitment), but also in terms of international reputation and student recruitment. In terms of UK undergraduate recruitment, Bournemouth, Norwich and Leeds saw art and design undergraduate acceptances increase by 21%, 12% and 24% respectively in the recruitment cycle immediately after they gained university status.

24. The School would expect its UK undergraduate recruitment to increase by approximately 20% in the first recruitment cycle following university status being granted, in addition to growth through the increase in numbers of young people. In addition, it will explore international links with appropriate institutions so that it will have an overseas recruitment initiative in place by the time it gains university status.

25. The School aims to increase its curriculum offer to support screen/digital/gaming industries by 2022 and to grow its FE student numbers from 500 to 730 by September 2027. This in turn will increase the number of students qualifying at Level 3 and moving on to HE or employment in the sector.

26. The projected demographic growth in 16-18-year olds is 13% (or 3,112) by 2027, with the greatest growth in 16-year olds at 15% (or 1,135). This level of growth in the Tees Valley (alongside the specialist nature of the School and its anticipated growth (230 students by 2027)) would suggest that the overall growth of the market should limit any potential displacement from other local colleges.

27. Currently the destination of students from the existing FE facility is as follows:

- 30% continue onto HE with the School;
- 30% go to other northern institutions - 10% Teesside University and similar to Sunderland, with a smaller proportion going to Leeds, Northumbria and York;
- 20% to HE institutions further afield; and
- 20% do not progress to HE.

This highlights the opportunity to increase the number of HE students who stay in Tees Valley and go on to HE here.

28. Paragraph 7 in this report identifies the potential economic impact of the project and the Combined Authority will continue to work closely with the School to finalise the objectives, outputs and performance reporting for inclusion in the funding agreement.

Funding

29. The total cost of the project is £14.8m, of which £7.25m is requested from the Combined Authority as a non-repayable grant and up to a maximum of £7.25m grant which is repayable if the agreed profit targets are met. The balance is the capital cost of purchasing the site and this will be paid by the School. *[Note: RIBA Stage 3 designs will be completed by 13th September, so we will update the report on receipt of these.]* The build cost is estimated to be around £1,900 to £2,500 per sqm, which is relatively low according to SFA FE cost models (July 2015).

30. To achieve university status, the School must remain financially stable and demonstrate future sustainability, whilst remaining competitive against much bigger organisations including specialist universities. This will require both capital investment and expenditure to attract more students from a wider geographical area.

31. Organisations contracting with the Education Skills Funding Agency (ESFA) are awarded a financial health grading from Inadequate, through to Requires Improvement, Good and Outstanding. At this point in time the School is sufficiently solvent and holds modest amounts of cash which are required as working capital and to ensure that the 'Good' financial health score is met. Its performance is good, but it cannot invest in further revenue or borrowing without breaching the ESFA's acceptable assessment levels.

32. The Combined Authority has explored six options with the School for the funding for the project:
1. 100% TVCA non-repayable grant;
2. The School provides increased capital investment;
3. TVCA loan paid back through income;
4. TVCA builds and owns the facility and rents it to the School;
5. TVCA grant 100% repayable based on meeting profit targets; and
6. TVCA grant, 50% repayable based on meeting profit targets (proposed option).

33. Option 1 was discounted as the Combined Authority would be the sole investor, taking 100% of the risk and not sharing any future upside receipts.

34. Option 2 is not possible as the School does not have access to any further capital. The School will commit any proceeds from the sale of the current FE site in Acklam which will repay some of the grant. The School is itself acquiring the Denmark Street site (currently a car park) from Middlesbrough Council.

35. Option 3 is not possible as the School cannot incur any further borrowing without breaching its banking covenants and reducing the School's financial health rating with the ESFA.

36. Option 4 - the School does not currently pay rent as it owns the facility, and its current strategy is to become financially viable and sustainable. The Board of Governors would find it difficult to authorise additional long-term expenditure as it would affect the ability of the School to grow and in turn achieve the ambitions for the project. The School cannot enter a long lease due to the impact on its balance sheet, which would reduce its financial health to an unacceptable rating from the ESFA, so only a short-term lease wold be possible, which in turn would not support the long-term funding of the project.

37. Option 5 was discounted, as a fully repayable grant would not be viable and the risk of non-repayment would be high. It is recognised that for a project of this scale some public intervention is required.

38. Option 6 is the proposed option, which is to commit a 50% non-repayable grant, and a 50% grant which is repayable if and when the agreed profit targets are met. This option recognises that public intervention is required to make a project of this scale viable, but also looks to share the risk and reward between the School and the Combined Authority. The School will repay the repayable element of the grant, provided it meets the agreed financial hurdles over the period for repayment under the funding agreement.

39. Repayment by the School will be dependent on it achieving its growth targets. It is proposed that the relevant repayment period begins 5 years after practical completion of the FE campus and ends 25 years after that practical completion date. Therefore, the repayment period would be 20 years from 2026 - 2046.

40. Repayment will be triggered when:

- The School makes a surplus based on its full business accounts for both the FE and HE provision;
- Up to 10% ‘normal surplus’ can be retained by the School to support future investment (as recommended by DfE);
- 50% of the surplus beyond this 10% is repaid to the Combined Authority, which will be determined and paid annually on an open book basis.

41. There is a risk of non-payback, and benchmarking with other institutions and financial modelling has been undertaken to assess the likelihood of return. The School has modelled its financial position into the 2040s, to assess its ability to generate an adequate level of surplus and cash for investment, and the likelihood of repaying the contingent grant element in full (based on the assumption that its growth plans come to fruition). The School also examined the financial performance of key comparator institutions over a decade (Norwich University of the Arts, the Arts University Bournemouth, Leeds Arts University and Plymouth College of Art). ***(Data available in Appendix D – Commercially Sensitive Information, Number 4 Table 5.8)***

42. In summary the likelihood range of repayment is estimated to be a minimum return of £1.87m by 2046 up to a maximum return of £7.25m by 2042. If performance exceeds expectations, full repayment of £7.25m could be made by 2039.

43. If the School's growth plans do not come to fruition, leading to the closure of the School, the Combined Authority will have a legal charge over the asset.

FINANCIAL IMPLICATIONS

44. Assuming the recommendations set out above are agreed, the financial implications are that the Combined Authority would commit £14.5m of capital funding to the project, of which £7.25m is potentially repayable. This funding will come from the £15m Education, Employment & Skills capital allocation in the Investment Plan.

45. This funding will be subject to appropriate technical due diligence as required by the Tees Valley Assurance Framework.

LEGAL IMPLICATIONS

46. Approval is subject to the conditions set out in the appraisal, which include a condition that satisfactory state aid legal advice is received, and the repayment triggers being met, set out in paragraph [37].

47. Any funding will be subject to standard Combined Authority terms and conditions. In addition, special conditions will be included to ensure that any issues raised by the appraisal and due diligence are appropriately addressed.

RISK ASSESSMENT

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

Risk	Proposed Mitigation
Grant is not repaid	• Due to the contingent repayment basis this is a recognised risk. However, the risk of this will be monitored closely and detailed management accounts will be provided to the Combined Authority twice a year in line with ESFA submissions; • If the project fails and the School ceases to exist, the Combined Authority will have a charge over the asset; and • Our standard quarterly claims and monitoring procedure will identify any potential issues early.
Cost overruns	• Cost certainty will increase as the project progresses through the RIBA Stages (current costs are based on Stage 3); • Currently a 7% contingency is built in to the budget, which will be reviewed at each stage; • The sale proceeds of the current site have been identified to cover any cost overruns, but the repayable contingent grant will not go above £7.25m; • The track record of the School in terms of capital project delivery is good; and • Our standard quarterly claims and monitoring procedure will identify any potential issues early.

Risk	Proposed Mitigation
The School does not gain University Status	• Practical completion must be achieved for the facility to open in September 2021, therefore early contractor engagement and strong project management will be in place. • The track record of the School in terms of capital project delivery is good; • The quality of provision is high and its financial viability good and has been consistent for years, therefore the risk is mitigated; and • We will continue to work closely with the School to work through each stage of this process.
The student numbers do not increase as forecast	• Joint project marketing and communication plan with the School, the Combined Authority and MBC; • Monitor local and national demographic data annually; and • Our standard quarterly claims and monitoring procedure will identify any potential issues early.
The funding of FE education changes resulting in an impact on revenue	• Monitor policy closely to pre-empt and plan for any potential issues.

CONSULTATION AND COMMUNICATION

49. Extensive consultation was undertaken leading to the project becoming a priority in the Investment Plan as approved in January 2019.

50. Further consultation has been undertaken with Tees Valley Management Group and Tees Valley Chief Executives.

51. A joint marketing and communication plan with the School, the Combined Authority and Middlesbrough Council will be agreed and implemented.

EQUALITY & DIVERSITY

52. There are no direct equality and diversity implications arising from this report. Equality and diversity requirements will be embedded into the design and construction requirements for the new facility.

LOCAL ENTERPRISE PARTNERSHIP

53. This report has been considered at the LEP meeting in advance of it coming forward to Cabinet.

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THE NORTHERN SCHOOL OF ART

RELOCATION OF THE NORTHERN SCHOOL OF ART

FULL BUSINESS CASE SUBMISSION TO TEES VALLEY COMBINED AUTHORITY

AUGUST 2019

COMMERCIALLY SENSITIVE INFORMATION REDCATED

TABLE OF CONTENTS

1. Executive Summary

1.1. Introduction

The Northern School of Art is the only specialist provider of post-16 and degree level teaching in the creative sector in the north east of England. It is the pre-eminent provider – a fact endorsed by the Secretary of State for Education when approving our new name in 2018 – with an Outstanding Ofsted rating since 2009 and TEF Gold for its undergraduate teaching. Our FE campus feeds undergraduates to universities across the UK, predominantly to Teesside University and our own HE campus in Hartlepool, with a long-term average of 80% of our leavers going on to study for degrees.

The creative sector is the most vibrant part of the UK economy offering significant opportunities for growth in GVA and employment, recognised in the Tees Valley Strategic Economic Plan (SEP). To enable the School and Tees Valley to make the most of this opportunity we wish to relocate our FE campus to central Middlesbrough, providing teaching space which is fit for purpose now, and future-proofed for an ever-developing industry. Our current campus, dating back to the 1960s, is: inefficient in its use of space; constrained, preventing growth and effective response to future teaching needs; a maintenance liability; and inaccessible by public transport. Relocation will facilitate growth in student numbers from the Tees Valley - as demographics improve through 2030 - and through increased reach outside the area (lacking comparable provision) utilising existing and improved public transport.

The Northern School of Art has begun the process of seeking transfer to the HE sector in 2020 and shortly after that will apply for Degree Awarding Powers (DAPs), key objectives set out in our Strategic Plan for 2019-2024. Ultimately we should be the Tees Valley's second university and the sixth in the north east. This will bring increased visibility for us, making the high standard of our provision more widely-known and generating benefits in both increased UK student recruitment and the prospect of recruiting overseas students. In turn, this will bring significant economic benefit for the area and help to redefine the image of the Tees Valley for inward investors, students, and visitors.

To achieve sector transfer the School must demonstrate its sustainability as an HEI, meeting the financial viability test set by the Office for Students (OfS). Early indications suggest this is more demanding than current Education and Skills Funding Agency (ESFA) financial health criteria, placing new demands on financial performance which would be facilitated by our relocation (reduced operating and maintenance costs, et cetera). The relocation of the FE campus supports not only FE improvement but also wider ambitions for HE development, thus generating significant benefits for the Tees Valley as a whole.

1.2. Strategic Case

Strategic context
The creative sector is growing more rapidly in the north east than any other English region (excluding London) - regional GVA increased by 47% between 2011 and 2017. Nationally the sector has outperformed all other sectors in employment and GVA growth since 1998, continuing to grow during the recession earlier this century. The creative Industries are the third largest economic sector and when the cultural sector is added it becomes the largest with a combined GVA of £131Bn pa. NESTA has shown that jobs in this area are the least likely of any sector to be replaced by automation/AI.

To summarise section 2.1 of this business case this project supports the delivery of the national **Industrial Strategy** - where the creative sector is identified as a priority.
Our proposal directly contributes to the SEP priorities:

Business growth - the School can demonstrate a c.35% business start-up rate for graduates (alongside a talent retention rate of c.70% in the Tees Valley)
Education, employment and skills - in our sectors the SEP predicts a need for 19,700 jobs (additional and replacement) by 2026 we are best placed to cope with plugging this gap.
Place and Culture the SEP states that **Culture "**will contribute to diversifying the economy. It will provide new and varied employment opportunities many of which will be available to young people, boosting the visitor economy and changing external perceptions of potential inward investors and skilled workers, thereby helping to ensure new investment linked to growth sectors and the low carbon economy".

Relocation clearly supports the **Transport Strategy** encouraging modal shift to public transport and acting as a source of new users for enhanced rail routes

Our proposal directly contributes to the **Local Industrial Strategy**:

Inclusive growth - providing long term jobs in a growing and resilient sector

People - providing ongoing and future proofed training for anyone over the age of 16
Place - the existence of The Northern (especially with university status) will enhance the attraction for internal migrants and inward investors
Culture & tourism.

Our existence as a nationally recognised art school, and potentially a specialist university by that date, can only underpin the Tess Valley Cultural Strategy and the bid for City of Culture in 2025.

Our proposal contributes significantly to the regeneration of the TS1 centre of Middlesbrough - discussed in more depth in the associated Economic Case document produced by ERS.

The case for change
The Northern School of Art FE campus is no longer suitable for provision of teaching in the creative sector in the 21st century:

- there is no scope to develop existing buildings to meet the training needs of the creative sector, especially the screen sector meaning that we cannot maximise our offer in this growth sector
- the building does not allow re-configuration to adapt teaching and workshop facilities to meet future needs across the sector

The current site and building configuration mean:

- it lacks the scope for development as it is on a constrained site and
- it lacks the ability to cope with growth in student numbers

The majority of the estate is nearly 60 years old:

- it is past the end of its economic life
- building condition is poor, requiring significant ongoing maintenance
- environmental efficiency is poor

The campus is located in a residential suburb some 2.5-mile distance from the town centre:

- the School hasto fund its own additional bus routes
- students and staff do not use public transport
- the campus is landlocked and brings no additionality to the local economy through staff and student spend

Objectives
Specifically, relocation will enable:

- growth in student numbers

- expansion of our curriculum to meet future needs of the sector and alignment with the SEP growth sectors (digital especially)
- expansion of our curriculum in stage and screen, mirroring our HE offer
- development of a skilled workforce for the growing creative sector
- create a visible part of the cultural branding of the Tees Valley through its gateway location.

It will facilitate:

- Transfer to the HE sector and the subsequent creation of the second Tees Valley based university
- regeneration of Middlesbrough as a central place within the Tees Valley and the digital industries cluster centred on BoHo Our proposal contributes significantly to the regeneration of the TS1 centre of Middlesbrough – discussed in more depth in the associated Economic Case document produced by ERS
- the Tees Valley cultural offer and its associated economic benefits
- our existence as a nationally recognised art school, and potentially a specialist university by that date, can only underpin the Tess Valley Cultural Strategy and the bid for City of Culture in 2025.
- increased public transport use and reduced environmental impact of traffic in a residential area.

The School's trajectory of growth, transfer to the higher education sector and obtaining degree-awarding powers (DAPs) and university title mimics the successful strategies of numerous specialist art and design institutions which, like it, were specialist further education colleges when those institutions gained independence from local authority control to create the further education sector in 1993. Examples are given below:

- Norfolk Institute of Art and Design became a Higher Education Institution (HEI) in 1994 and renamed as Norwich School of Art and Design, was granted degree awarding powers in 2007 and was renamed Norwich University College of the Arts (NUCA). In June 2012 the Government announced that the qualifying threshold required by an institution in order to gain full university status was to be lowered and NUCA thus became a university - Norwich University of the Arts - from January 2013.
- Bournemouth and Poole College of Art changed its name to The Arts Institute at Bournemouth in 1998 and in 2001 became a higher education institution. In 2009 the Arts Institute Bournemouth changed its name to the Arts University College at Bournemouth following the acquisition of taught degree awarding powers in 2008. The Arts University College at Bournemouth became Arts University Bournemouth (AUB) in December 2012.

- Leeds Arts University was known from 1968 to 1993 as Jacob Kramer College, having lost part of its provision to Leeds Polytechnic. It was known as Leeds College of Art and Design from 1993 until 2009, when it became Leeds College of Art. It transferred to the higher education sector in 2011 and gained taught degree awarding powers in 2017. In August 2017 it was granted university status and became Leeds Arts University.
- Plymouth College of Art and Design was renamed in December 2008, and became Plymouth College of Art. It became a higher education institution in 2014 and was awarded taught degree awarding powers (TDAP) in 2019. It is presently consulting on its name change, as a result of having gained the right to university title.

The most significant change for institutions is the granting of university title, which not only raises institutional profile domestically – and hence student recruitment – but acts as a key qualifier in terms of international reputation and therefore student recruitment. In terms of UK undergraduate recruitment Bournemouth, Norwich and Leeds saw art and design undergraduate acceptances increase by 21%, 12% and 24% respectively in the recruitment cycle immediately after they gained university title. This is before taking changes in international recruitment into account, which are more variable, depending as they do upon institutional intentions and readiness. Given the comparable experience of other specialist institutions, The Northern School of Art would expect its UK undergraduate recruitment to increase by c.20% in the first recruitment cycle following university title being granted, in addition to any increases due to expected demographic increases. In addition, The School will shortly explore the possibility of meaningful links with appropriate overseas institutions in Anglophone nations. It is hoped that this will allow an overseas recruitment initiative to be in place by the time that the institution is granted university title. This would allow further institutional growth, and also additional economic benefit for the Tees Valley.

1.3. Economic case

Options and Findings

The School has conducted an options appraisal in four stages:

- An initial assessment of ‘Do Nothing’, ‘Refurbish existing’ or ‘Relocate’ - this clearly favoured.
- A desk top analysis of ‘travel to learn times’ on various central locations across the five boroughs - which clearly demonstrated that Middlesbrough is the most favourable for accessibility and maintain student numbers
- Cushman Wakefield were commissioned to review property options in Middlesbrough which arrived at a preferred option of Denmark Street. Some months later an opportunity arose to explore alternate sites at the

Durham University Queens Campus in Stockton - these were explored for cost, suitability and travel to learn impacts and rejected (see detail in following sections)

- Finally, ERS conducted an economic appraisal which concludes that there is a positive benefit cost ratio for relocation and significant disbenefits should the School not relocate and, eventually cease operating.

Preferred way forward

Our options appraisal and economic assessment clearly indicate that the preferred option is for the School to relocate to a new build facility on the Denmark Street site in Middlesbrough:

- the costs and operational impacts associated with refurbishment rule out other options
- central Middlesbrough secures our accessibility for current and future students extending our reach effectively without impacting on our current catchment in the Tees Valley
- the Denmark Street location is the most appropriate and cost-effective location within Middlesbrough
- in economic terms central Middlesbrough offers direct benefits resulting in a BCR of 1:1.71 and a broader BCR of 1:6.24 taking account of the wider positive impact of the school on the Tees Valley economy.

1.4. Recommendation

Our needs, options and economic assessments all show that relocation of The Northern School of Art to a new build "gateway" site on Denmark Street in Middlesbrough is the right solution to a set of problems presented by the current campus. Moreover, they demonstrate that this relocation will bring significant current and potential economic benefits to the region. The option to do nothing would severely impact on the regional economy and skills position.

In conclusion we seek approval for grant funding of £14.5m (with £7.25m as a contingent grant). The basis for contingent grant is to be finalised but is anticipated to relate to some form of contribution from future surpluses.

2. The Strategic case

2.1. Strategic Fit - national, regional and local

At a national level the project supports the delivery of the national **Industrial Strategy** which identifies the creative sector as a priority for growth - building a skilled workforce in an identified growth sector. The government commissioned Bazalgette Independent Review of the Creative Industries (2017) clearly demonstrated the significance of the sector, its growth potential, the need for more creative sector jobs outside the south east supported by skills development, and the need for the sector to be inclusive in its employment. It is worth noting that as the School is not an HEI we were unable to apply for significant funding as part of the Creative Clusters programme which is part of the Industrial Strategy and a key recommendation of the Bazalgette Review.

Our proposal directly contributes to the SEP priorities:

Business growth - it is a sector dominated by micro/SME and our students demonstrate a c35% business start-up rate (alongside a talent retention rate of c70% in the Tees Valley)

Education, employment and skills - in our sectors the SEP predicts a need for 19,700 jobs (additional and replacement) in our sector by 2026 we are best placed to cope with plugging this gap. 4140 of the additional jobs in our sectors are qualified to Level 3+, our excellent record for achievement and progression mean that we will make a significant contribution to this (alongside those focussed upon digital coding - areas where our design skills are complementary, not competing.

Place and Culture are covered below (LIS) but it is worth noting that the SEP states that **Culture "**will contribute to diversifying the economy. It will provide new and varied employment opportunities many of which will be available to young people, boosting the visitor economy and changing external perceptions of potential inward investors and skilled workers, thereby helping to ensure new investment linked to growth sectors and the low carbon economy".

Relocation clearly supports the **Transport Strategy** encouraging modal shift to public transport and acting as a source of new users for enhanced rail routes

Our proposal directly contributes to the **Local Industrial Strategy**:

Inclusive growth - providing long term jobs in a growing and resilient sector

People - providing ongoing and future proofed training for anyone over the age of 16 - BIS research published in 2011 shows that Level 3

qualifications such as those we provide generates an 11% the wage premium generating £94k GVA per student (NPV 2008/9 prices)
Place - the existence of The Northern as a pre-eminent art school, working with its community, helps to define the image of the region. Its existence (especially with university status) will enhance the attraction for internal migrants and inward investors
Culture & tourism - generating new businesses in the sector, skills to work in the sector and continuing to provide and support events and attractions such as the Northern Festival of Illustration which has now attracted more than 100,000 visitors - many of them from outside the region.

The project underpins the Tees Valley Cultural Strategy. The Tees Valley intends to bid for City of Culture status in 2025, The School has played a significant role in supporting and developing this since 2013 - our existence as a nationally recognised art school, and potentially a specialist university by that date, can only enhance our prospects for success and in any event our ongoing work to support younger people and community based projects (through free art teaching, training for teachers and careers advisers, etc.) will remain an essential element of the cultural scene across all five boroughs.

Our proposal contributes significantly to the regeneration of the TS1 centre of Middlesbrough - discussed in more depth in the associated Economic Case document produced by ERS.

More detail of the Strategic Fit is given in *The Northern School of Art Relocation: Economic Case, ERS, June 2019 on page 23, s. 5.*

2.2. Assessment of Need

Table 2.1 SWOT

STRENGTHS	WEAKNESSES
• Specialist provision • Key Tees Valley asset • FE Ofsted Outstanding • 80% of FE students go on to HE • TEF Gold for HE • Best graduate employability in north east • Best graduate satisfaction in North of England • Industry links • HE growth • ESFA Good financial rating	• FE campus condition • Inability to reconfigure FE buildings for future teaching needs • FE Campus unable to accommodate student growth • Dependence on bought-in transport for students • Inability to align FE teaching in stage and screen sectors with our HE provision
OPPORTUNITIES	**THREATS**
• Demographic growth up to 2030 • HE sector transfer and university status • Growth of creative and cultural sectors (value and employment) • Strategic alignment • 70% graduate retention in TV (80% in NE) • HEI funding opportunities • Development of Green Lane site • Improved public transport and student recruitment outside TV • Creation of The Northern Studios in Hartlepool	• Augar review of HE funding and possible revenue loss • Location of FE campus - poor accessibility • Failure to secure funding for relocation • Continuing cash standstill funding for FE • Demographic growth does not translate into increased student numbers • HE market is the most challenging ever (across all subject areas) • FE competition is fierce given government's real terms reductions on funding over the past 6 years. • Inability to secure University status

The problem:

The Northern School of Art FE campus is not suitable for provision of teaching in the creative sector in the 21st century, it lacks the scope for development as it is on a constrained site and furthermore it lacks the ability to cope with growth in student numbers - the number of 16 year olds in the region is predicted to grow by 17.3% by 2024 (ONS projection) and further significant demographic growth is expected past 2030. The Northern School of Art has a leading position in Stage and Screen teaching at undergraduate level and our development of The Northern Studios, alongside the TVCA Tees Valley Screen initiative, show that we are all serious about placing this rapid growth sub-sector at the heart of the region's economic future, however we cannot mirror our HE provision in the current campus.
The campus has evolved in a piecemeal fashion over the last 50 years, meaning that internal spaces are not configured to meet the needs of the School and has involved many compromises along the way. Although we have continued to invest in the estate, most of the investment has been to maintain the buildings rather than improve the condition, life of the asset or learning environment. The infrastructure is now almost 60 years old and has reached the end of its economic life. The project will enable the School to be housed in more flexible, environmentally friendly and efficient accommodation more in tune with a 21st century learning establishment.
All other colleges in the area have received significant capital investment meaning that the quality of the School's estate is the worst in the Tees Valley. Almost 90% of the estate remains in the lowest two conditions (Category III: Less than ideal for the requirements; Category IV: Use with extreme difficulty/not suitable). Without major investment the condition of the estate will continue to deteriorate to the point whereby major investment will have to take place to rectify health and safety concerns (such spending would inevitably come at the expense of investment in our teaching and student experience with consequent quality and reputational risks).

