

Tees Valley Combined Authority Agenda

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Date: Thursday, 27th July, 2017 at 10.00am

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

Membership:

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

Associate Membership:

Phil Cook (Member of Tees Valley Local Enterprise Partnership)
Professor Paul Croney (Member of Tees Valley Local Enterprise Partnership)
Jerry Hopkinson (Member of Tees Valley Local Enterprise Partnership)
Angela Howey (Member of Tees Valley Local Enterprise Partnership)
Alistair Hudson (Member of Tees Valley Local Enterprise Partnership)
Mike Matthews (Member of Tees Valley Local Enterprise Partnership)
Siobhan McArdle (Member of Tees Valley Local Enterprise Partnership)
Nigel Perry (Member of Tees Valley Local Enterprise Partnership)
David Soley (Member of Tees Valley Local Enterprise Partnership)
Albert Pattison (Member of Tees Valley Local Enterprise Partnership)
Graham Robb (Member of Tees Valley Local Enterprise Partnership)

AGENDA

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

The minutes of the meeting of 13th June, 2017 for confirmation

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4. Announcements from the Chair

5. Supporting Apprenticeships

Report Attached

6. Exercise of Combined Authority Borrowing Powers

Report Attached

7. Investment Co-operation with Teesside Pension Fund

Report Attached

8. Transport Plan Update

Report Attached

9. Transport for the North

Report Attached

10. Carbon Capture and Storage in Tees Valley

Report Attached

11. Business Compass Growth Specialist Provision

Report Attached

12. Governance and Appointments

Report Attached

(Appendix 2 to this report is not for publication by virtue of paragraphs 1 and 2 of schedule 12A of the Local Government Act 1972)

13. Date of Next Meeting

Friday, 29th September, 10.00am

Tees Valley Combined Authority Agenda

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Members of the Public - Rights to Attend Meeting

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

Members' Interests

Members (including co-opted Members) should consider whether they have a personal interest in any item, as defined in **paragraphs 9 and 11** of the Tees Valley Combined Authority's (TVCA) code of conduct and, if so, declare the existence and nature of that interest in accordance with and/or taking account of **paragraphs 12 - 17** of the code.

Where a Member regards him/herself as having a personal interest, as described in **paragraph 16** of the code, in any business of the TVCA he/she must then, in accordance with **paragraph 18** of the code, consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest and the business:

- affects the Member's financial position or the financial position of a person or body described in **paragraph 17** of the code, or
- relates to the determining of any approval, consent, licence, permission or registration in relation to the Member or any person described in **paragraph 17** of the code.

A Member with a personal interest, as described in **paragraph 18** of the code, may attend the meeting but must not take part in the consideration and voting upon the relevant item of business. However, a Member with such an interest may make representations, answer questions or give evidence relating to that business before the business is considered or voted on, provided the public are also allowed to attend the meeting for the same purpose whether under a statutory right or otherwise (**paragraph 19** of the code).

Disclosable Pecuniary Interests

It is a criminal offence for a Member to participate in any discussion or vote on a matter in which he/she has a disclosable pecuniary interest (and where an appropriate dispensation has not been granted) (**paragraph 20** of the code).

Members are required to comply with any procedural rule adopted by the TVCA which requires a Member to leave the meeting room whilst the meeting is discussing a matter in which that Member has a disclosable pecuniary interest (**paragraph 21** of the code).

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TEES VALLEY COMBINED AUTHORITY CABINET

**Cavendish House, Teesdale Business Park, Stockton-on-Tees at 5.00pm on
Tuesday, 13th June, 2017**

ATTENDEES

Members

Mayor Ben Houchen (Chair)	Tees Valley Mayor
Mayor David Budd	Mayor of Middlesbrough
Councillor Christopher Akers- Belcher	Leader, Hartlepool Borough Council
Councillor Bob Cook	Leader, Stockton-on-Tees Borough Council
Councillor Bill Dixon	Deputy Leader, Darlington Borough Council
Councillor Sue Jeffrey	Leader, Redcar and Cleveland Borough Council
Paul Booth	Chair, Tees Valley LEP

Associate Members

Professor Paul Croney	Member of Tees Valley LEP
Alistair Hudson	Member of Tees Valley LEP
Angela Howey	Member of Tees Valley LEP
Mike Matthews	Member of Tees Valley LEP
Graham Robb	Member of Tees Valley LEP
David Soley	Member of Tees Valley LEP
Siobhan McArdle	Member of Tees Valley LEP

Apologies for absence

Jerry Hopkinson	Member of Tees Valley LEP
Phil Cook	Member of Tees Valley LEP
James Ramsbotham	Observer, Tees Valley LEP

Officers

Ada Burns	Chief Executive, Darlington Borough Council
Denise Ogden	Director of Regeneration and Neighbourhoods, Hartlepool Borough Council
James Bromiley	Strategic Director of Finance and Governance
Jonathan Bretherton	Chief Executive, South Tees Development Corporation
Garry Cummings	Chief Finance Officer, Stockton Borough Council
Neil Schneider	Chief Executive of Stockton-On-Tees Borough Council
David Bond	Monitoring Officer, Tees Valley Combined Authority
Andrew Lewis	Managing Director, Tees Valley Combined Authority
Sarah Brackenborough	Governance Manager, Tees Valley Combined Authority
Amanda Skelton	Chief Executive, Redcar & Cleveland Borough Council
Andrew Nixon	Deputy Monitoring Officer, Redcar & Cleveland Borough Council

TVCA 7/17	<p>DECLARATIONS OF INTEREST</p> <p>Graham Robb declared an interest, as Senior Partner of Recognition PR, as a procured provider of publicity services to the Combined Authority. The Cabinet was made aware that Recognition PR would not be renewing the contract going forwards.</p>
TVCA 8/17	<p>MINUTES</p> <p>Consideration was given to the minutes of the meeting held on 31st May 2017.</p> <p>RESOLVED that the minutes of the meetings held on 31st May 2017 be confirmed and signed as a correct record.</p>
TVCA 9/17	<p>ANNOUNCEMENTS FROM THE CHAIR</p> <p>The Chair confirmed that all matters were covered on the agenda.</p>
TVCA 10/17	<p>SOUTH TEES DEVELOPMENT CORPORATION</p> <p>The Mayor left the meeting for a short period to receive a phone call from the Secretary of State. Councillor Bob Cook, Deputy Mayor, chaired this item.</p> <p>Consideration was given to a report formally proposing the designation of the South Tees area as a Mayoral Development Corporation. The Cabinet also considered the Constitution for the South Tees Development Corporation. It followed extensive consultation with statutory consultees. Stakeholders and the Combined Authority's Overview and Scrutiny Committee.</p> <p>The Chair of the Shadow South Tees Development Corporation Board, Councillor Sue Jeffrey, thanked all those involved for the progress that had been made so far.</p> <p>It was noted that the Mayor would now formally notify the Secretary of State of the designation and legislation would be drafted with central Government, to establish the Corporation as legal entity in the summer. The process for appointing the Board would also be undertaken, with formal nominations for appointment to be confirmed by the Cabinet at its meeting in July.</p> <p>RESOLVED that:</p> <ol style="list-style-type: none"> i. the formal designation of the South Tees area be agreed, as defined by the boundary in the constitution, as a Mayoral Development Corporation (to be named the "South Tees Development Corporation (STDC)"); ii. the Mayor should formally propose the creation of the STDC to the Secretary of State, thereby initiating the next stage of the statutory process; iii. the STDC's Constitution be agreed; iv. the process to appoint Board members, and the independent chair of the STDC's Audit Committee, be initiated, on the basis set out in the constitution.

<p>TVCA 11/17</p>	<p>BUS SERVICES ACT</p> <p>Consideration was given to a report regarding the new Bus Services Act which was due to come into force on 27th June 2017.</p> <p>The Transport Committee had considered the implications of the Act at their meeting in March and recommended that the Combined Authority continues with a “twin track” approach to further investigation of delivery models for the future Tees Valley bus network; considering both franchising and partnership approaches. The Committee also recommended that the Combined Authority should develop a strategy to improve bus services, through consultation with partners and the wider public.</p> <p>RESOLVED that:</p> <ol style="list-style-type: none"> i. the powers available to the Combined Authority through the new legislation be noted; ii. a Bus Strategy be developed, as part of the statutory Strategic Transport Plan, informed by a workshop to be held in July; iii. £80k be allocated from the Combined Authority’s Development Fund, to support capacity to develop options as set out in the new legislation.
<p>TVCA 12/17</p>	<p>INVESTING IN OUR ROAD NETWORK</p> <p>Consideration was given to a report regarding plans for the Tees Valley Road network. The Cabinet was given detail on three areas of development:</p> <ul style="list-style-type: none"> • Improved East West Road connectivity along the A66 corridor from the A1(M) to Teesport – an overview of the work undertaken to date was given and approval for the strategic outline business case requested; • The National Productivity Investment Fund – detail was provided on the programme of investment for the £2.29 million allocation for 2017/18 and the approach being taken to develop a proposal for funding in 2018/19 and 2019/20; • Tees Valley Key Route Network (KRN) – detail was provided on the principles for the KRN and a proposal for an initial network for Tees Valley for approval. <p>RESOLVED that:</p> <ol style="list-style-type: none"> i. the Strategic Outline Programme Case for the A66 East-West connections study and the associated Strategic Outline Business Case for the A66 Northern Bypass be approved, to allow progression to the next stage of work; ii. a Key Route Network for the Tees Valley Combined Authority area be agreed; iii. the proposed package of schemes to improve the Key Route Network be agreed, to be funded by the National Productivity Investment Fund, for the financial year 2017/18 iv. proposals be submitted to the National Productivity Investment Fund for the 2018-20 period; and responsibility for the submission be delegated to the Managing Director; in consultation with the Tees Valley Mayor, the Cabinet Member for Transport, and transport lead officers from the five councils.
<p>TVCA 13/17</p>	<p>COMBINED AUTHORITY BUDGET 2016/17 OUTTURN POSITION</p> <p>Consideration was given to a report detailing the first year’s financial performance</p>

	<p>of the Combined Authority for 2016/17.</p> <p>Cabinet requested a breakdown of the “Other Spend” column at paragraph 4 of the report and also requested that the Statement of Accounts be brought to the Cabinet for approval.</p> <p>RESOLVED that the outturn position and current level of General Balance reserve be noted.</p>
<p>TVCA 14/17</p>	<p>DATE OF NEXT MEETING</p> <p>The next meeting would be on Thursday 27th July.</p> <p>As there were currently no items of business scheduled for the meeting on the 25th August it was agreed that the meeting would be cancelled.</p>

AGENDA ITEM 5

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

27TH JULY 2017

REPORT OF THE HEAD OF EDUCATION, EMPLOYMENT AND SKILLS

PORTFOLIO: EDUCATION, EMPLOYMENT AND SKILLS

SUPPORTING APPRENTICESHIPS

SUMMARY

This report requests Cabinet members to consider approval of a new Apprenticeship Grant, to boost the numbers of high quality apprenticeships, particularly in areas of high demand for skills, and help smaller businesses to recruit and train apprentices.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Note the latest information on the delivery of the Combined Authority's existing support for apprenticeships, and consider the new national policy framework within which we now operate;
- ii. Agree to fund a revised model of delivery for support for apprenticeships, with three key elements:
 - A grant to support apprenticeships in priority sectors as identified in the Strategic Economic Plan
 - Support for small employers to create new apprenticeships.
 - An initiative to promote the creation of high quality, higher and degree apprenticeships in priority sectors; and to consult on proposals for additional support.
- iii. Agree to receive a further report in Spring 2018, with updated information on apprenticeships in the Tees Valley, including an assessment of the operation of the new Apprenticeships Levy within our area, and recommendations for further actions by the Combined Authority and/or central government.

