

Tees Valley Combined Authority Cabinet Agenda

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Date: Friday 28th September, 2018 at 10.00am

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

Membership:

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

Associate Membership:

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

AGENDA

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

The minutes of the meeting held on 27th July 2018 for confirmation

Tees Valley Combined Authority Cabinet Agenda

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4. Tees Valley Mayor's Update

Attached

5. Governance and Appointments

Attached

6. Funding Support Re: Innovative Research & Development Project – Liberty Powder Metals

Attached

7. Process, Chemicals & Energy Sector Action Plan

Attached

8. Adult Education Budget

Attached

9. Implementation of the LEP Review

Attached

10 .Local Industrial Strategy

Attached

11. CA Budget Report Quarter 1 2018/19

Attached

12. Date of next Meeting

30 November 10.00am

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FOR INFORMATION

13. Delegated Decisions

Attached

Members of the Public - Rights to Attend Meeting

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

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Tees Valley Combined Authority Declaration of Interests Procedures

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

Personal Interests

2. The Code of Conduct sets out in full, the principles on the general conduct of members in their capacity at the Combined Authority. As a general principle, members should act impartially and should not use their position at the Combined Authority to further their personal or private interests.
3. There are two types of personal interests covered by the constitution:
 - a. "disclosable pecuniary interests". In general, a disclosable pecuniary interest will involve any financial interests, such as paid employment or membership of a body, interests in contracts, or ownership of land or shares. Members have a pecuniary interest in a matter where there is a reasonable likelihood or expectation that the business to be considered will affect your well-being or financial position, or the well-being or financial position of the following persons:
 - i. a member of your family;
 - ii. any person with whom you have a close association;
 - iii. in relation to a) and b) above, their employer, any firm in which they are a partner, or a company of which they are a director;
 - iv. any person or body in whom persons described in a) and b) above have a beneficial interest in a class of securities exceeding the nominal value of £25,000; or
 - v. any body as described in paragraph 3 b) i) and ii) below.
 - b. Any other personal interests. You have a personal interest in any business of the Combined Authority where it relates to or is likely to affect:
 - i. any body of which you are a member (or in a position of general control or management) and to which you are appointed or nominated by the Combined Authority;
 - ii. any body which:
 - exercises functions of a public nature;
 - is directed to charitable purposes;
 - one of whose principle purposes includes influencing public opinion or policy (including any political party or trade union) of which you are a member (or in a position of general control or management).

Declarations of interest relating to the Councils' commercial role

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

Procedures for Declaring Interests

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

Register of Interests

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

Declaration of Interests at Meetings

7. The Combined Authority will include a standing item at the start of each meeting for declaration of interests. Where members are aware that any of their personal interests are relevant to an item of business being considered at a meeting they are attending, they must declare that interest either during the standing item on the agenda, at the start of the consideration of the item of business, or when the interest becomes apparent, if later.
8. Where members consider that their interest could be considered by the public as so significant that it is likely to prejudice the members' judgement then they may not participate in any discussion and voting on the matter at the meeting, but may attend the meeting to make representations, answer questions or give evidence relating to the business, before it is discussed and voted upon.
9. If the interest is a disclosable pecuniary interest (as summarised in paragraph 3a) then the member must leave the meeting room during discussion and voting on the item of business, but may make representations, give evidence and answer questions before

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

Sensitive Information

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

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TEES VALLEY COMBINED AUTHORITY CABINET

**Cavendish House, Teesdale Business Park, Stockton-On-Tees at 10.00am on
Friday 27th July 2018**

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

<u>ATTENDEES</u>	
<u>Members</u>	
Mayor Ben Houchen (Chair)	Tees Valley Mayor
Mayor David Budd	Mayor of Middlesbrough
Councillor Christopher Akers-Belcher	Leader, Hartlepool Borough Council
Councillor Jim Beall	Deputy Leader, Stockton-on-Tees Borough Council
Councillor Stephen Harker	Leader, Darlington Borough Council
Councillor Sue Jeffrey	Leader, Redcar and Cleveland Borough Council
Paul Booth	Chair, Tees Valley LEP
<u>Associate Members</u>	
David Soley	Member of Tees Valley LEP
Mark South	Member of Tees Valley LEP
Simon Hanson	Observer, Tees Valley LEP
<u>Apologies for Absence</u>	
Councillor Bob Cook	Leader, Stockton-on-Tees Borough Council
Darren Hankey	Member of Tees Valley LEP
Professor Paul Croney	Member of Tees Valley LEP
Jerry Hopkinson	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
Nigel Perry	Member of Tees Valley LEP
Albert Pattison	Member of Tees Valley LEP
<u>Officers</u>	
Julie Danks	Deputy Chief Executive, Stockton Borough Council
Amanda Skelton	Chief Executive, Redcar & Cleveland Borough Council
Paul Wildsmith	Managing Director, Darlington Borough Council
Denise Ogden	Director of Regeneration and Neighbourhoods, Hartlepool Borough Council
Julie Gilhespie	Interim Managing Director, Tees Valley Combined Authority
Andrew Nixon	Monitoring Officer, Tees Valley Combined Authority
Sarah Brackenborough	Governance Manager, Tees Valley Combined Authority
Julie Gilhespie	Interim Managing Director, Tees Valley Combined Authority
Linda Edworthy	Strategy Director, Tees Valley Combined Authority

Martin Waters	Head of Finance, Resources and Housing, Tees Valley Combined Authority
Mark Wilson	Head of Transport, Tees Valley Combined Authority
Alison Fellows	Investment Director, Tees Valley Combined Authority
Neil Cuthbertson	Finance Manager, Tees Valley Combined Authority
Gareth Roberts	Senior Manager, Mazars LLP

TVCA 17/18	<p>DECLARATIONS OF INTEREST</p> <p>There were no declarations of interest.</p>
TVCA 18/18	<p>MINUTES OF PREVIOUS MEETING</p> <p>RESOLVED that the minutes of the meeting held on 1st June 2018 be confirmed and signed as a correct record.</p>
TVCA 19/18	<p>MATTERS ARISING</p> <p>Cabinet received an update on the outcome of the LEP Review, following its announcement on Tuesday 24th July. The key points to note:</p> <ul style="list-style-type: none"> • The role of LEPs was to be strengthened; • The amount of capacity funding available to LEPs was to be doubled; • Transparency arrangements would be further improved; • Targets on gender representation had been announced as part of the review – a third of boards should be female by 2020 and one half should be female by 2023; • Government will work with LEP areas on overlapping geographies, 21 of the 38 LEP areas have overlapping geography; • Government would consolidate engagement with LEPs and CAs. <p>The Cabinet welcomed the review and agreed that Tees Valley will set a target of half of the LEP Board to be female by 2020. It was noted that there were also other diversity requirements. Cabinet also requested a report to the next meeting setting out the opportunities and full details of the review.</p> <p>RESOLVED that the updated be noted.</p>
TVCA 20/18	<p>ANNOUNCEMENTS FROM THE CHAIR</p> <p>The Chair welcomed Councillor Stephen Harker to the Cabinet and noted the thanks and best wishes on behalf of the Cabinet to Councillor Bill Dixon.</p> <p>The Chair also welcomed Mark South, LEP Associate Member, to the Cabinet.</p> <p>The Cabinet was shown a video from Middlesbrough FC backing the Tees Valley's Rugby League World Cup Bid for 2021.</p>
TVCA 21/18	<p>GOVERNANCE AND APPOINTMENTS</p> <p>The Cabinet considered a number of appointments.</p>

	<p>RESOLVED that:</p> <ul style="list-style-type: none"> i. The following appointments be approved: <ul style="list-style-type: none"> o Councillor Stephen Harker, Cabinet Member and Tees Valley Deputy Mayor; o Councillor Norma Stephenson OBE, Chair, Overview and Scrutiny Committee; o Councillor Ian Haszeldine, Vice-Chair, Overview and Scrutiny Committee; o Councillor Nicky Walker, Chair, Audit and Governance Committee; o Councillor Barry Woodhouse, Vice-Chair, Audit and Governance Committee; o Councillor Anne Marshall, Member of Audit and Governance Committee. ii. The Overview and Scrutiny Committee's intention to conduct a study in to the diversity of the membership of TVCA be noted; iii. The withdrawal of the resignation of Siobhan McArdle from the LEP Board be noted.
<p>TVCA 22/18</p>	<p>INTERIM MANAGING DIRECTOR'S UPDATE</p> <p>Cabinet received a report providing a general update on the key activities of the Combined Authority since the last Cabinet meeting not covered in other reports to the meeting.</p> <p>RESOLVED that the update be noted.</p>
<p>TVCA 23/18</p>	<p>EXTERNAL AUDIT COMPLETION REPORT</p> <p>Cabinet considered a report detailing the findings of the external audit completed by Mazars LLP, for the financial year ended 31st March 2018.</p> <p>It was noted that the materiality figure on page 4 of the Audit Completion report had been amended to £1.537m.</p> <p>RESOLVED that the contents of the External Auditor report on the audit of the statement of group accounts for Tees Valley Combined Authority and South Tees Development Corporation, containing a value for money opinion, be noted.</p>
<p>TVCA 24/18</p>	<p>ANNUAL FINANCIAL STATEMENTS</p> <p>Cabinet considered a report detailing the Financial Statements, incorporating the Annual Governance Statement and Annual Report.</p> <p>The Interim Managing Director noted her thanks to the team at Mazars.</p> <p>Resolved that the Financial Statements the Annual Governance Statement and the Annual Report for 2017/18 be approved.</p>
<p>TVCA 25/18</p>	<p>INVESTMENT PLAN DELIVERY REPORT</p> <p>Cabinet received a report setting out progress made to date delivering the Tees Valley Combined Authority Investment Plan.</p>

	RESOLVED that the current position of the investment programme and project updates be noted.
TVCA 26/18	<p>HARTLEPOOL WESTERN GROWTH CORRIDOR</p> <p>Report detailing the proposal and request for funding by Hartlepool Borough Council to bring forward construction of a Western Growth Corridor for Hartlepool.</p> <p>Councillor Christopher Akers-Belcher reiterated the importance of the scheme and welcomed the continued support of the Combined Authority to work with Homes England and the Housing infrastructure Fund.</p> <p>It was agreed that the Mayor and Portfolio Holder for Investment should be consulted as part of recommendation vii.</p> <p>Resolved that:</p> <ol style="list-style-type: none"> i. the progress with the development of plans for the New Road be noted; ii. the work being carried out by HBC with Highways England and Homes England to bring the Project forward be noted; iii. it be noted that the total project cost is estimated at £18 million, of which £9.655 million will be funded by HBC by way of prudential borrowing against future s.106 contributions enabled by the New Road; iv. it be noted that this leaves a current funding gap of £8.345 million and that it is proposed that the Combined Authority invests half of this amount by way of grant funding; v. subject to business case approval and to due diligence, the investment of £4,172,500 of Combined Authority grant funding into the Project, be approved; vi. it be noted that the Combined Authority will continue to work with HBC to seek the balance of the funding required for the New Road (£4,172,500) from Homes England under its Housing Infrastructure Fund programme ("HIF"); and vii. the finalisation of the funding and associated contractual arrangements be delegated to the Interim Managing Director and the Investment Director, in consultation with the Mayor and Portfolio Holder for Investment.
TVCA 27/18	<p>DATE OF NEXT MEETING</p> <p>Friday 28th September 2018</p>

AGENDA ITEM 4

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

28TH SEPTEMBER 2018

REPORT OF THE TEES VALLEY MAYOR

TEES VALLEY MAYOR'S UPDATE

SUMMARY

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

RECOMMENDATIONS

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

DETAIL

Large Local Major Schemes – New Tees Crossing and East – West Connectivity (Darlington Northern Bypass)

1. Development of the business cases for both the New Tees Crossing and Darlington Northern Link Road continues, with a view to submitting the schemes for inclusion in Department for Transport's Road Investment Strategy 2 process, which commences in Q2 2019.
2. Considerable further work has been undertaken to develop cost effective proposals for both schemes, and recent engagement with Department for Transport has been positive. A further meeting between the Mayor and the Transport Secretary's Special Adviser will take place in September, and a further meeting between TVCA and DfT officials in October to discuss progress.

TransPennine Express extension into Redcar Central and Saltburn rail stations

3. The Mayor and Combined Authority officials are working with TransPennine Express and Transport for the North/Rail North Partnership to explore a proposal to extend the existing TPE service which currently terminates at Middlesbrough, onto Redcar and Saltburn. This

would deliver much enhanced connectivity for the eastern part of the Tees Valley and provide a strategic rail link for one of the economic centres (Redcar), as defined in TfN's Strategic Transport Plan, which currently lacks one.