Furthermore, the campus location in Acklam/Linthorpe - a residential suburb poorly served by public transport - means that the School has to make significant efforts to bus in students with 9 subsidised bus routes reaching across the Tees Valley into County Durham and North Yorkshire. These traffic movements together with staff travel could be significantly reduced with a modal shift to existing (and future) public transport benefiting the environment and sustainability of public transport links. This location - distant from amenities and shopping - also means that the local economy misses the potential benefit of spend by staff and c.500 students.

The impact:
The Northern School of Art is on the path to transfer to the HE sector and becoming the second university in the Tees valley within the next 6 years - bringing significant benefit to the region. Sector transfer, the first

stage of this journey depends on the quality of our provision, our governance and management and financial viability. The outstanding quality of our provision in both Middlesbrough and Hartlepool and our robust governance mean that the biggest threat to transfer is the ongoing liability posed by the Middlesbrough campus and its potential impact on future financial viability. Becoming an HEI, and University, will mean greater access to innovation and other forms of funding (such as the Creative Clusters programme and successors) that will bring wider benefits to the Tees Valley - economic and reputational.

Competition in the sector is at unparalleled levels as both the FE and HE markets compete for student numbers. This is compounded by a drop in the number of students aged 16-18 nationally which is not forecast to start improving until 2020/21 at the earliest and will take time to trickle through to the HE sector. As a result, both FE and HE institutions are competing against each other for a declining student population which in turn is seeing students looking more closely at the quality of education provision and the resources that are available to them as students. The ability to invest in equipment and student experience is increasingly under the spotlight, as opposed to maintenance of buildings in poor condition for little return, which is becoming increasingly important for the strategic aspirations of the School. The OFS has publicly recognised this and written to all HEIs urging caution as the national position shows institutions planning overall growth in a period of decline in student population in the UK. (OFS report, Financial sustainability of higher education providers in England - April 2019 - Figure 8, page 18). The result of which has led to increased investment by both sectors in equipment and resources to both entice students and to attempt to keep teaching at the forefront of technological advances in the subject areas in which they are teaching. A recent report from KPMG for the OFS in May 2019 recommends that institutions should be targeting 10% of costs to be allocated as a 'margin for sustainability and investment'. The purpose of this is to maintain financial sustainability and enable the provider to accumulate reserves for investment in its land, buildings, equipment and other investments over the longer term (OFS / KPMG report: Understanding costs of undergraduate provision in higher education - May 2019 - table 8, page 90).

This mirrors the position in the FE sector where there is cross-party acknowledgement at Westminster that the funding position for the FE sector has been in decline over the past decade and is in danger of leading to significant solvency issues in the sector. With a new insolvency regime in place for FE Colleges the risk of closure or forced merger is real as demonstrated by the cases of Hadlow College and West Kent & Ashford

College this year where both have become insolvent and been placed in administration by the High Court at the request of the ESFA.

If we are not able to relocate our ability to sustain FE provision will be compromised. We will become less and less attractive to students as our current Middlesbrough building does not allow us to update facilities for teaching existing and new subjects. Given our specialised nature and range of provision and the exceptional quality of teaching and outcomes comparable alternative provision does not exist (see *The Northern School of Art Relocation: Economic Case, ERS, June 2019* s.2.12 which illustrates that the School is both pre-eminent in terms of results and that no other institution has comparable syllabus). If this comes to pass the School ceases to operate then there will be a significant loss of opportunity for students and the ability of the Tees Valley to grasp the opportunities presented by the growing creative economy.

In turn should our FE provision wither then this will have an impact on the viability of our HE provision in Hartlepool as some 30% of students there have previously studied in Middlesbrough. It would also impact to a lesser extent on the supply of students to Teesside University, another key destination for students leaving our FE provision. We have modelled the impact of three scenarios on FE student numbers and numbers transferring to our HE - set out in the table below.

The three scenarios are:

1. Best case - we see the full 2% pa demographic growth and 5% loss in first year FE students due to decline in attractiveness of facilities, and
2. Middle case - we see the full 2% pa demographic growth but suffer 15% loss in first year FE students due to decline in attractiveness of facilities and curriculum offer,
3. Worst case - where we do not gain any demographic benefit and still suffer attrition at 15%

Table 2.2 Student Number Scenarios ***(The details of Table 2.2 Student Number Scenarios are in Appendix D Commercially Sensitive Information 1).***

Scenarios 2 and 3 clearly show that by 2027 our FE provision would have withered to an unviable student population and that the loss of revenue associated with fewer HE students would be between £0.925m and £1.017m. It should be noted that in both scenarios the School would breach its banking covenants and our ESFA 'Good' financial health rating would be lost (resulting in government intervention) in the next 3-5 years. In both scenarios the School would cease to operate. Even in the best case we see a 12% decline in students transferring and a consequent significant impact on revenue.

The outstanding quality of our FE and HE provision is dependent upon our intensive specialist teaching models. Any negative revenue impacts would of necessity cause us to review our teaching models, compromising quality of learning and student experience. In essence it would dilute the value of our brand to us, and the Tees Valley.

Impact of future School growth within the region

Unfortunately, there is little publicly-available definitive evidence regarding the beneficial economic impact of relatively small, specialist art and design institutions. The available examples are set out here.

The Northern School of Art (then Cleveland College of Art & Design) was cited as a case study example (along with Plymouth College of Art, the Arts University Bournemouth and Norwich University of the Arts) in the 2016 report The Economic Value of Creative Focused Universities and Colleges which was prepared by the economic consultancy Emsi, specialists in economic impact analysis for universities and colleges. Without quantifying the economic impact, examples appear in the report which have relevance to this business case.

The Emsi report cites the collaboration between Framestore and the Arts University Bournemouth (AUB). Framestore is the largest of the European post-production companies, with a significant involvement in feature films. The company approached the Arts University Bournemouth some years ago having identified the quality of graduates from AUB animation and film programmes and the number recruited to employment with Framestore. This subsequently led to a formal agreement whereby Framestore established a satellite operation on the AUB campus taking AUB graduates on 12 to 18 month paid internships and engaging in course development and professional delivery of undergraduate / postgraduate courses. By 2016 this relationship was in its fifth year, having provided opportunities for more than 100 students some of whom claimed credits on the Oscar winning film ‘Gravity’. In collaboration with Framestore, AUB introduced a dedicated VFX undergraduate programme in 2015. In every respect this has been a successful model of industry/university collaboration and one very tuned to the employment agenda and professional progression of graduates. Clearly there are parallel opportunities for The Northern School of Art based around the potential development of The Northern Studios. The School already has a suite of screen-based industry related undergraduate programmes, including degrees in TV/Film, costume, set design, visual effects and model-making which have strong and developing links with employers in the industry. Once established, The Northern Studios should become a hub for specialist screen-based companies in the north east, and similar opportunities for cooperation should emerge, boosting the Tees Valley economy. This will also enable The School to positively differentiate its offer from that of other specialist providers, as it will be unique in having a fully-functioning commercial TV/film studio on its campus, with the opportunity for reputational enhancement and growth in student recruitment.

The Emsi report also highlights the economic value of overseas students, a development that would be enabled for The Northern School of Art by gaining university title, itself facilitated by the FE campus development which would remove potential sustainability concerns and improve the level of ‘flow through’ of FE students to its undergraduate provision. The School’s view, based upon discussions with senior staff in several institutions that have gained university title in the last decade, is that because of the international strength and reputation of UK higher education, acquiring university title results in a very significant increase in profile internationally. UK institutions receive unsolicited approaches from overseas higher education institutions wishing to become potential international partners. In 2017, the then Chief Executive of the Higher Education Funding Council for England (Hefce), Professor (now Dame) Madeleine Atkins urged The School to seek to develop international partners in the USA in the expectation that The School would obtain university title and that this would be a fruitful development opportunity.

The local impact of specialist higher education is also considered in the 2010 report by Universities UK (UUK) Creating Prosperity: the role of higher education in driving the UK’s creative economy. This also includes a case study from AUB, where a relatively small-scale enterprise initiative had already supported the creation of new creative businesses delivering £3.84 million of Gross Value Added (GVA) to the local economy. The report also highlighted a range of other ways in which universities across the UK are contributing to the growth of the creative economy. These include:

- anchoring regional clusters through the attraction and retention of academic, graduate and business talent

- engaging significant industry players and facilitating connections with creative SMEs, creating new routes to major market opportunities
- building international reputation and credibility in ways that both enhance the UK's reputation but also deliver direct benefit to regional creative businesses
- supporting active networks and bringing together business, academic and public-sector partners

The report also notes that "many of these impacts are the result of the scale, credibility and international standing both of individual institutions and of the UK's higher education system as a whole. Combined with the global standing of the UK's creative economy, this must be a powerful force for growth."

Whilst this report refers to universities acting to anchor regional clusters, a recent report Inclusive Future Growth in England's Cities and Regions contrasts the beneficial role and impact of smaller higher education institutions – in this case Plymouth College of Art – with more traditional 'anchor' role of established civic universities. In an approach that the authors – who include Professor David Marlow of the Centre for Urban and Regional Development Studies at Newcastle University – term the 'Plymouth Provocation' they highlight the importance of new institutions in areas that require transformation and disruptive change. There is clearly the potential for The School to undertake such a role in Hartlepool and the wider Tees Valley if it completed its journey to university title. The School would see its role as being very different from, yet complementary to, that of Teesside University. The ability of The Northern School of Art to positively influence economic development and growth in the Tees Valley in ways similar to those set out above already being undertaken by similar specialist institutions is heavily dependent upon its ability to become a higher education institution and, critically, to gain university title. Gaining title is dependent upon being granted taught degree awarding powers (TDAP) in perpetuity. The School plans to be in a position to apply for TDAP in 2020. It has already begun the process of applying to transfer to the higher education sector. The latter step requires The School to satisfy the Office for Students that it meets necessary conditions in terms of financial viability and sustainability, which appear to exceed the requirements placed on further education colleges by the Education and Skills Funding Agency (ESFA). This issue is considered further at Section 5.2, and is relevant to The School's need to maintain its financial health and therefore its limited ability to make early contributions to project costs, beyond the sale proceeds of its existing FE campus.

2.3. Strategic Fit - economic context

Creative Cultural & Digital (CCD) - Economic significance
The creative sector has grown in value and employment since it was first defined in 1998. In the five years up to 2017 the sector in the north east grew faster than anywhere else in England apart from London (47% growth by value). The sector has grown faster than the UK economy since 1998 - the creative industries employ 1 in 11 people in the English workforce and are predicted to need an additional 900,000 graduates by 2022 (UKCES). The Creative Economy now employs 12.7% of all people employed in the UK - 3.2 million jobs.
The CCD economic contribution is collectively the largest of all industrial sectors at £261.5 billion. The comparison is stark:

- Construction = £110Bn
- Motor = £21.5Bn
- Financial services = £119Bn
- Pharma = £2.3Bn
- **Creative Industries = £101.5Bn**
- **Cultural = £29.5Bn**
- Digital = £130.5Bn

(All data is sourced from DCMS/ONS and refers to 2017 GDP and employment)

Creative Industries
The Creative Industries contributed £101.5bn to the UK economy in 2017, accounting for 5.5% of UK GVA.
Between 2010 and 2017, the Creative Industries GVA increased by 53.1% (£66.3bn in 2010). This was the fastest growth among the DCMS sectors, and an increase nearly twice as fast as the UK economy (28.7% increase in the UK between 2010 and 2017). There has been 28.6% growth in employment since 2011, totalling 2.04 million jobs
Cultural Sector
The Cultural Sector contributed £29.5bn to the UK economy in 2017 and accounted for 1.6% of UK GVA. The contribution of the Cultural Sector increased by 7.2% between 2016 and 2017, and by 38.5% since 2010. Over three fifths (60.2%) of the Cultural Sector GVA was in the ‘Film, TV and music’ sub-sector (contributing £17.8bn in 2017), where GVA increased by 9.4% between 2016 and 2017, and 39.0% since 2010. Nearly a quarter (24.8%) of Cultural Sector GVA was accounted for by the ‘Arts’ sub-sector. This sub-sector has increased by 62.6% since 2010, from £4.5bn in 2010 to £7.3bn in 2017 and increased by 6.2% since 2016 (£6.9bn in 2016). There has been 23.6% growth in employment since 2011 in the cultural sector.

2.4. Investment objectives

Specifically, relocation will achieve the objectives set out below:

No	Objective	Targets and milestones
1	Growth in FE student numbers	730 FE students by September 2027 (the baseline is c 500 reflecting our audited 2017/18 student numbers)
2	Expansion of our curriculum in stage and screen, mirroring our HE offer	From 2023 our FE curriculum has expanded to provide additional subjects (we have already commenced a review of the offer which would include film and TV production, Acting and performing arts – exact new courses would depend on market conditions and industry developments)
3	Transfer to the HE sector and the subsequent creation of the second Tees Valley based university	Sector transfer is complete by December 2020 (subject to DfE and OFS agreeing relevant criteria) Degree Awarding Powers achieved by end 2021 DAPs in perpetuity achieved by 2024 University College status granted in 2024
4	Creation of a new 'gateway' campus	Practical completion by June 2021 (or May 2022 if timetable slips further)
5	Growth in HE student numbers	Year on year growth better than demographic growth at The School. We would seek to maintain 55% HE students as a minimum Increased numbers of 18-year-old HE entrants from the Tees Valley (in relevant Creative, Cultural, and Digital subjects) a natural result of FE growth as we aim to at least maintain our internal FE-HE progression rate of 30% of HE students

Table 2.3

2.5. Main benefits

No	Benefit
1	Development of a skilled workforce for the growing creative sector
2	The Tees Valley cultural offer and its associated economic benefits
3	Growth of cultural creative and digital businesses
4	Regeneration of Middlesbrough as a central place within the Tees Valley
5	Increased public transport use and reduced environmental impact of traffic in a residential area.

Table 2.4

2.6. Main risks

No	Risk
1	Sustainability
2	Unable to invest in equipment and student experience to attract students
3	Unable to successfully transfer into HE sector and become a University over time
4	Drop in academic standards as resources are not available
5	Risk of intervention by ESFA as academic and financial position declines

Table 2.5

2.7. The need for public investment

There is now no national capital fund for FE, following the demise of the skills Funding Agency and government's expectation is that capital funds will be made available, as appropriate and justifiable, by LEPs or devolved authorities. The size of investment required for a project of this nature would also need public intervention, as demonstrated by the other FE Colleges in the Tees Valley which have all benefited from new campuses. Unfortunately, the funding that was earmarked for the School by the then LSC in 2008 was withdrawn when Government called a halt to the Building Colleges for the Future programme. In response, the School invested £2.2m in the purchase of buildings from Hartlepool Borough Council to meet its immediate needs without any external support. This contrasts with the substantial support that all the other Tees Valley FE colleges received for the construction of new purpose-built campuses. Hence the School has been relatively disadvantaged for many years.

The School currently has borrowing of £1.5m from Hartlepool Borough Council and £1.8m from Barclays Bank. Additional lending would lead to concerns being raised by the ESFA as borrowing levels would breach banking covenants, which are conditions stipulated by the bank loan to ensure that the School can repay its debts, which would trigger intervention by the FE Commissioner and would impact on financial health rating. This would lead to a drop in the Good financial status of the School by the ESFA. Additionally, Barclays Bank would not allow any further borrowing as it would erode the operational gearing ratio that is part of the banking covenants on that part of the School's debt.

In addition, whilst the project will facilitate an increase in student capacity, the additional income generated will be needed to re-invest in equipment as the School is operating in a competitive environment where being at the forefront of technology in our field requires continuous investment.

2.8. Constraints

The key constraint upon the project is timescale. Any delay of practical completion and handover past spring 2021 has the following implications:

- Inability to progress transfer to the HE sector and subsequent move to university status - this is time bound because the current coeval positive performance data and student numbers.
- Inability of the School to introduce new curriculum provision in the stage and screen sectors to enable progression to HE studies in Hartlepool and subsequent development of creative cluster centred upon The Northern Studios.
- Inability of the School to meet demographic growth in demand

2.9 Dependencies

There are no specific dependencies outside the threats cited in the SWOT analysis. Two key threats present which are outside the agency of the School:

- Regeneration of TS1 stalls and potential benefits around business creation and investment cannot be realised
- Planned improvement to public transport infrastructure and routes does not happen

3. The Economic Case

3.1 Introduction

This project has been in development for several years and has developed through the following stages:

- Options appraisal - see 3.3- 3.7 below
- Economic appraisal of the preferred option 3.8 et seq below

3.2 Critical success factors

The School has identified five Critical Success Factors (CSF) which underpin the business case and options appraisal. The five CSFs are detailed below.

No	Critical Success Factor	Measurement Criteria	Importance (1-5)
CSF1:	Sustainable growth of the Northern School of Art	Student numbers - rising from c.500 to 730 by September 2027.	1
CSF2:	Increased alignment of the curriculum to the Tees Valley Growth Areas of screen/digital/game industries	New curriculum offer by September 2022.	1
CSF3:	Support and grow the supply of skilled individuals entering the creative sector	Numbers annually at Level 3 and Level 6 rising.	1
CSF4:	Support central place/key city regeneration (baseline and measures to be agreed with MBC)	through: increased footfall; improved positive business sentiment; businesses sustained; increased commercial investment in the vicinity	2
CSF5:	The new location and building must be visible, accessible and of a suitable specification for effective and future proofed delivery of teaching in creative industry disciplines.	Through options appraisal, design and planning	1

Table 3.1

3.3 Options Appraisal

The School has conducted an options appraisal in four stages:

- Firstly, an initial scoping of options around ‘Do Nothing’, ‘Refurbish existing’ or ‘Relocate’ - this clearly favoured relocation in terms of cost and operational impact on the School.
- Secondly we conducted a desk top analysis of ‘travel to learn times’ on various central locations across the five boroughs - which clearly demonstrated that Middlesbrough is the most favourable for accessibility and maintain student numbers
- Thirdly we commissioned Cushman Wakefield to review property options in Middlesbrough which identified a long list of potential properties and sites, a shortlist and then a preferred option of Denmark Street. Some months later an opportunity arose to explore alternate sites at the Durham University Queens Campus in Stockton - these were explored for cost, suitability and travel to learn impacts and rejected (see detail in following sections)
- Finally, we conducted and economic appraisal which reviewed the earlier stages and also looked at the impact of the counter-factual position of the School ceasing FE provision. This concludes that there is a positive benefit cost ratio for the simple relocation and its direct benefits but very significant disbenefits should the School not relocate and, eventually cease operating.

3.4 Initial Scoping

We considered the following scenarios.

Do Nothing

This is not considered to be an option because the age and condition of the building means that the School must continue investing in some form as it is reaching the end of its economic life. The condition of the facilities, not just the building fabric, will continue to deteriorate and fall behind those of other Schools in the area. Internally, many teaching, and support spaces do not support the needs of students and current methods of academic delivery. This will not be addressed if the School simply continues to invest modest amounts into routine maintenance.

Refurbishment of the existing buildings

This option is not considered the most appropriate solution. Whilst the overall condition of the building stock is poor, the actual main structure of the buildings is fine. Therefore, a comprehensive refurbishment programme would not provide the School with up to date and flexible facilities as the current space needs reconfiguring to allow for more flexible space and the current configuration already compromises delivery in many areas. Replacement of existing single glazed windows, roofs and services infrastructure would ensure that the refurbished facilities would be energy efficient, helping the School reduce premises running costs and maintenance liabilities and comply with current Building Regulations

However, it is not a value for money option when compared to a new build scenario.

The School has considered this option several times and each time has concluded that this is an option that, whilst helping with the longevity of the structure of the building, does not address the issue of the shape and flexibility of the space required to deliver art and design in the 21st century. The building has grown piecemeal since the 1960s and comprises accommodation of all sorts of shapes and sizes. Whilst it contributes to our 'art school look and feel' it is not an option for the long-term development of the School. For the School to deliver more efficiently and productively the lack of flexible and larger spaces is a considerable barrier to delivery. Being able to create subject area adjacencies would mean better use of resources and studio space which cannot be accommodated in the current building. Being able to host certain courses together is crucial in the art and design sector as there are many areas of overlap in teaching and resourcing which can benefit the students learning experience and the efficiency of delivery within the School.

Cost estimates vary from £1,900 per square meter for a basic refurbishment to £2,500 per square meter, leading to overall costs of between £11.4m and £15.0m, **excluding** decant and temporary accommodation costs. These figures include VAT as there is no recovery available on refurbishment projects for buildings.

Replacement of the existing building with a new facility in central Middlesbrough

The advantage of this option is that it enables the School to create a facility that is both flexible and modern which will enable us to develop with the sector needs for the provision of art and design education. This cannot be offered by a refurbishment option without demolishing and rebuilding parts of the current campus building. This option would have the advantage of minimising disruption because the new facilities would be constructed in parallel to the existing facilities being used.

The opportunity to locate at a centre of town location offers the School the ability to become more visible and become better known across the region.

Despite repeated attempts to increase the School's profile over the years its location in Linthorpe has meant we remain one of the sectors' best kept secrets. A prominent location in a premier development will add to the recognition of the School and assist in recruitment with the proximity to local transport infrastructure.

Replace the existing building on the current site

This option would cause considerable disruption to the existing provision and it is unlikely that the existing Green Lane Campus possesses the capacity to accommodate a comprehensive new build programme. The estimated capital cost of this option would also be prohibitive with no disposal proceeds to contribute towards the funding of the project. The cost of renting temporary accommodation would add considerably to the costs of the project, lead to a drop in recruitment over the construction period which would cause considerable financial distress for the School. As a result, this option is considered both expensive and impractical.

Utilise other FE buildings in the Tees Valley

This option was considered, at the suggestion of Middlesbrough College at the time of the Local Area Review, with a particular emphasis as to whether the facilities at Redcar & Cleveland College would provide a solution to the issue. The conclusion was that the length of time it would take students to travel to a site a few miles to the east would lead to a reduction in student numbers. As a specialist provider, The School currently recruits from County Durham and North Yorkshire with bus routes coming in from Sedgefield and Northallerton as well as large numbers of students coming from the west from Stockton-On-Tees. Approximately two-thirds of students would see increased journey times which would likely lead to a fall in student recruitment and potentially disrupt the sustainability of the School. This option has in any event been overtaken by the merger of R&C FEC with Stockton Riverside.

3.5 Travel to Learn

Once a new location had been identified as the appropriate way forward we conducted a desktop analysis of travel to learn times using the Travel Time App as recommended by TVCA.

We assessed the potential impact on FE student numbers of a number of central locations within the Tees Valley on the basis of a 30-minute journey time contour (for journeys arriving at each location by 9am). This contour was compared with post code data for our FE students to give a comparison of relative accessibility and the potential impact on student numbers (and thereby financial viability). The full detail of this is given in The *Northern*

School of Art Relocation: Economic Case, ERS, June 2019 on pages 12 - 19 ss. 3.9 to 3.14.

Table 3.2 Travel to Learn Time Student Numbers ***(The details of Table 3.2 Travel to Learn Time Student Numbers are in Appendix D Commercially Sensitive Information 2).***

This analysis clearly demonstrates that the best option in terms of access is central Middlesbrough. In reviewing the analysis ERS conclude that the analysis "reinforces the negative impact of locating anywhere other than central Middlesbrough. The difference between Middlesbrough and Stockton is smaller than the gap with other areas, however it is still a significant number in terms of revenue for The School". 48 students represent a potential revenue loss of c.£200,000 per annum.

To this it should be added that central Middlesbrough is the best location for ensuring access to opportunity for the young people of the Tees Valley.