Background

1. The Combined Authority has given a strong commitment to encourage Apprenticeship growth that supports the national policy to create 3 million new apprenticeships by 2020. Tees Valley has a strong track record of encouraging high levels of Apprenticeship participation, with recent growth far exceeding national rates.
2. The Combined Authority has in the Strategic Economic Plan provided a clear commitment to 'increase both the number of Small and Medium Employers and larger employers offering apprenticeships, and the number and quality of apprenticeships on offer'. It also states that in Tees Valley we will:
 - Broaden the apprenticeship offer to more companies and sectors;
 - Increase the number of advanced, higher and degree apprenticeships being offered by employers.
3. As a result the Combined Authority works with employers to analyse and understand their skills gaps and offer support to address these. Apprenticeship creation is one of the opportunities businesses have to address their skills needs. Apprenticeships offer specific training, tailored via the introduction of the Apprenticeship levy system of qualifications, and "Standards" that have been developed by businesses.
4. Demonstrating this commitment the Combined Authority has implemented a range of support to businesses that includes creating an apprenticeship recruitment portal for Tees Valley, supporting and promoting the training provider network to employers, promoting apprenticeships in schools to pupils and parents and providing employer grants directly linked to the creation of new apprenticeships.
5. In June the Combined Authority hosted two key strategic partnership events attended by 150 key stakeholders. One event focused upon School Improvement and the other on Employment and Skills. Both events supported and debated the priorities for the future and suggested a range of priorities for focus in the future. At both events Apprenticeship support was highlighted strongly and an area for focus to support skills development opportunities to support economic growth for our priority businesses.

The Tees Valley's current Apprenticeship Grant scheme

6. During the academic year 2016-17, the Combined Authority has benefited from the devolution of a government programme for SMEs, Apprenticeship Grant for Employers, and has tailored this programme to be more attractive to local employers. This offers a grant to employers who create a new position for an apprentice aged 16-24. The current offer under this scheme is based on a basic grant of £1,500 for up to 3 apprentices with an extra £1,000 where they are in certain priority sector roles. The delivery mechanism enabled Training Providers to promote the grant to potential employers and support them to access the training required.
7. As at 13th July the devolved scheme has supported 945 new apprenticeships to date, with 740 businesses. Applications will continue to be considered for new apprentice starts to the end of July. Final figures will be available at the end of August but are expected to be around 1000 new apprenticeships supported.

8. The funding provided to date for the current scheme is:

Funding source	Expenditure
DfE	1 536 000
TVCA	524 000
Total Aug 16-July 17	2 060 000

9. Additional performance information is shown in Annex 1.
10. This arrangement comes to an end in July 2017, as the national system changes radically to reflect the new Apprenticeship Levy. As a result there is a need to consider how the Combined Authority can build on the success of the current programme, through a locally funded initiative, tailored to the needs of our local economy and to help deliver the Strategic Economic Plan.

Apprenticeship levy introduction

11. In May 2017 the new Apprenticeship Levy policy was implemented that gave greater control to employers for arranging and paying for apprenticeship training. Businesses with a wage bill in excess of £3m will pay approximately 0.5% of their wage bill as a levy via PAYE. Businesses then draw down from this contribution to pay training providers for the training received, thus putting employers in greater control of the type of training provider to use and the quality and detail of the training provided.
12. Alongside the introduction of the levy there has been a change in the training provided for apprenticeships, the move has been from Frameworks to Standards. The Standards are more directly linked to job roles and will make it easier for employers to select the appropriate Standard.
13. The new levy process also includes an element of employer support introduced from 1st May 2017, that is:
- No National Insurance contributions are payable for apprentices below 25 and who earn below £827 per week,
 - 16-18 year olds: £1 000 paid to both employer and provider
 - 19-24 year olds that have been in care or have an Education, Health and Care plan: £1 000 paid to both employer and provider
 - Full training costs of 16-18 year olds for Employers with less than 50 employees will be met by DfE.
14. Although the emphasis is currently on levy-paying employers expanding their own direct role on apprenticeships, the government is considering mechanisms that may allow unspent levy resources to be recycled to the supply chain. We propose to explore additional mechanisms, which would need to be agreed with government, to allow unspent levy payments in the Tees Valley to be retained and recycled within the area. Discussions will also continue directly with DfE to ensure data is shared regarding Tees Valley employers contribution to levy income and the levels of expenditure drawn down. The Combined Authority will also support and encourage businesses to access levy payments by better understanding how the new levy system can provide more tailored solutions to addressing their skills gaps.

15. Further information will be provided on the impact of the introduction of the Levy as it is implemented, with an update and assessment presented to the Cabinet in spring 2018.

Proposal

16. Taking all this into account, it is proposed to implement a new apprenticeship support grant for employers that builds upon the available evidence of demand gained from the current grant offer, supports economic growth and increases the number of apprenticeships in priority sectors.
17. The new grant offer would provide two separate and distinct offers of grant:
 - (a) An offer of £2,500 for small to medium businesses i.e. up to 250 employees from priority sectors that provide apprenticeships from a distinct list of recognised sector specific qualifications from the Apprenticeship Standards or Frameworks.
 - (b) An initial £500 grant to employers that employ fewer than 50 employees, create a new apprenticeship and employ an apprentice aged 19-24. In order to encourage high quality and sustainable employment for the apprentice, an additional £500 would be paid if the apprentice continues to be in employment more than 13 months after the date of starting their apprenticeship.

Alongside this grant offer it is proposed to launch a programme of promotion, brokerage and support that targets priority sector employers to increase their creation of new higher and degree level apprenticeships. This work will ensure access to the priority sector grant offer, and promote the creation of higher and degree level apprenticeships. This employer engagement will also consider what business support and/or future incentives would assist the creation of greater numbers of higher and degree level apprenticeships in priority sectors and offer business support to undertake workforce planning through skills development of the existing workforce. A report on the progress with this work will be provided to Cabinet in spring 2018.

FINANCIAL IMPLICATIONS

18. This proposal requires an agreement to allocate funding to cover demand for this incentive over the next year. As a demand-led programme, we have estimated take-up based on experience with the current grant offer. DfE funding is no longer available, so the programme will be fully funded locally.
19. Our estimate of the total cost of the programme is £1.3 million. Currently the Investment Fund identifies £8.5 million over 4 years for programmes that support access to Jobs, flexible training, job creation and employer engagement and support. This proposal supports all of these activities, and can therefore be funded within the resources allocated in the agreed Investment Plan for this purpose.
20. This programme will be reviewed early in 2018 to ensure the offer continues to deliver to the demands and expectations of businesses and compliments national policy. A full report will then be provided to Cabinet in the spring of 2018 with performance details and recommendations for any future consideration of the scheme.

21. As part of the programme, £110k would be allocated to provide the resources for management and implementation of this programme. It is anticipated that this will provide resource for Combined Authority staffing and a contribution to employer brokerage to market the grants. This funding will be subject to appropriate due diligence through the Tees Valley Assurance Framework.

LEGAL IMPLICATIONS

22. There are no relevant legal issues and implications relating to this proposal

RISK ASSESSMENT

23. The risk to the Combined Authority is primarily reputational if the grants offered are not taken up, and there are financial risks if the offer is substantially oversubscribed. The proposal is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

24. The Mayor and Council Leaders and Employment, Education and Skills Partnership Board have been consulted. Engagement has also taken place with providers, business and apprentices as the current programme has been delivered.

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

Overall Apprenticeship performance in Tees Valley	
<ol style="list-style-type: none"> 1. Recent data analysis provides evidence that 9, 920 apprentices started in 2015/16 and whilst apprenticeship growth is strong in Tees Valley, only 27% of employers create apprenticeships. 2. There has been a 26% growth of new apprentices in Tees Valley aged over 25, compared to 5% growth nationally. 3. The number of 19-24 year olds starting apprenticeships in Tees Valley has grown by 2% whilst this has decreased by 5% nationally. 4. The most popular apprenticeships in 2015/16 were: 	
Apprenticeship sector	Percentage of total starts
Business and professional	28%
Health care	25%
Advanced Manufacturing	15%
Other	11%
Culture and Leisure	8%
Construction	7%

Tees Valley Apprenticeship Grant for Employers 2016/17 performance summary as at 3rd July 2017

Top Apprenticeship Frameworks supported to 3 rd July 2017	Individuals supported
Business & Administration	170
Hairdressing	120
Customer Service	63
Construction building	56
Children & Young Peoples Workforce	53
Hospitality	43
Accounting	35
Plumbing & Heating	34
Social Media & Digital Marketing	34
IT, Software, Web & Telecoms	31

The majority (75%) of apprentices were paid at the National Apprenticeship minimum wage for their age.

The number of priority sector apprentice roles supported is 247, 26% of the total apprentices created.

Breakdown of results to 3 rd July 2017	Number and % of total apprenticeships created*
Company size (No of employees):	
1-10	573 (61%)
1-49	844 (90%)
50-100	53
101-200	35
201-249	7
Individuals supported:	
Age 16-18	529 (56%)
Age 19-24	410 (44%)
Framework Level:	
Level 2	658 (70%)
Level 3	272 (29%)
Level 4	5
Unknown	4

Please note: this is the number of apprentices not the number of businesses, further analysis is required to report on number and size of businesses.

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AGENDA ITEM 6

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

27TH JULY 2017

**REPORT OF THE
MANAGING DIRECTOR**

**PORTFOLIO: INVESTMENT AND
BUSINESS GROWTH**

**EXERCISE OF COMBINED AUTHORITY BORROWING POWERS – DISCUSSION
PAPER**

SUMMARY

The purpose of this paper is to update Cabinet on progress in establishing the Combined Authority's borrowing powers, and the principles to be established for use of those powers to deliver on our ambitious plans for investment.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Note and comment on this paper;
- ii. Agree in principle to the Combined Authority receiving borrowing powers, with maximum local flexibility subject to the application of the Prudential Code.

DETAIL

1. In the Autumn Statement 2016 the Government stated that it plans to give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury.
2. Currently, Combined Authorities only have powers to borrow for their transport functions, which is of limited relevance to the Tees Valley since we do not have responsibilities for the delivery of transport services. The primary legislation to extend borrowing powers to all the Combined Authorities' functions exists already through the Devolution Act 2016, but an additional Order is required to "switch on" these powers. We expect borrowing powers to be subject to the Prudential Code, which applies to all Local Authority borrowing. We will only be

able to borrow where we are able to generate a return from investment, or can effectively assign funding to fully fund the borrowing cost. Whilst other sources are possible, the most cost effective source of funding is likely to be the Public Works Loan Board.