4. TPE has worked up a proposal in detail and this has now also being assessed by officers within TfN and the Rail North Partnership. There is now tri-partite agreement that this is a strong and beneficial scheme following the Mayor's intervention at a Rail North Partnership Board meeting in Leeds on 23 August.
5. Work continues to explore a potential franchise change in December 2019.

Middlesbrough District Energy Network

6. Following Cabinet approval in November 2017 to develop this scheme further, work has been ongoing to secure the commitment of the project's key stakeholders, including the participation of the South Tees Hospitals NHS Foundation Trust, Teesside University and Middlesbrough Borough Council as energy offtakers from the network.
7. Work is now progressing to put in place an agreement between TVCA and those key partners to jointly develop and deliver the project, and this is expected to be in place by the end of September. This will allow the further development of our procurement strategy and help to crystallise the timetable for the delivery of the project.
8. The next stage will be to procure and appoint external advisers to help us to take the project forward, to produce and agree detailed project governance arrangements and to confirm the planned timescales for delivery of the project. This phase of work will be completed by early January 2019. The intention is then to work intensively with our advisers to get ready to commence the formal process to procure a provider to design, build, operate and maintain the system in September 2019.
9. This project can make a significant contribution to both the Strategic Economic Plan and the Low Carbon Industrial Strategy and will help to develop our circular economy. It will also enhance Tees Valley's reputation for innovation and is considered by the Department for Business, Energy and Industrial Strategy (BEIS) to be a potential flagship project nationally, particularly through its public sector partnering approach.

Tees Valley Ambassadors

10. We are preparing to launch a new Tees Valley Ambassadors scheme later this year. This is designed to promote Tees Valley and the benefits of investing, living, working in or visiting the region. Ambassadors will be invited to join the scheme and help us to advocate and Talk up Tees Valley, amplifying positive messages about the region, particularly to investors, decision-makers and alumni based outside of the region. In turn, we will provide access to an Ambassadors' portal which will provide information and brand collateral about the region, regular updates on activities and events within the region, and a point of contact for officers to assist with inquiries.

FINANCIAL IMPLICATIONS

11. There are no financial implications to this report.

LEGAL IMPLICATIONS

12. There are no legal implications to this report.

RISK ASSESSMENT

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

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AGENDA ITEM 5

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

28TH SEPTEMBER 2018

REPORT OF THE INTERIM MANAGING DIRECTOR

GOVERNANCE AND APPOINTMENTS

SUMMARY

This report confirms the appointment of Councillor Stephen Harker to the vacant position of Transport Portfolio Holder and Councillor Chris McEwan as Deputy Tees Valley Combined Authority Cabinet Member for Darlington Borough Council.

RECOMMENDATIONS

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

DETAIL

1. In line with the constitution of the Combined Authority, this report brings forward the appointment of Councillor Stephen Harker to the position of Tees Valley Combined Authority Portfolio Holder for Transport, vacated by the retirement of Cllr Bill Dixon.
2. This reports also brings forward the appointment of Councillor Chris McEwan as Deputy Cabinet Member (Darlington).

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

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

RISK ASSESSMENT

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

CONSULTATION & COMMUNICATION

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

Name of Contact Officer: Sarah Brackenborough

Post Title: Governance Manager

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AGENDA ITEM 6

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

28th SEPTEMBER, 2018

REPORT OF INVESTMENT DIRECTOR

**FUNDING SUPPORT RE INNOVATIVE RESEARCH AND DEVELOPMENT
PROJECT - LIBERTY POWDER METALS**

SUMMARY

The report considers and proposes a response to the request from Liberty Powder Metals Ltd ('Liberty') for total investment of £4.6m (£1m grant and £3.6m loan) from TVCA to support an R&D project focused on developing and manufacturing new speciality alloy metal powders for end users to use in net shape and additive manufacturing applications like 3D printing engine parts, to be hosted at The Material Processing Institute.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. notes the request for Combined Authority for £4.6m funding from Liberty to support the R&D project as described in this report;
- ii. approves the request for funding on the basis of the recommendations of the funding appraisal; and
- iii. authorises the Managing Director to take all necessary steps to complete a funding agreement (including appropriate collateral/ security arrangements) with Liberty on the basis set out in this report.

DETAIL

Summary Project Description

1. Liberty are seeking a total investment of £4.6m (£1m grant and £3.6m loan) from TVCA to support a project focused on developing and manufacturing new speciality alloy metal powders for end users to use in net shape and additive manufacturing applications like 3D printing engine parts, to be hosted at The Material Processing Institute. This is very new technology with only 940 tonnes per annum of metal powder currently being used worldwide and only 20 alloys available which limits the component properties. However, Liberty believe that this market is due to grow very quickly and wishes to secure a share in the international market using Teesside based facilities.
2. Liberty has led a UK Government funded project since January 2015, known as CASCADE and the funding sought is to complete and extend the remit of CASCADE, which is due to come to an end on 31st December 2019. The outputs of CASCADE R&D include the production of new speciality alloy metal powders in (commercial, as compared to laboratory) volumes which requires them to purchase of a 250kg batch vacuum atomiser.
3. The CASCADE funding cannot be used to fund the purchase of the atomiser which will have a vacuum production capacity of 335 tonnes per annum, with 25% of this dedicated to industrial R&D to develop new steel and nickel alloys. The application to TVCA seeks funding in relation to the purchase of the atomiser and associated equipment and the next stage of development costs.
4. The atomiser, and associated processing, handling and testing facilities, will be built inside the unused Tuyere Building at Grangetown, Middlesbrough, which will become a learning base for the research and development of advanced nickel based alloys. The atomiser will be set up on an open access basis and will enable collaborative research programmes. Many end users and research establishments are working on the development of vacuum atomised metal powders and require the use of this type of equipment but there are only 2 vacuum atomisers currently in the UK. Liberty anticipate that other research organisations will be keen to use the atomiser to make development powders.
5. The atomiser would allow Liberty to develop this technology to produce initially modest amounts of regular 316L stainless powder. This would enable Liberty to build capability, brand recognition and customer trust, which in turn it hopes will lead to the development of Ni-based powders and other highly valuable alloys, few of which are available commercially. Income from 316L will be re-invested to fund the development of the new alloys and improve processes.
6. The longer term vision is that Liberty creates a long term, high value, leading edge advanced manufacturing business in Tees Valley based around optimised atomisers and facility designs to produce high purity, specialist powders and the formation of semi-finished components via 3D printing, hot isostatic pressing or other technologies. This would involve in due course establishing a larger advanced manufacturing facility in Tees Valley, which would become a centre of expertise for powder metal production and know-how.

Evidence of Need

7. Liberty state that if the funding is not granted then the project will not progress until Liberty can raise the funds, impairing the UK's strategic advancement into Additive Manufacturing and the digital industrial revolution. Liberty state that unless they

receive the funding quickly for further development and powder production, other worldwide competitors will monopolise the market.

8. Liberty has provided continuing resource, expertise and management direction into developing a business position in the new and rapidly developing powder metals supply chain over a number of years, even prior to the CASCADE Project. Liberty state that this work has clearly shown the potential for significant business benefit. However, Liberty acknowledge that, as with all research activities in this relatively early stage, certainty of success cannot be guaranteed 100%.
9. Liberty is a newly established company (July 2018) set up to focus on developing the powders business. No funds are available in the Liberty Group to prioritise the required level of capital expenditure to support a successful powder manufacturing facility. Liberty would continue to invest in powder but necessarily this would be at modest levels and likely to be from the steel-business R&D budget which is itself limited.

Strategic Fit and Benefits

10. The project addresses three of the six priority themes of the Strategic Economic Plan (SEP): Business Growth: a high growth potential business and possible wider supply chain impact; Research Development, Innovation and Energy: provision of open innovation testing facilities; and Education, Employment and Skills: the creation of 20 net additional jobs, all of which are at NVQ level 4 and above. The project also delivers growth in one the SEP's seven priority sectors: Advanced Manufacturing.
11. The project is in alignment with both the emerging UK Industrial Strategy and Northern Powerhouse agendas, as it is both testing and putting into commercial usage an enabling technology which will have direct productivity and reshoring benefits for a range of sectors, including but not limited to: aeronautics, aerospace and the wider advanced manufacturing sector.
12. The project affords the opportunity to create a new cluster within the region, combining a viable powder metals production centre, which will service both national and international markets, as well as establishing a key R&D function which will augment the existing sectoral innovation ecosystem in MPI, TWI and Teesside University and which cumulatively strengthens the argument for the subsequent creation of a materials catapult in the Tees Valley: a cornerstone of our emerging Circular Economy proposition.
13. As noted above the direct economic benefits are 20 jobs and an increase in GVA of circa £4million per annum (subject to due diligence). The presence of the R&D testbed function may be viewed as an additional income generator through the provision of applied research and a potential attractor of further spinout activity/ inward investment (valued by Liberty at £60million of investment and the creation of up to 70 additional jobs beyond 2025) but in the interests of prudence these have not been included in the appraisal. The project (subject to confirmation at the due diligence stage) will create a net benefit to the local economy.

Funding

14. The total cost of the project is £9.83m of which £2.8m is the cost of the atomiser, £1.782m is set up cost and £5.248m is cost associated with research activity. Of this £9.83m, £4.6m is requested from the Combined Authority - £3.6m in loan (required in October 2019) and £1m in grant (to be received in Q2 20).

15. Of the £5.23m match funding, £1.239m is funding from the CASCADE project and relates to the continuation of the research activity from that project.
16. £3.991m of the match funding from Liberty is income generated by sales of powder and other internal Liberty sources.
17. TVCA's loan will start to be repaid from September 2022 (Year 4) and should be fully repaid (including interest) by the September 2023 (Year 5).

Assurance and Appraisal Outcome

18. A full appraisal process of the Liberty business case for investment has been carried out in accordance with TVCA's standard procedure. The appraisal has recommended that the business case be approved subject to a number of conditions.
19. The appraisal does not consider that Liberty has evidenced the need for grant funding (as opposed to loan funding) as the project starts returning a surplus in Year 3. In the light of this, the appraisal recommends that the Combined Authority offers a £4.6m loan to Liberty, rather than the grant/loan split requested. The loan could be repaid over a longer term than is currently suggested if required and will be made at a state aid compliant interest rate.
20. Given the risk associated with R&D activity and the lack of track record of Liberty (as a new business entity), the appraisal recommends that a parent company guarantee is sought from Liberty. They have confirmed that they are prepared to give this. The appraisal suggested that equity in Liberty should perhaps also be sought given the longer term profitability of the project. Liberty have however confirmed that this would not be acceptable to them.
21. The appraisal acknowledges that the TVCA funding will be subject to TVCA's standard capital funding terms and conditions which will include the appropriate restrictions on the disposal of funded assets while the funding is yet to be repaid. As the asset here is moveable, the appraisal recommends that TVCA consent is required to move the asset (to prevent the asset from being removed from Tees Valley in particular).
22. In agreeing to make this investment, TVCA is seeking to secure the long term vision described in this report: the establishment of an advanced manufacturing facility in Tees Valley, which would become a centre of expertise for powder metal production and know-how and the eventual creation of 70 high value, skilled direct jobs in Tees Valley and up to 185 indirect jobs created in the supply chain. The appraisal therefore recommends that if the longer term vision is developed by Liberty outside of the Tees Valley, then any outstanding loan payments should become immediately repayable.

FINANCIAL IMPLICATIONS

23. Assuming the recommendations from the appraisal set out above are accepted, the financial implications are that the Combined Authority would make a £4.6m loan (£3.6m required in October 2019 and £1m required in Q2 FY20). The loan will be at a state aid compliant rate to be agreed, depending on the financial standing of Liberty taking into account the availability of an appropriate parent company guarantee.
24. This funding will be subject to appropriate due diligence through the Tees Valley Assurance Framework.

LEGAL IMPLICATIONS

25. State aid advice obtained by Liberty from a reputable legal firm has made the case that a £1m grant would be state aid complaint in the circumstances. However, as the appraisal recommends that the grant should be replaced by loan, which would be at a state aid complaint rate, this is no longer a consideration.
26. Any funding would be subject to standard Combined Authority terms and conditions which will allow for immediate clawback of the funds if Liberty fail to meet the project outputs or acts in breach of those terms and conditions. Special conditions will be included to ensure that the issues raised by the appraisal are appropriately addressed.

RISK ASSESSMENT

27. In addition to the key risk described in paragraphs 18 to 20 above, the key risks in relation to this request for Combined Authority funding are as follows:-

Risk	Proposed Mitigation
<ul style="list-style-type: none">• Loan is not repaid	<ul style="list-style-type: none">• To seek an appropriate parent company guarantee to secure loan.
<ul style="list-style-type: none">• Reputational damage if the R&D project is not a success	<ul style="list-style-type: none">• To seek an appropriate parent company guarantee to secure loan.• To offer all loan rather than loan/grant split sought by Liberty.
<ul style="list-style-type: none">• Reputational damage if the R&D project is a success and Combined Authority is seen as funding the success without taking an appropriate share in that success	<ul style="list-style-type: none">• Ensure financial return through commercial interest rate on loan.
<ul style="list-style-type: none">• Business is developed outside TV	<ul style="list-style-type: none">• Addressed through specific loan conditions.