3.6 Property Search and Options Appraisal

A full property search and appraisal was carried out by Cushman Wakefield - *Land and Property Search and Options Appraisal, Cushman Wakefield, September 2018.* This work identified a long list of potential sites (both for new build and refurbishment of existing buildings). This work followed the following methodology:

Task 1 - Inception Meeting

Task 2 - Desk based site search and initial discussions

Task 3 - Site visits and town centre walkaround

Task 4 - Long list site options development and appraisal against agreed criteria

Task 5 - Development of shortlist and preferred option

A long list of 23 potential site options (the details of which are in Appendix 1 to *Land and Property Search and Options Appraisal, Cushman Wakefield, September 2018)* was assessed against the site requirements criteria and appraised in accordance with the "RAG rating" red, amber and green in terms of their appropriateness as a site for the new campus for The Northern School of Art. The appraisal considered such factors as ownership, planning status, etc. and used the following site requirement criteria:

- A minimum of circa 5,400 sq. m Gross Internal Area (GIA) floorspace plus potential space for expansion
- 60 car parking spaces on site for senior staff and visitors, or access to parking nearby
- Walking distance of public transport (bus and train)

- Deliverability within the required timescales (opening September 2022)
- Distinctive location away from competing establishments
- No requirement for on-site sports provision
- Within the town centre of Middlesbrough

Three site options were shortlisted:
- Denmark Street
- Two adjacent sites to the rear (north) of BoHo (Middlehaven)

Cushman and Wakefield made the following conclusion identifying a preferred option:

> “4.3 The shortlisted sites are all easily accessible from the bus and railway stations. The Middlehaven sites are closer to the railway station, whilst the Denmark Street site is closer to the bus station. However, for practical purposes there is limited distinction between the locations in terms of proximity to transport termini.
>
> 4.4 Middlesbrough Council has confirmed that the sites are within its ownership, they are capable of being made available within similar timescales and there is unlikely to be a significant differentiation in the purchase price; although the purchase price is to be confirmed through a Red Book valuation. The Red Book Valuation will form the basis for negotiations between the parties. The Northern School of Art campus could deliver economic benefits because of significant footfall generated within the town centre.
>
> 4.5 All the shortlisted sites are capable of accommodating potential expansion space over and above the required 5,400 sq. m GIA. The Council has considerable land holdings in Middlehaven, and the Denmark Street site is capable of being developed at a higher density given its location (potential for up to 8-9 storeys has been indicated by the Council, albeit this needs to be subject to feasibility / cost assessment). In terms of visibility, the Denmark Street site is by far superior at the current time and is therefore considered to be the strongest of the three shortlisted site locations.
>
> 4.6 **Based on the site criteria and subsequent discussions with The Northern School of Art, and Middlesbrough Council, we recommend that the Denmark Street site (Site 18) is progressed as the preferred option**; with land at Middlehaven (Sites 2/2a and 3) as strong reserves”

Page 12, Land and Property Search and Options Appraisal, Cushman Wakefield, September 2018

Stockton, Queens Campus

The opportunity to explore the refurbishment of the Queens campus buildings arose after the property search was completed. The 3 buildings were assessed against the following criteria:

- Travel to learn impact
- Acquisition costs
- Space requirement
- Indicative refurbishment costs (to new build standards)

All the buildings met the space requirement (with one needing some additional new build). The campus was not as favourably placed as Middlesbrough for student accessibility - see 3.5 above. Acquisition and refurbishment costs for all of the buildings were at best comparable with the cost of new build in Middlesbrough - given the travel to learn position, queens Campus was rejected as an option.

3.7 Economic case appraisal

The full economic case is presented in *The Northern School of Art Relocation: Economic Case, ERS, June 2019*. This took forward an analysis of the preferred option of relocation to Denmark Street whilst exploring the impact of a counterfactual position with the School closing (see 3.1 above). The economic impact is given in detail in s.6 page 30 of the ERS report. The methodology they employed is set out in detail but can be summarised as and assessment of

- Construction impact
- Operational impact
- Staff and student spending in the local economy

Construction benefits is a straightforward analysis whereas 'Operational' include the FE and HE benefits (to explore the counterfactual scenario of closure).

An optimism bias has been built in to the analysis - 5% for construction benefits and 10% for operational and spend related impacts.

The findings of the economic assessment are best summarised in s.7 of the report, this is summarised below:

Total benefits to 2040/41		
	GVA	**FTE Job years**
Construction	£ 4.3m.	59.2
Operations FE (Created)	£ 17.4m.	355.5
Staff and students FE (Created)	£ 3.1m.	113.6
Total Created	***£24.8m.***	***528.3***
Operations FE (Safeguarded)	£ 55.4m.	875.6

Operations HE (Safeguarded)	£ 46.0m.	1086.4
Staff and students (sustained FE)	£ 0.7m.	14.1
Staff and students (sustained HE)	£ 15.4m.	571.6
Total Sustained	***£ 117.6m.***	***2,547.6***
Grand Total	**£ 142.4m.**	**3,075.9**

Table 3.3

Construction benefits: The new build and demolition of the existing site will create gross impacts of 84 temporary construction jobs. In net terms this represents £4.3 million GVA or 59.2 jobs.

Operational benefits: Present Further Education operations represent net benefits to Tees Valley of £3.3 million GVA and 43.8 FTE jobs, representing safeguarded benefits. Were Higher Education operations at Hartlepool to close then there would be further safeguarded benefits of £2.9million GVA and 57.2 jobs. Post-development benefits will be larger in scale, with greater additionality, such that £1.0 million GVA and 17.8 FTEs will be created.

Staff and student spending: Moving from a more peripheral location to the Town Centre and drawing in a higher proportion of non-local students will create additional benefits of £187,000 GVA and 5.7 FTE jobs per annum, while safeguarding £45,000 GVA and 1.4 FTE jobs in Middlesbrough and a further £989,000 GVA and 30.1 FTE jobs in Hartlepool.

The Table above shows newly created net benefits for the Tees Valley economy of £24.8 million GVA and 520 job years. **Set in the context of the 14.5 million investment this produces a BCR of 1.71**.
The counterfactual position, where closure of both FE and HE occurred would represent total net impacts for Tees Valley of £142 million GVA up to 2040/41. Since the HE activity in Hartlepool was supported by an earlier investment of £8.3 million from TVCA this amount is added to this projects cost arrive at a **BCR of 6.24**.

4. The Commercial case

Please refer to 'Procurement Strategy Review' cited in the appendices

4.1 Introduction and Procurement Strategy

At this point in the project the Design Team, Quantity Surveyors and Project Manager have been appointed for the duration of the project. This was through a competitive tender process which was conducted by the School in conjunction with its advisors Fusion PM Limited

The remaining elements of construction on the project are two-fold

- Construction
  Appointment of a building contractor to arrange the construction of the building. This will involve creating a supply chain with which to conduct the works
- Furniture
  The School will conduct its own tendering exercise to source loose furniture via a competitive process through their retained procurement consultants Tenet Services
- Equipment
  The School will conduct its own tendering exercise to source any new equipment via a competitive process through their retained procurement consultants Tenet Services

4.2 Key contractual terms & risk allocation

The Design Team have been appointed on the basis of % of construction costs which is industry standard. The construction cost budget is being managed closely by the appointed Quantity Surveyors and Project Manager who are both on a fixed fee.

The procurement of the building contractor, discussed in more detail below, is a 2-stage Design and Build approach which looks to transfer an element of risk from the School to the Contractor

4.3 Procurement route and timescales

The School has conducted a review of the alternative procurement routes for appointing the main contractors for the project after looking at the priorities of the end product and process

Having ranked the percentage fit of each of the procurement options that were available to School against its key drivers it was concluded that a Design & Build (D&B) process would be most appropriate.

The key reasons why this route best fits the requirements of the School include
- D&B offers the optimum allocation of design development and control while maximising the benefits from an experienced contractor team
- It can allow for innovative design and construction methodologies to be utilised
- Cost and programme certainty on contract award
- Single point of responsibility for design and construction
- Flexibility to commence works before design is completed
Late novation of design team can safeguard quality
- There is a preference from contractors to work in collaboration with the design team whilst there is time to provide buildability influence from their own experience. This would make the scheme attractive for contractors to tender for
- Programme preparation and implementation can be optimised through working with the Contractor

The likelihood is that the School will procure the main contractor through a 2-stage Design & Build route so that they can work with the Design Team in advance of the contract award. This allows there to be an element of testing the contractor before appointment and to get a better quality of price as the contractor will understand the design better than through a single stage D&B.

The School aims to start the tender and **framework** selection process through September and October with the expectation of appointing the main contractor in November 2019.

4.4 Efficiencies and commercial issues

The School intends to use a framework to appoint the main contractor. This allows a competitive process to be followed to a restricted number of contractors rather than using an open call through OJEU which will open the competition wider and is a much more elongated and complicated process.

Using a 2-stage D&B approach will allow an approach whereby the contractor works with the design team to review the designs before submitting their final tender. This allows the contractor to understand and contribute to the design which will allow a more informed tender to be returned. This reduces the amount of risk that is costed into the tender and should help reduce design issues during the construction phase.

5. The Financial Case

This section ascertains the funding requirement, the affordability of the proposal and explores all options for funding.

5.1 Funding Requirement

To establish the total funding requirement, we have considered five elements:

Cost Heading	Total £m
1. External Fees[1]	0.921
2. Capital Build Costs	11.440
3. Equipment / Fit Out	1.169
4. Contingency	0.983
Total Project Cost	**14.828**

Table 5.1

Project costs excluding land purchase are estimated to be £14,513,000.

Key assumptions:

- Project is completed for occupation in time for autumn term 2021;
- Land sale proceeds are made post occupation of new building and will be passed on to the Combined Authority;
- Land purchase costs will be £315,000 less any costs of site preparation (including removal/ treatment of site for abnormals); and
- ESFA do not claw back any funding for past capital works – the School is currently seeking clarification from the ESFA.

Work is underway to develop designs up to RIBA Stage 3 and this will be completed before the Combined Authority Cabinet in October to provide further cost certainty. Currently the build cost is estimated to be around £1,900 to £2,500 per sqm. The SFA / AECOM publication on cost models for Further Education Schemes (July 2015) identified baseline criteria for a typical new build scheme based on Yorkshire, Humberside and the North East and North West of England and a two-stage procurement process at a 'Very Good' BREEAM rating. The cost per sqm was £2,706. Accounting for inflation with a multiplier of 1.05 this would be closer to £2,841 now, so cost estimates to date are at the lower end of the scale.

[1] £580,000 advance provided by the Combined Authority to support this work. The remainder is subject to approval of this business case. The final amount paid will exclude this amount.

The build will result in a reduced floorspace and more effective use of space with space for growth. It includes new equipment and furniture as well of recycling what is currently still fit for purpose.

5.2 Financial Position

The Northern School of Art is a Further Education College and is subject to regulation by the Education and Skills Funding Agency (ESFA). The core to its growth ambition is to successfully move into the highly competitive Higher Education sector and secure University Status. The School is relatively small with a turnover of £9million per annum. Whilst this makes The School larger than Hereford College of Arts, the only other specialist art and design institution in the FE sector, which has total income of £6million, within the Tees Valley Stockton Riverside College has income of c.£20million and Middlesbrough College c.£40million.

Table 5.2 Financial Position ***(The details of Table 5.2 Financial Position are in Appendix D Commercially Sensitive Information 3).***

The operating surplus is the most useful measure of looking at financial performance as this excludes actuarial pension adjustments which are a technical accounting entry into the accounts and distort the underlying performance of the School. As can be seen over the last 4 years the operating surplus hovers around break even as the School invests in staff and equipment whenever it can to remain competitive. The value of assets has increased over time predominantly due to the addition of new buildings in Hartlepool. Reserves are purely an accounting calculation which do not reflect what can be invested. Cash balances are a better indication of investment capability. The current cash levels are required in order to meet ESFA financial health requirements and banking covenants and for working capital needs. Current cash levels have decreased in 2017/18 as the credit facility with Barclays Bank is reduced over the year end date to ensure the School complies with the covenants that are in place. As such the underlying cash balance is more in the region of £1.5m as the facility was fully drawn down again 2018/19.

Draft results for 2018/19 follow a similar pattern to 2017/18 with a £(0.1)m operating deficit being expected. Actuarial adjustments have not been received yet on the pension fund, but as mentioned are not of huge importance when looking at performance. However, the ESFA financial health has returned to ‘Good’ after a short period of ‘Satisfactory’ when there was investment in new programmes and scholarly activity.

To ultimately achieve University status, the school must remain financially stable and demonstrate future sustainability whilst remaining competitive against much bigger organisations, including specialist universities and larger civic institutions. This will require both capital investment and expenditure to attract more students from a wider geographical area. Whilst this proposal is based on a capital build for the Further Education provision, this ambition for the benefits stemming from university title are the strategic motivation for the proposal.

The current financial health guidance for organisations contracting with the Education Skills Funding Agency (ESFA) looks at three things:

- Profitability (sustainability) - use a sector-specific EBTIDA as a percentage of adjusted income;
- Solvency (current ratio) – current ratio of assets / liabilities; and
- Borrowing (debt ratio) – total debt as a percentage of reserves and debt.

Establishments are awarded a financial health scoring and grading from Inadequate, Requires Improvement, Good and Outstanding. At this point in time the School is sufficiently solvent but only holds modest amounts of cash which are required as working capital and to ensure that the ‘Good’ financial health score is met. Its performance is good, but it cannot invest in areas where it would like from revenue and borrowing is at the threshold of the amount of gearing the ESFA consider acceptable meaning the School has no additional borrowing capacity.

Currently the School has net assets of £3.8 million inc.£1.8m of pension liability and long-term debt of £3.2m. This borrowing was taken out to part fund the new HE building located in the Innovation and Skills Quarter in Hartlepool, which was completed in 2017. It is broken down into £1.4m from Hartlepool Borough Council for the construction of 1 Church Street and £1.8m from Barclays Bank for the purchase of Victorian buildings in Church Square from Hartlepool Borough Council. These lenders review the School's financial performance on an annual basis. Should banking covenants with Barclays Bank be breached this would cause significant problems as the bank could call in its loan which would ultimately result in the School's financial health dropping to ‘Inadequate’ which would trigger immediate intervention by the FE Commissioner. It should be noted that the reserves in the balance sheet are not readily available for investment as the cash element is limited and much of the balance has been invested in assets and working capital.

In early discussions with the Office for Students (OfS) regarding transfer to the higher education sector, thus becoming a higher education institution (HEI) rather than a further education college (FEC) The School has sought guidance in relation to financial performance. In discussing the judgement that OfS will make in assessing The School's financial viability and sustainability under the terms of Condition D for registration as a provider the OfS has declined to state definitive criteria. However, whilst The School is registered as a provider already, and so meets Condition D as an FEC, OfS has indicated that it applies different and, by clear implication, more stringent criteria in assessing the ability of HEIs to meet registration Condition D. The School is therefore likely to be obliged to demonstrate improving financial health, as a minimum, in order to meet Condition D and achieve transfer to the HE sector. Being an HEI is a necessary prerequisite to ultimately gaining university title, which unlocks many benefits in terms of reputation, new funding, student recruitment and engagement with key partners in the UK and overseas. The ability of the School to compete in the HE market would be at risk if we are over-stretched financially and our ability to remain financially sustainable in the FE market is at risk if we do not look to grow the business.

Capital Investment

The Northern School of Art has identified the following capital contribution to the project:

Source	Total £m
Green Lane land sale (minus demolition costs)	0.575
Capital to purchase Denmark Street site	0.315
Total Capital Investment	**0.89**

Table 5.3

In February 2018, Dodds Brown provided a valuation of the current Green Lane site, this determined that the current market value is in the region of £875,000-£950,000. Demolition costs would need to be accounted for and the net amount will be put into the project. They advise that obtaining demolition costs would be prudent, consideration should be given to marketing the site with the building in situ, as perspective developers may have in house demolition team or have a preferred contractor. John Wade Group have estimated that the cost of demolition will be between £250,000 and £300,000 inclusive of the removal of the remaining elements of asbestos in the building.

The Denmark Street site is currently a car park and Middlesbrough Council had forecast a net benefit of £1.8m over a 30-year period from the car park income. They have agreed to dispose of this land at a residual price of c.£315,000[2] with a 30-year deferral of receipt. The land disposal was approved by their committee in June 2019.

Currently the School is not able to invest capital over and above the proceeds of the Green Lane land sale. The School currently invests in the region of £200,000-£300,000 in capital and equipment each year but this is not enough going forwards if the School realistically wants to become an HE institution and compete effectively. The costs of maintaining the current Green Lane facility are less than £50k as the decision was taken to stop investing in the building other to cover basic maintenance whilst the School sought funding. Savings in maintenance going forwards are unlikely to be realised as any money will need to be diverted to the maintenance of the Hartlepool campus buildings in Church Square which are a combination of Grade II listed buildings and a 1960s construction.

Summary of Outstanding Funding Requirement

Costs	**Total £m**
Total Project Costs	14.8
Secured Inputs	
The Northern School of Art	0.89
Net Funding Requirement over lifetime of project	**13.91**

Table 5.4

5.3 Funding Sources & Options

FE capital for constructing new colleges was last funded by government through the Building Colleges for the Future Fund. The School were in the unfortunate position of being mid-design of a new building in the Middlehaven development area of Middlesbrough when the LSC unexpectedly stopped funding FE capital projects due to lack of funds nationally. Since that time the ESFA have become the funding body for FE colleges.

The ESFA who succeeded the LSC no longer provides capital funding for FE colleges. Government now relies upon colleges to raise debt and Local

[2] Based on 2018 valuation, which is currently being updated and may be subject to change.

Enterprise Partnerships across the country to address this need should it be a priority in the relevant region.

The School is unable to fund the project itself for a number of reasons:

- Insufficient cash available to fund such a project;
- ESFA financial requirements; and
- Bank covenants that are currently in place with Barclays Bank (which are broadly similar to the requirements of the ESFA).

Should funding not be available for the project the School will start to see the quality of delivery and standards of teaching decline as funding is diverted to long-term maintenance of the Green Lane building (as discussed and modelled in pages 12-13). There would be a corresponding drop in recruitment as standards fell which would in turn have a knock-on impact into the HE side of the School which would also feel the impact of a diversion of investment.

The School has explored six financial options with the Combined Authority.

1. 100% TVCA Non-Repayable Grant;
2. NSOA provide some capital investment;
3. TVCA loan paid back through income;
4. TVCA build and own facility and rent to NSOA;
5. TVCA grant 100% repayable based on contingencies; and
6. TVCA grant, 50% repayable based on contingencies.

The table below sets out these six options and assesses the risk for each to each organisation.

Funding Options

Option	CA Risk	School Risk	Key Points
1. 100% TVCA Non-Repayable Grant	High Risk	Low Risk	• TVCA would be the sole investor taking all the financial risk and the School would receive some financial reward when outcomes for the project are achieved; • Building a case for a large grant in the current Investment Plan which looks to invest on a commercial basis where possible is a risk; • The need for 100% public intervention would be difficult to demonstrate; • This option does not meet the need of the Combined Authority to share risk and reward.
2. NSOA provide some capital investment	Medium Risk	High Risk	• Due to reasons set out above in section 2.7 and 5.2, the School is not in a position to provide any further capital investment. Therefore this option has been discounted.
3. TVCA loan paid back through income	Medium Risk	High Risk	• The School currently has a loan of £1.5m from Hartlepool Borough Council (HBC) which was used to build its Hartlepool facility; • A £1.8m loan with Barclays Bank to purchase buildings in Church Square from Hartlepool Borough Council; • As an educational establishment, the School is currently at the maximum borrowing capacity allowed by the Education, Skills Funding Agency (ESFA); • If the business was not subject to this regulatory environment it could not secure further debt finance as currently it does not have the revenue to sustain it; • They have evidence of applying for a bank loan in 2014 for the Hartlepool project and were refused which was the trigger for the HBC loan; • Revenue should increase in future but the business will need to stay competitive in the HE sector and will need to re-invest to do so; • The business needs to sustain financial health to achieve its ambitions to grow and become a University; • It also needs to invest to boost its ability to recruit more students; therefore • This option is at the current time not possible for the School and would pose a high risk in terms of the project achieving its objectives.
4. TVCA build and own facility and rent to NSOA.	Medium Risk	High Risk	• Initially the Combined Authority proposed a peppercorn rent to reflect current affordability and future sustainability; • The School does not currently pay rent as they own the facility, so this would be additional expenditure;

Option	CA Risk	School Risk	Key Points
			• As their current strategy is to become financially viable and sustainable the Board of Governors would struggle to authorise additional long-term expenditure as it would affect the ability to grow the School and in turn achieve the ambitions for the project; • The School can't enter a long lease due to the impact on the balance sheet, which would reduce their financial health to an unacceptable rating from the ESFA, so only a short-term lease could be agreed in an environment with political uncertainty; therefore • This option would not work for successful delivery of the project and the risk would be too high for the Northern School of Art.
5. TVCA grant 100% repayable based on contingencies	**High Risk**	**Medium Risk**	• It is recognised that an element of grant will be required due to the issues discussed in this business case; however • This is too high risk for the Combined Authority as it is unlikely the full amount could be repaid, so it becomes option 1.
6. TVCA grant, 50% repayable based on agreed contingencies and legal charge over the asset (building and land) for the period agreed.	**Medium Risk**	**Medium Risk**	• It is recognised that an element of grant will be required due to the issues discussed in this business case; • The Combined Authority is more likely to get 50% back[3] through a commitment from the School resulting in a more shared approach to both risk and reward; and • If the project does not achieve its objectives and the School doesn't realise the intended growth, resulting in the worst-case scenario set out in the economic case, the asset can be taken back.

Table 5.5

[3] We can add anticipated range of payback when modelling is complete.

5.4 Financial Assistance Sought

Based on the preferred option above, set out below are the proposed funding arrangements and contingencies:

Cost of project	**£m**
Design and construction	14.514
Purchase of land from Middlesbrough Council by the School	0.315
Total Cost	**14.829**
Combined Authority Grant	7.257
Combined Authority Contingent repayable grant	7.257
Total grant funding	**14.514**
Less Development Funding	(0.580)
Remainder of grant to fund	**13.934**
Repayment of contingent repayable grant	**7.257**
Proceeds from sale of Green Lane campus 2021/22 (TBC)	(0.575)
Share of surpluses 2026-2046	(6.682)
Remaining balance at 2046	**0**

Table 5.6

Level of 'Normal' Profit

It is imperative that in the present highly competitive market for art and design undergraduate students the School preserves its ability to invest in infrastructure, staff and facilities to at least maintain its competitive position. In seeking evidence to support a 'normal' level of surplus which allows the necessary level of ongoing investment, The School draws attention to the recent DfE publication *Understanding costs of undergraduate provision in Higher Education - Costing study report* published in May 2019 and available here:
https://www.gov.uk/government/publications/cost-of-undergraduate-higher-education-provision

This comprehensive report considers the 'Margin for Sustainability and Investment' (MSI). Details of the basis of this sustainability adjustment are included in that report. The *Findings and Analysis* section includes the following:

"Sustainability adjustment costs are very close in range, between 10% and 11%. The weighted mean MSI for the UK sector as a whole was 9.8% in 2016-17[4]." (p.93)
On this basis The School proposes that the 'normal' allowable surplus before a contingent repayment is scheduled is 10% in any one year.

Level of Grant Repayment Annually

Given that the grant is divided equally between 'pure' grant and contingent repayable grant it seems appropriate to the School that any surplus above the normal level be divided equally; it is therefore suggested that 50% of any surplus in a qualifying year should be deemed to be the quantum of repayable grant generated from that year's activity.

Relevant Period

It is suggested that the relevant period in terms of financial years which may trigger a repayment of contingent grant should begin with the financial year beginning on or after the fifth anniversary of practical completion of the new FE campus, and end with the financial year beginning on or after the twenty-fifth anniversary of practical completion. The final actual repayment would occur in the following financial year.

Summary of Contingencies

1) The School makes a surplus based on the full business accounts for both the FE and HE provision;
2) Up to 10% surplus can be retained by the School to support future investment;
3) 50% of the surplus beyond the first 10% is repaid to the Combined Authority which will be determined and paid annually; and
4) Cost overruns will have to be deducted from the sale proceeds of Green Lane and potentially added to the contingent repayable grant element of the funding.

5.5 Impact on Revenue and Balance Sheet

Revenue

The key result of the project is on the ability to recruit students to the FE college. The location will see improved visibility and transport connections which will assist greatly in terms of marketing and recruitment. This in turn will see additional funding available to reinvest in capital and equipment in the School to remain competitive. In due course increased recruitment at the

[4] Figure based on the mean (weighted) on an income basis. Margin for Sustainability and Investment: analysis of 2016-17 data, Sustainability Metrics Steering Group, August 2018.

FE campus will feed through to increase numbers of HE students as they progress through their education.

Balance Sheet

An asset would be created on the balance sheet in the form of a building. This would have an asset life of 40 years in the financial statements as per the accounting policies. This will be recorded as an asset at the point of practical completion / handover from the construction contractors. Until this time the School will be holding the investment to date in the assets as 'assets under construction' on the balance sheet.