3. The ambitious but prudent exploitation of the Combined Authority's borrowing powers could generate additional funds for investment in accordance with our Investment Plan, and significantly increase the potential to generate additional economic development. This will enable the Combined Authority to complement the borrowing that can be done by our partner Local Authorities, and add significant value through our independent investment and commercial activity, particularly to de-risk projects and bring them forward faster than would otherwise be the case.
4. The scale at which this will be possible depends on the project pipeline generating sufficiently strong business cases to satisfy the requirements of the prudential code, the overall risk appetite of the Authority, and any restrictions placed on the borrowing powers by national government. As a body created by the Combined Authority, new borrowing powers could also be exploited by (or on behalf of) the South Tees Development Corporation, since the STDC will not have powers to borrow independently.
5. Our agreed Investment Plan sets out how the Combined Authority would approach the utilisation of new powers to borrow. In principle, the Authority could accelerate investment by using some of our future allocation of funding agreed through our devolution deal (£15m per year for 30 years), to fund the financing costs of borrowing to fund investment. This would enable us to "front load" our investment, to bring forward and de-risk projects earlier than would otherwise be the case.
6. As a guide, if we were to assign half of our devolution deal funds to finance borrowing (£7.5m a year for 25 years), this could add an additional £120m to our Investment Plan within the 2017-21 period. We are however restricted through the "gateway" process, through which future allocations of the £15m annual allocation need to be approved by government in 5-yearly tranches, following an evaluation of the impact of previous allocations. This means that an element of risk is attached to future access to devolution funding, which would need to be taken into account when committing borrowing costs against this particular income source. To mitigate this risk, we are exploring with government officials whether an exemption from the gateway process might be possible in certain circumstances.
7. A further opportunity arises from our Enterprise Zones ("EZs"). Because we can retain business rates for a 25 year period (from 2013/14), we can prioritise our investment into our EZ sites by borrowing to invest in infrastructure or deals that unlock these sites for new development. The new businesses attracted will pay business rates which can be used to pay off the original loan. For instance, a site which generates an extra £1m in business rate income could justify a £17m upfront investment.
8. Other opportunities to finance borrowing may arise from new revenue sources (for example through the STDC), through securing a stake in new developments, or as the Combined Authority develops its housing responsibilities.

Next Steps

9. Further work will continue in collaboration with the Finance Directors of the five councils, to developing the Authority's approach to exercising new borrowing powers as and when they are granted.
10. The immediate task is to ensure the statutory arrangements are put in place, and we are engaging with the Treasury and DCLG to establish the necessary legislation. We are also putting the case for a high (or no) absolutely restriction on borrowing, and to ensure that the gateway process doesn't become an unreasonable barrier to progress.
11. A formal decision on our borrowing policy may be required once our borrowing powers and limits are confirmed, and we may need to come back to Cabinet for formal approval of the regulations in due course. At this stage it would however be helpful for the Cabinet to approve in principle the application of borrowing powers, and therefore to mandate officers to secure the most flexible regulations possible.
12. In the meantime, we are progressing a number of investment opportunities that would benefit from the new powers; for example in establishing investment plans for Enterprise Zone development.

FINANCIAL IMPLICATIONS

13. There are no direct financial consequences arising from this paper. Once the statutory framework is in place, individual decisions to apply borrowing powers for particular projects would be made by the Cabinet as individual proposals come forward. The Finance Director would advise on the application of the Prudential Code in each case.

LEGAL IMPLICATIONS

14. There are no direct legal consequences arising from this paper. If agreed, officers will work with government officials to secure the appropriate legal framework.

RISK ASSESSMENT

15. There are no direct risks arising from this paper. The risks of the adoption of any application of borrowing powers will be assessed on a project by project basis as and when they come forward to Cabinet for decision.

CONSULTATION

16. No formal consultation on the matters set out in this paper has been undertaken at this point.

Name of Contact Officer: Alison Fellows
Post Title: Investment Director
Telephone Number: 01642 527096
Email Address: alison.fellows@teesvalley-ca.gov.uk

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AGENDA ITEM 7

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

27 JULY 2017

**REPORT OF THE
INVESTMENT DIRECTOR**

**PORTOFLIO: INVESTMENT AND
BUSINESS GROWTH**

INVESTMENT CO-OPERATION WITH TEESSIDE PENSION FUND

SUMMARY

The Teesside Pension Fund has proposed that up to 5% of its Funds should be made available to support projects which promote the economic development of the Tees Valley region, while also meeting its fiduciary responsibilities to generate a return and protect the long-term interests of its pensioners. They further propose to develop this investment programme in partnership with the Tees Valley Combined Authority, in order to ensure that investments contribute to the Strategic Economic Plan. This is a very welcome development, which in principle could add up to £200 million of additional investment for the Tees Valley. Discussions are continuing to set up the practical arrangements, and it is now proposed to enter into a Memorandum of Understanding.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Welcome the commitment of the Teesside Pension Fund to direct investment to support local economic development, and to deliver this in partnership with the Combined Authority;
- ii. Note the progress in developing a joint approach to the identification and development of investment proposals;
- iii. Agree to sign the attached Memorandum of Understanding, and delegate to the Managing Director the authority to finalise the agreement in partnership with the Teesside Pension Fund.

DETAIL

1. The Fund is the Local Government Pension Scheme (LGPS) for local authority employees (and other eligible bodies) in the Teesside area. The Fund wishes to invest in additional projects and developments within the Tees Valley that meet its criteria for investment, and to be able to report to its members on such investments.
2. Subject to formal approval of the MoU by its Pensions Committee, the Fund has agreed to invest up to 5% of its value (currently approximately £200 million) in investments that support the local economy.
3. The Combined Authority and the Pension Fund have agreed to:-
 - i. co-operate on opportunities to work together and increase investment in the Tees Valley, through:-
 - the development of a “top-down” investment fund set up for the general purpose of investing in projects and opportunities, with agreed criteria for investment; and
 - the establishment of a collaborative “bottom-up” process for identifying, evaluating and agreeing the opportunities for investment in specific projects as they are brought forward, including through the Combined Authority’s Expression of Interest and project approval processes;
 - ii. subject to each party’s approval processes, work to minimise project evaluation and due diligence processes, and so reduce costs; and
 - iii. investigate the potential for the Pension Fund’s external fund managers to second a member of staff to the Combined Authority and the Pension Fund on a joint shared-cost basis, to assist with the identification and evaluation of suitable projects for co-investment.
4. The draft MoU is attached to this report **at Appendix 1**. Although not legally binding, on either party, it sets out the working relationship and provides assurance to both parties that their individual interests are advanced through partnership. The draft was discussed and agreed in principle by the Teesside Pension Fund Investment Panel at its meeting on 28 June 2017.

FINANCIAL IMPLICATIONS

5. There are no immediate significant financial implications arising from this Report. The MoU proposed the creation of a jointly-funded seconded analyst post, provided from the Pension Fund’s external fund managers, as and when that is agreed. This can be supported from within the Combined Authority’s existing Development Fund, agreed by Cabinet to support project development. Funding for particular investment projects will continue to be approved through the Combined Authority’s established decision-making processes, as they come forward.

LEGAL IMPLICATIONS

6. There are no specific legal issues arising from this report. The MoU is not legally binding.

RISK ASSESSMENT

7. There are no significant risks arising from this report. The operation of the MoU will be monitored through liaison and reporting processes to be set up by the Combined Authority and the Pension Fund. This report is therefore categorised as low to medium risk and existing management systems are sufficient to control and reduce risk.

CONSULTATION

8. The MoU has been developed in cooperation with officers from the Teesside Pension Fund. Wider consultation has not been undertaken, given the non-binding nature of the MoU.

Name of Contact Officer: Alison Fellows

Post Title: Investment Director

Telephone Number: 01642 527096

Email Address: alison.fellows@teesvaley-ca.gov.uk

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MEMORANDUM OF UNDERSTANDING – INVESTMENT CO-OPERATION

Draft v.6 – 30.6.17

Between:

1. **TEESSIDE PENSION FUND** (“the Fund”) of Kier Pensions Unit, PO box 340, Middlesbrough, TS21 2XP; and
2. **TEES VALLEY COMBINED AUTHORITY** (“the Authority”) of Cavendish House, Teesdale Business Park, Stockton-On-Tees, TS17 6QY,

together “the Parties”.

Summary

This Memorandum sets out a joint commitment and a basis of collaboration to support the economic development of the Tees Valley region. By working together, the Tees Valley Combined Authority and Teesside Pension Fund will together support long-term transformational programmes to bring economic growth, new jobs and prosperity. In doing so they will ensure good returns on the investment of pensioners’ money, securing good returns from a stake in the growth of the local economy. This Memorandum secures an important benefit from devolution, allowing investment decisions to be made closer to the people and businesses affected. By working together, the Authority and the Fund will expand the resources available to the local economy, and develop the long-term partnerships necessary to secure the delivery of the Tees Valley’s Strategic Economic Plan.

Background

1. The Fund is the Local Government Pension Scheme (LGPS) for local authority employees (and other eligible bodies) in the Teesside area. The Fund wishes to invest in additional projects and developments within the Tees Valley that meet its criteria for investment, and to be able to report to its members on such investments. The Fund has agreed to invest up to 5% of its value (currently approximately £200 million) in investments that support the local economy.
2. The Authority is a mayoral combined authority and was created in April 2016 as a partnership of five local authorities: Darlington, Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton-On-Tees. Its purpose is to drive economic growth and job creation in the Tees Valley area (“the Area”). In 2016 the Authority published its Strategic Economic Plan (“SEP”), which sets out the growth ambitions and priorities for the Area to 2026 and incorporates the Area’s industrial strategy.

Co-Operation

3. The Parties wish to explore together the potential for the Fund to invest in suitable projects and developments in the Area that:-
 - a. meet the Fund’s criteria for investment; and
 - b. assist in the delivery of the SEP.

4. The Fund and the Authority agree to co-operate on opportunities to work together and increase investment in the Area, through:-
 - a. the development of a “top-down” investment fund set up for the general purpose of investing in projects and opportunities in the Area, with agreed criteria for investment; and
 - b. the establishment of a collaborative “bottom-up” process for identifying, evaluating and agreeing the opportunities for investment in specific projects as they are brought forward in the Area.

Parties' Requirements

5. The Fund has certain minimum requirements that must be met from any potential investment, and will assess any investment opportunities on the basis of these requirements:-
 - a. Each investment requires approval by the Fund's Pension Committee;
 - b. Each investment must secure a sufficient minimum risk-adjusted return: the required rate for each individual investment is dependent on the term of the investment and the risks involved (e.g. investment/project specific risks, any securitisation used, etc.);
 - c. There must be a method of valuing the investment/asset, preferably an industry standard method (e.g. commercial property valued in accordance with RICS Valuation – Professional Standards (the Red Book));
 - d. There must be sufficient security for the investment/asset (e.g. legal title, contracts, etc.); and
 - e. The arrangements for managing the investment/asset must be robust and resilient, including adequate reporting arrangements.
6. The Authority has published its Investment Plan, which sets out how it will identify and bring forward projects in the Area to deliver the SEP. As a democratic institution, the Authority is led by the Tees Valley Mayor and Cabinet, and all discussions are subject to their agreement. The Authority has also agreed an Assurance Framework with Government and adheres to this framework in making and reporting transparent and robust investment decisions.

Establishing co-funding opportunities

7. The Fund and the Authority will work together to progress the establishment and operation of a joint approach to funding, taking into account:-
 - a. The “in principle” commitment from the Fund to up to 5% of its value (currently approximately £200 million) being available for investment in the local economy;
 - b. The commitment from the Authority to invest at least £450 million (2017-21), as set out in its Investment Plan, with the potential for greater sums to be secured through new borrowing powers and further devolution of funding from central government; and
 - c. Opportunities for joint investment between the Fund and Authority, in support of common objectives and an agreed approach to project development.

Project Identification and Evaluation

8. The Authority operates a process of calling for Expressions of Interest (“Eols”) under its Investment Plan, initially on a quarterly basis. The Authority will:-
 - a. call for and receive Eols on behalf of itself and also the Fund; and
 - b. build in to its arrangements for evaluating and developing specific projects an assessment of the potential for any such project to receive investment from the Fund.