28. Provided that the safeguards set out above are achieved in terms of the proposed funding conditions, this funding proposal is categorised as low to medium risk on the basis of the appraisal recommendations. Existing management systems and daily routine activities are sufficient to monitor and reduce risk.

CONSULTATION AND COMMUNICATION

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

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AGENDA ITEM 7

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

28th September 2018

REPORT OF ECONOMIC STRATEGY AND INTELLIGENCE MANAGER

Process, Chemicals and Energy Sector Action Plan

SUMMARY

At the December 2017 Cabinet Meeting it was agreed that Cabinet would be provided with each of the Sector Action Plans. The attached document contains the third completed Action Plan, which is for the Process, Chemicals and Energy Sector and also contains a foreword by the Sector Champion.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Approve the findings of the Process, Chemicals and Energy Sector Action Plan.

DETAIL

1. At the December 2017 Cabinet Meeting, the overview document for the 7 Sector Action Plans¹ was discussed. Although this document provided clear strategic direction across the 7 priority sectors and 1 cross cutting sector, it was agreed that Cabinet would be provided with each of the Sector Action Plans.
2. The attached document (Appendix A) contains the third completed Sector Action Plan, which is for the Process, Chemicals and Energy (PCE) Sector as well as a foreword by the Acting Sector Champion and LEP Chair, Paul Booth.
3. The PCE sector action plan, has been further augmented by additional research from two main sources:

¹ Advanced Manufacturing, Process, chemicals and energy, Logistics, Health and Biologics, Digital and Creative, Culture and Leisure and Business and Professional Services. and cross cutting plan for the circular economy.

- Tees Valley: Low Carbon Industrial Strategy; and
 - Northern Powerhouse: Chemicals and Process Sector Science and Innovation Audit.
4. The Action Plan confirms the continuing importance of the sector to the Tees Valley economy and as our only 'Globally competitive sector' clearly articulates a role at both the Northern Powerhouse level and with the emerging UK Industrial Strategy.
5. The Action Plan identifies a number of potential interventions both at the Tees Valley level and nationally which need to be put in place to maintain this competitive position.
6. The following table identifies those interventions which can be delivered at the Tees Valley level:

Proposed Intervention	Identified Need for PCE sector	Implementation
Workforce Development Programme	<ul style="list-style-type: none"> • Need to address emerging employment and skills gaps within companies; and • Need for technical/ specialist retraining for changing market conditions. 	<ul style="list-style-type: none"> • Future Business Compass programme will be augmented to be able to undertake: <ul style="list-style-type: none"> ○ A skills diagnostic as part of the wider business diagnostic; and ○ Mentoring support to be offered to companies identified as having leadership/ management constraints in the skills diagnostic.
Roll out of Full Fibre Network	<ul style="list-style-type: none"> • Need for enhanced connectivity to facilitate roll out of digitisation. 	<ul style="list-style-type: none"> • Potentially based on anchor tenancy model, Councils currently considering roll out across respective areas, thereby ensuring coverage of all strategic sites.
Collaborative Networks Programme*	<ul style="list-style-type: none"> • Need to strengthen local clusters through enhanced collaboration. 	<ul style="list-style-type: none"> • Programme will augment existing Business Compass and will include: <ul style="list-style-type: none"> ○ support for knowledge transfer of technologies such as Industry 4.0 (Industrial Digitisation); ○ Diversifying supply chains into new/emergent

		sectors such as nuclear/ aerospace /automotive
--	--	--

* Funding approved in principle at Cabinet in December 2017, subject to due diligence.

7. Due to their scope and scale the following proposed interventions/policy areas will need to be considered with partners) either at the Northern Powerhouse level or as part of the emerging UK Industrial Strategy (through either sector deal or bids to the Industrial Strategy Challenge Fund. Discussions need to be held with the appropriate Northern LEPs (Humber and Liverpool) to consider these proposals:

Proposed intervention	Implementation	Opportunity for Tees Valley:
Northern Powerhouse Chemicals and Process Sector Development Vehicle	<p>Augmenting existing sectoral representative bodies: the Development Vehicle will be tasked with delivering an enhanced business support function across the Northern Powerhouse, including but not limited to:</p> <ul style="list-style-type: none"> supply chain/export diversification and foreign direct investment. 	<ul style="list-style-type: none"> Tees Valley must be at the lead of any emerging Northern Powerhouse inward investment proposition with a real target on ensuring higher value adding functions (Research and development, legal and procurement) choose to relocate to the region. Tees Valley Mayor and LEP Chair to take on mantle of trade ambassador for the sector in the wider region.
<p>Resource efficiency:</p> <p>Develop new feedstock base for chemical industry</p>	<p>Consider the options that (existing and emerging) affordable feedstocks may give the North and Tees Valley in particular.</p> <p>This would require feasibility studies and a roadmap for industry development</p> <p>Develop indigenous energy sources and wider circular economy proposition to mitigate feedstock concerns.</p> <p>Northern chemicals sites could provide a base for new industries and materials. This would require active engagement with the players developing these industries, as well as the</p>	<ul style="list-style-type: none"> Provision of nationally funded demonstration space/test-bed facilities for new technologies and materials such as: District Heating, Hydrogen, Ethanol, Lithium Fuel Cells and wider circular economy agenda. Roll out of demonstration space will be in close proximity to existing: <ul style="list-style-type: none"> innovation ecosystem; enterprises areas; and

	development of a number of pilot/demonstrator projects.	<ul style="list-style-type: none"> ○ mayoral development corporation
Unifying the innovation ecosystem	Establish, an integrated science and technology innovation network (a 'knowledge-based growth hub) which would provide a one stop shop approach to research and development for both local companies and overseas based organisations.	<ul style="list-style-type: none"> • Tees Valley to support local innovation ecosystem to fully avail of emerging opportunities, in particular, encouraging the co-location of test facilities/business support functions within the region.

8. The proposed interventions at the regional/ national level will not involve upfront financial support, rather there is a need for staff engagement with the sector to develop appropriate propositions.

FINANCIAL IMPLICATIONS

9. This is a research report and consequently there are no direct financial implications. £1.7m has already been approved in principle for the Collaborative Network Programme at Cabinet in December 2017, subject to due diligence.

LEGAL IMPLICATIONS

10. This is a research report and consequently there are no direct legal or procurement implications.

RISK ASSESSMENT

11. This is a research report with no direct operational risks attached.
12. This research report is categorised as low risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION

13. The production of this report has been subject to an extensive consultation exercise with both the public and private sectors, including:
- Survey of 550 companies; and
 - 2 Focus Groups.

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TEES VALLEY
COMBINED
AUTHORITY

TEES VALLEY MAYOR

PROCESS, CHEMICALS AND ENERGY

AUGUST 2018



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1. Foreword

Introduction by Paul Booth

Tees Valley Sector Champion and LEP Chair

- 1.1 The process, chemicals and energy (PCE) sector put Tees Valley on the map and those engaged in the sector across the globe have either trained here or traded with companies based in the region – it continues to be our principal globally competitive sector.
- 1.2 Tees Valley is home to the largest single cluster of PCE companies in the UK, the second largest in Europe, and also produces 50% of the country's hydrogen, however staying at first place is an ongoing challenge. This means ensuring that the right business fundamentals are in place: both affordable feedstocks and a skilled labour force, but also that industry is future-proofed. This can only be achieved by ensuring that innovation is being embraced, particularly making sure we have access to new and emerging feedstocks and materials, and that local businesses can continue to grow by undertaking more and varied export activity and diversifying into new supply chains.
- 1.3 Industry 4.0 will have a significant impact on the sector, providing more and better integrated data, which can be used to encourage local sourcing of materials and go some way to repairing fractured supply chains.
- 1.4 However the region faces a clear challenge, its traditional economic base has tended to be those industries that are more intensive emitters of greenhouse gases and specifically CO2. This doesn't have to be a constraint to growth, but through circular economy solutions may be a source of affordable yet sustainable energy supplies.
- 1.5 I have a four point plan which I know will ensure Tees Valley's continued competitiveness:
 - Utilise existing locally sourced feedstocks to reduce the need for expensive imports. **Circular economy** solutions (such as hydrogen, lithium batteries and district heating) must be tested, and for that we will need to fund **test-bed/ demonstration facilities**;
 - We need to enhance our existing business base: foreign owned and those middle sized family run companies. Both do too little research and development locally and by **encouraging them to test** new materials and processes here, in particular **industrial digitisation applications**, will anchor existing activity and generate new inward investment;
 - We need to address the replacement jobs gap in the sector. Many of our most experienced people are coming up to retirement and there is not an immediate locally sourced pipeline of talent to replace them. **In-work training must be supported and a pipeline of talent developed**; and
 - We need to actively promote the Tees Valley as part of a wider Northern Powerhouse business proposition, we have a lot to offer, but in conjunction with Humber and Liverpool, we can be world beaters again: **attracting more inward investment and in the short run, sourcing more materials locally and building strong supply chains**.

'Tees Valley is globally competitive in the chemicals sector and with the correct investment, can continue to be the UK hub'

2. Introduction

- 2.1 The following report provides a high level summary of the scope and scale of opportunity for the process, chemicals and energy (PCE) sector in Tees Valley, as well as a preliminary list of indicative activities.
- 2.2 This report is based on the following consultation exercise:
- Survey: December 2016: 550 businesses (across all sectors engaged);
 - Consultative interviews with sector champions and businesses; and
 - 2 Focus Group sessions, with businesses and stakeholders.
- 2.3 The choice and definition of sector for this report emerges from the findings of the Refreshed Tees Valley Strategic Economic Plan (SEP): The Industrial Strategy for the Tees Valley 2016-2026, which identified the PCE sector as a key priority.
- 2.4 The PCE Sector Action Plan in common with the other six priority sector action plans¹ will be updated annually through consultation with our key local partners.

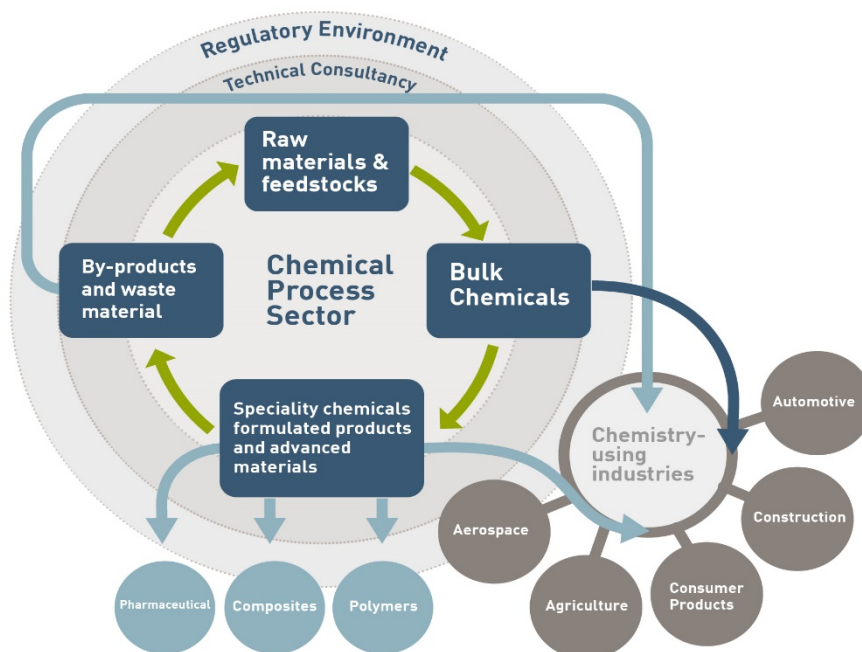
Sector Definition

- 2.5 The PCE sector has been defined by Tees Valley Combined Authority (the Combined Authority) as the aggregation of a number of sub-sectors across manufacturing and utilities. This local definition does not align perfectly with the UK definition and is an amalgam of multiple industry sectors. However, the refreshed SEP identifies the PCE sector as being particularly important, defining the make-up of the Tees Valley economy and its industrial heritage. Driven by the presence of unique assets and natural resources, the sector is of prime importance to Tees Valley and the wider national economy.
- 2.6 Within the PCE sector, the refreshed SEP pinpoints a number of important sub-sectors, namely:
- Petrochemicals;
 - Polymers;
 - Materials: Primary production and secondary processing;
 - Energy, including nuclear; and
 - Pharmaceuticals and Biotechnology.