5.6 Payback Risk

The School has modelled its financial position into the 2040s in order to assess its ability to both generate an adequate level of surplus and cash for investment in addition to the likelihood of repaying the contingent repayable grant element of the project funding in full.

The School has adopted a number of key assumptions in its financial modelling work. These are:

i. FE student numbers will increase in the period to 2027 both as a result of demographic change and additional recruitment as a result of better transport links to a new site, and the increased institutional profile resulting from a prominent town-centre location. It is assumed that we will grow the new Middlesbrough campus to its capacity of 730 FTE students by 2027;
ii. HE student numbers will substantially increase in the period to 2027 both as a result of demographic change and additional recruitment as a result of the same proportion of FE students as currently progressing to its HE provision, but from a larger FE cohort as a result of assumptions at (i);
iii. UK undergraduate numbers will increase as a result of a 20% increase in acceptances on being granted university title. This is consistent with the experience of Arts University Bournemouth, Leeds Arts University and Norwich University of the Arts;
iv. HE student numbers will also increase as a result of successfully initiating overseas undergraduate recruitment and increased postgraduate student recruitment following improved visibility and reputation once university or university college title is achieved
v. The ability of The School to increase its financial efficiency as it grows, both because much growth should arise because of larger group sizes and because The School can grow without a proportional increase in administrative staff levels;
vi. The need to progressively increase pay rates for teaching staff currently on FE contracts to HE pay rates as the institution transfers to the HE sector;
vii. In conjunction with assumptions at v and vi above, The School has assumed that its pay costs as a percentage of its total income can be

reduced as a result of effective growth and the increasing proportion of its (better funded) HE activity to the level only of its least effective comparator institution.

The School has also flexed these assumptions in considering the sensitivities relating to the likelihood of repaying the contingent repayable grant element of the project funding in full. In making these assumptions The School has examined the financial performance of key comparator institutions over a decade. The institutions are:

- Norwich University of the Arts;
- the Arts University Bournemouth;
- Leeds Arts University; and
- Plymouth College of Art.

Although all are specialist art and design institutions, and their similarities to The School are considerable, in each case there are operational differences which affect their ability to generate a surplus, and the extent of that surplus. Key differentiators include:

- Whether/when they gained university title;
- Whether or not they offer further education courses in addition to their higher education provision;
- The extent and nature of their inherited estate and how much investment they have made in improvements;
- Location; and
- Their level of emphasis on research activity.

Some background information in respect of these institutions is included at Section 1.2. As set out there, three of these institutions have gained university title during the period since 2007, and the remaining institution, Plymouth, is now eligible for title change. On average the other three institutions experienced an increase of 19% in undergraduate acceptances in the appropriate UCAS cycle immediately following title change. Only Norwich has a purely HE offer. Whilst the other institutions generate lower % surplus levels, this disparity is not solely, or even mainly, due to their FE activity as for two it is at a relatively minimal level. Norwich had a relatively large estate a decade ago and has been able to grow its numbers without the delay and expense of significant investment in its estate. Leeds has been constrained by its physical estate, operating in relatively cramped conditions until it opened a large new building in December 2018, outside the time period for which student and financial data area publicly available. Plymouth has invested in a 5-16 school in the town and this has required cash and management resource as well as operating financially less effectively than its HE provision. Bournemouth has had a greater emphasis on building up its numbers of research students and staff research activity to support its research Excellence Framework (REF) entry. In addition, it has made significant investments in its estate, some of which might be characterised as vanity projects.

The following more detailed issues relating to their financial performance, and comparisons with our assumptions regarding the School's projected financial performance, are set out in the table below:

Comparator	Arts University B'mouth	Leeds Arts University	Norwich University of the Arts	Plymouth College of Art
HE acceptances post-title	+21%	+24%	+12%	n/a
10 yr income growth	89.0%	43.4%	103.5%	79.9%
Staff costs % income 2015-17	40.5 - 41.0%	51.0 -54.0%	41.8 - 42.7%	51.7 - 58.0%
Income change 4 yrs post-title	39.5%	n/a	43.0%	n/a
% surplus range last 5 yrs	+3.2 - +13.5%	+10.4 - +18.1%	+17.1 - +25.6 %	-2.7 - +6.6%
Mean 10 yr surplus	7.8%	12.6%	18.9%	3.7%

Table 5.7

It should be remembered that no institution had university title for the whole of this period, and Plymouth has yet to agree its new name as a university. Thus, the ability of all of the institutions to generate their peak surplus level was compromised during this period. Nevertheless, with an identical contingent repayment arrangement Norwich University of the Arts would have completed the grant repayment in 10 years. The Northern School of Art modelling assumes that university title will be achieved shortly before the commencement of the 20-year period of planned grant repayment, and the mid-/most-likely modelling shows full grant repayment during this period.

The outcomes of The Northern School of Art modelling, based on flexing the key assumptions set out in this section, are as follows:

Table 5.8 The outcomes of The Northern School of Art modelling ***(The details of Table 5.8, The outcomes of The Northern School of Art modelling, are in Appendix D Commercially Sensitive Information 4).***

*but with additional pre- and post-title growth due to enhanced impact of new FE campus and The Northern Studios on recruitment

In each of these scenarios The School acknowledges that projections where the key period begins more than five years in the future inevitably involve an element of uncertainty. The mid-/most likely case involves The School generating substantial cash balances over the 25+ year time span of the model.
This is normal for an HEI generating 10%+ surpluses, in the same way that, for example, Norwich University of the Arts has built up cash and short-term investments which exceed 100% of annual income. However, The School has not modelled the future investment of cash in land and buildings. Unlike Norwich, The School would need to invest in new teaching space to accommodate the growth in student numbers envisaged in the model. Whilst it might be possible for students to be accommodated in halls of residence financed by third parties, as is currently the case, The School would certainly need to invest funds both in new teaching space and in its heritage buildings at Church Square, possibly including the creation of additional facilities at Church Square such as a new Library/Learning Centre. This is not expected materially to affect The School's ability to generate surpluses and repay grant.

6. The Management Case

A detailed draft project plan is cited in the appendices which is under review to see where time savings can be made to bring forward completion date

The Outline Project Plan

Activity	Date (DD/MM/YYY)	Comment
Planning permission received	31/01/20	Assumes RIBA 3 report complete 30-Sep and planning application made at same time c.90-day turnaround at planning
Other (detail as necessary)		
Work to be started on site	30/04/20	Start on site immediately
Work substantially completed by	31/05/21	Assume c.15 month build programme Need practical completion May/Jun 2021 so can decant to new building prior to new term

Table 6.1

6.1. Project management

Project structure and governance
The Northern School of Art has established robust governance and project management arrangements. The School has established the Capital Programme Group, chaired by the School with representation from TVCA and MBC, responsible for oversight and risk management of the full project. This Group reports to the School's Corporation Board and is the key vehicle for control and accountability

The project will be delivered through a separate delivery vehicle - Northern School of Art Devco Limited - a separate, time limited, trading company which ill take forward the day to day management of the delivery of the build project.

The project is managed day to day by the Vice Principal (Resources) and Head of Further Education with an external design team, external project manager and external quantity surveyor

Capital Programme Group membership

Chair - Tim Bailey - Independent governor (xsite architecture)

Alison Fellows - Investment Director - Tees Valley Combined Authority
Kevin Parkes - Executive Director of Growth and Place - Middlesbrough Council

Sarah Fawcett - Independent governor (North Star Housing Group)
Martin Raby - Principal
Jackie White - Clerk to the Corporation
Patrick Chapman - Vice Principal
Stuart Slorach - Vice Principal

External Consultants
Architects - seven architecture Limited
Structural & Civil Engineers - WYG Engineering Limited
Mechanical & Electrical Engineers - Silcock Leedham Group
Quantity Surveyors - Faithful & Gould
Project Managers - Arcadis LLP

6.2 Communications and Stakeholder engagement

We have developed and approved the *Middlesbrough Re-Location Project - Communications Plan* which sets out our strategy for stakeholder engagement before during and after the project. In addition to internal and external stakeholder engagement about the project it outlines how we will develop the market for new students outside the Tees Valley through:

- Schools visits and events
- Careers Events
- Outreach to teachers and careers advisers
- Direct marketing - through prospectus and leaflet drops
- Visits to the new campus
- Promotion of any new concessionary travel scheme (once agreed with public transport operators)

6.3 Change management

The School is undertaking a programme approach to that of the recent successful project at the Hartlepool HE campus. There have been various workshops held with user groups within the School to determine the requirements needed of a new building. An acknowledgement that the current buildings are inefficient and inflexible has been made by users who are working with the architects to create a much more flexible and adaptable space for activities going forwards. This includes changes in the way education is delivered and more crucially how the School will need to purchase and use specialist timetabling software to enable larger student numbers to be taught in a smaller building. Currently the user groups are producing room data sheets to ensure that the detailed designs at RIBA 3 and 4 takes into account all the equipment and furniture that is required to be relocated to the new building and what needs replacing.

User group workshops are conducted with a number of areas at the same time as often this provides more challenge to the process as the various users tease out items that may have been overlooked otherwise. This collective approach has proved useful in obtaining buy-in for a smaller building as academic staff share their ideas as to how they can adapt their teaching practice to the rooms and resources available.

Now that there have been several user workshops there is a visible level of excitement and realisation that the look and feel of a new building will lend itself to better collaboration between staff and students across the various programmes. It will also provide better access to shared resources in the various art and design workshops incorporated into the designs.

Contingency planning will in the main be around cost and delivery. The costings include a 7% contingency which is appropriate for a project of this size and nature. The delivery date is being planned so that there is adequate time for staff to set up prior to / immediately after the summer break so that everything is commissioned and up and running for the beginning of the autumn term in September 2021. Should the programme overrun the worst-case scenario would be to move the following summer or piece-meal over the academic year. Neither scenario is ideal and would incur costs but at this stage it is envisaged that there will be enough contingency in the construction programme to enable the expected occupation date to be met.

6.4 Benefits realisation

Benefit	Owner	Baseline	Target	How it will be measured
Growth in FE student numbers to 730	TNSA - VP (E&ER)	c.500	Sept 2027	Students on roll
Expansion of our curriculum in stage and screen, mirroring our HE offer	TNSA - VP (E&ER)	Current offer 2018 entry	From Sept 2023	Offer in FE prospectus
Transfer to the HE sector and the subsequent creation of the second Tees Valley based university: • Sector transfer • DAPs • DAPs in perpetuity • University College titlle	TNSA - Principal and Board	Current status	Transfer Dec. 2020	DfE & OfS approval
			DAPs end 2021	DfE & OfS approval
			DAPs in perpetuity by 2024	DfE & OfS approval
			UC status granted in 2024	DfE & OfS approval
Creation of a new 'gateway' campus	TNSA - Principal	Output	Practical completion by June 2021 (or May 2022 if timetable slips further)	Practical completion and handover
Growth in HE student numbers studying creative cultural and digital subjects: • At TNSA • In Tees Valley	TNSA - VP (E&ER)	Current UCAS data FE-HE Transfer Rates at 30% Maintain a 55:45 HE:FE ratio as a minimum	Annual growth better than demographic growth at The School and Increased numbers of 18 year old HE entrants in the Tees Valley	UCAS and enrolment data

Table 6.2

6.5 Risk management

The key risked are summarised below. The project risk register is included in appendix c

	Key Risks	H/M/L	Owner	Mitigation
1	Programme overrun	M	Arcadis	Early contractor engagement
2	Funding uncertainty	M	NSoA / TVCA	Continuing dialogue between School and TVCA to ensure that requirements of both parties are properly understood
3	Planning permission	M	NSoA	Early engagement with Planners to ensure meeting local expectations
4	Cost overrun	M	NSoA	RIBA 2 report suggested overrun of c.£200k but had contingency for 'abnormals'. This risk is reducing as results of surveys are in. There is an element of contingency in the budget which is considered adequate at this point (7%)
5	Reduction in size of building from current will compromise delivery	L	NSoA	Several user workshops looking at how the building would work and how delivery methods can be changed plus requirement to more sophistication timetabling software

Table 6.3

6.6. Contract management

The School appointed the Design Team (architects and engineers) in December 2018 with seven architecture acting as programme manager in the interim. Quantity surveyors were appointed separately from the design team to ensure independence from the Design Team. Both the Design Team and Quantity Surveyors are appointed for the duration of the project subject to funding

Internally the project is managed by the Vice Principal (Resources) and the Head of Further Education.

In July 2019 the School appointed Arcadis as Project Manager as the project increases in its complexity. Arcadis are appointed through to the end of the project subject to funding becoming available for the construction stages

The School will manage, with support of the above professional advisers, the contract for construction. In turn the Vice Principal (Resources) manages the contracts with the professional consultants.

The Vice Principal (Resources) will also have the responsibility of managing the contract or funding agreement with TVCA, including the production and submission of claims.

6.7. Assurance

Design progress meetings

The School meets the project team on a fortnightly basis to discuss progress, costs and programme. The group consists of

The School	Principal, Vice Principal (Resources), Vice Principal (Student Experience) and the Head of Further Education
Arcadis	Project Managers
seven architecture	Architects
WYG	Civic and Structural engineers
Silcock Leedham	M&E Engineers
Faithful & Gould	Quantity Surveyors

Capital Programme Group

This group meets monthly to discuss progress and the broader issues the project faces. There is a focus on partnership with updates from the School, Combined Authority and Local Authority to ensure everyone knows what issues each partner is facing and where additional support is needed.

Chair - Tim Bailey - Independent governor (xsite architecture)

Alison Fellows - Investment Director - Tees Valley Combined Authority
Kevin Parkes - Executive Director of Growth and Place - Middlesbrough Council

Sarah Fawcett - Independent governor (North Star Housing Group)
Martin Raby - Principal
Jackie White - Clerk to the Corporation
Patrick Chapman - Vice Principal
Stuart Slorach - Vice Principal

Corporation Board

The board of the School received regular updates from the Principal and Chair of the Capital Programme Group. Key decisions are taken by the Board and so far have included whether to progress the project and also the terms and conditions of financing the project. This group comes from w wide diversity of backgrounds from education and the private sector. The Board challenges the rationale for decisions and sets the tone and direction for the Officers and the Capital Programme Group.

6.8. Post project evaluation

Post project evaluation takes various forms:

- submission of output claims to TVCA to monitor whether the aims and objectives of the Combined Authority are being met
- internal review of how the project has gone and what the lessons learned are. This also includes a review of whether the School's priorities have been met and a value for money / return on investment report prepared
- monitoring of student numbers and student experience. There should be a quantifiable improvement in both (demographics permitting) which will be part of the post implementation review

6.9. Contingency plans

The project is part of a wider strategy being pursued by the School and is a crucial part of the sustainability of the institution moving forwards.

Appendix A: List of reports produced

1 Land and Property Search and Options Appraisal, Cushman Wakefield, September 2018

2 The Northern School of Art Relocation: Economic Case, ERS, June 2019

3 Middlesbrough Re-Location Project - Communications Plan

4 Procurement Strategy Review, Arcadis, August 2019

5 Draft Project Plan (Gannt chart), Arcadis, August 2019

Appendix B: Data Sources and references

1 DCMS Economic Estimates - https://www.gov.uk/government/collections/dcms-sectors-economic-estimates

2 TravelTime - https://app.traveltimeplatform.com

3 BIS Research Paper Number 38 - Measuring the economic impact of FE, March 2011

4 The Economic Value of Creative Focused Universities and Colleges, Emsi, 2016

5 Creating Prosperity: the role of higher education in driving the UK's creative economy, Universities UK (UUK), 2010

6 Independent Review of the Creative Industries, DDCMS, 2017

7 Inclusive Future Growth in England's Cities and Regions, Marlow et al, CURDS, Newcastle University, 2019

Appendix C: Risk Register

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Appendix D: Commercially Sensitive Data

CONFIDENTIAL

Business Case Feedback Form

Project Name:	**Relocation of the Northern School of Art FE Provision**		
Project Sponsor Name:	**The Northern School of Art**		
Project Development Officer:	**Martin Waters and Sarah Walker**		
Strategic Case Summary	SATISFACTORY	**Strong Strategic Case -** Project need has been determined in relation to replacement of specialist premises for arts based further education in the Tees Valley. However, there is still a need to capture the key milestones/roadmap to implementation of this project and how it contributes to the wider University provision which need to be captured in SMART objectives.	**CONDITION 1:** SMART Objectives to be refined for inclusion in the Funding Agreement.
Economic Case Summary	SATISFACTORY	**Strong Economic Case:** The wider non-monetary benefits of gaining University Status and the impact on the wider Tees Valley economy would strengthen this case. However, optimism bias must be applied to costs until RIBA stage 4 is concluded.	**CONDITION 2:** Production of a Logic Model and a Benefits Realisation Plan for inclusion the Funding Agreement as a baseline for future evaluation.
Commercial Case Summary	SATISFACTORY MEDIUM RISK	**Strong Commercial Case:** Good standard approach to delivery of a capital project. Earlier option appraisal determined the rationale for the commercial case. The outstanding risk is about the state aid position and the suggested condition will mitigate this.	**CONDITION 3:** Provide an independent State Aid position statement prior to drawdown of funds.
Financial Case Summary	SATISFACTORY MEDIUM RISK	**Medium Level of Risk on Financial Case:** All options have been explored. The proposed financial model has a scale of risk on the financial return. This is mitigated through the financial modelling that has been undertaken which identifies a minimum repayment of £1.67m through to maximum payback on the repayable grant amount by 2042 or 2039. Further work is currently being undertaken on costs (RIBA Stage 3) which will be submitted on completion and the following conditions will feed into further detailed financial modelling by the Combined Authority prior to entering into a funding agreement.	**CONDITION 4:** The Combined Authority to have a legal charge over the assets to safeguard against any failure of the project. **CONDITION 5:** Any additional capital received from the sale of the current site will reduce the amount of contingent repaybale grant. **CONDITION 6:** Provide a detailed revenue model, setting out expenditure and income prior to the project and throughout leading up to gaining University status and then forecasts once this is achieved. Evidence to be provided on assumptions. Once analysis has taken place consideration needs to be made on a potential upper limit on the 10% surplus. Requirements for the financial reporting requirements of the Combined Auority will be detailed in the Funding Agreement. Ask cabinet to delegate this level of detail to Julie Gilhespie our Chief Executive. **CONDITION 7:** A detailed cash flow for the project expenditure is to be provided. **CONDITION 8:** Further work is undertaken with ESFA to consider potential now or during the timeframe to 2027 as to any option to access capital from ESFA to replace TVCA commitment.
Management Case Summary	SATISFACTORY	**Strong Management Case -** Outstanding actions relate to monitoring and oversight functions, which will be determined in the monitoring and evaluation plan.	**CONDITION 9:** Agree a formal arrangement for TVCA representatives to remain involved through the lifetime of the project to mitigate our risk of non return. **CONDITION 10:** Agree and implement a joint marketing and communication plan with the Northern School of Art, the Combined Authority and Middlesbrough Council.

Role	Name	Signature	Final Sign Off Date
Policy Lead	Shona Duncan	SDuncan	11/09/2019
Investment Plan Lead	Keith Wilson		11/09/2019
Legal Lead	Julie Prior	JPrior	11/09/2019
Financial Lead	Neil Cuthbertson	N. Cuthbertson	11/09/2019

Name and title of Reviewer responsible for providing summary of recommendations:	
Name:	Keith Wilson
Title:	Economist

Final Recommendation	Tick One	Reasons/Conditions
To support findings of business case	☑	**Set out above**
To reject findings of business case		
Outcome		

Appendix D to this report is not for publication by virtue of paragraphs 3 of schedule 12A of the Local Government Act 1972

The Northern School of Art – FE Relocation Business Case

Appendix D: Commercially Sensitive Information

1 Page 15 Table 2.2 - Student Number Scenarios

	Year	**19**	**20**	**21**	**22**	**23**	**24**	**25**	**26**	**27**
BEST	Y1	305	296	286	278	269	261	252	245	237
	Y2	180	198	192	186	180	175	169	164	159
	ALL	**485**	**494**	**478**	**464**	**449**	**435**	**422**	**409**	**396**
	FE-HE transfers	*63*	*69*	*67*	*65*	*63*	*61*	*59*	*57*	*56*
MID	Y1	305	264	229	199	172	149	130	112	97
	Y2	180	198	172	149	129	112	97	84	73
	ALL	**485**	**463**	**401**	**348**	**302**	**261**	**227**	**197**	**170**
	FE-HE transfers	*63*	*69*	*60*	*52*	*45*	*39*	*34*	*29*	*26*
WORST	Y1	305	259	220	187	159	135	115	98	83
	Y2	180	198	169	143	122	103	88	75	64
	ALL	**485**	**458**	**389**	**331**	**281**	**239**	**203**	**173**	**147**
	FE-HE transfers	*63*	*69*	*59*	*50*	*43*	*36*	*31*	*26*	*22*

2 Page 26 Table 3.2 - Travel to Learn Time Student Numbers

Focus	A) Number of current students outside 30 min travel time	'A' as % of all FE students on roll	Difference between M'bro and other locations
Hartlepool	437	75	95
Queens Campus Stockton	390	67	48
Middlesbrough new site	342	59	-
Central Darlington	517	89	175
Redcar (R&C FEC)	423	73	81

3 **Page 33 Table 5.2 - Financial Position**

£m	2014/15	2015/16	2016/17	2017/18
Income	8.9	8.3	8.6	8.5
Expenditure	(8.9)	(8.2)	9.0	8.9
Operating Surplus	**0**	**0.1**	**(0.6)**	**(0.4)**
Pension actuarial adjustments	(0.5)	(1.6)	2.4	0.9
Surplus / (deficit)	(0.5)	(1.5)	1.9	0.6
Assets	10.3	13.7	16.7	16.0
Liabilities	(7.5)	(12.3)	(13.4)	(12.2)
Reserves	2.9	1.4	3.2	3.8
Cash	**2.6**	**3.0**	**2.0**	**0.5**
ESFA Financial Health	Outstanding	Outstanding	Good	Satisfactory

4 **Page 44 Table 5.8 - The outcomes of The Northern School of Art Modelling**

Comparator	**The Northern School of Art - forecast**		
	Worst case	Mid- / most likely Case	Best Case
HE acceptances post title	+14.0%	+20%	+20%*
10 yr income growth	+39.8%	+48.6%	+49.4%
Income change 4 yrs post-title	+12.4%	+15.5%	+16.0%
Contingent payment 2025-2045	£1.87M (2046)	£6.7M (2042)	£6.7M (2039)

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

AGENDA ITEM 10

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

25 OCTOBER 2019

REPORT OF THE HEAD OF TRANSPORT

PORTFOLIO: TRANSPORT

DEMAND RESPONSIVE TRANSPORT

SUMMARY

As reported to Cabinet on the 26 July 2019, the Combined Authority has been considering options to deliver a new demand responsive bus service in isolated rural communities where the current absence of a service can make it difficult for residents to access essential services and employment opportunities.

The original proposal was for the new demand responsive bus service to provide better access for some of the rural communities in Darlington, Hartlepool and Redcar & Cleveland, but the proposal has now been extended to include some of the rural communities in Stockton-on-Tees.

A procurement process has now been undertaken and approval is sought to award a contract for three years to Stagecoach North East with the service to launch in January 2020. The total fixed subsidy requirement over the three year contract period, based on the proposed fare structure, is £2,666,941.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. Approves the award of a three year contract to Stagecoach North East to deliver a demand responsive transport service to provide better access for some of the rural communities in Darlington, Stockton-on-Tees, Hartlepool, and Redcar & Cleveland.

DETAIL

Strategic case

1. The demand responsive transport service is considered entirely consistent with the draft Strategic Transport Plan, which is currently out to consultation. The vision in the Plan is *"To provide a high quality, clean, quick, affordable, reliable and safe transport network for people and freight to move within, to and from Tees Valley."* Furthermore, one of the three broad objectives in the Plan is *"Social opportunity – Helping people access employment, education, healthcare, culture, leisure and retail locations and improving public health and wellbeing".*

2. The Plan acknowledges that *"There are rural areas of Tees Valley that are not well served by public transport services. It can therefore be difficult for non-car owners in these areas to access essential services and employment. Often it is not commercially viable to deliver bus services in these communities and we therefore need to be innovative in terms of how we consider future solutions, potentially through demand-responsive services and community-based initiatives"*. There is also a commitment in the Plan to *"Investigate whether Demand-Responsive Transport and community-based initiatives could be a solution to the problem of accessibility in rural areas"*.

3. The Government has also demonstrated their support for this type of service by making a financial commitment in the Spending Round, announced on the 4 September 2019, to *"trial new, on-demand services to respond to passenger needs in real time"*. They have since established a fund of up to £20m and will shortly be seeking expressions of interest for the new fund.