9. The Fund and Authority will co-fund appropriate development capacity, hosted by the Authority, to support project evaluation and development. This could be delivered through co-location or secondment of a member of the Fund’s staff, external appointment or otherwise. This additional resource would be appointed for an initial fixed term of one year and would:-
 - a. Support the Authority in identifying, developing and evaluating good quality business cases for investment;
 - b. Identify opportunities for co-investment between the Fund, the Authority, the private sector, and other partners as appropriate;
 - c. Oversee the programme management of the Fund’s commitment of resources for local investment, ensuring that the financial and project assurance requirements of the Fund are met; and
 - d. Present business cases for support from the Fund’s Investment Panel, alongside the Authority’s own governance and decision-making arrangements.

Working Together

10. The Parties will set up a joint group to manage the implementation of this MoU (“the Review Group”):-
 - a. The Review Group will consist of 3 representatives nominated by each Party, until agreed otherwise;
 - b. The Review Group will meet as often as necessary to carry out its purpose;
 - c. The Review Group will have agreed terms of reference, with agreed mechanisms for:-
 - i. reporting its recommendations to each Party in accordance with that Party’s own requirements;
 - ii. managing any conflict of interest; and
 - iii. managing any dispute;
 - d. The Review Group will review, evaluate and report on propositions for investment from the Fund, as agreed.

11. The Parties will agree the gateway mechanism for reviewing and agreeing any potential project-specific investment through the Review Group. Ideally projects will be commissioned jointly by the Parties where possible, but in any event the evidence gathering and evaluation of project funding opportunities will be managed jointly up to an agreed point in the process, following which the parties will each manage their respective evaluations and approvals as appropriate.

12. Where a specific project may technically be located outside the Area, it may nonetheless be considered for investment under this MoU if:-
 - a. it will produce outcomes that contribute significantly to the delivery of the SEP within the Area; and
 - b. the investment still meets the Fund's minimum requirements as set out earlier (para. 5).
13. The Parties will specifically review the potential to invest in the delivery of new housing in the Area, on the same basis as other investments under this Memorandum, and in support of the Authority's proposals for an Investment Partnership with central government, and partnership with Registered Social Providers or other housing delivery partners.

Key Principles

14. In addition to meeting the Parties' respective requirements set out at paragraph 5 above, the Parties agree that the key principles underpinning this co-operation are:-
 - a. Any investments under this MoU will be in furtherance of the SEP, and the alignment of a potential projects with the SEP will be one of the factors to be taken into account when assessing whether a specific investment will be made;
 - b. All processes (including evaluation, reporting and data management) will be robust but will be kept as straightforward and timely as possible;
 - c. In the interests of efficiency, all operational and transaction costs will be shared as appropriate and minimised as far as possible, and the Parties will seek to join up their project development and appraisal processes, using the same independent advisors where possible, so that these processes will suffice for the purposes of both Parties;
 - d. Specifically, where possible the Parties' due diligence arrangements will be integrated and/or aligned, taking into account:-
 - i. the need to share capacity and maximise development resources for this purpose;
 - ii. the need to avoid any potential conflict of interest; and
 - iii. any need either Party may have for independent due diligence advice on a specific investment decision; and
 - e. All project and investment information will be kept confidential between the Parties.

General

15. The parties commit to working together to continue to develop this collaborative funding model.
16. Senior representatives from each of the Parties will meet every six months to review the operation of this MoU.
17. Each Party will meet its own costs of operating the arrangements set out in this MoU.
18. The timing and content of any announcement on:-

- a. The establishment and/or operation of this MoU and/or the Review Group; and
- b. all investment recommendations by the Review Group and their implementation,

will be agreed in advance between the Parties.

19. This MoU will not be legally binding.

Date:

Signed: for the Fund

Signed: for the Authority

DRAFT

Appendix 1 – Illustrative Flowchart *[to follow]*

DRAFT

AGENDA ITEM 8

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

27TH JULY 2017

**REPORT OF THE
HEAD OF TRANSPORT**

PORTFOLIO: TRANSPORT

TRANSPORT PLAN UPDATE

SUMMARY

Following the recent consultation on the Tees Valley Transport Framework 'Connecting the Tees Valley' a more detailed Strategic Transport Plan (STP) for the area is currently under development. The plan will have strong links to the Strategic Economic Plan and the Tees Valley Investment Plan and will provide a framework for our partnership working on transport issues with Department for Transport and its executive agencies such as Highways England and Network Rail. The plan will also inform our working with Transport for the North.

There is also a need for the strategic transport plan to address issues such as our strategy for the area's bus network and for cycling and walking, and to link to the Local Implementation Plans produced by each of the Tees Valley Authorities.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet note the update on progress towards development of a Strategic Transport Plan and supporting documents.

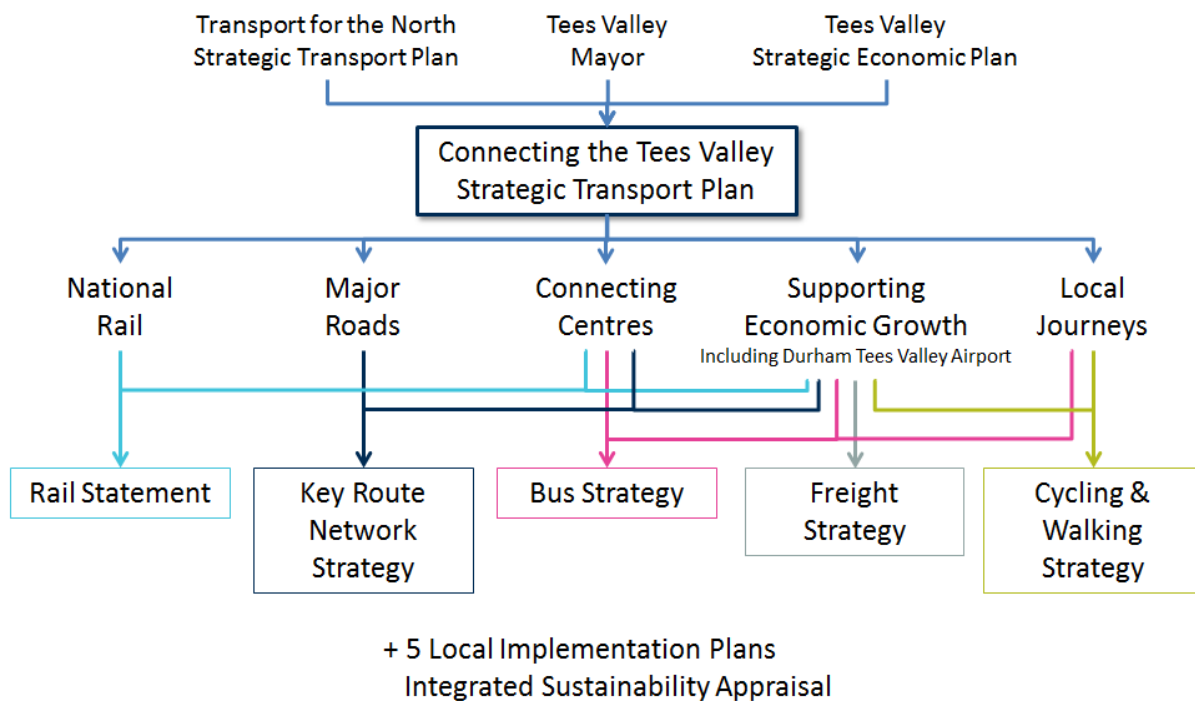
DETAIL

1. A Transport Framework document was published by the Combined Authority in November 2016, which outlined the five main themes for transport in the Tees Valley, including how the Combined Authority planned to make improvements to them. The five themes are:
 - National Rail;
 - Major Roads;
 - Connecting Centres;
 - Supporting Economic Growth; and
 - Local Journeys.
2. The five themes are closely linked together and all contribute to a vision for the future of transport in the Tees Valley:

“To provide a high quality, quick, affordable, reliable and safe transport network for people and freight to move within, to and from the Tees Valley”
3. The framework document underwent a period of consultation, and it received generally positive support. The consultation process also highlighted a number of areas where the strategy would need further strengthening.
4. Issues raised included improved bus services and ticketing, improved cycle links and parking, improved rail services, links and stations, various new and improved road proposals and improvements to general connectivity. A frequently raised issue in the consultation was Durham Tees Valley Airport, particularly its future utilisation and the position of the Combined Authority.

CURRENT STATUS

5. At their meeting of the 22nd of March the Transport Committee agreed a proposed structure for a Strategic Transport Plan, including the development of a number of supporting documents intended to provide a greater level of detail on particular priorities and modes.
6. The Transport Advisory Group are currently progressing a draft of the STP that incorporates feedback from the recent consultation. Initial drafts of the supporting strategies are also underway. A gap analysis has been undertaken to identify further content that needs to be included in the suite of documents. This will help ensure that the supporting strategies complement each other and the main STP.
7. The Draft STP will summarise the key transport asks for the Tees Valley, why they are needed and explore routes to delivery across national, regional and local funding opportunities. It will be relatively short in length. The main document will be kept brief by including much of the detail within the supporting strategies, as outlined within the following diagram.



8. A structure template has been produced to ensure consistency of style across the supporting strategies.
9. The TVCA transport team are currently producing a draft of a Tees Valley Bus Vision. This will be an outline of what a good Tees Valley Bus Network would look like and will inform a Bus workshop during July, with the operators and other interested parties. The outcomes from this summit will then inform the development of a Tees Valley Bus Strategy.
10. The Rail Statement and Key Route Network Strategy will provide more detail on our key road and rail ambitions, and be designed to interface with Highways England's Road Investment Strategy Process and Network Rail's Control Period investment process. The Freight Statement will be multi-modal and designed to influence various investment processes.
11. The Cycling & Walking Strategy is currently under review, in light of the recent publication of the DfT's Cycling and Walking Investment Strategy (CWIS). One of the recommendations from the strategy is the production of a Local Cycling and Walking Investment Plan (LCWIP), which could be produced at a Tees Valley level and sit beneath the Cycling and Walking Strategy. It is proposed that a Tees Valley LCWIP will be based upon a Key Cycle Route Network, which will highlight the key active travel corridors across the Tees Valley and any gaps that require filling through investment from either the current LGF Sustainable Access to Employment programme or future funding bids.
12. Independent consultants are currently producing the Scoping Report for the Integrated Sustainability Appraisal. They will be engaging with statutory consultees within the next month and the outcomes will help shape the STP.

TIMESCALES

13. Structure and scope of STP has been agreed with Transport Committee and Elected Mayor.

- Early Aug 2017 – Draft of STP and associated daughter documents produced for discussion
- 5th Sep 2017 – Transport Committee to consider information prior to consultation period
- Early Sep – Oct 2017 – Potential for statutory 12 week consultation period
- Nov – Dec 2017 – Finalise STP and supporting documents based upon consultation responses
- Early Jan 2018 – Transport Committee to consider STP and consultation findings prior to publication
- Jan 2018 – Publication of final STP

FINANCIAL IMPLICATIONS

14. Funding for development of the strategic Transport Plan has been committed as part of the TVCA's budget.

LEGAL IMPLICATIONS

15. The TVCA are responsible for developing a Transport Plan for the area. Part 4 of the Tees Valley Combined Authority (Functions and Amendment) Order 2017 includes as an exercisable function of the Combined Authority the functions of the constituent councils as local transport authorities; as contained in Part 2 (local transport) of the 2000 Act. Part 2 (local transport) of the 2000 Act includes the preparation of local transport plans as a duty.