¹ Advanced manufacturing, logistics, health and biologics, digital, culture, leisure and creative and business and professional services.

2.7 The chart below illustrates the relationship between the PCE and the wider economy:

Figure 2.1: Sectoral Definition



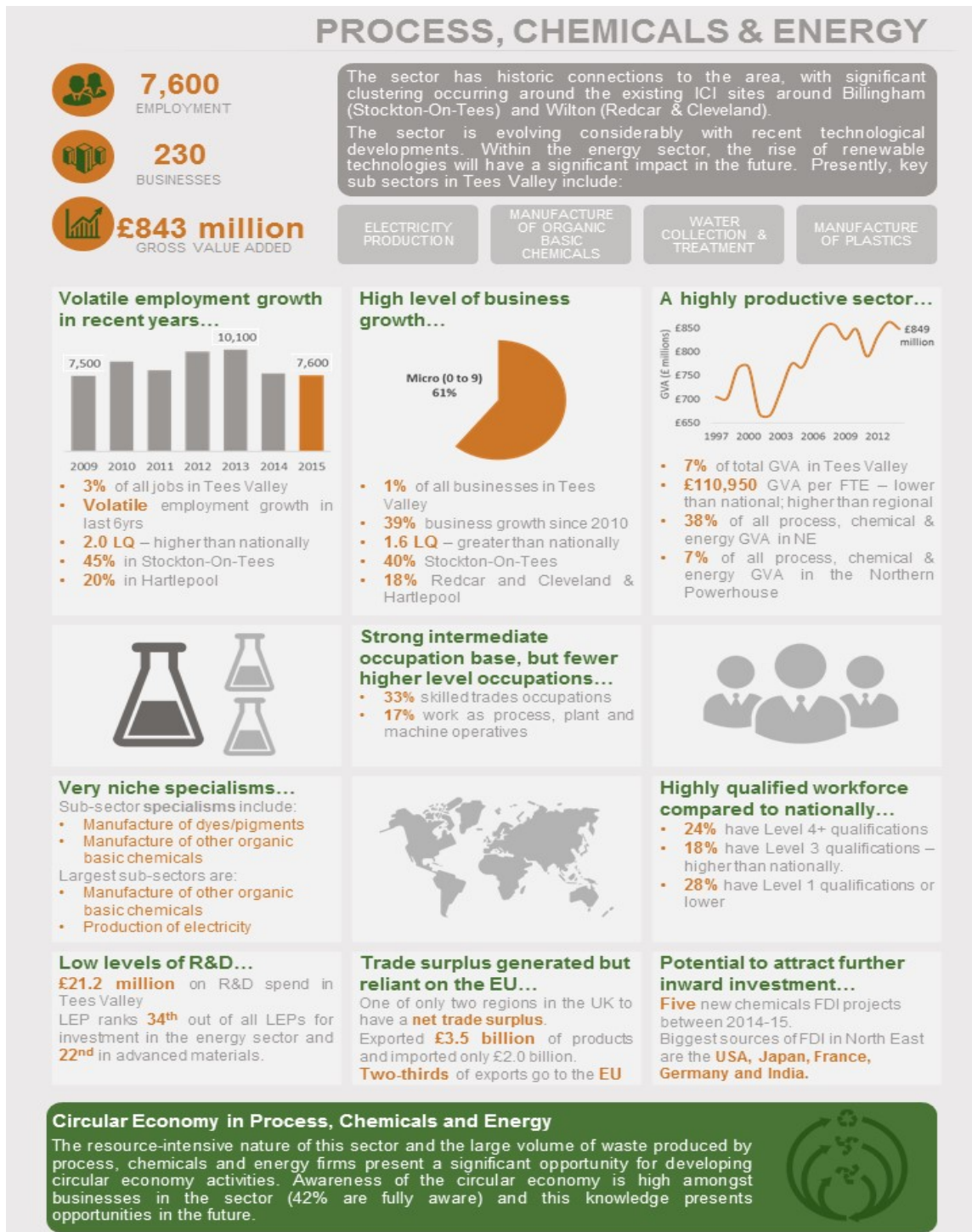
Source: Northern Powerhouse Science and Innovation Audit (2018)

- 2.8 The UK process and chemistry reliant industries can be split into two categories: the 'upstream' consisting of chemical producing industries and 'downstream' chemical using industries. The chemicals, process and energy sector is an enabling industry, helping provide technological solutions to many challenges faced by other parts of the economy – it underpins sustainability in downstream industries such as healthcare, electronics, automotive and textiles among others.
- 2.9 The PCE sector is one of the most productive sectors in Tees Valley accounting for around 7% of total GVA produced, despite only accounting for 3% of the total workforce. However, the true importance of the sector is only recognised when the downstream impacts are fully considered, i.e. chemicals and energy have supply chain implications for 90% of UK manufacturing. A more productive PCE sector has disproportionate benefits to the wider UK economy.
- 2.10 The SEP has a target of creating an additional 2,000 process, chemicals and energy jobs and increasing GVA per hour by 30%.
- 2.11 A detailed sectoral definition may be found in Appendix A.

Statistical Overview

2.12 Figure 2.2 provides a summary of information on the process, chemicals and energy sector. This has been developed by analysing secondary data, primary research (business survey, consultations and focus groups) and relevant literature:

Figure 2.2: Sector summary

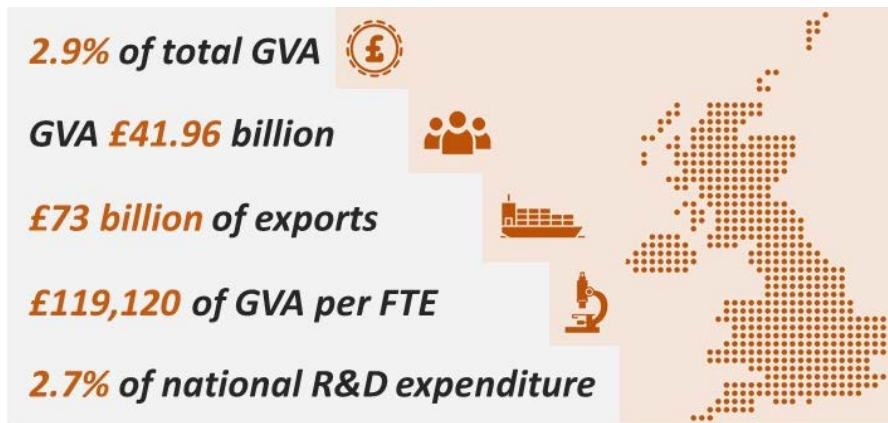


Source: Regeneris Consulting

3. How the sector compares

- 3.1 Across the UK, the process, chemicals and energy sector produced output valued at £42 billion accounting for 2.9% of total GVA produced:

Figure 3.1: Sector national positioning



Source: Regeneris

The sector is one of the most productive in Tees Valley...



- 3.2 The sector generates a high value add per employee. The Tees Valley area boasts a process, chemicals and energy GVA per FTE of £110,950, 12% higher than Northern Powerhouse productivity and nearly double the average GVA per FTE produced across all sectors in the Tees Valley area.
- 3.3 The process, chemicals and energy sector is one of the most productive sectors in Tees Valley, accounting for around 7% of total GVA produced, despite only accounting for 3% of the total workforce. Tees Valley accounts for around 38% of all process, chemicals and energy GVA produced in the North East region.

Table 3.1: Process Chemicals and energy sector, 2015

	Tees Valley Combined Authority	North East	Northern Powerhouse	England
Process, Chemicals and Energy GVA	£843 million	£2.23 billion	£11.91 billion	£41.96 billion
Process, Chemicals and Energy GVA (% of total GVA)	6.8%	4.7%	3.9%	2.9%
Process, Chemicals and Energy GVA per FTE	£110,950	£109,210	£97,480	£119,120
All sector (average) GVA per FTE	£56,960	£55,540	£56,540	£67,280

Source: ONS, 2015

Note: GVA information only available at a broad sector.

Results from the Tees Valley Business Survey show that process, chemicals and energy firms had the worst performance out of all sectors of the economy over the last 12 months, with only a third reporting an improvement in the firm's performance, a third reporting no change in performance, and a third saying the firm's performance had declined. This is largely as a result of the falling pound and the increased costs related to the importation of raw materials.

However, **growth appetite in the sector is strong**. Based on our survey and business engagement exercise, the local Chemicals, Process and Energy sector seems equally optimistic. Of the 58 businesses that answered the growth questions, **88% expected turnover to grow, 67% expected employment to grow and 66% expected productivity to increase**.

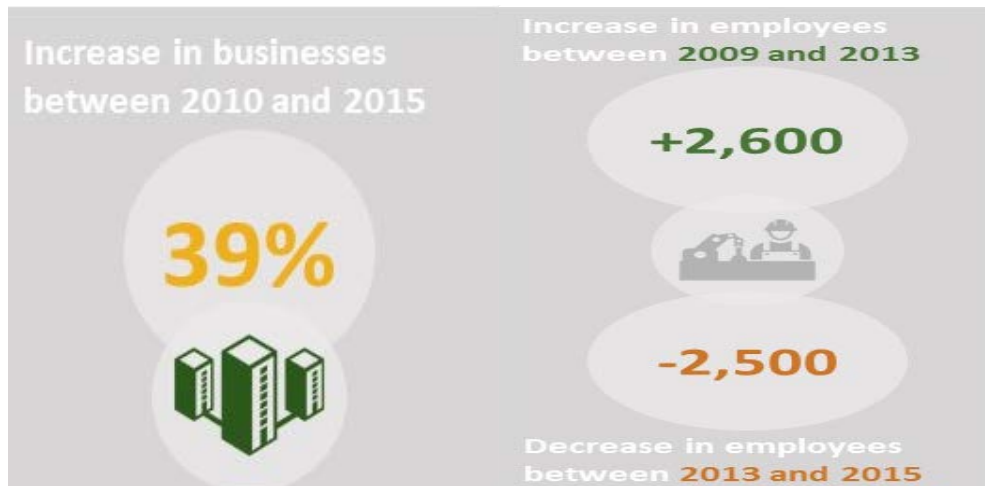
- 3.4** This strong growth appetite is further compounded by national level ambitions, mooted by the Chemical Growth Partnership (CPG); a sector partnership which is designed to enable Government and industry to work together to address the key challenges and opportunities for the chemical sector. The Partnership comprises business leaders from the chemical sector, and has agreed a sector strategy with Government. The vision is that:

Chemical Growth Strategy Vision:

“By 2030, the UK chemical industry will have further reinforced its position as the country's leading manufacturing exporter and enabled the chemistry-using industries to increase their Gross Value Added contribution to the UK economy by 50% from £196billion to £300 billion.”

- 3.5** The strategy also sets out future scenarios for growth. These envisage minimum annual growth of 1.8% until 2030, with more optimistic scenarios raising annual growth to 3.6%. This means that the prospects for indigenous and new chemical manufacturing could be strong and sustained.

The number of businesses in the sector has grown strongly at the same time as volatile employment growth...



- 3.6** In 2015, around 7,600 people were employed in the PCE sector in the Tees Valley area. The sector has experienced very volatile employment performance over the last six years and this can be largely attributed to the opening and closure of large (foreign owned) plants. Averaged out over the last six years, there has been 2% net growth in the number of people employed in the sector. However, between 2009 and 2013, employment grew by 36% to a total of 10,100. Since 2013, employment in the sector has declined by 25%, with around 2,500 jobs lost. This follows a similar trend to the Northern Powerhouse, which experienced a 13% increase in employment between 2009 and 2013, followed by a 6% fall since 2013.

The Tees Valley Business Survey found that 57% of PCE firms had recruited new staff in the last 12 months, compared to 65% across all sectors.

- 3.7** In Tees Valley there has been strong business growth in the process, chemicals and energy sector over the last six years, with 39% more businesses in 2016 compared to 2010 (65 new businesses). This level of growth is comparable to that experienced nationally (+43% since 2010). Tees Valley has outperformed business growth levels in the Northern Powerhouse, with the number of businesses growing by 24%. The majority of business growth in Tees Valley has occurred since 2012, with the highest growth occurring between 2015 and 2016 (+17% business growth).

PCE businesses in Tees Valley are far more likely to export their products than other sectors of the economy, with 65% exporting compared to 34% across the whole economy (Tees Valley Business Survey). Of those businesses who export, 70% export to Asia and Oceania, 67% export to the European Union and 67% export to the Middle East and North Africa.

However evidence from the Tees Valley Business Survey suggests the primary barrier to growth was the accessibility of new markets or supply chains (38%), followed by access to finance (30%), skills availability (23%) and a lack of a business-friendly environment (19%).