4. Furthermore, a 2017 report by the Institution of Mechanical Engineers and the Community Transport Association, entitled 'The Future of Demand Responsive Transport', states that *"Demand responsive transport can make a significant contribution to the creation of better, more integrated local passenger transport networks that can meet more needs and be the first and best choice for making a journey".*

5. There is also evidence of demand responsive services working effectively across the country, including in Lincolnshire, Oxford and Liverpool.

Procurement process

6. Initially soft market testing was undertaken with a number of potential suppliers to understand market interest and inform development of the specification.

7. A competitive procurement was then undertaken through the Crown Commercial Service *'Dynamic Purchasing System agreement for the provision of public sector passenger transport solutions'*. Bids were invited for three lots, as set out below, and suppliers could bid for one or more lots:
   - Lot 1 – Redcar & Cleveland
   - Lot 2 – Hartlepool
   - Lot 3 – Darlington and Stockton-on-Tees

8. Lot 3 was extended to include Stockton-on-Tees, to address a need created by the withdrawal of a commercial operator from the marketplace. Maps showing the geographic coverage for each lot are shown in **Appendix 1.** The maps also show primary destinations, secondary destinations and hospitals.

9. Passengers can be collected from any location (closest corner to requested pick-up point) within the defined area (shading on the maps) for travel to a primary destination within the defined area (orange diamonds on the maps), a secondary destination outside the defined area (red diamond on the maps), or a hospital shown on the map; returning passengers can be picked up at a primary destination, a secondary destination or a hospital shown on the map and taken to any point in the defined area (closest corner to requested drop off point).

10. The primary destinations are predominantly villages/smaller towns, whilst the secondary destinations are predominantly larger towns/transport hubs therefore facilitating onward travel by bus/rail/coach. For the primary and secondary destinations, the specification highlighted the need to identify a series of virtual bus stops where passengers can be dropped off.

11. For each lot suppliers were asked to submit two prices as set out below:
    - option A – annual subsidy required assuming the operator retains fare income; and
    - option B – annual subsidy required assuming that the operator passes on all fare income to the Combined Authority.

12. Bids were received from Stagecoach North East and Go North East and both submitted prices for every lot.

13. The evaluation criteria applied a weighting of 50% price and 50% quality. The quality score took into account response times to customer bookings, service operating hours, vehicle specification, fare collection, booking arrangements, ensuring customer satisfaction, marketing, experience of operating similar services and social value offering.

14. Each lot was evaluated independently, based on the individual prices submitted, and Stagecoach North East scored highest on every lot.

Key components of the Stagecoach North East bid

15. Stagecoach North East bring experience from operating similar services across the UK including the CallConnect service in Lincolnshire and the UCALL service in Tyne & Wear.

16. The operating period for the new service in Tees Valley will be 07:00 – 20:00 Monday to Saturday.

17. The assumption is that the peak vehicle requirement is nine across all three lots and the proposal is to secure a fleet of eleven ‘Mercedes-Benz Sprinter City 45’ minibuses. The vehicles will:
    - be new at the time of contract commencement;
    - be diesel fuelled and conform to “Euro 5” engine emission standards with class leading fuel economy statistics;

- be low-floor and easily accessible;
- have capacity for 17 seating and 5 standing; and
- be Wi-Fi enabled.

18. Stagecoach North East believes that it can meet the stipulated minimum contractual requirement of 75% of new bookings being collected within 45 minutes and 98% of bookings being collected within 75 minutes.

19. There will be a partnership with Moovel/Reach Now, who have experience of demand responsive transport technology, to develop a software solution. This software solution will provide intelligence to manage the planning and routing of vehicles, and offer a dedicated “app” portal for customers.

20. Customers can make a booking via the “app” or through a local rate telephone number. The telephone number will be manned during the operating period and outside of these hours booking requests will be captured by answerphone and confirmed as soon as practical. Customers will then receive a booking confirmation either via the “app” or through vocal confirmation if booked by phone. Should there be any issues with the booking, the customer will be contacted by the Customer Care Team.

21. Customers will be able to pay in advance via the “app” or by cash/contactless on the vehicle.

22. Customer feedback will be triaged by the regional customer care team, shared with the local operations manager where relevant, and dealt with accordingly. Stagecoach North East also commits to undertaking periodic customer satisfaction surveys.

23. It is estimated that 15 full-time driving jobs will be created. Stagecoach North East is also willing to engage with local community groups and educational establishments on prospective employment opportunities, and commit to offering a 2-week work placement opportunity for each of the three years of the initial contract period.

FINANCIAL IMPLICATIONS

24. Stagecoach North East submitted prices for each individual lot, but identified the opportunity for overhead cost reduction should it be awarded all three lots. The table below shows the fixed subsidy requirement to deliver all three lots for options A and B.

Stagecoach North East fixed subsidy requirements		
	Option A - subsidy requirement assuming that the operator retains fare income	**Option B - subsidy requirement assuming that the operator passes on all fare income to the Combined Authority**
Year 1	£945,285.84 (includes set up cost for “app” booking system)	£1,130,315.66 (includes set up cost for “app” booking system)
Year 2	£849,791.52	£1,039,446.72

Year 3	£871,863.85	£1,066,273.63
Total	**£2,666,941.21**	**£3,236,036.01**

25. The proposal is that the contract is awarded on the basis that the operator retains the fare income (option A).

26. The difference between the total prices is £569,095, which means that Stagecoach North East carries the risk of not achieving this level of income through fares, but also stands to gain if the fare income exceeds this amount. This approach is felt to provide more of an incentive to the operator to grow patronage.

27. The Combined Authority is responsible for setting the fare structure and the subsidy requirement submitted by Stagecoach North East has factored in the fare structure detailed in the table below.

Proposed fare structure		
Single fare cost		
Band	Distance	Cost
1	Under 2 miles	£1
2	2-4 miles	£2
3	4-6 miles	£3
4	6-8 miles	£4
5	Over 8	£5

28. The proposed fare structure also includes the following concessions:

- Concessionary pass holders will travel for free;
- Children under 5 will travel for free; and
- 5 – 19 year olds will travel for half fare.

29. The proposed fare structure has deliberately been kept simple for the roll-out of the new service. However, it is proposed that once the service has bedded in, further fare offers are explored including potentially returns and multiple booking discounts.

30. The Combined Authority retains the right to make changes to the fare structure, but the level of subsidy requirement would need to be adjusted accordingly and agreed between the Combined Authority and Stagecoach North East prior to any change coming into effect.

31. The project will be funded from the Integrated Transport Programme revenue allocation.

LEGAL IMPLICATIONS

32. The Combined Authority is responsible for exercising the functions of the constituent councils contained in Part 4 (local passenger transport services) of the Transport Act 1985. There is therefore a duty on the Combined Authority to secure the provision of such public passenger transport services as they consider it appropriate to secure for meeting any public transport requirements within its area (in accordance with its transport policies).

33. The procurement of the demand responsive service has been conducted using a Crown Commercial Service (CCS) dynamic purchasing system, ensuring compliance with the applicable procurement regulations and that the contract will be let on appropriate CCS contractual terms.

34. The proposed contract period is for three years. It was felt that a shorter contract period would not have provided enough certainty for bidders to provide a competitive price. Furthermore, a shorter contract period could potentially make it more difficult to encourage passengers to use the service, particularly in terms of attracting current car users, as there would be less certainty in terms of how long the service would operate for.

RISK ASSESSMENT

35. This item is categorised as low to medium risk at present. Existing management systems and daily routine activities are sufficient to control and reduce risk.

36. Given the demand responsive service is new, there is uncertainty around how well it will be used. However, the subsidy price is fixed for the contract period and the proposal is to pursue the option whereby fare income is retained by Stagecoach North East, which means it carries a degree of the risk around passenger numbers.

37. The evaluation of the pilot will be critical in better understanding the market and informing future provision. The provider has committed to provide operational data and fare income to the Combined Authority, which will facilitate this process.

CONSULTATION & COMMUNICATION

38. There has been discussion at the Transport Advisory Group, Management Group, and the Chief Executives Group.

EQUALITY & DIVERSITY

39. The demand responsive service should have a positive impact in terms of improving accessibility for residents in rural areas that are not well served by bus services.

40. All vehicles to be used in the contract are accessible and offer level-boarding wheelchair access.

LOCAL ENTERPRISE PARTNERSHIP

41. This item has been considered at the LEP Board in advance of it coming forward to Cabinet.

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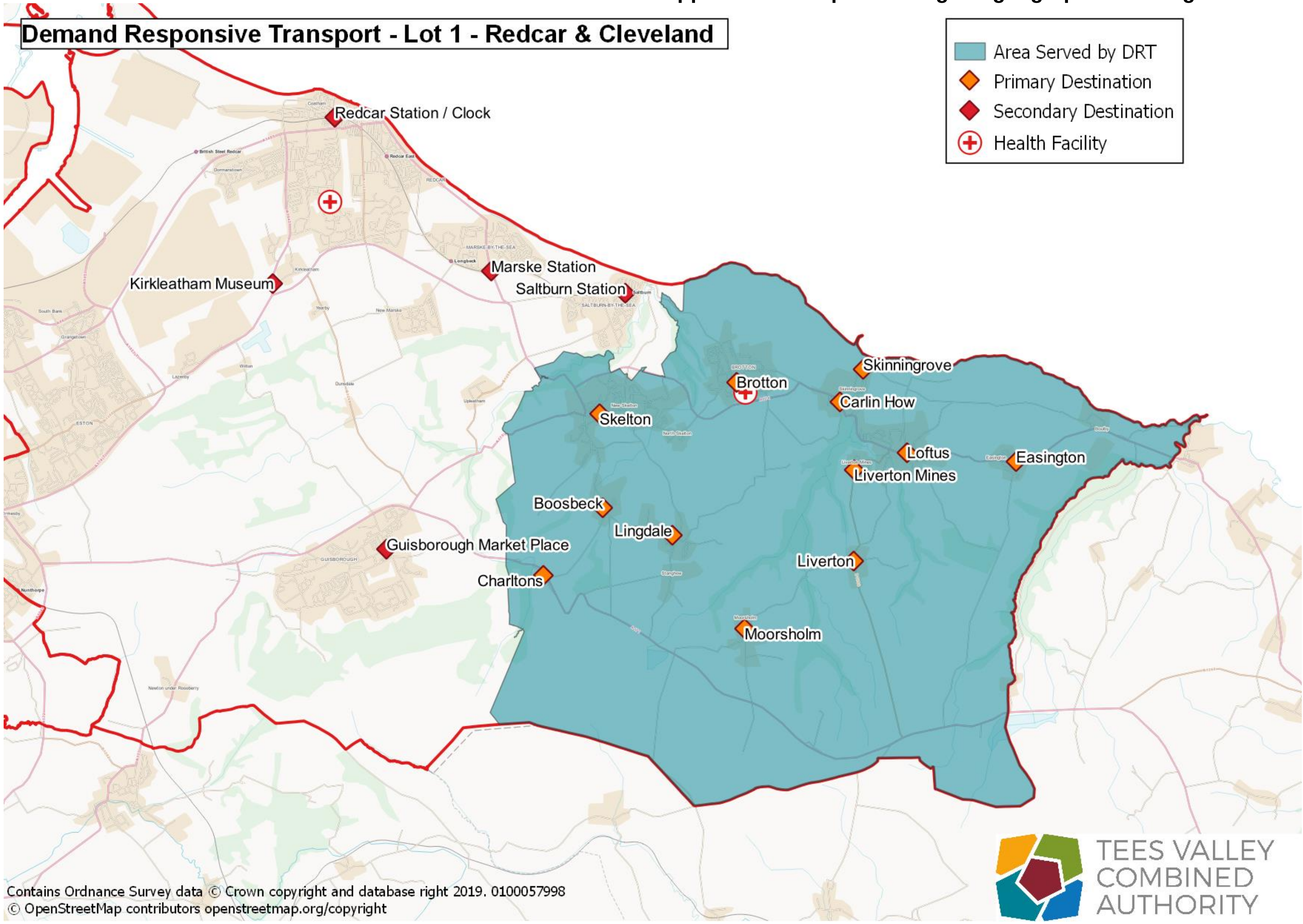
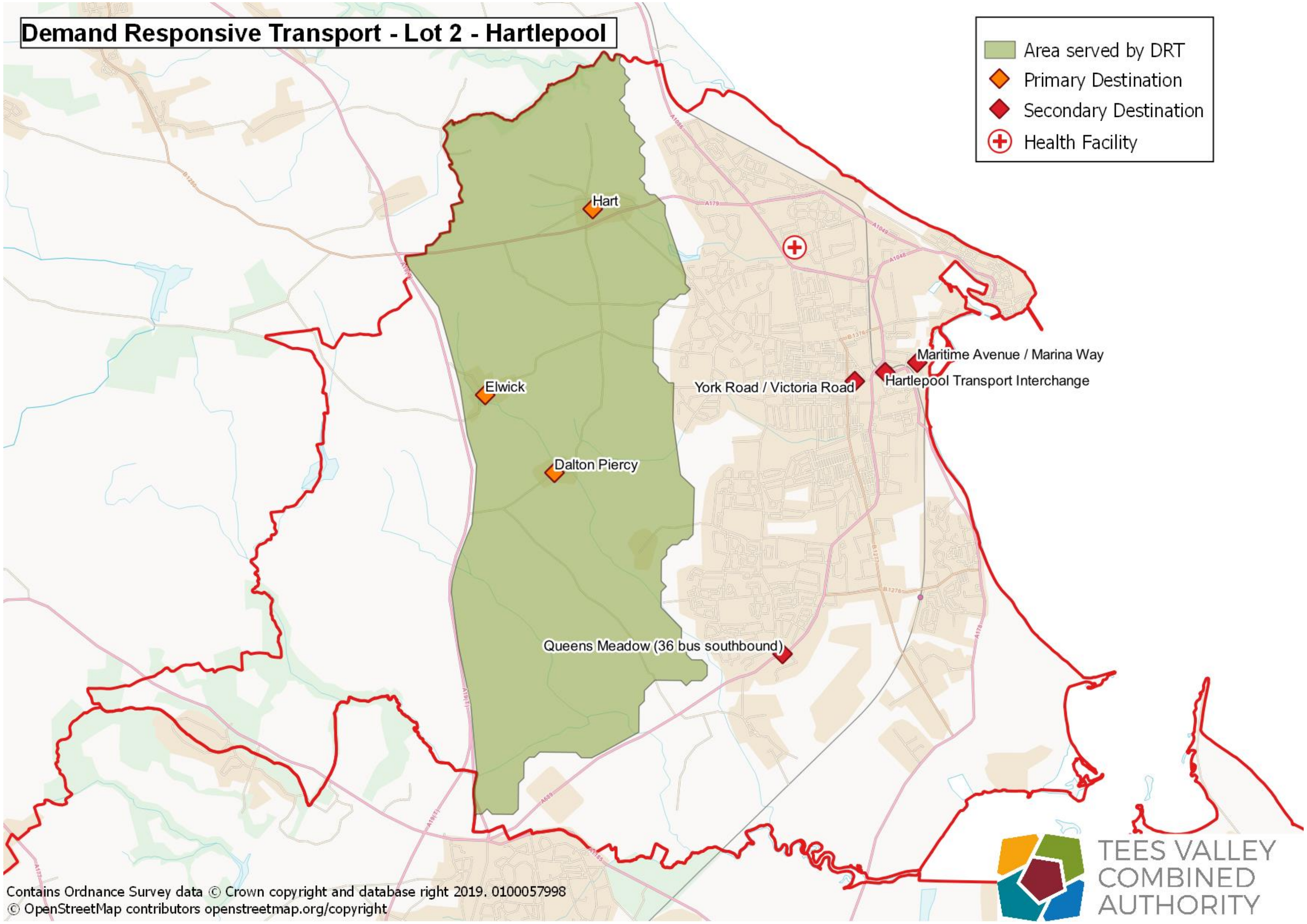
TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

Appendix 1 – Maps showing the geographic coverage of each lot




Demand Responsive Transport - Lot 2 - Hartlepool
Area served by DRT
Primary Destination
Secondary Destination
Health Facility
Hart
Elwick
Dalton Piercy
Queens Meadow (36 bus southbound)
York Road / Victoria Road
Hartlepool Transport Interchange
Maritime Avenue / Marina Way
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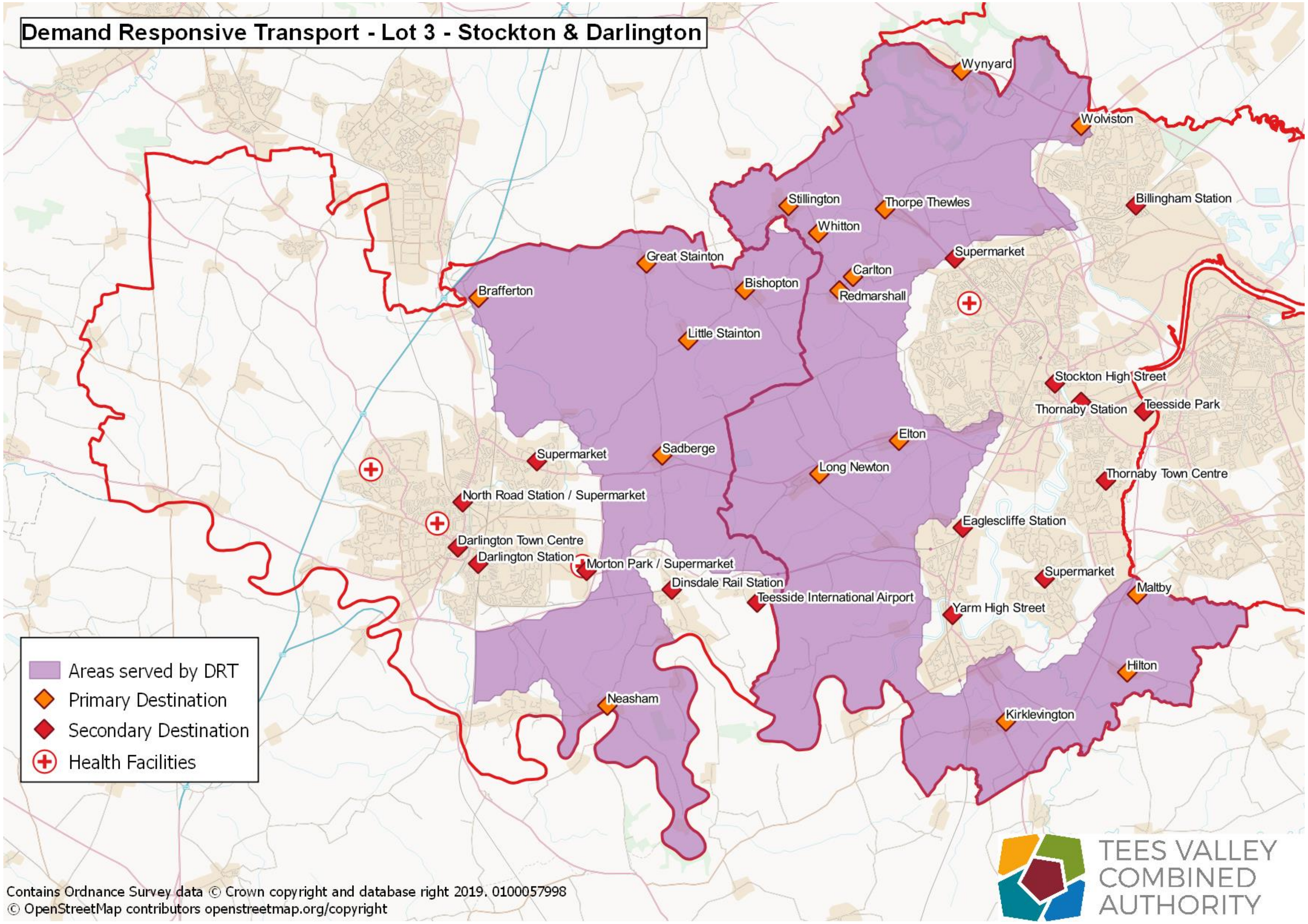
© OpenStreetMap contributors openstreetmap.org/copyright


Demand Responsive Transport - Lot 3 - Stockton & Darlington
Wynyard
Wolviston
Stillington
Thorpe Thewles
Billingham Station
Whitton
Great Stainton
Supermarket
Carlton
Bishopton
Redmarshall
Brafferton
Little Stainton
Stockton High Street
Thornaby Station
Teesside Park
Elton
Supermarket
Sadberge
Long Newton
Thornaby Town Centre
North Road Station / Supermarket
Eaglescliffe Station
Darlington Town Centre
Darlington Station
Morton Park / Supermarket
Supermarket
Dinsdale Rail Station
Maltby
Teesside International Airport
Yarm High Street
Hilton
Neasham
Kirklevington
Areas served by DRT
Primary Destination
Secondary Destination
Health Facilities
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AGENDA ITEM 11

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

25th OCTOBER 2019

REPORT OF EXECUTIVE DIRECTOR (GOOSEPOOL)

TEESSIDE INTERNATIONAL AIRPORT

SUMMARY

On 24 January 2019 Cabinet approved investment proposals for Durham Tees Valley Airport. The investment proposals included the acquisition of the airport and funding to deliver the turnaround plan. This report provides an update regarding the agreed investment proposals and presents the annual airport Business Plan.

RECOMMENDATION

It is recommended that Cabinet note progress to date regarding implementation of the airport investment plan as set out in this report and approves the annual Business Plan.

DETAIL

1. On 24 January 2019 Cabinet approved investment proposals for Durham Tees Valley Airport. The investment included acquisition of the airport and funding to support the capital and revenue investment needed to turn around from loss making to financial viability. This report provides an update regarding the agreed airport investment plan and presents the annual airport Business Plan for approval.

Acquisition

2. On the 15 February 2019, and following extensive due diligence, the majority shareholding of Durham Tees Valley Airport Limited (DTVAL) was acquired from Peel Group by Goosepool 2019 Limited, a subsidiary of the Combined Authority. The acquisition was funded by way of a £40.2m loan from the Combined Authority to Goosepool. The £40.2m transaction cost comprised £40m sale price and £0.2m stamp duty.

Transitional Services Agreement

3. Under Peel ownership many support services for the airport were provided under a shared service model as part of its airport group. To ensure the continued operation

and management of the airport post-acquisition a Transitional Services Agreement (TSA) was entered into with Peel Airport Management Limited. The agreement provided for the continuation of a number of services including finance, payroll, health and safety, operations management, IT and human resources. The services provided under the agreement ensured the airport continued to operate day to day. DTVAL would only pay Peel for the period in which services were provided, charged on a pro-rata basis.

4. Whilst available for up to twelve months the objective since acquisition has been to terminate the TSA services as soon as practical and replace them with local solutions, either in-house, locally outsourced or via the partnership arrangements with Stobart. Since acquisition extensive work has been undertaken to review the options for replacement services and implement cost effective solutions. Out of the eleven services provided through the TSA six have now been terminated and replaced with local solutions and significant progress being made on the remaining five. With a TSA cost of £550k per annum the replacement arrangements are delivering significant savings, with annual costs reduced to £385k.

Stobart Partnership

5. As outlined in the investment business case, key to the success of the airport investment would be a partnering arrangement with an experienced airport operator. On 14 March 2019 a strategic partnership arrangement was entered into with Stobart Group. As part of the agreement Stobart took a 25% share in Goosepool, with the Combined Authority retaining a 75% majority shareholding. The partnering agreement has enabled Stobart to bring their extensive expertise and track record to support the growth and turnaround plans for the airport.

Governance

6. Goosepool 2019 Limited is the joint venture vehicle that owns the majority shareholding in DTVAL. The Combined Authority owns a 75% share and Stobart 25%. Goosepool is controlled by a Board of Directors who meet on a quarterly basis, comprising three Combined Authority Directors and one Stobart Director. The Board also has an independent Chair, David Solely LEP member. It is Goosepool that manages the investment into the airport company. The first meeting of the Goosepool Board was held 25 July 2019.

7. DTVAL is 89% owned by Goosepool and 11% local authorities (the five Tees Valley authorities and Durham County Council). The Board comprises a Director from each of the 6 authorities and 3 Combined Authority Directors. The Board also has an independent Chair, David Solely LEP member. DTVAL is responsible for delivery of the agreed Business Plan. The first meeting of the DTVAL Board since acquisition was held 25 July 2019.

Airport Business Plan and Annual Budget

8. A key priority in the post-acquisition period was to agree with Stobart a Business Plan and annual budget. The agreed business plan and annual budget, which is in line with the Business Case agreed by Cabinet in January 2019, has now been prepared and sets out:

a. A five year aviation growth plan 2019 to 2024;
b. A five year medium term financial plan 2019 to 2024;
c. A five year capital investment plan;
d. An annual budget 2019/20;
e. The financing arrangements for the plan;
f. The TSA transition;
g. Five year annual targets (KPI's) to 2024;
h. Governance arrangements for the business plan;
i. Risk management arrangements for the business plan.