RISK ASSESSMENT

16. Development of the Strategic Transport Plan is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.”

CONSULTATION

17. Consultation has taken place on the initial Transport Framework developed to inform the draft Strategic Transport Plan. A full Statutory Consultation will be undertaken on the STP once a final draft has been agreed. Consultation on the Scoping Report for the Integrated Sustainability Appraisal commenced with Statutory Consultees at the beginning of July.

Name of Contact Officer: Mark Wilson
Post Title: Head of Transport
Telephone Number: 01642 524464
Email Address: mark.wilson@teesvalley-ca.gov.uk

AGENDA ITEM 9

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

27TH JULY 2017

**REPORT OF THE
HEAD OF TRANSPORT**

PORTFOLIO: TRANSPORT

**TRANSPORT FOR THE NORTH – INCORPORATION AS A SUB-NATIONAL
TRANSPORT BODY**

SUMMARY

The Tees Valley Combined Authority (TVCA) is one of 19 Local and Combined Authorities across 11 Local Enterprise Partnership areas that is currently represented on Transport for the North's (TfN) Partnership Board. The Board also has representation from the Department for Transport, Network Rail, Highways England and HS2 Ltd.

The TVCA has worked closely with TfN to inform its emerging evidence base, and its recently published Strategic Transport Plan Position Statement, Initial Integrated Rail Report and Initial Major Roads Report. TVCA's strategic transport priorities are embedded in the strategy documents recently published by TfN. There is now a legislative window of opportunity to put this collaborative working via TfN on to a statutory footing and for TfN to become the first Sub-National Transport Body, working in partnership with the Secretary of State for Transport to determine transport priorities for the north.

The purpose of this report is for the Combined Authority Cabinet to consent to the making of regulations by the Secretary of State to establish Transport for the North as a Sub-National Transport Body under section 102E of the Local Transport Act 2008. The consent of each Constituent Authority of TfN is required to the making of Regulations by the Secretary of State.

The Cabinet are also asked to approve in principle the transfer of Rail North Limited to TfN following its inauguration and the signing of a new Rail Franchise Management Agreement with TfN replicating as far as possible the arrangements previously entered into in respect of Rail North Limited.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet consent to:

- i. the making by the Secretary of State of Regulations under section 102E of the Local Transport Act 2008 to establish Transport for the North as a Sub-National Transport Body
- ii. The transfer of Rail North Limited to TfN so that it can be subsumed within TfN
- iii. The signing of a new Rail Franchise Management Agreement with TfN replicating as far as possible the current Rail North Limited Members Agreement

DETAIL

1. In 2014 Local Transport Authorities and Local Enterprise Partnerships across the North of England came together in partnership with the Department for Transport and the National Transport Agencies to form Transport for the North (TfN). Together we have developed an ambitious pan-northern transport strategy to drive economic growth in the North.
2. In June of this year TfN launched a transport plan position statement and supporting road and rail documents. The Tees Valley Combined Authority (TVCA) has played an important role in helping to inform TfN's emerging transport strategy and we have embedded our strategic transport priorities within the work Transport for the North has published.
3. As part of TfN's new Initial Integrated Rail Report major improvements at Darlington and Middlesbrough stations are identified as connectivity interventions in addition to upgrades to the East Coast Mainline. The Initial Major Roads Report developed by TfN acknowledges the need for a new crossing of the Tees and improvements to the A66 between the A1 and Teesport. Complementary work on freight and logistics and international connectivity has been informed by the transport priorities of the TVCA.
4. As next steps, TfN has identified a number of strategic development corridors where they intend to bring forward further work. These include a Yorkshire to Scotland road corridor, an East Coast to Scotland rail corridor and a multi-modal corridor that connects the energy coasts of Cumbria and the north east of England. TVCA will continue to participate in bringing forward work on these corridors to inform the Strategic Transport Plan TfN intend to publish in the autumn.
5. In October 2016 with the agreement of all the Constituent Authorities TfN submitted a proposal to the Secretary of State for Transport that TfN should be established as the first Sub-national Transport Body (STB) under the provisions of section 102E of the Local Transport Act 2008 as amended by the Cities and Local Government Devolution Act 2016.
6. This proposal provides a valuable opportunity to work in statutory partnership with the Secretary of State for Transport to set the investment priorities of Network Rail and Highways England in the north and to ensure the transport needs of the Tees Valley are included in these priorities.

The Submission Proposal

7. The Proposal submitted by the Constituent Authorities included the following key provisions:

- All Constituent Authorities will be entitled to appoint a representative to TfN, such representative to normally be the Elected Mayor, Leader or Member with delegated responsibility for transport;
- Decisions will be expected to be unanimous but where voting is required votes will be weighted in accordance with the populations of the Constituent Authorities;
- Decisions in relation to the Budget, the adoption of a Transport Strategy and the Constitution will require a Super Majority of 75%;
- Funding will be provided by the Secretary of State and no decision to require financial contributions from Constituent Authorities can be made without the agreement of each Authority;
- There will be appropriate mechanisms for Scrutiny of TfN's decisions;
- Rail North Limited will be wholly owned by TfN;
- A wider Partnership Board including representatives of government bodies and the LEPs will be set up to inform TfN's decision making.

The Secretary of State's Response

8. The Secretary of State has now formally responded to the Proposal and has indicated that he is minded to make Regulations creating TfN as the first Sub-national Transport Body with the following functions:
- The preparation of a Northern Transport Strategy;
 - The provision of advice on the North's priorities, as a Statutory Partner in the Department's investment processes;
 - The coordination of regional transport activities, (such as smart ticketing), and the co-management of the TransPennine Express and Northern rail franchises through the acquisition of Rail North Ltd.

Powers and Functions

9. The powers and functions which will be given to TfN are as follows.
- To prepare a Transport Strategy for the Combined Area in accordance with section 102 of the Local Transport Act 2008;
 - To provide advice to the Secretary of State about the exercise of the transport functions in the Combined Area;
 - To be a Statutory Partner with the Secretary of State in both road and rail investment processes and to be responsible for setting the objectives and priorities for strategic road and rail investments in the Combined Area;
 - To be consulted in relation to rail franchise agreements for services to and from or within its area;
 - To co-manage with the Secretary of State the TransPennine Express and Northern Rail Franchises;
 - To co-ordinate the carrying out of specified transport functions that are exercisable by its different Constituent Authorities with a view to improving the effectiveness and efficiency of the carrying out of those functions;
 - To promote and co-ordinate road transport schemes;
 - To make proposals to the Secretary of State for the transfer of transport functions to TfN;
 - To make other proposals to the Secretary of State about the role and functions of TfN;

- To undertake Smart Ticketing within the Combined Area;
 - To promote and oppose local or personal bills in Parliament;
 - To pay Capital Grants to support the funding and delivery of joint projects;
 - To exercise powers to acquire land and to construct highways
10. In carrying out these functions, TfN will be a statutory partner of the Department for Transport, devolving responsibilities from the Secretary of State and speaking to the Department for Transport with a single voice for the North. It is not intended that TfN should take responsibilities away from the Constituent Authorities, instead TfN will exercise a coordinating role in relation to specified transport functions and continue to work in partnership with members. It is not the intention that TfN becomes a Highway Authority.

The Rail North Committee

11. TfN will establish a Rail North Committee which will advise on TfN's Statutory Partner role in relation to rail investment and will have oversight of the management of the TransPennine Express and Northern Rail Franchises. This will replace the Association of Rail North Authorities and will include representatives of the six non-TfN Rail North Authorities as co-opted Members. Voting in the Rail North Committee will be on the basis of weighted votes which replicate the voting provisions of Rail North Limited.

Role of the Partnership Board

12. TfN has evolved over the years from the inception of Transport for the North as a partnership representing all those with an interest in the improvement of transport in the North of England to the creation of TfN as the first Sub-National Transport Body. Although TfN as a corporate body will consist of the representatives of the 19 Constituent Authorities there is an aspiration that it will continue to operate through the Partnership Board taking decisions in partnership with the representatives of the 11 LEPs as representatives of the business community and with representatives of the Department for Transport and other Government Agencies and will continue to have an independent chair.
13. A Draft Constitution reflects the legal requirements for decision making within TfN as a corporate body but it will be open to TfN to operate these constitutional arrangements in a way that is consistent with continuing the present arrangements of the Partnership Board if Members so agree.

Rail North Limited

14. One of the drivers for the creation of TfN as a Sub-National Transport Body was to create a body which could speak with one voice on all transport matters affecting the North of England. To achieve that, it is proposed that TfN should take over ownership of Rail North Limited and subsume all of its functions directly into TfN.
15. Rail North Limited would be replaced by a Committee of TfN on which the former Rail North Member Authorities would be represented and have the same voting rights as under the Memorandum and Articles of the Company. Before this can be achieved all the current members of Rail North Limited will need to formally agree to the proposals for the transfer of Rail North Limited to TfN

16. The current Members Agreement with Rail North Limited will be replaced by a Rail Franchise Management Agreement between TfN and the current Members of Rail North Limited which will replicate as far as possible the provisions of the Members Agreement.

The Rail Partnership Board

17. A Rail Partnership Board will be set up which will replicate the existing Rail North Board and will include Members of TfN along with representatives of the Department for Transport. This Board will make recommendations in relation to strategic priorities for rail investment and in relation to existing and future rail franchises.

The Highways North Board

18. TfN will participate in a Highways North Board which will consist of the Members of TfN along with representatives of the Department for Transport and Highways England. The role of the Board will be to make recommendations in respect of the future Road Investment Strategy and competitive major roads funding programmes.

FINANCIAL IMPLICATIONS

19. The Combined Authority currently make a small payment for membership of Rail North, this will continue under the proposed arrangement. Operational funding for TfN will be provided by the Secretary of State and no decision to require financial contributions from Constituent Authorities can be made without the agreement of each Authority.

LEGAL IMPLICATIONS

20. Consent by the Combined Authority to the making of regulations by the Secretary of State to establish Transport for the North as a Sub-National Transport Body under section 102E of the Local Transport Act 2008 will lead to formal membership of a Sub-National Transport Body.

RISK ASSESSMENT

21. Agreement to membership of the Sub-National Transport Body is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

22. Consultation on the move towards Sub-National Transport Body status has been undertaken by TfN on behalf of its constituent partners.

Name of Contact Officer: Mark Wilson
Post Title: Head of Transport
Telephone Number: 01642 524453
Email Address: mark.wilson@teesvalley-ca.gov.uk

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AGENDA ITEM 10

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

27TH JULY 2017

**REPORT OF THE INNOVATION &
TECHNOLOGY MANAGER**

PORTFOLIO: INNOVATION

CARBON CAPTURE AND STORAGE

SUMMARY

Carbon capture and storage (CCS) is a process where CO₂ is captured from industrial and power facilities and is then piped offshore and injected into rocks under the North Sea where it is permanently stored. These projects are technically feasible with 22 projects operational across the globe, and the UK has large offshore sites capable of permanently storing large volumes of CO₂.

CCS represents one of the only ways Tees Valley industry will fully decarbonise. CCS infrastructure would attract new inward investment into the region and be seen as a national strategic asset for the UK, supporting the long-term sustainability of industry.

Tees Valley is now home to the UK's leading CCS project, Teesside Collective. This is a consortium of large industrial companies, supported by NEPIC and co-ordinated by the Combined Authority.

The UK needs projects like Teesside Collective to meet its carbon targets cost-effectively. Industry needs the project to provide a solution for their carbon emissions, while making their UK sites more attractive investment options for many of their foreign owners. Teesside Collective's work has shown that the project is technically viable and cost effective.