- 3.8** The UK continues to be a significant player in the global chemicals market, however it is important to place the value of the sector relative to other worldwide markets. Table 3.2: summarises comparative sales of chemicals amongst the leading markets using data sourced from CEFIC Facts and Figures 2017 of the European Chemical Industry, CEFIC Landscape of the European Chemicals Industry (2018), and Worldometers.info world population estimates by country.

Table 3.2: Comparative sales of chemicals amongst the leading markets, 2017 data:

Country	Sales (Billion €)	Population (Million)	Sales per head of population (€)
China	1,331	1,415	941
US	476	326	1,460
Germany	185	82	2,256
Japan	140	127	1,102
South Korea	113	51	2,216
France	70	65	1,077
India	76	1,354	56
Taiwan	63	23	2,739
Spain	63	46	1370
UK	60	66	909
Netherlands	55	17	3235
Italy	52	59	881

- 3.9** The most significant growth has been in the emerging markets such as China, India and Brazil. The global market is expected to grow by a further 3% in the next 20 years as the Asian industry and industry in the Middle East continue to grow. By 2030, Asia is expected to account for almost two thirds of the global chemical industry market.
- 3.10** Demand for chemicals, particularly intermediate and finished goods continues to expand both in Britain and globally. However, what is in question is the UK's ability to

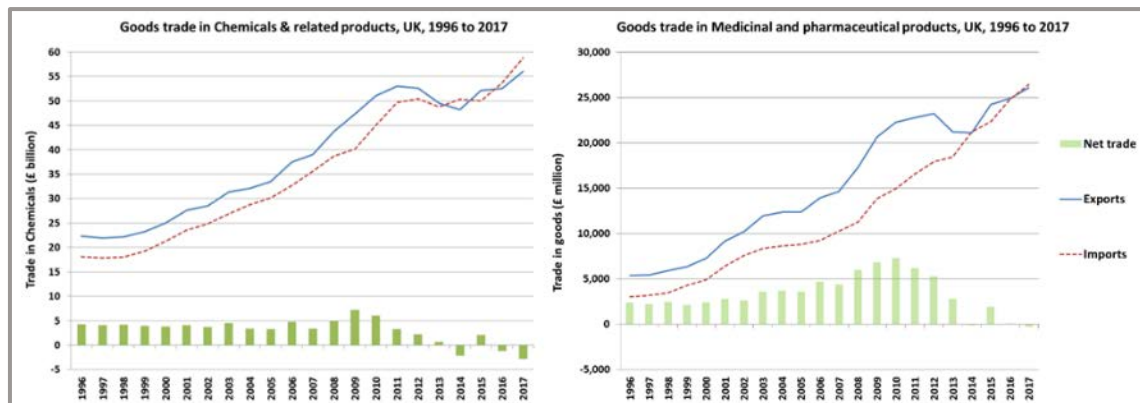
meet both indigenous and export demand, as increasing competition from both East (e.g. China) and West (e.g. USA) is driving down revenues and making it harder for UK-based firms to compete in the global marketplace.

3.11 The chemicals industry within the Northern Powerhouse (including Tees Valley) has traditionally had a very strong export orientation. Trade, both in terms of imports and exports of chemicals has more than doubled in the last twenty years, which is in line with the overall economy, however the significance of the chemicals sector to Britain's overall trade figures continues to increase, but at a declining rate, in particular:

- Chemicals exports have risen from circa £23bn in 1996 to £56bn in 2016 with a more significant rise in imports from a baseline of circa £18bn in 1996 to £58bn in 2016 (Overall exports have risen from £167bn in 1996 to £306bn with imports rising from £180bn to £462bn in 2016); and
- In proportionate terms, the importance of the chemical sector has increased from 14% to 18% for overall exports and 10% to 12% in terms of imports.

3.12 Figure 3.2 shows that 2013 was the first unfavourable imbalance in trade for the chemicals and related products sector. This fall mirrors that in the pharmaceutical products sub-sector which represent nearly 50% of export trade and can largely be attributed to a number of Astra Zeneca products going off patent in 2011/12. However, the increase in imports for the NPH is at a faster rate than growth in the sector as a whole, indicating that imports are substituting domestic production and in increasingly higher value-added elements such as medical & pharmaceutical products, i.e. 19 times the value in 2016 compared to 1996. This sub-sector accounted for £3.5bn (42%) of the total increase of the whole Chemicals sector.

Figure 3.2: Net Trade for the Chemicals and related products 1996-2017



3.13 The reduction in exports has been across the board including price sensitive sub sectors like manufacture of organic chemicals and fertilisers and nitrogen, but also in high value products such as pharmaceuticals.

3.14 In short, the Northern Powerhouse and Tees Valley in particular, is losing its competitiveness, access to supply chains and export orientation across the full range of products, at the same time as a proportionate decline in export activity across most chemical sub-sectors. This decline in export orientation may have a causal effect on the level of innovation activity undertaken.

3.15 As noted above, the sector is dominated by large overseas controlled companies and circa 500 middle tier companies across the entire Northern Powerhouse and approximately 80 in Tees Valley who largely compete on price in established supply chains. This has manifested itself in two ways:

- A useful proxy for business expenditure on research and development is tax credits. Of the total claims 20.5% were from the NPH region (business base of region is 23%), accounting for 11.4% of the total amount claimed and 9.6% of the total expenditure. These figures suggest the NPH region could be doing more to invest in R&D; and
- Location information based on where R&D is actually performed rather than the location of the head office shows a disproportionately large amount being spent on R&D in the South East and East of England, with under-representation within the Northern Powerhouse.

3.16 There is a need to curb the loss of market share/reduced export orientation and this may be largely mitigated through investment in innovation. The development of and investment in the circular economy and resource efficiency represents a significant opportunity for the chemical and process sector to re-shore activity and build new product bases. The use, re-use and remanufacture of raw materials and products aligned with further resource efficiency has the potential to address many of the present sector asks. In addition, industrial digitisation and particularly mass machine learning has the potential to mitigate sectoral fragmentation and address the coordination market failure which usually impedes the roll out of circular economy solutions at the industrial level.

Average company size is larger than regional and national comparators...

3.17 On average, Tees Valley businesses in the PCE sector employ more people than other businesses. Only 61% of businesses employ fewer than 10 employees, compared to 88% across all sectors. Around a fifth of businesses employ between 10 and 49 employees (compared to 10% across all sectors) and 30 businesses (13% of the sector's business base) employ between 50 and 249 employees. Within the Tees Valley, five businesses employ over 250 employees in this sector, including:

- Huntsman International (Stockton on Tees);
- Chemoxy International (Middlesbrough);
- Lotte Chemical (Redcar);
- J&B Recycling (Hartlepool); and
- Fine Organics (Middlesbrough).

3.18 Ownership patterns in the sector are dominated by overseas based investors and multidivisional firms. These tend to be slightly larger than average, and they co-exist with a not insignificant number of smaller, more specialised private limited companies in the supply chain.

3.19 The process, chemicals and energy sector is highly specialised in the TVCA area. The area has double the concentration of employment in the sector compared to nationally (location quotient = 2.0), and a higher proportion than in the Northern Powerhouse (location quotient = 1.5).

Table 3.2 Employment and Businesses in the Process, Chemicals and Energy Sector

	Employment (2015)				Businesses (2016)	
	No.	Change 2010-15	LQ*	% of Tees Valley	No.	Change 2011-16
Darlington	700	-8%	0.9	9%	<50	0%
Hartlepool	1,500	+4%	3.5	20%	<50	+17%
Middlesbrough	700	-32%	0.8	9%	<50	+100%
Redcar & Cleveland	1,300	-42%	2.2	17%	<50	+33%
Stockton on Tees	3,400	-2%	2.8	45%	100	+50%
Tees Valley	7,600	-15%	1.0	100%	250	+48%

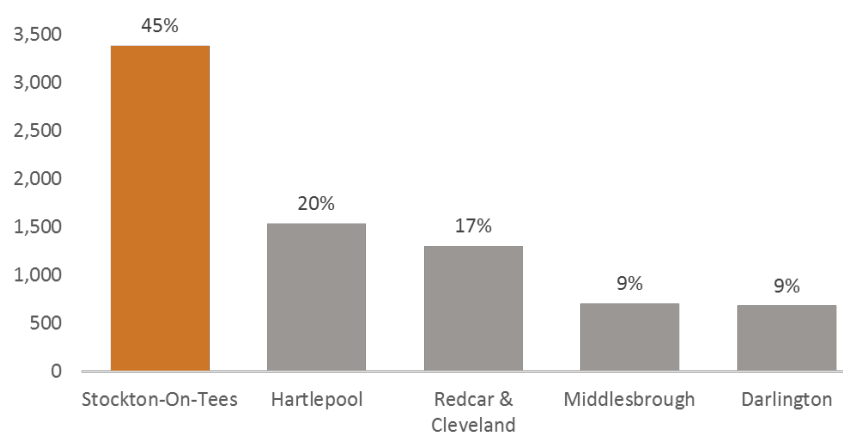
Source: BRES (2015), UK Business Count (2016)

Note: * - LQ (Location Quotient) shows how concentrated activity in the sector is in an area compared to nationally. A location quotient above 1 shows that activity is more specialised in an area than nationally.

- 3.20** The district with the most employees in the process, chemicals and energy sector is Stockton-On-Tees (3,400 employees), accounting for 45% of employment in Tees Valley. There are also smaller concentrations of activity in Hartlepool (1,500 employees) and Redcar & Cleveland (1,300 employees).
- 3.21** The number of employees has fallen across Tees Valley by 15% since 2010, with the highest falls experienced in Redcar & Cleveland and Middlesbrough. By comparison, the business base has grown strongly over the last five years (+48%), although this is from a relatively small base.

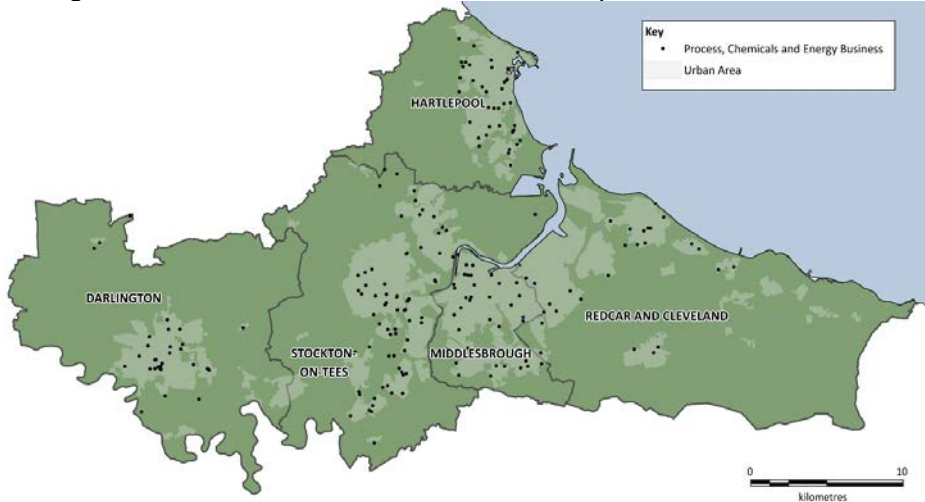
Figure 3.3: Number of process, chemicals and energy employees by TVCA district

Source: ONS, 2016



Source: ONS, 2016

3.22 The figure below illustrates the location of companies across the Tees Valley:

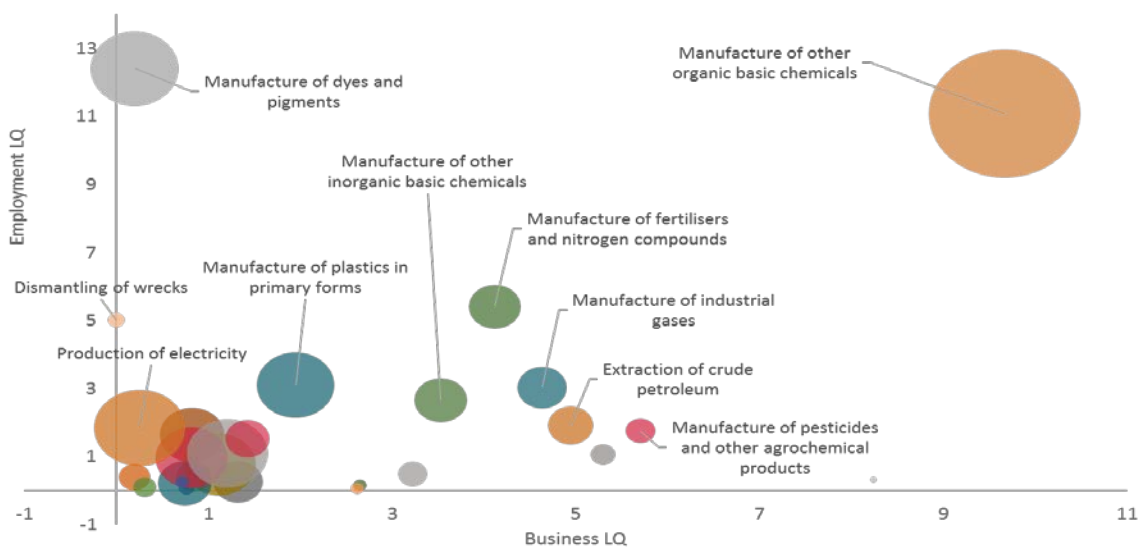


Source: FAME Database

Tees Valley has a number of highly specialised sub-sectors compared to England...