9. The full Business Plan is presented at **Appendix 1**. The plan was approved by Goosepool Board on 25 July 2019 and presented to the DTVAL Board on 24 October 2019 for approval. The plan will be refreshed annually and will be submitted to cabinet for approval.

Airport Delivery

10. Post-acquisition, the airport has continued to operate effectively with no interruption to services. Operations have continued to be delivered to a high standard with regulatory compliance continuing to be achieved. Significant work is being undertaken to commence with delivery of the Business Plan, including extensive dialogue with operators regarding growth in flights and destinations. Early progress on the turnaround plan includes:

- Agreement with Ramsdens to provide travel money services within the airport terminal;
- Securing holiday flights to Palma commencing summer 2020 with JetsGo;
- Rebranding of the airport to Teesside International Airport;
- Balkan Holidays Summer 2019 holiday flights launched.

Property Management

11. Property is a significant business line for the airport and generated income of £897k in 2018/19, comprising £601k rent and service charges and £296k tenant recharges (mainly for utilities).

12. The property holdings comprise 10 separate areas of land and buildings and comprise 67 separate tenancies:

a. Terminal (16 tenancies, 4 of which vacant)
b. Hangar 1 (6 tenancies, 2 of which vacant
c. Hangar 1A (1 tenancy)
d. Hangar 2 (8 tenancies, 4 of which vacant)
e. Hangar 360 (2 tenancies)
f. Building 101/102 (8 tenancies)
g. Building A (3 tenancies, 1 of which vacant)
h. Building 40 (7 tenancies)
i. Block 14 (4 tenancies, 2 of which vacant)
j. Estate (9 tenancies)

13. At acquisition Property Management was provided by Peel Airport Management Limited under the Transitional Services Agreement. Notice was served in May 2019

and the service ended 19 June 2019. A final handover meeting was held on 24 June 2019. Responsibility for Property Management now rests fully with the airport.

Development

14. The airport acquisition, which included 817 acres of land, presents significant opportunities for property development, inward investment and jobs growth. The three specific areas of land that present the most significant development opportunities are:

a. Southside

Comprising 270 acres, the Southside is by far the largest area for development. Previous master-planning for the Southside identified the opportunity to develop it as a major business park, providing inward investment opportunities for both aviation and non-aviation related uses. In total the business park had the potential to provide 3.4 million square foot of commercial space, thereby providing major economic growth and job opportunities. Feasibility and master-planning work has now commenced to enable the Southside development opportunities to be unlocked. In addition, discussions are active with developers in terms of how we bring the site forward for development. It is expected that development proposals will be brought forward to Cabinet in due course.

b. Northside 'Gateway'

Prior to acquisition a parcel of land on the Northside had planning consent for 350 homes. A clear decision was taken at acquisition that this land would not be used for housing and the permission has subsequently lapsed. This site lies on the key gateway to the terminal and is a prime development site. Feasibility and master-planning work has now commenced to identify development opportunities. In addition, discussions are active with developers in terms of how we bring the site forward for development. It is expected that development proposals will be brought forward to Cabinet in due course.

c. Northside 'East'.

At the eastern end of the Northside there is approximately 20 acres of undeveloped land, running adjacent to the road right up to the train station. The previous owner under its masterplan envisaged this land would be developed in a similar way to the Southside, providing opportunities for example for warehousing and distribution uses.

Currently only short term use of this land is being explored. The reasons for this are twofold. Firstly, the extent of more attractive developable land elsewhere on the airport site and secondly, the fact that plans for this land need to be informed by plans for the rail station (as it is adjacent, and will potentially be the gateway for rail arriving and departing passengers).

FINANCIAL IMPLICATIONS

This report sets out the implementation of plans agreed under the 10 Year Investment Plan. There are no additional financial implications arising from this report.

LEGAL IMPLICATIONS

There are no legal implications of this report.

RISK ASSESSMENT

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

CONSULTATION & COMMUNICATION

None

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Not for publication by virtue of paragraphs 3 of schedule 12A of the Local Government Act 1972

APPENDIX 1

Teesside International Airport

BUSINESS PLAN AND ANNUAL BUDGET 2019/20

CONTENTS

APPENDICES

1.0 PURPOSE

This paper presents to the Goosepool Executive Meeting the proposed business plan and annual budget for Teesside International Airport (TIA).

The business plan and annual budget sets out the following:

1. Five year aviation growth plan 2019 to 2024;
2. Five year medium term financial plan 2019 to 2024;
3. Five year capital investment plan;
4. Annual budget 2019/20;
5. Financing arrangements for the plan;
6. TSA Transition;
7. Five year annual targets (KPI's) to 2024;
8. The governance arrangements for the business plan;
9. The risk management arrangements for the business plan.

The report 'Durham Tees Valley Airport Business Plan' prepared by ICF on 28 September 2018 provides the underpinning for the business plan and annual budget.

The business plan excludes property development on the North side and South side land, plans for which are being worked up in parallel to delivering the business plan.

2.0 CONTEXT

On 24 January 2019 TVCA took the momentous decision to acquire the majority shareholding in TIA. On the brink of closure, the acquisition was identified as critical to Tees Valley in securing the future of the airport as an essential component of the regions underpinning economic infrastructure.

The TVCA decision to acquire the airport was supported by a full 'green book appraisal' business case 'Full Business Case: Securing the Future of Our Airport'. The business case set out a comprehensive strategic, economic, commercial, financial, and management case for the purchase.

In addition, the decision was supported by a detailed ten year turnaround plan for the airport 'Durham Tees Valley Airport Business Plan' prepared by aviation specialists ICF. Importantly, the business plan set out the growth and associated financial plans for the airport and its turnaround to back to profit.

In summary, TVCA approved up to £74.6m of funding to support the airport acquisition and turnaround plan, which comprised £40.2m for acquisition, up to £19.4m to support operations whilst loss-making and up to £15m for capital investment.

Following the decision to acquire and invest in the airport implementation commenced with immediate effect. In summary:

- A holding company, Goosepool 2019 Limited ('Goosepool') is established to acquire the majority shareholding from Peel Group (89%);
- A partnering arrangement is entered into with Stobart Aviation Limited ('Stobart') to support the realisation of the airport turnaround plan;
- Goosepool is established as a joint venture between TVCA and Stobart, based on 75% and 25% respective shareholdings;
- TVCA provide Goosepool with a £40.2m loan for it to acquire the majority shareholding of TIA from Peel Group. The loan is secured with a first charge on TIA assets;
- TVCA provide Goosepool with a £2.5m loan to enable it to provide cash-flow funding support to TIA (by way of inter-company loan).

Based upon the pre-acquisition business plan 'Durham Tees Valley Airport Business Plan' prepared by ICF this paper sets out the proposed the TIA business plan and annual budget 2019/20.

3.0 FIVE YEAR GROWTH PLAN 2019 TO 2024

3.1 MISSION, VISION AND VALUES

In setting out the five year growth plan it is important to put this within the context of the TIA mission, vision and values.

Mission

The TIA mission is to add connectivity, economic impetus, job opportunities, and travel opportunity to the region, in a sustainable manner.

Vision

TIA will grow over the next five years to become a mid-sized regional airport, known for a high quality customer experience, providing domestic and international scheduled and charter services to its local and regional markets, as well as private jet and general aviation facilities to wider audiences.

Values

TIA operates on the basis of values aligned with its stakeholders: customers, employees, shareholders and communities.

	Customers	Employees	Shareholders	Communities
Great SERVICE	√			√
A FAIR deal	√	√	√	√
SUSTAINABLE operations		√		√
Creating OPPORTUNITY	√	√	√	√
FORWARD looking	√	√	√	√
Always INNOVATIVE	√	√		√

3.2 AVIATION GROWTH PLAN 2019 TO 2024

The five year aviation growth plan is to increase passenger numbers by 1.305m from the current base of 138k to 1.443 million by March 2024.

The underlying drivers to achieve this growth in passenger numbers relate to an increase in season charters and regional full service ('S/FS') and the establishment of a low cost carrier ('LCC') at the airport:

i. **Season charters and regional full service (S/FS)** – it is assumed that more active management will enable TIA to attract seasonal services, bringing its service levels to the standard seen at other UK regional airports. It is also assumed that TIA attracts a regional operator to better serve the domestic and short-haul market. The business plan assumes this S/FS growth is achieved, delivering an additional 197k passengers by March 2024.

ii. **Low Cost Carrier (LCC)** – It is assumed that driven management will attract an established LCC from a regional competitor. It is assumed that the carrier moves all operations to TIA over a two year period, with minor disruption to its market share. It is assumed regional operations are established in addition to the LCC traffic, but at a lower throughput given the competition from the LCC operator. It is assumed that the LCC provides services to cater for the summer seasonal demand and that therefore only very limited charter operation remains serving remote destinations outside the LCC's network. The business plan assumes this LCC growth is achieved, delivering an additional 1.108m passengers by March 2024.

Year		2019/20	2020/21	2021/22	2022/23	2023/24
Organic*	('000)	138	141	143	147	147
Regional full service (FS)	('000)	0	0	31	80	97
Seasonal charters (S)	('000)	0	0	0	11	11
Low cost carrier (LCC)	('000)	0	0	568	1,162	1,188
Total Passenger numbers	**('000)**	**138**	**141**	**743**	**1,400**	**1,443**

Note – Organic refers to natural growth based on local demographics

3.3 STRATEGY FOR THE AVIATION GROWTH PLAN

Market Analysis

The north of England delivers approximately 44 million annual passengers, served by seven airports ranging from Manchester with almost 30m passengers and long-haul services to the Middle East and U.S. to Tees Valley and Humberside, with limited short-haul services. The primary airport within the region is Newcastle (NCL) which has a route network covering most European cities and summer destinations, domestic connectivity and increasing long-haul services, while TIA serves limited markets due to its lack of airline mix.

The CAA's 2017 Survey Data show that 450,000 passengers travelled from the North East (NE) to Manchester and 165,000 flew from Leeds Bradford, while a further 290,000 flew from London airports. This equates to almost 1m passengers spilling from the NE to other airports across the UK. Spilled demand is usually led by a mix of supply side factors such as pricing, route mix and service frequency. Newcastle's passenger base is largely defined by the NE (93% of total passengers) while over 240k passengers travel from Scotland and almost 400k passengers come from the North West and the Yorkshire and Humber region.

TIA is more conveniently located to serve the catchments south of Newcastle such as Middlesbrough, Darlington and Stockton, and could also attract passengers from north Yorkshire. Between 2016 and 2017, the CAA and Department for Transport (DfT) estimate between 4.8 to 5.5m passengers originated their journey from the NE.

Based on the UK's ONS data for 2015, the North East's population of 2.6m has a propensity to fly (P2F) of between 1.9 and 2.1 trips per capita. In addition to the 5.5m passengers which originate from the North East, a further 11.3m originate from the Yorkshire and The Humber region. Removing passengers from South Yorkshire, which are unlikely to fly from Durham or Newcastle, creates a potentially addressable market of just over 11m passengers for TIA.

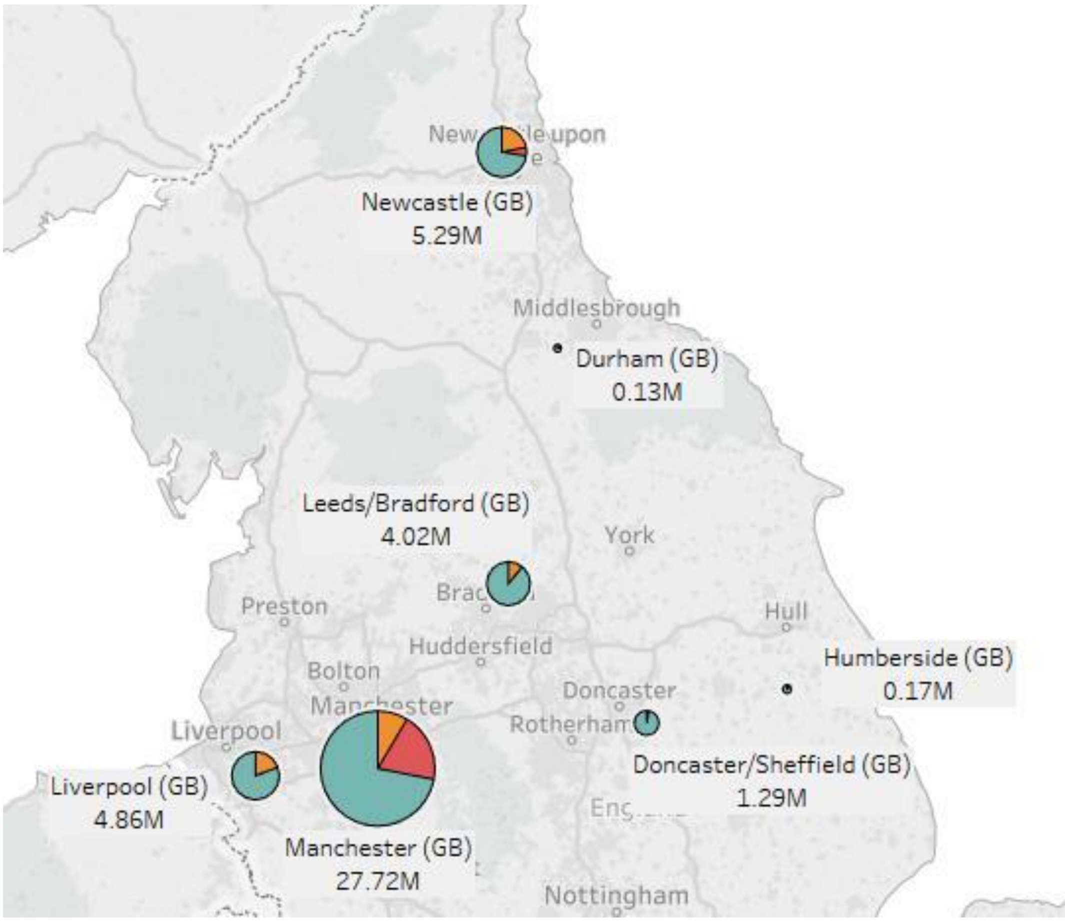
Of this 11m, Newcastle captures circa 40%, Leeds Bradford 34% and Doncaster Sheffield 5%, leaving 21% which is mostly captured by other airports across the UK.

The remaining demand, approx. 2m passengers, is currently largely captured by London (1.5m passengers), leaving circa 0.5m passengers to be shared between TIA, Humberside and other UK airports, highlighting the competitiveness in the region.

In theory at least, the 1.5m passengers travelling to London could be captured by the NE, if adequate services could be provided. However, practically, this is unlikely in the near-term due to airlines' commitments to their London bases, London's far greater route network, and the evident willingness of passengers to travel to London. A regional service from TIA however could feed into the London system, through London Southend.

Therefore, growth at TIA is likely to be driven by capturing market share from passengers within the region at the expense of its competing regional airports.

Northern England Airports, 2017



Market Position: Low Cost, High Quality

TIA is essentially a market entrant, with established competitors. It is therefore extremely unlikely it can start from anything other than a low cost market position. However, leveraging the Stobart brand implies a high service position, which is essential given, in particular, NCL's positioning. Part of the service quality aspect should be "local", given ownership and the opportunity to create a material sense of place. TIA's market position, therefore, is low cost: high quality, with "local" as a defining aspect of quality.

Market Segmentation

Key passenger market segments are leisure and business travellers, with the former likely to generate the bulk of growth over the plan period. It will be essential, however, to maintain and ideally grow the existing business travel segment on AMS and ABZ. It is also important to evaluate whether a material Visiting Friends and Relatives (VFR) segment exists, as this would be key to an approach to, in particular, Wizzair.

Beyond passenger segments, two other market segments are important: military and general aviation, with private jets a dominant aspect of the latter. Retaining Cobham and developing the military segment are important early areas of focus. Expanding the jet centre activity to win a greater and less seasonal share of that market will also add substantial financial value to TIA.

Pricing Strategy

Pricing strategy derives from market position and from wider market dynamics. Given the need to materially increase market share by taking traffic from other airports, pricing strategy is key and it must enable TIA to own its position.

The current pricing strategies appear to be margin rather than volume oriented. Whilst any reduction in price must be considered very carefully in light of the volume it delivers to offset the loss in margin, it is most improbable that further scheduled services will be attracted at the current pricing. Indeed, accelerating passenger growth will require very material discounting relative to published prices. However, that only applies to core aspects of flying (passenger charges, short term parking etc).

We will re-evaluate our pricing across the whole range of services to determine whether rapid value growth can be achieved by increasing price in non-headline areas and in areas outside of aviation (utility supply, for example).

Product Strategy

Product strategy also derives from market position. Given our decision to take a high quality position we have to determine what "quality" means to our segments. It will, as a minimum, entail no queues, charming, local service delivery, an appropriate service environment, face-lifted to be clean and modern, use of tech to add to the human dimension, appropriate retail offers and ease of use at every point in the service chain.

Communications Strategy

Communications strategy will need to address the requirement to drive awareness at B-B and B-C levels, to generate consideration and ideally intent. It requires clear identification of the compelling "reasons to believe" our proposition and very careful decisions about the best media through which to communicate those reasons and the best mix of airport and airline brand. This will be developed across 2019.

People Strategy

People strategy must be designed to deliver the overall positioning as well as the financial objectives. However, more fundamental from a strategic point of view is first the structure of the organisation and second the balance of insourced versus outsourced services. A prevailing assumption will be that, given "local" as a key element of market position and the need to control all elements of the customer value chain to ensure consistently high quality service, insourcing will be the preferred model.

A review of services currently outsourced, including security, fuel and ATC and support services historically provided by Peel will also be completed in the same time scale and recommendations made.

A review of structure to determine synergies with Stobart Group will be undertaken in mid-2019.

4.0 FIVE YEAR FINANCIAL PLAN 2019 TO 2024

4.1 The financial plan is to achieve growth in revenues to £17m million by March 2024. The plan is driven by a combination of increased revenues and reduced unit costs arising from growth in passenger numbers. Increased revenues are derived from both aeronautical and non-aeronautical income streams.

4.2 In FY18 50% of TIA's revenue was derived from **aeronautical** activities including landing, parking and passenger charges, other ancillary charges, general aviation, freight handling charges and fuel revenue. This generated £2.84m (£20.50 per passenger). The business plan assumes the Passenger Facility Fee (PFF) ends by March 2021. Target aeronautical revenue by 2024 is £9.3m with details set out in the table below. Further details of the assumptions for aeronautical revenue are set out at **Appendix 1**.

Year	2019/20	2020/21	2021/22	2022/23	2023/24
Organic	1,682	1,538	1,417	1,304	1,173
Regional	-	-	309	710	773
Charter	-	-	-	97	89
Low cost airline	-	-	2,839	5,806	5,938
Freight	1	5	5	5	5
Fuel	882	879	879	879	879
General Aviation	584	488	488	488	488
PFC	331	330	-	-	-
Total Aeronautical Revenue	**3,480**	**3,240**	**5,937**	**9,289**	**9,345**

4.3 In FY18 50% of TIA's revenue was derived from **non-aeronautical** activities including property, hotel, car parking tenant recharges and handling, generating £2.82m. The business plan forecasts significant non-aeronautical revenue growth largely driven by passenger numbers. Planned non-aeronautical revenue by 2024 is £7.45m as set out in below. See **Appendix 2** for further details of the assumptions for non-aeronautical revenue.

Year	2019/20	2020/21	2021/22	2022/23	2023/24
Car Parking	319	288	1,747	3,290	3,392
Executive Lounge	97	90	91	92	92
In-House Handling	275	355	1,116	1,610	1,634
Concession	36	77	447	927	1,051
Land Lease	700	745	745	745	745
Tenant Recharges	290	370	370	370	370
Miscellaneous	356	168	168	167	167
Total non-aeronautical Revenue	**2,073**	**2,093**	**4,684**	**7,201**	**7,451**

4.4 In FY18 TIA incurred £8.26m in operating costs, which equates to just under £60 per passenger. Staff costs, at 45%, were the single largest component of operating costs.

4.5 The business plan assumes that some costs will remain constant in real terms, whilst others will vary with passenger numbers. The planned operating costs by 2024 are £15m with details set out in below. Full details of the assumptions for operating costs are set out in **Appendix 3**.

Year	2019/20	2020/21	2021/22	2022/23	2023/24
Staff	3,618	3,803	7,196	8,331	8,393
Aerodrome	315	288	288	288	288
Route Support	118	46	66	72	72
Security	460	472	1,482	2,138	2,170
Training	144	83	100	105	105
Utility	596	635	907	988	991
Rent and Rates	471	498	498	498	498
Insurance	346	246	246	246	246
Repairs & Maintenance	313	475	678	738	740
Fuel	343	311	311	311	311
Equipment	83	83	119	130	130
IT & Telecoms	96	61	117	138	139
Airport PR & Marketing	52	260	285	314	346
Car Park Costs	28	33	75	94	95
Professional Fees	57	174	174	174	174
Administration	385	125	125	125	125
Intercompany Costs	700	212	212	212	212
Contingency	25	100	-	-	-
Miscellaneous	23	17	19	20	20
Total Operating Costs	**8,173**	**7,922**	**12,898**	**14,922**	**15,055**

4.6 In addition to the revenue and cost forecasts the financial plan includes support initiative funding for 2021. Support initiative funding are the incentives that TIA will need to offer to attract the airlines as planned, including seasonal, regional and low cost carrier. In summary, the total support initiative funding within the business plan is £21.4m as follows:

Year	21/22	22/23	23/24	24/25	25/26	26/27	27/28
Regional	157	401	485	396	342	232	119
Charter	-	55	56	46	35	24	12
Low cost airline	2,271	4,645	4,751	3,643	2,481	1,267	-
Total Support Initiative	**2,428**	**5,101**	**5,292**	**4,085**	**2,858**	**1,523**	**131**

4.7 It is important to note that the business plan assumes zero support initiative payments during 2019/20 or 2020/21. Support initiative funding shall be given in strict compliance with state aid regulations.

4.7 Bringing together planned revenues and costs provides the EBITDA targets as set out in the table below. Note that the five year financial plan assumes no financing repayments (interest or principal).

Year	2019/20	2020/21	2021/22	2022/23	2023/24
EBITDA (£'000)	(2,620)	(2,589)	(4,705)	(3,533)	(3,551)

4.8 A combined summary of passenger growth targets and EBITDA for the five year plan period is presented at **Appendix 4**.

5.0 FINANCING THE BUSINESS PLAN

5.1 With TIA currently loss making the business plan aims to achieve an EBITDA surplus by 2026. Until this point, and to ensure the continued operation of TIA as a going concern, it is intended that financial support will be provided by the majority shareholder, Goosepool Ltd.

5.2 Subject to approval by the holding company, funding requirements will be met by Goosepool by way of intercompany loans.

5.3 During the turnaround period to a surplus EBITDA no loan financing repayments will be made by TIA to Goosepool (i.e. interest and principal loan repayments will only commence once surplus EBITDA achieved). All financing costs during this period will be rolled up into the principal debt.

5.4 Goosepool Ltd has a borrowing facility in place that will enable it to provide up to £19.4m of intercompany loans to TIA during the period to March 2028.

6.0. CAPITAL EXPENDITURE

6.1 During the period of the business plan TIA requires capital investment. The pre-completion due diligence work provided the indicative capital investment requirements of the airport. Areas identified as requiring capital investment included the runway, the passenger terminal, the fire rescue vehicles, the hold baggage screening equipment and the apron.

6.2 It was noted during due diligence that TIA does not have a short, medium or long term capital investment plan. A priority action was to prepare and agree a capital investment plan for the airport.

6.3 Since acquisition a five year capital investment programme has been prepared. Planned capital investment in the next five years is £14.3m, with £2.6m to be invested in 2019/20. The detailed five year capital programme is presented at **Appendix 5**.

6.3 Until such a time as TIA is in a position to fund its capital investment needs the capital investment plan will be funded through intercompany lending by the majority shareholder Goosepool Ltd. The terms of lending and repayment will be on the same basis as the funding arrangements for operational expenditure.

6.4 Goosepool Ltd has a borrowing facility in place that will enable it to provide up to £15m of capital expenditure to TIA during the period to March 2028.

7.0 ANNUAL BUDGET 2019/20

7.1 The annual expenditure budget for 2019/20 is £8.173m against a budgeted income of £5.553m, giving a budgeted operating loss of £2.62m. The budgeted loss is slightly below the business case as presented to TVCA Cabinet prior to acquisition, which presented a 2019/20 planned loss of £2.677m. It is also slightly below the actual for 2018/19 which is a £2.638 operating loss.