The government, through the Department of Business, Energy and Industrial Strategy (BEIS), is refocusing its policy approach to CCS, which is expected to be published in the autumn. Teesside Collective has an extensive engagement and communication programme in order to influence this policy, and to secure government agreement to resolve regulatory barriers, provide initial financial support for the build and operation of a major project in this region.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Note the report and progress that has been made

- ii. Agree to continue to support Teesside Collective, and its development of proposals for industrial-scale CCS;
- iii. Support proposals to Government for CCS to be supported through the Clean Growth Plan, with Tees Valley at the forefront of its development.

DETAIL

Industrial carbon emissions in Tees Valley

1. Tees Valley has one of the highest carbon emissions in the UK. In 2015 (before the closure of SSI), carbon emissions amounted to 13 million tonnes, 11 million of which were from industrial sources, making per capita carbon emissions in Tees Valley three times higher than the national average. Even accounting for the reduction of carbon emissions from SSI, the level will remain high.
2. Latest carbon statistics show that Tees Valley has seen a 19% drop in carbon emissions over the past ten years; the closure of SSI will show a further drop but clearly for the wrong reasons.
3. Industrial companies have to pay for the carbon they produce. However, in the current EU Emissions Trading Scheme, most companies get free carbon allowances, which effectively means they only have to pay for a small proportion of their emissions. In addition, the price of carbon is currently very low; therefore carbon prices are not currently a significant burden.
4. However, if the UK remains in the EU's Emissions Trading Scheme, the free allowances that companies in Tees Valley currently receive will be reduced, and the price of carbon will rise. This represents a significant business risk for some of our major industrial companies.
5. In addition to the Emissions Trading Scheme, these multi-national companies are coming under pressure from their supply chains to decarbonise their products. For example, Lotte Chemical, which supplies companies such as Coca-Cola directly, is being required to reduce their carbon emissions or risk losing contracts in the future. This means decarbonisation has become a business driver.
6. In addition to the strategic drivers companies face, the UK government has legally binding carbon targets to reduce carbon emissions by 80% in 2050 from 1990 levels. This is a significant challenge, and the government is currently expected to miss its interim carbon targets (termed carbon budgets).
7. Therefore, while there is a strategic driver for companies in the medium-term to decarbonise, there is no immediate financial driver. As lean companies with low margins, industry cannot make this change without Government support.
8. In addition the government needs industry to decarbonise in order to meet carbon targets but increasing carbon costs to push investment in decarbonisation could have the opposite impact by moving investment overseas.
9. Having CCS in place in Tees Valley would also create opportunities for further innovations, including decarbonising heat and transport with hydrogen, which are enabled by CCS infrastructure.

Tees Valley's decarbonisation opportunities

10. There are a number of opportunities to decarbonise Tees Valley industry, and the Combined Authority will be developing a comprehensive strategy over the coming year. These opportunities include:
 - i. Carbon Capture and Storage (CCS)
 - ii. Carbon utilisation
 - iii. Bio-refining
 - iv. Energy efficiency
 - v. Production of low carbon hydrogen with CCS
 - vi. Energy storage
 - vii. Novel energy generation
 - viii. Industrial integration
11. Of these opportunities, CCS represents the unique ability to reduce carbon emissions by 90% at selected plants, and also to provide an infrastructure capable of attracting new inward investment.
12. With one of the highest concentrations of industry in the country, and located close to North Sea carbon storage sites, a CCS network in Tees Valley is one of the cheapest forms of carbon abatement in the UK economy, and the obvious location to start building this infrastructure in the UK.
13. All industrial clusters across Europe face the same challenges, and all are assessing the possibilities of CCS within the context of other decarbonisation opportunities.

The importance of CCS to industry in Tees Valley

14. CCS is the only technology available to significantly reduce industrial carbon emissions at many industrial plants. Many industrial plants produce CO₂ through their process, as a result of the chemical reactions needed to make the product, and is therefore unaffected by energy efficiency measures. In these situations, taking carbon dioxide from the flue gas before it is released to the atmosphere is the only option to decarbonise.
15. In two instances in Tees Valley, chemical plants produce pure CO₂ as a by-product; some of this is transported for use in industries such as food and drink.
16. CCS is technologically proven at a commercial scale on industrial plants and there are 22 CCS plants operating across the world. CCS is not an innovation challenge, it is a commercial challenge. Implementing a CCS network in Tees Valley would represent the UK's first commercial scale CCS project, and establish Tees Valley as a pioneer of industrial development.
17. A CCS network would provide the Tees Valley with a strategic asset on which to attract new inward investment. In addition it could create 1,200 jobs during the construction phase and help retain 5,900 jobs whilst in operation.

International comparisons

18. There are two main regions which are advancing CCS networks in Europe in addition to Tees Valley, these are Norway and Rotterdam. Rotterdam in particular is a competitor location to Tees Valley for inward investment, and the

Norwegian plans include a Yara's fertiliser plant, a direct competitor to CF Fertilisers.

19. Norway project is to store 1.3million tonnes CO₂ a year by 2022 from three industrial plants; these include a fertiliser plant, a cement works, and Energy from Waste operator. The Norwegian government has agreed to take the storage liabilities for the CO₂, incentivised a private sector company to transport and store CO₂, and have funded front end engineering and design for three industrial plants. They are currently developing the incentive structure for the industrial companies to build and operate the CCS plant.
20. Rotterdam has been developing CCS plans for its industrial sites for many years, however in the focus has been to retrofit a coal power plant with CCS and expand from there. In the past few weeks the focus has now shifted, and instead Rotterdam plans to focus on low cost industrial companies. The plan is now to start with the winter surplus CO₂ from hydrogen plant of Shell's Pernis refinery, and the Alco bioethanol plant and quickly expand to other low-cost sources, such as hydrogen plants at oil refineries and waste incineration units in Rotterdam. It is expected that the Port of Rotterdam will take an active role in developing this infrastructure.

Carbon Utilisation

21. Carbon Utilisation is a process whereby CO₂ is used to produce a product; this creates a value for the CO₂. Companies in Tees Valley already sell CO₂ to the drinks industry, and pipe CO₂ to greenhouses to enhance the growth of tomatoes.
22. Some of the opportunities to use CO₂ actually lead to permanent storage of the CO₂ as would be expected by a traditional CCS scheme; however a lot of the technologies eventually release CO₂ back into the atmosphere. Therefore while it creates an opportunity to sell CO₂ it does not reduce a company's carbon costs.
23. The Combined Authority has assessed the potential for carbon utilisation within Tees Valley which highlighted that there are opportunities to develop aggregate, fuels, chemicals and plastics using CO₂. The Combined Authority is talking to the major companies innovating within this space, presenting the area as an ideal location to locate their operations.
24. However, while technologies are being developed to use CO₂ to produce a product, the volumes of CO₂ used are limited. For example, carbon8, who have three operational plants using CO₂ to produce aggregate, collectively use 30,000 tonnes of CO₂, compared to the millions of tonnes of CO₂ that our industry emit.
25. Therefore both carbon utilisation and carbon capture and storage should be progressed simultaneously, as they currently are by the Combined Authority.

UK CCS policy

26. The UK has legally binding carbon targets, and all the modelled scenarios to achieve these targets require CCS.

27. The UK government has run two competitions in order to build the first CCS project in the UK. Both of these competitions have focused on taking CO₂ from power plants rather than from industrial processes; and both have failed.
28. The most recent CCS competition closed in late 2015 following an Autumn Statement decision to remove the £1 billion that was on offer from Government. This competition included the White Rose CCS project at the Drax site near Selby, and a Shell project at Peterhead in Scotland. If this competition had been completed, and the White Rose project been successful, it would have supported a Tees Valley CCS network coming online in the early 2020s. However, both these projects have now been closed.
29. Following the cancellation of the CCS competition, the government established a Parliamentary Advisory Group to assess how to deliver CCS, in September 2016 this group recommended:
 - i. Establish a CCS Delivery Company
 - ii. Establish a system of economic regulation
 - iii. Incentivise industrial CCS through Industrial Capture Contracts
 - iv. Establish a Heat Transformation Group
 - v. Establish a CCS Certificate System
 - vi. Establish a CCS Obligation System
30. The UK government has yet to formally respond to this report and outline how it proposes to make CCS operational in the UK.
31. In addition, the Energy Technologies Institute (ETI), a public-private partnership between government and major industry, completed an assessment of UK offshore CO₂ storage and concluded that there was enough CO₂ storage for over 50 years of all UK CO₂ even from the limited stores that have been appraised.
32. We are expecting government's CCS policy to be announced as part of the Clean Growth Plan. The Clean Growth Plan is a legal requirement for the government to publish and sets out how it will meet its carbon targets. However this plan has been delayed many times and the latest indications from government are that it will be published in the autumn. There is a window of opportunity to influence this plan to make it as ambitious as possible.

Teesside Collective

33. Teesside Collective, a consortium of five major industrial operators, supported by NEPIC and co-ordinated by the Combined Authority, launched in 2013 and since then has systematically developed the region's CCS proposals, leading the campaign to establish Tees Valley as the go-to location for clean industrial growth.
34. Members of the group are:
 - i. Sembcorp Utilities UK
 - ii. SABIC UK
 - iii. CF Fertilisers UK
 - iv. Lotte Chemicals UK
 - v. BOC
35. Teesside Collective is now seen as the leading CCS project in the UK. Representatives have spoken at more than 60 national and international

conferences, and it has secured meetings with senior officials, political advisors and ministers in BEIS, Number 10 and HM Treasury.

36. In 2015, Teesside Collective published its 'Blueprint for Industrial CCS', which detailed how CCS in Tees Valley would be built and what it would cost. This was funded by a £1 million grant as part of the City Deal. This found that the project would cost £110 million to build three CO₂ capture plants, and £29 million per year to operate.
37. Earlier this year, Teesside Collective published its proposal to fund the CCS network in Tees Valley. This showed that a CCS network in the region would cost £58/t CO₂ to build and operate, representing extremely good value for money for the government compared to low carbon technologies it was currently subsidising.
38. Teesside Collective has proposed a technically feasible and cost-effective solution to decarbonise industry and create a strategic UK asset in one of the UK's most important industrial clusters. What is now required is clear, long-term government policy and financial support to take it to the next stage.
39. This policy should include:
 - i. £15million engineering and design funding for three industrial carbon capture plants in Tees Valley
 - ii. Regulation and budget to fund the build and operation of a CCS network in Tees Valley
 - iii. Agreement that the government owns the CO₂ storage risk, and assists the private sector to develop CO₂ storage sites
40. Teesside Collective, the Tees Valley Mayor, and a cross-party group of local MPs have written to Claire Perry MP, Minister of State for Climate Change and Industry, to demonstrate the opportunity that the CCS project in Tees Valley presents and to ask for a meeting at her earliest convenience.

FINANCIAL IMPLICATIONS

41. There are no financial implications; all work done to date is within existing budgets funded from a BEIS grant.

LEGAL IMPLICATIONS

42. There are no legal implications

RISK ASSESSMENT

43. This Carbon Capture and Storage project is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

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

AGENDA ITEM 11

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

27TH JULY 2017

REPORT OF THE BUSINESS DIRECTOR

PORTFOLIO: INVESTMENT AND BUSINESS GROWTH

BUSINESS COMPASS GROWTH SPECIALIST PROVISION

SUMMARY

Tees Valley Business Compass is the primary vehicle for the delivery of business support in the Tees Valley, using ERDF funding.