3.23 Location quotient reveals that TVCA has employment and business concentrations in a number of process, chemicals and energy sub-sectors. The chart below shows the location quotient for employment on the left axis and for businesses on the bottom axis for each sub-sector. The size of the bubble represents the level of employment within each sub-sector in the TVCA area. As each point moves above one, the more concentrated the sector is in employment and the number of businesses, relative to England.

Sub-Sectors' Business and Employment Concentrations of Activity



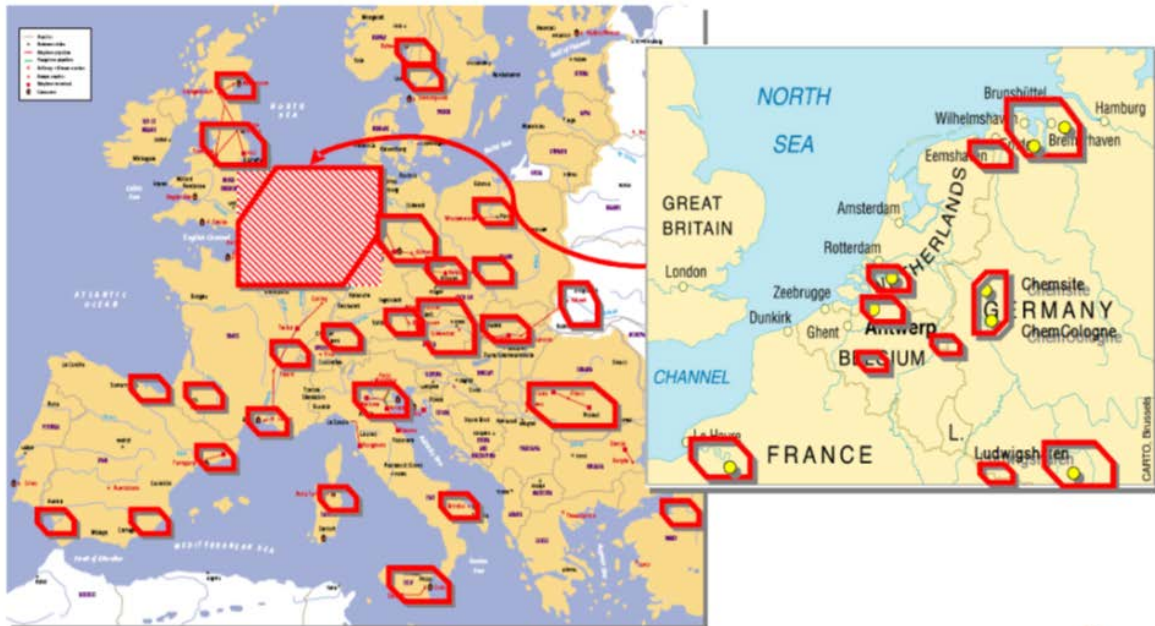
Source: ONS, 2016

Note: The size of the bubble is proportional to the amount of employment in the sub-sector. The location quotient compares the concentration of businesses and employment in the sub-sector in the TVCA area, relative to England.

International Benchmarks

3.24 Despite the rise of investment in China and the Far East, and their growth in basic chemicals and feedstock, the key hotspot comparators for the wider PCE sector are in the EU. Figure 3.4 gives an indication of the major sites:

Figure 3.4: European Chemicals Investment Hotspots



3.25 According to the European Chemistry Industry Council (CEFIC) and the European Chemical Site Promotion Platform (ECSP), successful chemicals and process clusters in the EU share the following characteristics:

- Investment environment: role and support of the authorities in providing incentives and support in the development of infrastructure or attracting investment
- Availability of land
- Raw material and feedstock supplies at competitive prices
- Energy and utilities at competitive prices
- Relative proximity and easy access to most important customers
- Availability of efficient services (logistics, finance, IT, packaging, security, marketing, promotion etc.
- Availability of labour (skilled and unskilled) at competitive prices
- Efficient logistics infrastructure
- Low-risk and stable business climate and stable regulatory environment
- Good schooling and educational facilities
- Co-siting & partnering opportunities

- 3.26** Some if not many of these factors are present in the Tees Valley, but the list does provide a useful scorecard to assess progress against major European comparators.
- 3.27** Table 3.4 shows the top chemicals clusters locations in Europe, pre-recession:

Table 3.4: Top 10 Chemicals Clusters in Europe

Cluster	Country
Rheinhessen-Pfaiz (Mainz)	Germany
Lombardi (Milan)	Italy
Cataluna (Barcelona)	Spain
Dusseldorf	Germany
Vlams Gewest (Antwerp)	Netherlands
Rhone-Aples (Lyon)	France
Istanbul	Turkey
Darmstadt (Frankfurt)	Germany
Koln	Germany
Zurd-Netherland (Maastricht)	Netherlands

Source: CEFIC/Regeneris Consulting

- 3.28** In general, these were a mixture of basic and petrochemicals based sites, together with more advanced R&D related clusters.
- 3.29** Post-recession, one of the most successful inward investment locations has been the Netherlands. The chemical industry in the Netherlands, is a priority sector of the Dutch government. The chemical industry has agreed on a long-term strategy aimed at increasing productivity, doubling both turnover as well as CO2 reductions and reducing the environmental footprint. Their goal is to be known as the Green Chemistry Country and to be ranked among the top three producers of high-tech materials worldwide by 2050.
- 3.30** The Netherlands has been successful because it enjoys an excellent geographical location, with a strong transport infrastructure. The Netherlands not only operates Europe's largest inland shipping fleet, but has also built an extensive network of roads, railways, pipelines. The Netherlands is also home to one of Europe's best airports for cargo and passenger transportation (Schiphol), and Europe's largest and most important sea port (Rotterdam).
- 3.31** The competitiveness of the Dutch chemical industry lies in its internal and inter-company integration. Chemical companies purchase from - and supply to - one another. They work together on innovation and production, and take advantage of regional clustering. As a whole, the clusters are more competitive than the individual companies put together. Because of its integrated nature, the Netherlands now hosts 19 of the world's top 25 leading chemical companies, as well as a number of world class R&D institutes for fundamental and applied research.
- 3.32** Within the strong chemical and process community, the Dutch have formalized and structured the approach to co-operation. This is done with formal, long-term public-private partnerships (such as BE-Basic, the Institute for Sustainable Process Technology and the Dutch Polymer Institute) as well as through 'open innovation' in so called Centres for Open Chemical Innovation (COCI). The three COCIs are Chemelot, the Green Chemistry Campus and Plant One.

- 3.33** There are three sustainable areas in particular that excel in the Netherlands: 1) the Dutch industrial biotechnology cluster combines world-class knowledge on agri-food and chemistry with cross-disciplinary co-operation and innovation. Dutch excellence in high-performance materials (2) and fine chemistry (3) benefit from a strong foundation in basic and petrochemicals. In the area of advanced materials (polymers, composites, etcetera), the Netherlands consistently punches above its weight, producing world-renowned innovations in materials such as Twaron, Dyneema and Glare.
- 3.34** Innovation is essential for the Dutch chemical industry. This is demonstrated amongst other things by the investment the sector continues to make in research and development. The chemical industry in the Netherlands devotes approximately 2.5% of its revenues to in-house research and development, approximately € 1.4 billion per year.
- 3.35** Tees Valley must ensure that its emerging innovation ecosystem emulates the best practice identified in the Dutch model.

4 Asset Base and Ecosystem

4.1 The table below identifies the major innovation, learning and other assets within the TVCA area.

Asset	Sector-Specific Offer
Education and Skills	
Teesside University	Careers Hub
Apprenticeship Hub	Tees Valley Skills Event
Centres of Excellence	
Centre for Process Innovation (CPI)	The Welding Institute (TWI)
Technology Futures Institute (Teesside University)	Training and Education (C-STATE)
Digital Futures Institute (Teesside University)	Middlesbrough College STEM Centre of Excellence
Large Employers with R&D Activity	
Nifco UK	A Japanese-owned manufacturer of plastic fittings and dampeners to the automotive industry. It has recently opened a new £8.5m site in Stockton-On-Tees.
SABIC Petrochemicals	One of the world's largest makers of chemicals, fertilisers and plastics. They have recently invested in a new world-scale cracker at Wilton which will be able to crack US shale gas.
INEOS	INEOS is a global company whose nitriles technology is responsible for over 90% of the global production of acrylonitrile
Lotte Chemical	Is a global chemical company and one of Korea's largest corporations with annual sales in excess of \$45billion.
Ensus	Is one of the largest production plants for bioethanol in Europe and is a member of the Crop Energies Group, one of the leading European manufacturers of sustainably produced bioethanol for the fuel sector today.
BOC	A global company which is also the largest supplier of industrial gases and gas equipment in the UK.
Tees Alliance Group (TAG)	Recently opened a £20 million offshore wind manufacturing facility with specialist automated equipment for the manufacture of large diameter cans for offshore turbine foundations.
JDR Cables	Cable manufacturers for sub-sea and power cables.
Able UK	Developed new marine and terrestrial facilities at Middlesbrough Port, investing over £50m since 1996 into this extensive 126-acre facility.
Sites and Facilities	
New Energy & Technology Park, Stockton-On-Tees	Teesside Advanced Manufacturing Park (TAMP), Middlesbrough
Wilton International, Redcar & Cleveland	Five development plots, with a fully serviced chemical complex and has existing infrastructure including power, steam and water giving companies the opportunity to 'plug and play'.

Support and Business Networks	
Teesside Engineering Network	Tees Valley Apprenticeship Grant for Employers
Tees Valley Business Compass	Tees Valley Catalyst Fund
Tees Valley Enterprise Zone	SSI Taskforce Funding
Other Enabling Infrastructure	
Tees and Hartlepool ports (Teesport)	Passenger and freight connections going South to London and North to Glasgow and Edinburgh
Middlesbrough Port	A1(M) and A19 provide a link to the North and South while the A66 provides a link to the West.

Source: Regeneris Consulting,

5 Trends and Policy Context

5.1 In an ever-changing world, it is important that the UK does not lose its competitive edge. It therefore needs to build upon any continuing/emerging advantage in the global market in order to deliver further growth and business opportunities. The following PESTLE analysis identifies those key drivers of global change and how they will impact on the chemicals sector in the UK:

Table 5.1: Summary Pestle Analysis: Process, Chemicals and Energy Sector

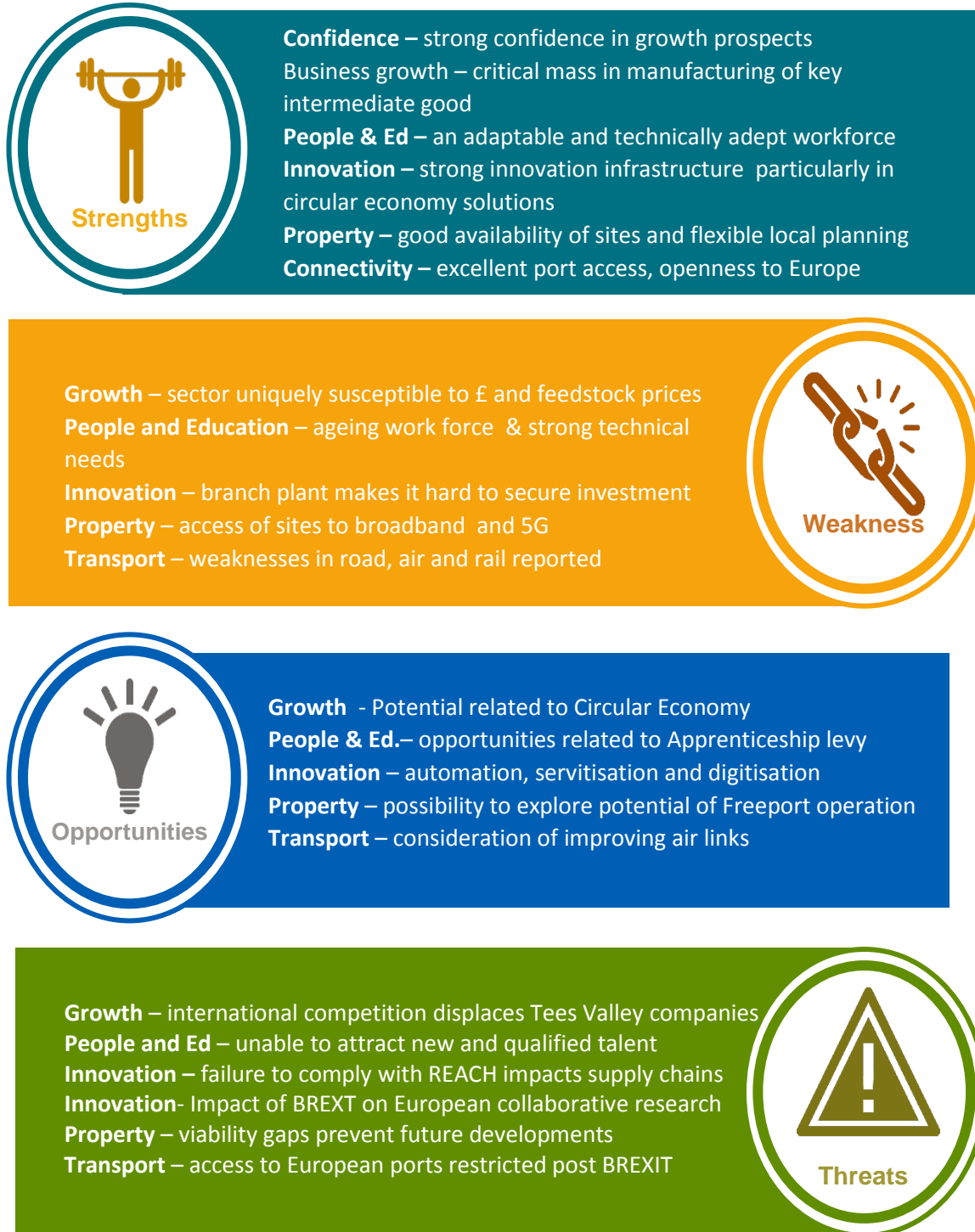
Heading	Analysis
Political	<p>BREXIT: The implications of Brexit are still unclear, especially with the lack of certainty around possible trade deals and the likelihood of the UK remaining within the single market. The UK exported €19.3bn of chemicals to the rest of the EU in 2016, accounting for approximately 7% of total EU sales, and imported approximately €22.6bn of chemicals from the EU, accounting for around 4.5% of EU27 sales. Based on total EU sales figures, approximately 75% of all chemical imports to the UK arrive through the EU. Many chemical and chemistry-using industries face supply chains being disrupted and extra tariffs on imports and exports being imposed.</p> <p>The UK's established growth sectors (aerospace, agri-tech, automotive and life sciences) all rely on chemical process industries for raw materials, expertise and facilities. Industry therefore needs to build on the infrastructure which already exists within the UK by re-building UK supply chains in order to remain globally competitive.</p> <p>BREXIT will also have implications for companies that rely on the global mobility of employees and industries that want to bring people in from overseas.</p> <p>Finally, there is the potential loss of European collaborative research, as the UK may not be viewed as the partner of choice in post Horizon 2020 funding bids.</p> <p>Industrial Strategy Grand Challenges: The BEIS Industrial Strategy was launched in November 2017. This has significant linkages with the chemicals and process sector and presents huge opportunities in terms of addressing the four 'Grand Challenges', relating to artificial intelligence and data, ageing society, the future of mobility and clean growth.</p>
Economic	<p>Global growth: The total revenue of the global chemical industry in 2016 was £3.8 trillion. The global industry has grown over the last 30 years, mostly due to growth in Asia which now accounts for over half of all global chemical sales. The global market is expected to grow a further 3% in the next 20 years as the Asian industry and industry in the Middle East continue to grow. By 2030, Asia is expected to account for two thirds of the global chemical industry market. Chemical sales in the EU have grown over the last 30 years but their market share has declined due to dilution effects from expanding markets in other countries.</p> <p>The EU now has a 15.1% share in global chemical sales with the UK representing a 7% share in EU sales which therefore equates to a 1.1% share of the global market. In order for EU and UK markets to remain competitive on a global scale, they need to focus on innovative solutions to the current gaps in the chemical & process sector whilst maintaining their strength in the saturated markets they are traditionally strong in.</p> <p>Remaining globally competitive: Alongside Brexit there is increasing competition from global chemical process industries, especially from Asia and the Middle East. Increased productivity from these countries is driving prices down as supply begins to outstrip demand. To remain competitive against big industries in countries such as China, the UK needs to once again ensure its own supply chains are secure with a move towards internalising them. As with Brexit, it is also important for the UK to</p>

	<p>shift focus towards innovation and developing new technologies that address global issues and are unique to the UK, so marking the UK as globally important (and necessary) in the chemical process sector.</p> <p>BREXIT: Uncertainty over BREXIT is perceived to be affecting staff recruitment, in particular replacement for more senior positions in many overseas owned plants.</p>
Social	<p>Expanding global population and urbanisation: It is predicted that by 2030 the world population will reach 8.5 billion people, of these, 60% will be living in urban areas. There will be an estimated 2 billion cars on the roads by 2030 and the amount of global energy usage will have doubled by 2050 [20]. Chemistry will be an essential component in meeting the challenges associated with the extra demands on the planet, the chemical & process sector will therefore be key in helping the world to continue developing (such as developments in mobility) whilst preserving the limited natural resources available.</p> <p>Demographics: The UK currently has an ageing workforce, especially in sectors like bulk manufacturing, with a shortage of people coming through to fill the gaps. There is also a skills gap in general within the chemical and process sector due to fewer people specialising in STEM subjects than necessary to maintain the workforce. A problem more specific to the Northern Powerhouse is attracting people to work in the north. The skills gaps within the sector extend through the entire supply chain and are not specific to the defined sub-sectors. The skills gap increases the importance of attracting students to universities within the Northern Powerhouse to increase the chances of them remaining in the region post-graduation.</p>
Technological	<p>Digitisation: As industries become increasingly interconnected, networking and digitisation is becoming an essential component of all industrial processes and the chemical and process sector is not exempt from this. The development of the internet of things is forcing industries to maintain an online presence in order to remain competitive. As digitisation becomes increasingly and inevitably important, the importance of technical consultancies will become greater and their use by the chemical and process sector will expand. The importance of digitisation is also recognised as part of the artificial intelligence and data Grand Challenge.</p> <p>Onshoring / Reshoring: Reshoring is increasing in UK manufacturing, driven by shifting consumer preferences; a reduction of the wage gap with emerging economics; volatile international transport costs, and a desire by management to better control quality and supply chain risks.</p> <p>Maximising use of limited resources: Pressures created by limited natural resources and the drive towards a low carbon economy will require the securing of UK supply chains and local feed stocks, alongside new innovations to reduce reliance on fossil fuels and drive low-carbon technologies forward. A more circular economy to reduce waste will also be essential to this. [A Circular Economy is a deviation from the more traditional linear economy whereby products are made, used and then disposed of. In a circular economy, resources are kept in use for as long as possible and the maximum value is extracted from them.]</p>
Legal	<p>The EU has adopted several pieces of legislation on chemicals, which are primarily 'trade regulations' harmonising the conditions under which chemicals can be placed on the market. The aim of REACH is to protect human health and the environment. REACH shifts the responsibility from public authorities to industry with regards to assessing and managing the risks posed by chemicals and providing appropriate safety information for their users.</p> <p>REACH is constantly evolving, having been amended 38 times since it was enacted in 2006. REACH is enforced by the European Chemicals Agency (ECHA) and relatively little of its regulation has been transposed into UK law. For the UK to</p>

	continue to trade with the EU there may be a need to adopt REACH regulations, which may be increasingly expensive.
Environmental	<p>Climate change: The drive towards low-carbon technologies and a need to preserve the natural environment has created a need for new technologies to be developed in order to allow production methods to be altered in a way that allows them to be economically viable, whilst having as small an impact on the environment as possible.</p> <p>Maximising use of limited resources: A key problem with the move towards internalising supply chains and a circular economy is that all industries naturally want to look after their own interests. This means industries tend to pull in different directions, and any requirement to work together to form a circular economy will involve a shift in base-level thinking. Both issues of climate change and utilising limited resources are helped to be brought into even sharper focus for the sector by the clean growth Grand Challenge.</p>

6 Summary SWOT Analysis

Figure 6.1 High Level SWOT Analysis



7 Indicative Actions

Emerging Proposition

- 7.1** The PCE sector across Tees Valley is mature, both in the technology being used and also the sectoral age profile. There are few new business start-ups and a relatively low churn (i.e. few company closures). In addition, the sector has a high proportion of middle and large scale companies, with the former generally delivering goods to the latter for subsequent exporting.
- 7.2** Most middle tier companies are indigenously owned and generally compete in terms of price, whilst the large companies are mostly 'branch plants' of international concerns with overseas headquarter and research functions.
- 7.3** The sector has relatively few new business start-ups, this is largely attributable to the maturity of the technology (no immediate disruptor technologies) and high start-up costs (as the sector is capital intensive).
- 7.4** Unlike other sectors of a similar level of maturity, chemicals and process companies are becoming more fragmented at the same time as having a significantly higher proportion of (largely family owned) middle tier companies. Much of this fragmentation is the result of overseas buy out, designed to increase market control and secure supply chains.
- 7.5** There is a need to curb the loss of market share/reduced export orientation and this may be largely mitigated through investment in innovation. The development of and investment in the circular economy and resource efficiency represents a significant opportunity for the chemical and process sector to re-shore activity and build new product bases. The use, re-use and remanufacture of raw materials and products aligned with further resource efficiency has the potential to address many of the present sector asks. In addition, industrial digitisation and particularly mass machine learning has the potential to mitigate sectoral fragmentation and address the coordination market failure which usually impedes the roll out of circular economy solutions at the industrial level.
- 7.6** Unlike other sectors, it is our contention that even though ownership is becoming increasingly fragmented, technological advancement such as industrial digitisation and the circular economy may facilitate more integration. In addition, industry is becoming increasingly clustered in fewer but more globally competitive locations which have the essential prerequisites to compete. A survey of the sector conducted by NEPIC in 2018 prioritised the key components of regional and sectoral growth and identified mechanisms (based on international benchmarking conducted by Technopolis) for its further enhancement within the Tees Valley:

Key Attractor	Priority	Description of Best Practice and application to Tees Valley
Access / Cost of Feedstocks	1st	<p>The availability of inexpensive indigenously sourced gas in the Gulf Coast region of the US has been the key to its success as the gas is used as a feedstock in the production of various chemical commodities.</p> <p>The local sourcing of affordable resources, will not only permit import substitution, but will also be a prime motivator for the reshoring of further production methods. The price of feedstocks was judged to be the most important factor in support of inward investment.</p> <p>In conjunction with the use of indigenously sourced gas, the simplification of the American Tax system, through the Tax Cuts and Jobs Act 2018 has led to a significant increase in attraction of inward investment of chemical manufacturing activity. A potential consequence of the proposed tax reform, specifically lowering business taxes, is that the U.S. would be a more attractive place for foreign capital (investment money). In addition, the Gulf Coast has a long tradition of utilizing sector specific (chemical) approaches to free trade zones, such as:</p> <ul style="list-style-type: none"> • No customs duty on goods imported into the free trade zone and then re-exported; • Inverted tariffs are permitted meaning that goods produced in the zone benefitted from lower import taxes; and • Additional infrastructure and utility support. <p>There is the opportunity to utilise the reform of the tax system post Brexit to develop a sectoral Free Trade Zone (possibly using block chain solutions)</p>
Access to transport / location of main markets	2nd	<p>There is a need to replicate the Catalisti cluster model which was set up in Belgium to capitalise on access to transport, encourage more co-location at transport hubs, create supply chain solutions and address any constraints through the development of cross sectoral partnerships between small and large companies, research institutions and government organisations.</p>
Application of emergent technologies	3rd	<p>Digitisation of chemicals manufacturing is the cornerstone of the Industry Transformation Map for the energy and chemical sector in Singapore. It is anticipated that it will support productivity through automated measurement using advanced manufacturing sensor technology, sophisticated data analytics and visualisation will enable improved manufacturing efficiency while connectivity across the supply chain will streamline the sector as a whole. There will be implications too for the safety of people and assets, as well as cybersecurity.</p>
Skilled labour force	4th	<p>The Economic Development Board for Singapore have supported consultants, Accenture in mapping digital skills needed including data and trend analysis, automation management, cybersecurity, big data management, modelling and simulation and user interface design.</p>

Innovation Ecosystem	5th	The Chemelot Innovation campus model provides a creative ground for innovation and for new company formation. Key impacts include: Higher rates of business start-up; and Enhanced translational research, through the co-location of research facilities and provision of on-site knowledge transfer partnerships.
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Summary Action Plan - Chemicals, Process and Energy