The budget has been prepared following extensive ‘deep dives’ with all budget holders and represents a challenging yet deliverable financial outturn.

The full income and expenditure budget for 2019/20 is set out in **Appendix 6**.

8.0 TRANSITION PLAN

8.1 Pre-completion the operation and management of the airport was undertaken through a mix of directly employed staff, services provided through Peel Group companies and contracted service providers. At completion a Transitional Services Agreement (TSA) was entered into with Peel Group to ensure the continued operation and management of the airport until such time as appropriate new arrangements could be put in place.

8.2 A Transition Plan is in place to ensure a smooth handover of services from Peel Group to the new provider, whether that be TIA itself, Stobart or a third party. The handover of the TSA arrangements are taking place on a phased basis, with completion for all services to be delivered within six months of acquisition.

9.0 OUTPUT TARGETS TO 2024 (KPI's)

9.1 The business plan comprises specific targets for airport growth, service quality and finances. The targets are based on the Combined Authority business case to acquire and invest in the airport.

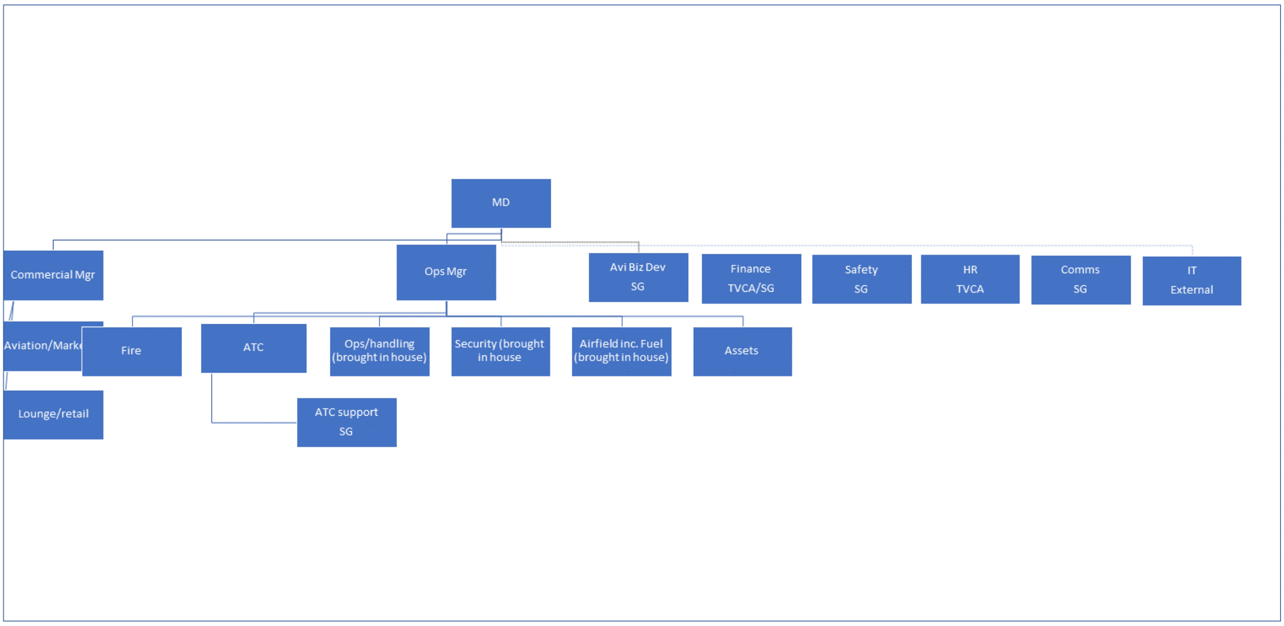
9.2 In summary, the business plan targets to 2024 are as follows:

Target description	Baseline	19/20	20/21	21/22	22/23	23/24	Total End Target	Measure	End Target Date
Attraction of 10 additional routes by 2022 (50% chartered and 50% scheduled)	2 existing scheduled routes (to be retained)	-	+2 (c) +2 (s)	+2 (c) +2 (s)	+1 (c) +1 (s)	-	5 additional charter 5 additional scheduled	Signed contracts	Mar 2023
Low cost carrier based at the airport by 2022	n/a	-	-	-	+1	-	1	Signed contracts	Mar 2023
Increase in freight tonnage to 500 tonnes	1 tonne	-	125	125	125	125	500	Civil Aviation Authority records	Mar 2024
Increase in passenger numbers	135,000	+ 3,000	+3,000	+602,000	+657,000	+43,000	1,610,000	Civil Aviation Authority records	Mar 2029
Passenger satisfaction KPIs	tbc	tbc	tbc	tbc	tbc	tbc	tbc	tbc	tbc
EBITDA £'000	(2,597)	(2,677)	(2,631)	(4,571)	(3,337)	(3,351)	2,541	Mangt. accounts	Mar 2029
Cost per passenger £ (excl. support initiative)	61.39	60.07	17.36	10.66	10.43	10.25	9.36	Mangt. accounts	Mar 2029
Aeronautical revenue per passenger £	23.74	23.03	7.99	6.64	6.48	6.31	5.93	Mangt. accounts	Mar 2029
Non Aeronautical revenue per passenger £	18.58	18.34	6.48	5.28	5.30	5.27	5.11	Mangt. accounts	Mar 2029

10.0 GOVERNANCE AND DELIVERY

10.1 Delivery against the plan will be monitored on a regular basis, with a quarterly report to both the Goosepool and TIA Board of Directors. The business plan and budget will be reviewed on an annual basis. The business plan will also be presented to both the Combined Authority Cabinet and Stobart Group Board..

10.2 To ensure delivery against the business plan a review of the current TIA structure has been undertaken. It has been agreed that the following structure is established.



To enable this structure to take effect two key appointments are required, firstly the Managing Director and secondly the Commercial Manager. Job descriptions for both posts have been prepared and subject to Board approval the recruitment process will commence.

11.0 RISK MANAGEMENT

11.1 In delivering the business plan it is expected that TIA adopt a robust risk management framework. This should include the regular identification and assessment of the risks that TIA faces and the mitigating actions being taken to minimise the likelihood of the risk materialising or impact should it materialise. As a minimum this should include the regular review at Board level of a corporate risk register.

12. SUMMARY OF ACTIONS

The following table sets out the key actions for 2019/20 arising from this plan.

Key Action	Lead	KPI
1. Promote and embed the mission, vision and values through the communications, branding and engagement plans	KW	
2. Develop and implement the aviation growth plan. To include a financial plan to deliver the MTFP aeronautical revenue targets.	GJ/PF	1. Attraction of 10 additional routes by 2022 (50% chartered and 50% scheduled) 2. Low cost carrier based at the airport by 2022 3. Increase in passenger numbers 4. Passenger satisfaction KPIs 5. Increase in freight tonnage to 500 tonnes 6. Aeronautical revenue per passenger £
3. Prepare a non-aeronautical revenue growth plan (airport retail and commercial) including a financial plan to deliver the MTFP non-aeronautical revenue targets. To exclude non-airside property income.	PF/SW	1. Non Aeronautical revenue per passenger £
4. Prepare a plan for support initiative funding to inform the 2020/21 budget and MTFP.	GJ/PF	
5. Review the structure to ensure customer value chain is maximised and a consistently high quality service is provided	GJ/SW	
6. Deliver the capital investment programme to time and budget	SW/MW	
7. Deliver the annual budget to target	SW/MW	1. EBITDA £'000 2. Cost per passenger £
8. Deliver the transition plan to time and budget	KW/MW	
9. Prepare masterplan for Northside and Southside	KW/MW/CD	
10. Manage existing tenants	KW/SW	
11. Prepare a corporate risk register for TIA	MW/SW/PF	

APPENDIX 1

AERONAUTICAL REVENUE ASSUMPTIONS

We forecast aero yield differently by scenario to reflect the competitive dynamics of each and to include the incentive that TIA would have to offer to attract airlines in our different scenarios.
In all scenarios we maintain fuel and general aviation revenues constant in real terms. We also remove the Passenger Facility charge in the first full year of operation by the Combined Authority (FY ending March 2021).

For Scenario 1, we maintain aeronautical charges at the current rate per passenger (£10.9), on the assumption that KLM is willing to pay the current charge and that, absent growth, there is no need for the airport to lower charges, nor does the airport have the ability to raise charges.
Scenarios 2 and 3 are summarised in the tables below.

Scenario 2	Regional	Charter	LCC
Aero charges	Reduced by 10% p.a. FY21	Reduced by 10% p.a. FY21	n/a
	To FY26 From £10.9 to £5.8	To FY26 From £10.9 to £5.	
Support Initiative	£5 per passenger for 2 years reducing to zero at £1 p.a.	£5 per passenger For 2 years Reducing to zero at £1 pa	n/a

Scenario 3	Regional	Charter	LCC
Aero charges	Reduced by 10% p.a. FY21	Reduced by 10% p.a. FY21	Set at £5 Constant in real terms.
	To FY26 From £10.9 to £5.8	To FY26 From £10.9 to £5.8	
Support Initiative	£5 per passenger for 3 years reducing to zero at £1 p.a.	£5 per passenger For 2 years Reducing to zero at £1 pa	£4 per passenger for 3 years, Reducing to zero at £1 p.a.

Historical Performance

TIA's aeronautical revenues have fallen as a result of declining passenger volumes. 50% of TIA's revenue in FY18 was derived from aeronautical activities. These include:

- Landing/Parking and Passenger charges;
- Other ancillary charges
- General Aviation and Freight handling charges
- Fuel revenue

In FY18, TIA generated £2.84m of Aeronautical Revenue, or £20.50 per passenger.

Over the period FY10 to FY18, real aeronautical revenue decreased from £3.9m by a CAGR of -3.9% per annum, driven by the drop in passenger volumes at the airport.

Revenues experienced strong uplift in 2016 and 2017 as a result of TIA bringing fuel farm activities in house, increasing revenues by over £800,000.

Revenue generate from commercial flights (aero charges) have remained largely flat in real terms since 2014 and account for just over half of the airport's total aeronautical revenue.

Regional airports in the UK are free to set airport tariffs as they desire. In practice, these are determined by market conditions such as airlines' appetite to serve the market.

Note that TIA includes the Passenger Facility Fee as non- aeronautical, and the above analysis has been undertaken on that categorisation, however, we would ordinarily consider it to be aeronautical revenue.

Although difficult to benchmark TIA's aeronautical revenue its yield is high by UK comparison. Given the relatively low passenger throughput at TIA, it is difficult to benchmark its aeronautical yield with accuracy. However, based on LeighFisher's 2018 Aeronautical Revenue Share of Total Revenue (%) publication relating to financial year ending March 2017 and calendar year 2016:

1. TIA's share of aeronautical revenue is in line with UK norms
2. Its per passenger yield is high

Excluding the outlier of London Biggin Hill, and Heathrow, which serves a distinct market from the other airports, the remaining airports in LeighFisher's sample average around £7 per passenger weighted by passengers, but with a significant number of airports earning less than that rate.

Excluding TIA's freight, fuel and general aviation revenue, the underlying aeronautical charges yield averages around £11 per passenger (shown in total and excluding other aeronautical revenues in the shades the chart opposite).

In a significant growth scenarios, therefore, it is unlikely that the airport will be able to sustain its current level of charges.

APPENDIX 2

NON-AERONAUTICAL REVENUE ASSUMPTIONS

We forecast non-aeronautical revenue generally on a revenue per passenger basis, with a number of categories held constant in real terms as summarised in the table below.

	Assumptions
Car parking	15% increase in FY21 resulting from a minimum £1 drop-off charge. Constant in real terms thereafter.
Executive lounge	50% elasticity to organic growth passengers only
In-house handling	50% elasticity to growth in passengers
Concessions	10% increases to revenue per passenger in financial years 2021, 2022 and 2023; resulting from negotiation of new F&B and retail concessions
Ancillary	Constant in real terms
Land leases and tenant recharges	Constant in real terms
IT and telecoms	Constant in real terms
Advertising	Constant in real terms
Miscellaneous	Constant in real terms

The airport generates a significant proportion of income from its property portfolio and consequential recharges. We hold these revenues constant in real terms as we understand that the Combined Authority is separately investigating the potential for property revenues associated with the airport.

Overview: Key Drivers

Airports generate non-aeronautical revenues from two key sources:

- Services provided to passengers
- Services provided to airlines and other business customers

Overall, 36% of non-aeronautical revenues at TIA are derived from passenger driven activities. This reflects the airport's low passenger volumes and reliance on non-passenger related revenue streams such as property and recharges to its tenants.

The key activities of each of these sources at the airport are:

Passenger Driven	
Car parking	Revenue generated from ticket sales to customers parking in the airport's car parks
Passenger Facility Fee	Fee charged to each passenger for use of the airport's facilities
Other Concessions	Concession fees paid to the airport by retail, car rental, and other service operators

Non Passenger Driven	
Property	Rent and royalties earned from offices, check-in desks and other rentals
Tenant Recharges	Recharge of utility and service costs from airport tenants
Other	Advertising, Telecoms, and other miscellaneous revenue streams

Historical Performance

TIA's non-aeronautical revenues have fallen as a result of declining passenger volumes. In FY18, TIA generated £2.82m in non-aeronautical revenue or 50% of total revenue, equating to £20.3 per passenger.

Between 2010 and 2018 non-aeronautical revenues decreased from £3.1m to £2.8m, an average annual decrease of -1.3%. Revenue passenger increased from £11.9 to £20.3, a CAGR of 6.9%, as a result of the large non-passenger related share of non-aeronautical revenue which fell less severely than passenger volumes.

The split of non-aeronautical revenue between the key activities shows that:

- The airport has a diversified portfolio of income streams with a mix of passenger driven elements such as car parking and passenger fees, and other property related revenue.
- The single largest commercial activity undertaken at the airport is property, generating £745,000 in 2018 or 27% of total non-aeronautical revenues.
- The second largest source is the airport's on-site hotel, accounting for 17% of total non-aeronautical revenues, although this activity appears to generate an annual loss as the revenue has not covered the itemised cost in most years.
- The in-sourcing of handling in FY2018 has added significantly to revenue, though it is not clear how the operational costs have fully reflected the additional revenue.
- Excluding the passenger facility fee, which we treat at aeronautical revenue, car parking accounts of the largest passenger related non-aeronautical revenue at a revenue of consistently around £2 per passenger.

Overview: Key Drivers

Airports generate non-aeronautical revenues from two key sources:

- Services provided to passengers
- Services provided to airlines and other business customers

Overall, 36% of non-aeronautical revenues at TIA are derived from passenger driven activities. This reflects the airport's low passenger volumes and reliance on non-passenger related revenue streams such as property and recharges to its tenants.

APPENDIX 3

OPERATING COST ASSUMPTIONS

A number of costs are forecast to remain constant in real terms, they are:

Business Area	Driver
Aerodrome	Constant in real terms
Fuel	Align with same assumption for corresponding revenue
Professional fees	Constant in real terms
Bank charges and commission	Constant in real terms

A number of costs are forecast to be variable, they are:

Business Area	Driver
Staff Costs	▪ One-off 5% increase in FY19 to add staff to service the in-house handling operation ▪ One-off 5% reduction to FTEs in FY21 ▪ Thereafter FTEs held constant until throughput reaches 500,000 passengers beyond which FTEs increase at 25% elasticity to passenger growth ▪ 5% reduction in cost per FTE forecast in each of FY21 and FY22, constant in real terms thereafter ▪ "Staff Costs other" forecast constant in real terms
Route and Marketing Support	▪ 10% elasticity to growth in passenger throughput
Security	▪ 50% elasticity to growth in passenger throughput
Cleaning	▪ On the assumption that the cost of staff is included within Staff Costs, Cleaning forecast to grow at a 10% elasticity to growth in passenger throughput and 30% to floor area growth
Training	▪ 5% elasticity to growth in passenger throughput
Utilities	▪ 10% elasticity to growth in passenger throughput and 50% to floor area growth
Rent and Rates	▪ 50% to floor area growth, zero elasticity to passenger throughput, no allowance for real increases at tri-annual rate reviews
Insurance	▪ 25% elasticity to floor area growth
Repairs & Maintenance	▪ 10% elasticity to growth in passenger throughput and 30% to floor area growth
Equipment	▪ 10% elasticity to growth in passenger throughput
IT & telecoms	▪ 20% elasticity to growth in passenger throughput and 5% to growth in FTEs
Airport PR and marketing	▪ Constant in real terms in Scenario 1 ▪ For Scenarios 2 and 3, one-off increases of 10% in FYs 21, 22 and 23, followed by 10% reductions in each of FYs 24 to 28 inclusive. Constant in real terms thereafter.
Car Park	▪ 30% elasticity to growth in passenger throughput
Intercompany Costs	▪ Constant in real terms, but assumes that the cost currently paid to Peel replicates the same provision of services from the TVCA

Overview

The majority of TIA's costs are fixed and dominated by expenditure on staff. In 2018, TIA incurred £8.26m in operating costs.

45% of costs are related to staff costs. Of the remaining non-staff costs the largest items include:

- 8% utilities costs for the provision of gas, electric and water. 59% of these costs are recharged to airport tenants
- 6% hotel costs associated with TIA's running of its on-site airport (now closed)
- 6% rent & rates, 6% maintenance, 6% security, 4% fuel

Most activities performed at TIA are in-sourced, with airport employees responsible for cleaning, passenger handling, IT, and many other functions. Notably, security is outsourced.

Historical Performance

Costs have fallen in line with passengers with major savings coming from reduced staff and security costs.

TIA incurred £8.26m in operating costs in 2018, a 4.8% increase on the previous year. This translates to just under £60 per passenger, a -3.0% decrease on the previous year.

Since 2010 total operating costs have increased at an average annual rate of 6.9%. Passenger throughput decreased at an average annual rate of -7.7%, resulting in costs per passenger increasing at an average annual rate of 0.8%.

This change has primarily been driven by:

- Reduction in staff costs between 2010 and 2012 resulting in a 40% cost saving. Further reductions were made in 2015 when staff costs fell by 12%.
- Security costs fell as passenger volumes declined, with costs falling from £1.1m to £460,000.
- Airline route and marketing support have also fallen from £1.9m in FY08 to £400,000 in FY08 and have totalled less than £50,000 per annum since FY14.
- Costs associated with the airport's hotel business fell from £1.1m to £529,000 from 2010 to 2018.
- Professional fees reduced from ~£600,000 in FY10 and FY12 to an average of £200,000 between FY13 and FY18.
- The fuel operation was in-sourced in 2016 which saw the relevant costs increase notably.

Inevitably, TIA's opex cost rate per passenger is high, but so is its staff cost per FTE. With so few passengers, benchmarking the total rate of operating costs per passenger is unreliable. However, it is relevant to observe that the unit staff cost exceeds the UK average. In a region with lower than UK average salaries, shown below, this cost rate is unusual.

APPENDIX 4

SUMMARY OF THE PASSENGER GROWTH TARGETS AND EBITDA FOR THE 10 YEAR PLAN PERIOD APRIL 2019 TO MARCH 2028

£ 000s	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Total Passengers (000s)	138	141	743	1,400	1,443	1,472	1,516	1,548	1,579	1,610
Total Aeronautical Revenue	3,480	3,240	5,937	9,289	9,345	9,291	9,355	9,339	9,409	9,566
Total Non-Aeronautical Revenue	2,073	2,093	4,684	7,201	7,451	7,557	7,720	7,835	7,949	8,062
Total Revenue	**5,553**	**5,333**	**10,621**	**16,490**	**16,796**	**16,848**	**17,075**	**17,174**	**17,358**	**17,628**
Total Staff Costs	3,618	3,803	7,196	8,331	8,393	8,434	8,497	8,540	8,583	8,624
Non-Staff Costs	4,555	4,119	5,702	6,591	6,662	6,654	6,664	6,664	6,667	6,672
Total Costs	**8,173**	**7,922**	**12,898**	**14,922**	**15,055**	**15,088**	**15,161**	**15,204**	**15,250**	**15,296**
EBITDA	**(2,620)**	**(2,589)**	**(2,277)**	**1,568**	**1,741**	**1,760**	**1,914**	**1,970**	**2,108**	**2,332**
EBITDA Margin	(47.2%)	*(48.5%)*	*(21.4%)*	*9.5%*	*10.4%*	*10.4%*	*11.2%*	*11.5%*	*12.1%*	*13.2%*
Total Support Initiative	-	-	(2,428)	(5,101)	(5,292)	(4,085)	(2,858)	(1,523)	(131)	-
Underlying EBITDA	**(2,620)**	**(2,589)**	**(4,705)**	**(3,533)**	**(3,551)**	**(2,325)**	**(944)**	**447**	**1,977**	**2,332**
Underlying EBITDA Margin	(47.2%)	*(48.5%)*	*(44.3%)*	*(21.4%)*	*(21.1%)*	*(13.8%)*	*(5.5%)*	*2.6%*	*11.4%*	*13.2%*

APPENDIX 5

CAPITAL INVESTMENT PROGRAMME

ITEM	2019/20	2020/21	2021/22	2022/23	2023/24	Total
HBS 3 Xray and belt upgrade	1,400,000					1,400,000
Cabin Baggae C1 Xray	48,000					48,000
ATE roof replace			10,000			10,000
ATC tower roof			20,000			20,000
Demolish old Eng workshop	5,000					5,000
Replace Air Handling Units		75,000		75,000		150,000
BMS upgrade	20,000					20,000
Heating Pipework upgrade		20,000				20,000
Re Roof Meet Greet area			25,000			25,000
Remove old fuel tank Terminal		10,000				10,000
Upgrade Car park Lights - LED	30,000					30,000
Replace street lights		3,750	3,750	3,750	3,750	15,000
Car park resurface work	10,000					10,000
Alpha Taxiway Near stand 13	175,000					175,000
Runway Resurface					10,000,000	10,000,000
Runway concrete end overlay				60,000		60,000
ATC Generator replace			35,000			35,000
Replace water mains landside		37,500	37,500			75,000
Replace 3.3KV Switch gear on the airfield		50,000	50,000	50,000	50,000	200,000
Replace Main Transformer	16,667	16,667	16,667			50,000
Replace sections of HV cable					350,000	350,000
VCCS	400,000					400,000
Semi Automatic Met Observation System	200,000					200,000
23 GP Comms Cable	35,000					35,000
BT Low bandwidth Cesation Work	27,000					27,000
05 Localiser Comms Cable			35,000			35,000
ATE Vehicle					15,000	15,000
Taxiway Alpha Widening		16,667	16,667	16,667		50,000
Replacement 4x4		25,000				25,000
Fire Appliance		125,000				125,000
Fire Appliance			125,000			125,000
Fire Appliance				125,000		125,000
Snow clearing brushes	50,000					50,000
ADM vehicle		15,000				15,000
Baggage tugs		15,000				15,000
Ambulift		25,000				25,000
GPU		15,000				15,000
Grass cutter					15,000	15,000
Tractor					30,000	30,000
Sweeper	20,000					20,000
FOD Boss		7,000				7,000
Mallaghan					30,000	30,000
ETD replacement		25,000				25,000
security mobile		15,000				15,000
Forklift		15,000				15,000
Homes England land	128,000					128,000
	2,564,667	**511,583**	**374,583**	**330,417**	**10,493,750**	**14,275,000**

APPENDIX 6

INCOME & EXPENDITURE BUDGET 2019/20

REVENUE DETAIL	**£'000**
Aero Revenue	1,682
Freight Revenue	1
Fuel Revenue	882
General Aviation Revenue	584
Passenger Fee Facility	331
Aeronautical Revenue Total	**3,480**
Car Parking Revenue	319
Airports Executive Lounge	97
In House Handling	275
Concession Revenue	36
Land Lease Income	700
Tenant Recharges	290
Miscellaneous Revenue	356
Non aero total	**2,073**
REVENUE ANALYSIS TOTAL	**5,553**
COSTS DETAIL	
Staff Costs	-3,618
Aerodrome Costs	-315
Route Support	-118
Security Costs	-460
Training Costs	-144
Utility Costs	-596
Rent and Rates Costs	-471
Insurance Costs	-346
Repairs & Maintenance	-313
Fuel Costs	-343
Equipment Costs	-83
IT & Telecoms Costs	-96
Airport PR and Marketing Costs	-52
Car Park Costs	-28
Professional Fees	-57
Administration	-385
Intercompany Costs	-700
Contingency Costs	-25
Miscelleneous	-23
OPERATING COSTS ANALYSIS TOTAL	**-8,173**
EBITDA	**-2,620**

TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

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AGENDA ITEM 12

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

25 OCTOBER 2019

REPORT OF COMMERCIAL AND DELIVERY DIRECTOR

PORTFOLIO: INNOVATION

MIDDLESBROUGH DISTRICT ENERGY NETWORK – UPDATE

SUMMARY

This report provides an update on the Middlesbrough District Energy Network (MDEN) Project which proposes the implementation of a district heating network to serve the James Cook Hospital site in Middlesbrough and the town centre with heat and energy using a system of underground pipes and cables.