Tees Valley Combined Authority is now in a position to submit a final ERDF application (as agreed at the ESIF committee on 28th March 2017) with the overall aim to invest in the development of an improved business support infrastructure in the Tees Valley to improve the local economy by stimulating and supporting business growth, aligned to Tees Valley SEP.

The Specialist Support Service will form part of Tees Valley Business Compass and be complementary to the existing Tees Valley Business Compass Growth Service (“the Growth Service”), which itself includes the Tees Valley Business Fund.

Funding is being sought from the 2014 to 2020 European Structural and Investment Funds Growth Programme to support the delivery of a SME Specialist Support Service in Tees Valley. This funding will deliver both elements of the Specialist Support Service, comprising:

- A ring fenced additional financial resource to be added to the Tees Valley Business Fund. The current fund is held by Business Enterprise Group and the original procurement enables us to extend the existing fund.
- Delivery of four elements of a programme of work which will provide SMEs in Tees Valley with specialist support. This element of the Specialist Support Service is the subject of OJEU procurement.

As part of Tees Valley Business Compass, the Specialist Support Service will seek to improve local, national and international supply chains, provide investor readiness support for Tees Valley businesses, contribute to businesses’ product and process improvement and

increase the support in their entry to, and establishment in, new domestic and international markets.

If successful Tees Valley Combined Authority will procure the delivery and management of the programmes of work.

The programme has an overall budget of c.£4.130m, of which c.£1.75m of ERDF is sought. The balance of the funding is proposed to be c.£1.869m from the private sector and c.£511k from the Combined Authority. The delivery period would be c.1/1/18 to 31/12/20.

The c.£511k is the Combined Authorities match to unlock the ERDF funding and has previously been allocated within the investment plan. There may be the opportunity to reduce the level of match from the Combined Authority if we could secure funding from the legacy funds currently held by NEA2F.

Note: All of the figures quoted - financial and otherwise - are subject to change as part of the iterative development of the business case. However it is not expected to see them vary significantly.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Recognises that the Combined Authority has submitted a final ERDF application for the enhanced business compass specialist advice service. **Deadline for the full ERDF application was 11th July 2017.**
- ii. Agrees that the Combined Authority makes the case to NEA2F and DCLG to unlock legacy funds allocated to the Tees Valley, to help reduce our contribution to the match.
- iii. Agrees that if successful with the ERDF application and using existing procurement rules, the Combined Authority place an additional c. £1m (including fund management costs) of ERDF funds in to the existing business compass investment fund, currently held by Business Enterprise Group.
- iv. Agrees that if successful with the final ERDF application the Combined Authority procure the specialist growth advice service.

DETAIL

Tees Valley Business Compass Growth

1. Within Tees Valley Business Compass Growth, priority is given to sectors which have been identified in the Tees Valley Strategic Economic Plan (SEP). The aspiration of the SEP remains to grow and create jobs, therefore priority is given to businesses that are able to grow and create jobs, with support, and which are eligible to receive support funded through the ERDF funds.
2. Tees Valley Business Compass Growth is geared to activating the growth potential of existing Tees Valley businesses. It does so by deploying a team of Growth Consultants who proactively engage with Tees Valley businesses with growth aspirations, to qualify their barriers to growth and identify growth opportunities, and then enable businesses to access whatever support, introductions and resources they need to activate growth as quickly as possible.
3. Once the barriers and opportunities have been identified, Tees Valley Business Compass Growth Consultants support the businesses to access the support and resources they need to remove those barriers and take advantage of opportunities. This involves signposting and introductions to sources of support, including the Tees Valley Business Fund.

Tees Valley Business Fund

4. The Tees Valley Business Fund is an amalgam of grants, vouchers (e.g. innovation and broadband vouchers) and revenue based funding for services to businesses which can be accessed by them to contribute towards the cost of removing their barriers to growth and taking advantage of their opportunities.
5. The Tees Valley Business Fund is managed entirely separately from the other elements of the Business Compass model, with “Chinese Walls” in place to protect all parties against conflicts of interest. Although the Business Compass Growth Consultants signpost businesses to the Fund, they are not in a position to influence the evaluation and decision making process.

Business Compass Growth Specialist Support

6. There is an opportunity, utilising c.£1.75m ERDF funding to enhance the existing business compass SME support offer.

The Specialist Support Service will:

7. Complement the current activities of the Growth Service by deploying an additional specialist programme of activity which will provide specialisms in the areas of supply chain development, manufacturing and productivity improvement and investor readiness. This will include the provision of advice and support for local, national and international supply chain interventions; provision of investor readiness support, support for investment in product and process improvement

(particularly in the manufacturing sector) and advice and support for SMEs to enter, establish and expand into new domestic and international markets.

8. Whilst the existing Growth Service team are experienced in working with SMEs, they have not been recruited on the basis of specific technical abilities, and the Specialist Support Service will therefore complement, not duplicate, that activity.
9. This new activity will also provide additional resources to the Tees Valley Business Fund to enable investment to be made by companies in these specific business disciplines. This is deemed to be appropriate since the current level of investment in the Tees Valley Business Fund is predicated on the existing number of Growth Consultants deployed.
10. The addition of further capacity to engage with businesses on specific sectoral and technical activities will result in further demand on the Fund.

Business Engagement

11. It is widely recognised that businesses that seek support are more likely to succeed, however businesses frequently face barriers that prevent, or delay, them from doing so:
 - i. lack of awareness of available support;
 - ii. lack of clarity with respect to the type of support required;
 - iii. lack of resources to access support (capacity, knowledge, networks and/or finance).
12. Effective business engagement across Tees Valley is key to the success of the Tees Valley Business Compass Growth Specialist Support, and therefore critical to Tees Valley economic development, because it will:
 - i. enable businesses to enter the 'business support system' through which they will have access to the full extent of business support available in Tees Valley;
 - ii. facilitate businesses being more aware of the support available to them;
 - iii. lead to businesses becoming clearer about what support they require and to being able to access the resources they need for growth;
 - iv. play a key role in delivering business intelligence associated with the challenges being faced by local businesses individually and collectively.
13. Tees Valley Business Compass Growth Specialist Support will be required to be easy to access but proactive business engagement will also be required. The service will be required to market the services to potential beneficiary companies, including through, but not restricted to, the use of marketing materials and events.

Diagnostics

14. Diagnostics has been defined as “working with a business to identify what help/support it needs – through a detailed diagnostic”.
15. One of the core delivery principles of the Business Compass is that it will adopt a ‘needs-driven’ business support model i.e. it will be geared to delivering support which responds to the specific needs and state of readiness of a business rather than because it is in ready supply. Therefore working with a business to identify what help/support it needs - defining the need - is central to the ultimate success of the model, as only then can the appropriate support be delivered.
16. Tees Valley Business Compass Growth Specialist Support will be required to deliver, as a minimum, the diagnostic element of the Service to c.332 eligible companies in Tees Valley.
17. Tees Valley Business Compass Growth Specialist Support will be required to result in, as a minimum, c.230 businesses receiving support.
18. Of these, a minimum of c.156 businesses will be required to receive non-financial support directly from the Specialist Growth Consultants as well as a minimum of c.74 eligible companies in Tees Valley receiving support through the Tees Valley Business Support Fund, fully utilising the fund of c.£935,000 (excluding fund management costs).
19. The Fund requires a company contribution ratio of 2:1 private: fund. Furthermore a minimum of c.25 businesses will be required to introduce “new to firm” products.
20. Finally, the Service will be required to demonstrate the achievement of growth, measured through job creation, of c.295 new jobs.

Role of Specialist Growth Consultants

21. This improved support will involve mobilising a number of “Specialist Growth Consultants” - whose responsibility will be to work with Tees Valley businesses that aspire to grow, and who have specific challenges or opportunities in the programmes of activity outlined above. i.e.
 - Supply chain development
 - Investor readiness
 - Product and process improvement
 - Entering into new markets
22. The Specialist Growth Consultant will determine the aspiration of the business to grow (in a manner that will normally lead to increased employment), and then through a detailed diagnosis will work with the business to understand the barriers that are currently preventing the growth aspirations from being achieved, and, as importantly to identify growth opportunities.

23. Once the barriers and opportunities have been identified, the Specialist Growth Consultant will support the business to access the support and resources they need to remove those barriers and take advantage of opportunities. This will involve signposting and introductions to sources of support, including the Tees Valley Specialist Support Business Fund.

FINANCIAL IMPLICATIONS

24. The Tees Valley Business Compass – Specialist Growth contract will total c.£2.261m (excluding private sector match) over the three year period January 2018 – December 2020.
25. The ERDF element will be c.£1.75m with c.£510,842 match from the Combined Authority.
26. The c.£1m of the ERDF element will be allocated to the existing Tees Valley Business Fund, over the same period. Therefore, the total additional level of financial risks would be c.£2.261m.

LEGAL IMPLICATIONS

27. The Combined Authority has confirmed that we have read and understand the European Structural & Investment Funds requirement, as set out in ESIF Compliance Guidance note ESIF-GN-1-001- Procurement Law
28. The Combined Authority has confirmed our understanding that ERDF funding is subject to State Aid rules and State Aid Law.

RISK ASSESSMENT

29. The risks associated with being the successful applicant for the Tees Valley Business Compass Growth and the Tees Valley Business Fund are principally:
- a. Risk of clawback of funding on the basis of:
 - i. Underperformance
 - ii. Audit irregularities
30. Underperformance:
In practice very few projects have had clawback on the basis of underperformance. In the event that underperformance was anticipated the Combined Authority would submit a variation to the project and as long as there are valid reasons for the underperformance such as changing business environment (this was the case for some ERDF funded business support activities during the recession) the variation will be accepted. Additionally, the risk of underperformance will be addressed when designing the proposal with a realistic view taken on the performance that would be achieved within the vfm parameters.
31. Audit irregularities:
In practice many applicants including the Tees Valley local authorities and partners have had varying levels of clawback on ERDF funded activities

under the past programme. This has ranged from the activities not being eligible at all through to, and in the majority of cases, a different interpretation of the regulations taken by an auditor. The main areas of clawback have occurred in relation to eligible costs for back office, overheads and internal provision of goods and services rather than procured goods and services. This is an ongoing issue for the UK in part down to the Government approach to excessive auditing of European funding. Other member states do not have the same levels of clawback as they don't undertake the same levels of audit.

32. The Combined Authority has developed significant experience and expertise over several years' involvement in European funding and would seek clarification on any "grey" areas from the Managing Authority.
33. Of course it is impossible to remove all risks of clawback due to a different interpretation of the regulations by an auditor but we are very aware of the potential areas for concern and can ensure that all risks are minimised.

CONSULTATION

34. Following a market engagement event held on 7.6.15 which was advertised in OJEU via a Prior Information Notice (PIN) (reference 2017/S 097-191535), it was determined that the market for the services required to be provided is not thought to be extensive and is quite specialised. Therefore an OPEN tender procurement procedure was deemed to be most appropriate.

Name of Contact Officer: Neil Kenley
Post Title: Business Director
Telephone Number: 01642 632029
Email Address: neil.kenley@teesvalley-ca.gov.uk

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**APPENDIX 2 TO THIS REPORT IS NOT FOR PUBLICATION BY VIRTUE OF
PARAGRAPH(S) 1 AND 2 OF SCHEDULE 12A
LOCAL GOVERNMENT ACT 1972**

AGENDA ITEM 12

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

27TH JULY 2017

**REPORT OF THE
MANAGING DIRECTOR**

GOVERNANCE AND APPOINTMENTS

SUMMARY

This report sets out a number of issues for decision by the Cabinet, relating to governance of the Combined Authority, delegation of decisions and appointments.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Approve the delegation as set out in paragraph 3, for insertion in to the constitution (note that this requires the unanimous approval of the Cabinet, as a change to the constitution);
- ii. Approve the appointments as set out in Appendix 1;
- iii. Approve the appointments as set out in Appendix 2 (**Not for publication by virtue of paragraphs 1 and 2 of schedule 12A of the Local Government Act 1972**).