The MDEN Project will offer its proposed customers, including the South Tees NHS Foundation Trust (Trust), Teesside University (University), Middlesbrough College (College) and Middlesbrough Council (Council) (together the 'Offtakers'), savings in the cost of heat and energy, as well as potentially significant carbon savings.

Cabinet approval was given to develop the MDEN Project in autumn 2017. Since then extensive development work on the Outline Business Case (OBC) for the Project has been carried out. The Combined Authority is continuing to work on a number of key issues (set out in paragraph 2 below) and will bring a further report to Cabinet in January 2020, seeking approval to commence the formal procurement process and at the end of that process, to appoint a design, build and operate contractor for the Project, and to fund the Project through prudential borrowing.

The minimum requirement is that the Project delivers an MDEN scheme:-

- That will deliver combined heat and power to the Trust to enable it to replace its current contract/facilities;
- That is capable of being extended to the other Offtakers (and other potential participants in the town if they wish to sign up to the scheme);
- That will result in an Internal Rate of Return (IRR) to the Combined Authority of between 5-7%;
- That will involve the setting up of a framework that will allow our partner Councils and other Local Authorities in the wider North East to award contracts for heat and power projects under the framework, if they choose to do so.

The Combined Authority is intending to submit a Heat Networks Investment Project (HNIP) grant application is to BEIS to improve the potential IRR for the Project.

The Combined Authority is confident that by the date of January's Cabinet meeting it will have continued to develop the scheme to the point where there is further certainty about the minimum specification for the Project and the projected level of IRR to the Combined Authority, and that the scheme is proceeding well and is achievable.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:-

i. notes the further development of the MDEN Project as detailed in this report and the Combined Authority's intention to bid for HNIP funding: and
ii. notes that a further report will be brought to Cabinet in January 2020 recommending formal approval for the Project.

DETAIL

1. BACKGROUND

1.1. In autumn 2017, Cabinet agreed that if:-
- a business case could be established; and
- the c.£40m investment could be funded by the Combined Authority's borrowing powers without impacting on other investment priorities, the Combined Authority would be prepared to be a majority or sole investor in the Project. This investment would represent c.5.9% of the TVCA borrowing cap in 2020/21.

1.2. The Combined Authority then procured a specialist multi-disciplinary project team to further develop the technical solution for the MDEN Project and the related financial model. The team is made up as follows:-
- WSP (technical advisers),
- Pinsent Masons (legal advisers); and
- KPMG (financial advisers).

1.3. This pre-procurement work is now nearly complete and preparations are being made for the procurement phase. The key outcomes from this development work are:-

- **more detailed cost estimates** - confirmation that the MDEN Project is estimated to cost between £42million and £46million (a number of scenarios have been modelled – see appendix 1);

- **carbon emissions reduction** - an assessment of the minimum reduction in carbon emissions anticipated as a result of the MDEN Project (almost 8,000 tonnes of CO_2 in Year 1 of operation with potential to increase the carbon emissions savings in later years);

- **phasing** - a plan for the phasing of the MDEN Project as described at paragraph 3 (Phases of Delivery) below;

- **stakeholder engagement** – the detailed technical and financial implications of participation have been discussed with the Offtakers. Appropriate heads of terms are in the process of being agreed with each party and will be in place before commencing procurement; and

- **a proposition for using renewable heat and energy** - a clear plan for delivery has emerged for including the renewable heat and electricity potentially available from a nearby anaerobic digester (AD Plant). Using this renewable heat and electricity will enable 48% of the annual electricity demand and 38% of the annual heat demand for the city centre start-up phase to be renewable and it would also enable significant cost savings.

2. KEY ISSUES AND ONGOING ACTIVITY

The Combined Authority and its advisory team are continuing to work on a number of key issues prior to the January Cabinet report, and many of these elements will in fact continue to be developed through the procurement itself. These key issues include:-

- Ongoing detailed negotiations with the AD Plant owner to develop and agree the terms of the supply of heat and electricity from the Plant to the scheme;
- Ongoing discussions with the Offtakers about the terms of their participation in the Project, including Middlesbrough College who have not yet committed to sign up;
- Discussions with BEIS about the submission for HNIP funding to enable the Combined Authority's proposed IRR to be achieved (and whether there is any additional funding potentially available for the Project);
- Discussions with BEIS to ensure that the private wire nature of the scheme is in accordance with any national requirements or expectations they may have; and
- Ongoing work on the financial model for the scheme, including the level of the IRR to the Combined Authority to support its proposed prudential borrowing.

3. PHASES OF DELIVERY

3.1. As currently planned, the scheme would take a phased approach to delivery, which has been determined by a number of factors as set out below:

Phase 1: James Cook University Hospital	This phase remains as previously proposed. A new combined heat and power (CHP) plant at James Cook University Hospital (Hospital) providing heat and power to the site. It is currently suggested that commencement of this phase will begin in mid-2021 to coincide with the end of the Trust's current energy contract.
Phase 2a: Town Centre (Start-Up Phase)	This initial town centre phase will provide the proposed customers (University, Council and College) with heat and electricity. The timescale for delivery of this phase has been moved forward in order to meet Offtaker aspirations and ensure that opportunities to connect new and emerging developments are not missed. It is proposed that this phase will commence in quarter 3 of 2021.
Phase 2b: Town Centre (Expansion Phase)	A number of organisations including Middlesbrough Combined Court, the Magistrates Court, Middlesbrough Police Station and the proposed Sub Zero Centre development on Middlehaven (electrical connection only) have expressed an interest in joining the MDEN Project. This phase will be implemented subject to a commercially viable business case or business cases.

	For the purposes of the financial modelling of the Project, this phase is currently assumed to be delivered as a single expansion between quarter 4 2024 and quarter 2 2025. However, opportunities for additional connections will be explored on an individual business case basis and could be delivered sooner.
Phase 3: Interconnection (Expansion Phase)	This phase seeks to connect the Town Centre with the Hospital. The proposed timeline for the end of delivery of this phase is around 2036 when the Hospital and Town Centre CHP plants would be life expired and require replacement (subject to a commercially viable business case).
Additional Phases	There are a number of existing and proposed developments which would appear to be natural opportunities for organic growth of the MDEN. Further feasibility work is needed to look at such areas including: Middlehaven, TeesAMP, Riverside Park Industrial Estate and additional development at Centre Square. Heat Networks Delivery Unit (HNDU) funding has been received to support feasibility work in these areas starting in October 2019. Discussions can also commence with Northern School of Art in respect of their planned new college building, Potentially, if there is a business case these could be delivered in advance of the current proposed phase 3.

4. PROCUREMENT STRATEGY

4.1. It is proposed that rather than procure a single contract for the design, build, operation and maintenance of the MDEN Project, a framework contract is established allowing for future call-offs as required. This would enable the Combined Authority to use the same contractor to deliver future as yet unidentified scheme phases without carrying out a further costly and time-consuming procurement process.

4.2. As Stockton Borough Council is actively working on a district heating scheme, and HNDU are funding initial master planning for networks in both Hartlepool and Darlington, it is proposed that the framework is open to other authorities to maximise procurement savings and shorten delivery timeframes for other local projects in the future.

4.3. HNDU has also identified other projects in the North East that could benefit from using such a framework. There are projects in development in Sunderland, Durham and South Tyneside, which together with the MDEN Project, collectively form a potential pipeline of district heating projects valued at in excess of £120million over the next 5 / 6 years.

4.4. HNDU has suggested that the Combined Authority allows these other organisations to use the MDEN framework, as using a North East framework approach in this way would put the Tees Valley at the heart of the growth of the district energy sector. The district heating market in the UK is still relatively immature, with few suppliers and limited supply chains meaning that capital equipment is often imported. HDNU and the Department for International Trade (DIT) consider that a potential pipeline of projects to deliver over the next 8 – 10 years with a significant value could potentially create an exciting opportunity to secure new inward investment opportunities in this sector.

4.5. HNDU and DIT have committed to supporting the Combined Authority to secure inward investment and other supply chain opportunities from establishing a district heating delivery framework for the North East.

4.6. A Project Board has been established to ensure that effective governance arrangements are in place for the Project, and these arrangements will be kept under review to ensure they are working effectively.

5. FINANCIAL IMPLICATIONS

5.1. A number of scenarios have been developed to look at the financial implications of how the Project may be delivered (further details are shown in Appendix 1).

5.2. The preferred option for the initial scheme is scenario B, which is to get the Project up and running by delivering Phase 1 (JCUH) and Phase 2A (town centre start-up) with energy supply from the AD Plant. In this scenario the capital investment is £45.8m, the nominal (40 year) Project IRR is 7.16% pre-tax and 6.92% post-tax and the investment (loan plus ordinary shares) IRR is 6.50%.

5.3. The financial modelling suggests that the expansion from the initial scheme (scenario D) would bring further benefit and although this would increase the capital investment to £47.8m, the nominal (40 year) Project IRR is 7.85% pre-tax and 7.55% post-tax with an investment (loan plus ordinary shares) IRR at 6.98%.

5.4. Whilst in both these scenarios with the energy supply coming from the AD Plant the capital costs are higher than the alternative, the Project IRR and Investment IRR are also higher and the carbon saving benefits are more than double.

5.5. Projects in this sector typically have a nominal post-tax Project IRR in the range of 5% to 8%, reflecting the size and nature of the underlying project. Significant factors which drive the return which can be achieved include: the counterfactual; project risks; inflation assumptions; and any costs which may be included in one project, but not in another.

5.6. In view of the risks associated with this project and the level of investment being sought it is proposed that the Combined Authority should seek a nominal post-tax Project IRR and an Investment IRR of 5-7%. The Combined Authority will therefore be submitting an application for HNIP Round 3 funding in October 2019 to contribute to the capital costs of the scheme and improve the Investment IRR for the Combined Authority and other potential investors. The outcome of this application should be known in November / December 2019, which would be in advance of the publication of the OJEU notice and commencement of the procurement.

5.7. Additional sensitivities have been modelled based around the preferred option (Scenario B) and these show that the investment (loan plus ordinary shares) IRR would rise to 7.19% if a £5.0m HNIP grant funding was secured; dividends would commence from 2031 instead of 2039 and total dividends would increase by over £10.1m to £57.4m.

5.8. High level sensitivity analysis suggests that the project remains viable if only Phase 1 (James Cook University Hospital) was to be delivered.

5.9. The University is the largest proposed off-taker in Phase 2a (town centre start-up) and is essential to the viability of that phase of network expansion.

5.10. Approximately £350,000 has been committed to the pre-procurement phase of work currently taking place. This has been funded from a combination of the Combined Authority's development funding, contributions from the Trust, University, Council and government grants. It is estimated that a further £420,000 of funding is required to complete the procurement phase and to develop a Full Business Case for the project, and this has already been secured.

5.11. All Authority funding will be subject to appropriate due diligence through the Tees Valley Assurance Framework.

6. LEGAL IMPLICATIONS

6.1. Prior to the commencement of the procurement phase, the Combined Authority would expect to agree heads of terms with Offtakers. The current basis of these agreements is that offtakers will enter into an initial 20 year term with a 20 year renewed term. Energy will need to be provided to the Off-takers at a commercial rate to meet state aid requirements. The agreement would automatically renew providing that the Project could demonstrate that the all-in costs remain lower than what the all-in cost would be for the Customer, if it were to disconnect from the Network and install its own heating and electricity system for the Properties, at the end of the Initial Term.

6.2. In order to mitigate Project risks, the Authority would also expect to have reached agreement, or at least made significant progress towards reaching agreement with the AD Plant, with relevant landowners in the vicinity and with other potential investors.

6.3. Heads of terms will be prepared and negotiated with advice from the Combined Authority's external legal advisers who are specialists in this area and will not be developed into binding formal agreements until contract close when it is confirmed that the MDEN Project will be delivered.

6.4. The framework procurement will be run in accordance with the OJEU competitive dialogue process. State aid implications (including the commercial pricing of energy) will be highlighted and addressed throughout the procurement phase by the external advisers.

7. RISK ASSESSMENT

7.1. A significant amount of work has already taken place in order to identify and mitigate the risks related to this project. The procurement of a specialist project team to work alongside the Combined Authority client team is part of the risk mitigation measures. A detailed risk register has been included in the OBC, and an updated risk register has been produced by WSP and has been provided in support of the HNIP funding application.

7.2. The MOU with the key Offtakers has already served to mitigate against the risk of partners disengaging from the Project. The heads of terms and other agreements outlined in the legal implications section are key mitigation measures to ensure that a similar level of engagement is in place with different aspects of the Project prior to proceeding into the procurement phase. The key agreements are the Heads of Terms with the AD Plant to supply heat and power to the network and the Offtaker agreements.

7.3. The financial risks of the Project have been addressed through the preparation of a number of scenarios and sensitivities which have been tested against the base case. Further details of these are shown in Appendix 1.

7.4. It is fully recognised that over the 40 year life of the Project there will be technological change. Accordingly, significant additional capital investment has been built into the project at years 15, 20 and 30 to coincide with the need to replace the CHP plant.

8. CONSULTATION & COMMUNICATION

8.1. As outlined previously, the Project has been subject to a prior Cabinet approval. In addition, the MOU signed between the majority of the Offtakers outlined the establishment of a Management Committee comprising representatives from each organisation. This has been meeting on a monthly basis to oversee the Project development.

8.2. The approach set out in relation to the procurement of a framework which could be used by other local authorities has been discussed and supported by the Tees Valley Management Group.

8.3. A communications protocol was also established between all parties as part of the MOU for the Project in order to ensure a joined up approach to communications. A communication strategy is currently being developed in conjunction with the leads from the Trust, University, Council and College. It is currently proposed that information about the Project is publicised prior to the commencement of the market engagement work set out in the procurement section above.

9. EQUALITY & DIVERSITY

9.1. Due to the nature of this Project there are no significant equality and diversity impacts at the present time.

10. LOCAL ENTERPRISE PARTNERSHIP

10.1. This item has been considered at the LEP meeting in advance of it coming forward to Cabinet.

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Appendix 1 – Scenario and sensitivities summary

Scenario A) Base case	This scenario assumes the delivery of Phase 1 (James Cook University Hospital) and Phase 2a (Town Centre – start-up phase) both starting in July 2021. The energy into the network is provided by CHP.
Scenario B) Green Energy	This scenario builds upon the base case. In this scenario the energy into the network is provided by a combination of the CHP and green energy provided by the AD plant.
Scenario C) Town Centre Expansion	This scenario also builds upon the base case. In this scenario Phase 2b (Town Centre – expansion phase) is also delivered starting in October 2024 and completed by March 2025.
Scenario D) Town Centre Expansion Green Energy	This scenario also builds upon the town centre expansion scenario. In this scenario the energy into the network is provided by a combination of the CHP and green energy provided by the AD plant.

	Scenario A) Phases 1 and 2a	Scenario B) Green Energy	Scenario C) Town Centre Expansion	Scenario D) Town Centre Expansion Green Energy
Construction costs	£41,941,529	£45,798,679	£44,117,404	£47,974,454
Project IRR (nominal pre-tax)	6.46%	7.16%	6.90%	7.85%
Project IRR (nominal post-tax)	6.25%	6.92%	6.65%	7.55%
Investment IRR (loan plus ordinary shares)	5.91%	6.50%	6.14%	6.98%
Payback period – loan tranche A	18 years	18 years	18 years	18 years
Payback period – loan tranche B	19 years	N/A	18 years	N/A
Dividends start date	2053	2039	2053	2035
Total dividends paid	£28,990,037	£47,289,722	£39,912,326	£65,579,528

Average annual carbon saving over 25 years	1,696 tCO_2e	3,631 tCO_2e	1,705 tCO_2e	3,756 tCO_2e

Scenario B) Green Energy	
HNIP Grant award	£5.0m
Project IRR (nominal pre-tax)	7.16%
Project IRR (nominal post-tax)	6.85%
Investment IRR (loan plus ordinary shares)	7.19%
Payback period – senior debt	18 years
Payback period – sub debt	N/A
Dividends start date	2031
Total dividends paid	£57,461,640

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AGENDA ITEM 13

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

25 OCTOBER 2019

REPORT OF DIRECTOR OF FINANCE & RESOURCES

TEES VALLEY RESIDUAL MUNICIPAL WASTE TREATMENT PROJECT

SUMMARY

The Tees Valley Local Authorities, excluding Darlington, currently have a joint contract for the treatment of residual municipal waste. The original contract was set to expire in 2020, however a contract extension until 2025 has been negotiated. Darlington has a separate waste disposal contract which also expires in 2025. An Outline Business Case (OBC) has been developed to address the future treatment of municipal residual waste (waste remaining after recycled material has been removed) collected by the Tees Valley Local Authorities when the current contracts expire.

This is an extremely complex project and a funding requirement of up to £5m has been identified to cover the costs of the procurement: obtaining planning permission on the reference site; project management; and external advice in the areas of legal, financial and technical. It is proposed that the Combined Authority provides a loan facility of up to £5m for the project procurement. The repayment term will be a 25 year period commencing the first day of operation, with annual repayments made by the five Tees Valley authorities based on a legal agreement with each authority for their share of the costs. The current timetable aims to complete the procurement process during the summer of 2021, with construction of the facility completed autumn 2024, enabling operational commencement by April 2025.

RECOMMENDATION

It is recommended that the Combined Authority Cabinet:

i. Agrees that the Combined Authority should provide the Tees Valley Local Authorities a loan facility of up to £5m for the project procurement, which will be repaid over the length of the waste disposal contract.

DETAIL

Project Description

1. The Tees Valley Local Authorities, excluding Darlington, currently have a joint contract for the treatment of residual municipal waste. The original contract was set to expire in 2020, however a contract extension until 2025 has been negotiated. By 2025 the existing Energy from Waste (EfW) plant will be nearly 30 years old, raising the significant risk of unpredictable maintenance costs and downtime. Darlington Borough Council has a separate waste disposal contract which terminates in 2025.

2. It is estimated that by 2025 around 200,000 tpa (tonnes per annum) of residual waste will require treatment in the Tees Valley. As a result of housing and population growth this will increase to around 210,000 tpa by 2050. In addition, Government policy is expected to widen the definition of municipal waste to include similar commercial and industrial waste, effectively increasing the tonnage of material requiring treatment.

3. An OBC has been developed to address the future treatment of municipal residual waste (waste remaining after recycled material has been removed) collected by the Tees Valley Councils when the current contracts expire. The full OBC is available on request. The OBC builds on the Strategic Outline Case that was previously agreed by all Councils in 2017. It provides a fully costed Reference Case, based upon a 250,000 tpa Energy Recovery Facility with CHP (Combined Heat and Power) identified on the STDC site. Planning is currently being progressed.

4. It is intended that participating Councils will work together under an Inter-Authority Agreement which binds the parties together in a robust commercial agreement. Representatives from each Council will form the project delivery team which will be supported by external technical, legal and financial advisers. The Combined Authority will be part of the Project Team.

5. This is an extremely complex project and a funding requirement of up to £5m has been identified to cover the costs of the procurement, obtaining planning permission on the reference site, project management and external advice in the areas of legal, financial and technical. It is therefore proposed that the Combined Authority provides a loan facility of up to £5m for the project. The repayment term will be for a 25 year period commencing the first day of operation, with annual repayments made by the five Tees Valley authorities based on a legal agreement with each authority for their share of these costs.

6. The current timetable aims to complete the procurement process during the summer of 2021, with construction of the facility completed autumn 2024, enabling operational commencement by April 2025.

Strategic Fit and Benefits

7. The Joint Waste Management strategy (JWMS) for Tees Valley was updated in 2018/19 to extend its validity from 2020 to 2035. It was adopted by the Tees Valley Local Authorities in January 2019 after public consultation.

8. The treatment of residual municipal waste project will:

   - Work to the key objectives of the Strategic Joint Waste Management Strategy;
   - Maintain a unified approach for Tees Valley and contribute positively to the local circular economy;

- Contribute towards becoming an exemplar region for clean energy and low carbon;
- Maximise competition (by offering a site to the market with planning) and obtain value for money;
- Seek local heat and electricity offtake;
- Contribute positively to the future regeneration and infrastructure of key development sites, and;
- Promote jobs and growth.

Funding

9. The costs, budget and finance section of the OBC sets out the cost of the procurement to the Councils, demonstrates the Value for Money for the Reference Project (based on the Treasury's Value for Money Assessment Guidance) and the affordability of the Reference Project, whilst providing the respective Council's budgetary commitment to the affordability implications as far as is foreseeable.

10. In November 2017 the Combined Authority approved development funding of £450k to support the preparation of a Strategic Outline Business Case to address the future treatment of municipal residual waste for the Tees Valley Authorities. A budget of up to £5m is required to cover the costs of the procurement and obtaining planning on the reference site. The budget will be used to provide project management and external advice in the areas of legal, financial and technical during the procurement phase.

11. It is therefore proposed that the Combined Authority provides a loan facility of up to £5m for the project. The loan will be financed through prudential borrowing. Interest will be included at cost based on the prevalent Public Works Loan Board (PWLB) rate. The repayment term will be for a 25 year period commencing the first day of operation, with annual repayments made by the five Tees Valley authorities based on a legal agreement with each authority for its respective share of these costs. The Value for Money assessment is based upon the assumption that the facility will be project financed. It is subject to a number of qualitative tests to determine if the project is viable, desirable and achievable and a quantitative assessment (as set out in the Treasury Guidance). The assessments confirmed that the project offers value for money.

12. The affordability analysis is undertaken to determine if there will be a need to commit funds in the future, should the current Council budgets, inflated to April 2025, be insufficient to fund the Reference Project. The level of funding available from the Council budgets is based upon the historical costs of operating the current EfW whereas the future project costs of the Reference Project are based upon the development of a new facility.

13. These are also compared to the options of do nothing or simply extending the existing contract at Haverton Hill at market rates (which has been ruled out on procurement risk grounds and the age of the facility). For the Reference Project the analysis indicates there will be an affordability gap over the whole contract term of £314.5 million. This gap is present in the first contract year, 2025/26, where the gap is approximately £7.9 million, and grows throughout the contract to a funding gap of £18.6 million in 2049/50 in nominal terms.

14. The reality is that this gap will eventually be determined by the level of competition during procurement and market prices. There is, however, an opportunity to mitigate this situation by increasing the capacity of the facility by working with neighbouring Councils. Initial discussions have taken place and are very encouraging.

FINANCIAL IMPLICATIONS

15. The Combined Authority will provide a loan facility of up to £5m for this project. The loan facility will be financed through Combined Authority prudential borrowing and therefore does not impact on the 10 year investment plan.

LEGAL IMPLICATIONS

16. The loan will be made on appropriate TVCA terms and conditions which will require the repayment of the loan in full with the interest required to repay TVCA's prudential borrowing in full over a 25 year term from the date that the new facility becomes operational. The loan shall be for a maximum of £5m and shall be drawn down in relation to agreed heads of expenditure in relation to procurement costs (including external advisers), costs re obtaining planning permission and project management only. A separate loan agreement will be entered into with each of the five authorities in respect of their share of these costs.

17. The proposed procurement mechanism for the new facility is Competitive Dialogue and waste industry standard contracts are to be utilised. This approach offers the best opportunity for the procurement to be successful in the required timetable and for the TVCA loan to begin to be repaid.

RISK ASSESSMENT

18. The five Tees Valley Local Authorities have agreed and implemented a robust risk management strategy to identify the key risks and ensure a consistent approach to both strategic and operation risks across the project. These are set out in full within the OBC.

19. The current waste disposal contract has already been extended and therefore a further extension of the contract without competition would be in breach of procurement rules and would subject the Authorities to the risk of challenge that could potentially delay the project. Additionally, the facility will be over 30 years old by 2025 raising significant risk of unpredictable maintenance costs and downtime.

CONSULTATION AND COMMUNICATION

20. A communications strategy has been developed and Tees Valley is fully committed to providing the required resources to ensure it can be delivered to keep all key stakeholders informed with appropriate information at the right time. The Strategy will be expanded on with the development of detailed plans following approval of the OBC. Key communication channels include social media and the Councils' websites.

21. The Public Consultation on the Joint Waste Management Strategy was very positive with the majority of feedback connected to existing issues and no concerns expressed about the Reference Project.

22. A Market Awareness Day was held in January 2019 to gauge interest in the project from potential bidders. The event was successful with strong interest from all the major market contractors, the key message being that the project must provide a Reference Site with full planning consent.

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