DETAIL

Delegated Decisions

1. The Cabinet agreed the allocation of Portfolio responsibilities at their AGM on 31st May. As set out in the Constitution, the Cabinet is the decision making body for the Combined Authority. The Cabinet can delegate decision-making powers to any of its Members or Sub-Committees, and also to the Managing Director or other Chief Officers, as defined by the Constitution. This has already been agreed in relation to utilisation of the Development Fund, which is delegated to the Managing Director in consultation with the Mayor, to support the assessment of proposals in preparation for a subsequent cabinet decision (in particular to develop business cases for major projects).
2. The establishment of portfolio roles for Cabinet Members provides the opportunity to consider further delegations. The AGM paper set out the intention to bring forward a proposal for delegated authority for decisions which meet certain criteria, to be signed off jointly by the Mayor and Cabinet portfolio members, following a proposal put to them by the Managing Director. The proposal would not proceed unless both the Mayor and the lead Cabinet Member agree to it. This provision would also have the practical benefit of being able to take decisions more rapidly between cabinet meetings, and to help manage the significantly increased quantity of business now required by the Combined Authority. Cabinet members are also keen to move to less frequent but more substantive agenda items at the public Cabinet meetings, allowing more time to secure political buy-in to the most significant or contentious issues.
3. Following discussion with the Monitoring Officers of the five authorities, we recommend that delegated decisions under these arrangements would need to satisfy the following criteria:
 - Any commitment of funds would need to have already been assigned by Cabinet for that purpose; for example through the specification of an overall programme within the Investment Plan;
 - The total sum involved should be less than £0.5 million;
 - The proposal should reflect an established Combined Authority policy position, and not raise novel or contentious issues which require debate with the full Cabinet. (In order to assure this, discussions would generally have taken place through the appropriate officer forum);
 - The Assurance Process, as agreed with government, should apply.
4. This approach broadly mirrors the arrangements in place within individual local authorities, applied to reflect the specific legal status and responsibilities of the Combined Authority. Key decisions made under this framework would be published, and subject to scrutiny where appropriate.

Appointments

Statutory Committees

5. Cabinet made a number of appointments at the AGM on 31st May. A small number were still to be confirmed at that stage, and Appendix 2 details some of these for approval. This includes the nominations for Chair and Vice-Chair of the Overview and Scrutiny Committee and the Audit and Governance Committee.

6. The AGM confirmed the Local Enterprise Partnership Board at the meeting on 31st May. Since that meeting, Ian Kinnery, has taken the decision to step down as a Board member. Ian will continue to be involved with the wider work of the Combined Authority and the LEP, as a key business leader in the Tees Valley. Ian Kinnery was the SME representative on the LEP Board and therefore consideration will need to be given to his replacement for this role.
7. The Cabinet is asked to approve the appointments at Appendix 2.

South Tees Development Corporation Board

8. Following Cabinet agreement, the Mayor has now formally submitted the proposal to establish the South Tees Development Corporation, for parliamentary approval before the summer recess. The draft Order sets a start date for the Corporation of 1st August.
9. The Cabinet also agreed a constitution for the Corporation, and initiated the process of board appointments. The Tees Valley Mayor, Leader of Redcar and Cleveland Council and Mayor of Middlesbrough will be members of the board as of right, with others appointed according to their expertise and experience. Since the Corporation has been operating in shadow form, the constitution provides that shadow board members should be invited to put themselves forward for appointment to the new statutory board. In parallel, an external advert was issued to invite applications from outside the current board membership, however this process did not yield any additional candidates.
10. Following discussions with those members and the Chief Executive of the Shadow Development Corporation to assess their willingness to serve on the Board, the Mayor is now proposing appointments to the Board. The appointments at Appendix 3 are exempt from publication, on grounds of confidentiality of personnel matters, and therefore the press and public will be required to leave for the consideration of the appointments. The appointments will be published following the meeting, subject to Cabinet agreement. This will allow a Board to be in place at the point the statutory Corporation takes effect.

Chief Officer - Finance Director

11. Following an open recruitment process, with a panel led by the Tees Valley Mayor and Councillor Jeffrey, we are proposing to appoint a Finance Director. The role is a joint appointment with the South Tees Development Corporation, to ensure that our Finance Director is also able to manage the financial interface between the Combined Authority and Development Corporation. The appointment at Appendix 3 is exempt from publication, and therefore the press and public will be required to leave for the consideration of the appointment. The appointment will be made public immediately following formal Cabinet agreement.

Review of Transparency and Conflicts of Interest Procedures

12. As agreed at the AGM, and in the light of recommendations directed at the 39 LEPs by the government and Public Accounts Committee, we have undertaken a review of our procedures for transparency and conflicts of interest for LEP members. We are committed to continue to uphold the principles of openness and transparency of decision making. As a result we have also taken the

opportunity to review our conflicts of interest procedure, in partnership with the LEP Network. The review has concluded that our procedures are appropriate, and include:

- An annual declaration of interests to be completed by all Combined Authority and LEP Board members within 28 days of the Combined Authority AGM; and,
- Members' interests to be declared at the Combined Authority meetings.

13. In order to promote clarity and ensure ease of use for the LEP members and the public, we have additionally produced a clearer version of the Conflicts of Interest procedures, which will be used in all future agendas. This will be circulated separately to all members.
14. Our review has concluded that, as long as the appropriate declarations of conflict have been made public, it remains appropriate that private sector LEP Board members may be directly or indirectly involved in the provision of services to the Combined Authority, or alternatively may be an applicant for funding through the Combined Authority or a body procured to administer funding on behalf of the Combined Authority. All services are procured through processes prescribed through national and European law and funding applications go through rigorous due diligence. We will, however, continue to ensure that care is taken in these circumstances, to ensure any perception of conflicts of interest are avoided, and members identify and remove themselves from any discussion which may conflict with their roles in other organisations.
15. It is also important to note that, as an integral part of the Combined Authority, the Tees Valley LEP is subject to additional democratic checks and balances on decision-making and procedures, with decisions made in public by Cabinet, and subject to Overview and Scrutiny. In this respect, the Tees Valley procedures are stronger and more transparent than is the case in LEPs which fall outside a Combined Authority framework. We also adhere to the assurance framework for project approvals, agreed with central government. Any changes to national best practice will be reflected in our own procedures.

FINANCIAL IMPLICATIONS

16. The report sets out a proposal for a financial delegation as detailed in paragraph 4. This delegation would be subject to completion of formal paperwork, which includes appropriate authorisation from the Mayor, Cabinet Portfolio holder, the Managing Director and the Finance Director.

LEGAL IMPLICATIONS

17. If agreed unanimously by Cabinet, the proposed delegation would need to be reflected in the constitution and its annexes.

RISK ASSESSMENT

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

CONSULTATION

19. Consultation on nominations for appointments has been undertaken in an appropriate way with Local Authority governance teams and through the appropriate Committees. A process for the appointment of Board members to the South Tees Development Corporation Board has been undertaken as described in paragraph 9 above.

Name of Contact Officer: Andrew Lewis

Post Title: Managing Director

Telephone Number: 01642 527091

Email Address: andrew.lewis@teesvalley-ca.gov.uk

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APPOINTMENTS 2017/18

STATUTORY COMMITTEES

TRANSPORT COMMITTEE

Substitute Member	Cllr Christopher Akers-Belcher	Hartlepool Council
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OVERVIEW AND SCRUTINY COMMITTEE

Chair	Cllr Norma Stephenson	Stockton Council	Labour
Vice-Chair	Cllr Ian Haszeldine	Darlington Council	Labour

AUDIT AND GOVERNANCE COMMITTEE

Chair	Cllr Nicky Walker	Middlesbrough Council	Labour
Vice-Chair	Cllr Michael Dick	Redcar and Cleveland Council	Labour

Substitute Member	Cllr Paul Beck	Hartlepool Council	Labour
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INDEPENDENT REMUNERATION PANEL

Member	Clare Wilson	Hartlepool
Member	Colin Monson (replacement member for Michael Sedlatschek)	Redcar and Cleveland

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LOCAL GOVERNMENT ACT 1972**

APPENDIX 2

APPOINTMENTS 2017/18

COMBINED AUTHORITY CHIEF OFFICER

Chief Officer	Julie Gilhespie	Finance Director
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Following an open recruitment process, with a panel led by the Tees Valley Mayor and Cllr Jeffrey, we are proposing to appoint Julie Gilhespie as our new Finance Director. The role is a joint appointment with the South Tees Development Corporation, to ensure that our FD is also able to manage the financial interface between the Combined Authority and STDC. It is graded at equivalent to an Assistant Director in our partner authorities. It replaces the role carried out for the Combined Authority by Garry Cummings of Stockton Council.

Julie is a very experienced accountant with a predominantly private sector background. She has been a Director of Deloitte in their major infrastructure group, Group Finance Director of a training company, and has advised the NHS and councils on a number of major contracts involving high levels of risk and complexity. She therefore brings substantial experience of the complex commercial and infrastructure environment in which the Combined Authority and Development Corporation are operating. She is also from this area and passionate about contributing to our work.

SOUTH TEES DEVELOPMENT CORPORATION BOARD

Following discussions with the Shadow Board members and the Chief Executive of the Shadow Development Corporation to assess their willingness to serve on the Board, the Mayor is proposing the following members are appointed to the Board:

Chair	Statutory post - Mayor	Mayor Ben Houchen
Vice-Chair	To be confirmed	
	Statutory post – Leader of RCBC	Councillor Sue Jeffrey
	Statutory post – Mayor of Middlesbrough	Mayor Dave Budd
	Board Member	Steve Gibson OBE
	Board Member	John Baker
	Board Member	Paul Booth OBE
	Board Member	Sir Alan Cockshaw
	Board Member	Bob Cuffe
	Board Member	Philip Leech
	Board Member	David Smith
	Board Member	Graham Robb
	Board Member	Professor Jane Turner OBE

The constitution sets a maximum of 10 members for the Board. However, given the need to secure continuity of expertise and experience from the shadow board membership, it is recommended that the Cabinet agree to an amendment to the constitution to extend the membership of up to 12 for an interim period, to be reviewed after 12 months. Attendance of Board members will be monitored by the South Tees Development Corporation.

The constitution provides that the Tees Valley Mayor may propose that he personally takes on the role of Chair, reflecting its status as a Mayoral Development Corporation. The Mayor therefore proposes to take the role of Chair. Further consultation will take place to determine which Board member is to serve as Vice-Chair.

ASSOCIATE MEMBERS

Andrew Lewis	Managing Director of CA
Amanda Skelton	Chief Executive of Redcar and Cleveland Borough Council
A Senior representative to be nominated by central government	

STATUTORY OFFICERS

Jonathan Bretherton	Chief Executive
Julie Gilhespie	Finance Director

AUDIT AND RISK COMMITTEE

Chair	Independent Member	Colin Fyfe
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The Development Corporation constitution also provides that the Cabinet should appoint an independent chair of the Audit and Risk Committee, and also ensure an overlap of membership with the Combined Authority's own Audit and Governance Committee. It is therefore proposed to appoint Colin Fyfe, Chief Executive of Darlington Building Society, as Chair of the STDC's Audit and Risk Committee.