The following action plan can be delivered by resources within the Tees Valley:

Nature of Opportunity/Need	Actions
Ensuring the continued critical mass of the sector by anchoring the process, chemicals and energy branch plant economy in the Tees Valley through the attraction and retention of further added value functions	<ul style="list-style-type: none"> • Creation of an inward investment prospectus and supporting infrastructural support (linked to industrial symbiosis) i.e. identified enterprise zones focused on PCE sector • Additional In-market (Export) Support/ Mayoral Trade Development Role;
Addressing the opportunity of enhanced servitisation by ensuring knowledge transfer	<ul style="list-style-type: none"> • Use digital technologies to ensure access to export markets and enhanced collaboration (and support the free-zone proposition) • Development of key sector networks to encourage knowledge transfer/collaboration;
Few business start ups/scalable companies	<ul style="list-style-type: none"> • Focused Strategic Account Management to develop scalable/mid-sized companies within the sector; • Use demonstration space (circular economy and industrial digitisation) to attract (out of region) university spin-outs to the region
Mitigating the high costs of doing business within the Tees Valley through reducing energy and raw material costs	<ul style="list-style-type: none"> • Work in conjunction with industry to identify and utilise indigenous energy feedstocks • Ensure the resilience of utilities infrastructure to meet identified need • Use the circular economy / indigenously sourced energy stocks to mitigate the high costs of doing business in Tees Valley,
Addressing the emerging skills replacement gap within the sector	<ul style="list-style-type: none"> • Programme of support to develop talent across Tees Valley. Development of an integrated training and skills programme, primarily focused on the coordinated delivery of apprenticeships: including, recruitment, training and placement across the region. • In addition, work with existing knowledge providers to impart specialist leadership and technical training driven by industry. This will in large part be driven by emerging technological absorptive incapacity in, for example the circular economy and industrial digitisation. • The integrated model would address the issue of emerging fragmentation across the sector and will therefore significantly benefit both business and individuals if cross-company apprenticeships could be supported.
Addressing funding constraints	<ul style="list-style-type: none"> • Creation of a patient capital programme and additional (sector specific) investor readiness programmes
Need to diversify supply chains and export markets	<ul style="list-style-type: none"> • Foreign Markets Programme- additional wraparound export support • Tees Valley/Mayoral Trade Ambassadors Programme
Ensuring that there is 'fit for purpose' business accommodation Need for enhanced broadband speed and coverage	<ul style="list-style-type: none"> • Updated Sites and premises study • Roll out of full fibre network and 5G Testbed approach

Regeneris Consulting / TVCA

There is a need for Tees Valley to engage with the wider Northern Powerhouse (N11 Group) to deliver the following strategic initiatives:

Proposed intervention	Actions:
Northern Powerhouse Chemicals and Process Sector Development Vehicle	<p>Augmenting existing sectoral representative bodies: the Development Vehicle will be tasked with delivering an enhanced business support function, including but not limited to: supply chain/export diversification and foreign direct investment.</p> <p>Specific actions:</p> <ul style="list-style-type: none"> • Tees Valley must be at the lead of any emerging Northern Powerhouse inward investment proposition with a real target on ensuring higher value adding functions (Research and development, legal and procurement) choose to relocate to the region; and • Tees Valley Mayor to take on mantle of trade ambassador for the sector in the wider region
<p>Resource efficiency:</p> <p>Develop new feedstock base for chemical industry</p>	<p>Consider the options that (existing and emerging) affordable feedstocks may give the North and Tees Valley in particular.</p> <p>This would require feasibility studies and a roadmap for industry development.</p> <p>Develop indigenous energy sources and wider circular economy proposition to mitigate feedstock concerns.</p> <p>Northern chemicals sites could provide a base for new industries and materials. This would require active engagement with the players developing these industries, as well as the development of a number of pilot/demonstrator projects</p> <p>Specific actions:</p> <ul style="list-style-type: none"> • Provision of nationally funded demonstration space/test-bed facilities for new technologies and materials such as: District Heating, Hydrogen, Lithium Fuel Cells and wider circular economy agenda. • Roll out of demonstration space will be in close proximity to existing: <ul style="list-style-type: none"> ○ innovation ecosystem; ○ enterprises areas; ○ mayoral development corporation
Unifying the innovation ecosystem	<p>Establish, an integrated science and technology innovation network (a 'knowledge-based growth hub) which would provide a one stop shop approach to research and development for both local companies and overseas based organisations.</p> <p>Specific actions:</p> <ul style="list-style-type: none"> • Tees Valley to support local innovation ecosystem to fully avail of emerging opportunities, in particular, encouraging the co-location of test facilities/business support functions within the region.

Appendix A: Sectoral Definition

Table A.1 Definition of the TVCA's process, chemicals and energy sector

SIC code	Description	SIC Code	Description
0610	Extraction of crude petroleum	3511	Production of electricity
0620	Extraction of natural gas	3512	Transmission of electricity
1910	Manufacture of coke oven products	3513	Distribution of electricity
1920	Manufacture of refined petroleum products	3514	Trade of electricity
2011	Manufacture of industrial gases	3521	Manufacture of gas
2012	Manufacture of dyes and pigments	3522	Distribution of gaseous fuels through mains
2013	Manufacture of other inorganic basic chemicals	3523	Trade of gas through mains
2014	Manufacture of other organic basic chemicals	3530	Steam and air conditioning supply
2015	Manufacture of fertilisers and nitrogen compounds	3600	Water collection, treatment and supply
2016	Manufacture of plastics in primary forms	3700	Sewerage
2017	Manufacture of synthetic rubber in primary forms	3811	Collection of non-hazardous waste
2020	Manufacture of pesticides and other agrochemical products	3812	Collection of hazardous waste
2030	Manufacture of paints, varnishes and similar coatings, printing ink and mastics	3821	Treatment and disposal of non-hazardous waste
2041	Manufacture of soap and detergents, cleaning and polishing preparations	3822	Treatment and disposal of hazardous waste
2042	Manufacture of perfumes and toilet preparations	3831	Dismantling of wrecks
2051	Manufacture of explosives	3832	Recovery of sorted materials
2052	Manufacture of glues	3900	Remediation activities and other waste management services
2053	Manufacture of essential oils	4222	Construction of utility projects for electricity and telecommunications
2059	Manufacture of other chemical products n.e.c.		
2060	Manufacture of man-made fibres		

Source: Tees Valley Combined Authority



TEES VALLEY
COMBINED
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AGENDA ITEM 8

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

28 SEPTEMBER 2018

REPORT OF HEAD OF SERVICE EDUCATION, EMPLOYMENT AND SKILLS

EDUCATION, EMPLOYMENT AND SKILLS

ADULT EDUCATION BUDGET (AEB)

SUMMARY

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

Parliamentary Orders were laid before Parliament on the 23rd July 2018 with the agreement of each of the Local Authorities and the Tees Valley Combined Authority. The Adult Education Budget that relates to delivery for Tees Valley residents will therefore be transferred to the Tees Valley Combined Authority for implementation from 1 August 2019. An indicative budget has been provided from the Department for Education to aid planning of £30.5m that relates to one academic year of funding. The annual value is subject to confirmation as part of the autumn statement. This budget will be devolved on a permanent basis to provide training for Tees Valley residents only.

In order to prepare for implementation of this budget from August 2019 it is necessary to consider the plan for implementation and the process for awarding funding to a range of Providers.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Approves the strategic approach that is planned for implementation of the devolved Adult Education Budget.
- ii. Approves the process for the allocation of funding to providers for 2019/20.
- iii. Delegates the operational management, including the funding award administration and the resourcing required for delivery to the Tees Valley Combined Authority Managing Director in consultation with the portfolio lead, Councillor Christopher Akers-Belcher and the elected Mayor.
- iv. Agrees to receive a further report in May 2019 to approve final funding awards to providers.

DETAIL

1. The Adult Education Budget combines the funding for Community Learning and Adult Skills training and funds learning and skills provision for those aged 19 and over, who

- are primarily unemployed or low waged in work and wish to access training to level 2 (GCSE).
2. A condition of the devolution arrangement is a requirement of the Tees Valley Combined Authority to continue to fund the current legal Entitlements for Tees Valley residents to access fully funded skills provision, which includes:
 - Adult Basic Skills - English and Maths for those who have not previously achieved a GCSE Grade A*- C or grade 4 or higher
 - First full level 2 qualifications (19-23 year olds)
 - First full level 3 qualifications (19-23 year olds)
 3. From 2020 there will also be a legal Entitlement for learners to access fully funded Digital training. Details of relevant qualifications are yet to be confirmed.
 4. Tees Valley residents already access high quality training from a range of providers that include Further Education Colleges, Sixth Form Colleges, Council Adult Education provision and Independent Training Providers. Devolution of this budget will enable greater closer working arrangements with these Providers to enhance the current offer and ensure it is flexible and responsive to changing learner and employer demand.
 5. This devolved budget will allow the Tees Valley Combined Authority to plan and influence skills and training provision to ensure Tees Valley residents have access to skills and training from Entry level to Level 3 (approx. A-Level) qualifications. Eligibility criteria will continue to apply to provide this at no cost to the learner. Devolution will, in time provide an opportunity to flex this eligibility criteria and provide simpler pathways to progressive learning directly linked to employer demand.
 6. It is intended to maximise funding to the learner by creating a system that focuses upon measuring and delivering better outcomes for all learners. In time this will provide a progressive offer that creates lifelong pathways of learning to identifiable outcomes, including career pathways. This is particularly important for learners who may begin their journey with community level learning or access retraining later in their lives.
 7. Better and timely local performance management of the skills system will provide evidence as to the impact that this budget has on addressing unemployment and skills gaps identified by employers. It will also provide evidence as to the best progression routes for learners, to reduce the widening gap of Tees Valley residents with no qualifications compared to national levels.
 8. The current funding and reporting systems are unable to demonstrate the local impact that Adult Education Budget is having on the Tees Valley economy or learner outcomes. The existing system also supports providers towards maximising their funding allocations, including the management fees linked to sub-contracting, whilst constraining their ability to respond to employers' demands.
 9. In the first year of the devolved budget the Tees Valley Combined Authority will develop a strategic approach to evaluate the performance of providers to support and move towards a system that:
 - simplifies the system through better relationship management with a manageable number of providers;
 - maximises funding to the learner;
 - prioritises delivery that is most advantageous to Tees Valley, (including in strategic and economic terms);
 - supports a sustainable skills provider base in Tees Valley;
 - supports appropriate, value for money sub-contracting;
 - establishes better measurement of learner progression, particularly from community learning to more formal learning;
 - introduces outcome performance management, including recording and analysing destination of learners;
 - supports High Quality provision; and
 - provides skills provision directly linked to employer demand

Strategic Approach Year 1 – Academic Year 2019/20

10. The Tees Valley Combined Authority will implement an operational approach that will allow a closer working relationship with providers, to ensure that there is a more planned and informed approach to the use of the Adult Education Budget. There will also be a strong emphasis on drawing on their experience, skills and insights whilst at the same time supporting a sustainable provider base that responds appropriately to learner and business demand.
11. It is intended that in the first academic year of devolution the Tees Valley Combined Authority will minimise disruption to accessible provision to ensure that the current offer of learning is maintained whilst collating timely and specific delivery data. Analysis will be undertaken to ensure that delivery is contributing to the strategic and economic aims for Education, Employment and Skills in Tees Valley.
12. The aim will be to stabilise established, economically and strategically significant training provision for both Tees Valley learners and employers. The priority will be given to high quality provision which delivers good strategic and economic outcomes for the Tees Valley.
13. The latest data currently available to Tees Valley Combined Authority for analysis to inform future delivery is for 2016/17 academic year. Establishing strong relationships with providers and collecting in year performance data will be critical to identify change required for future years.
14. In order to maintain stability of the provider base it is intended to initially retain current Education Skills Funding Agency (ESFA) funding rules and formulas. This will enable providers to continue their current budget setting process as part of their regular business and curriculum planning as we enter this period of change. This will also enable the assessment of value for money against a tested and current baseline that will help inform the future changes that would be beneficial to Tees Valley.
15. The Tees Valley Combined Authority will commit to maintaining current timescales for funding awards to enable effective curriculum planning for academic year 2019/20. This includes providers publishing their prospectus to attract learners prior to summer break 2019. In order to achieve this, it will be necessary to have indicative funding allocations identified in March 2019 and legal agreements in place by June 2019. In order to achieve this timescale the process for funding award will need to commence from October 2018.

Current Delivery

16. In order to develop a strategic plan for implementation it has been necessary to understand current delivery in detail. The most recent full year data is for academic year 2016/17.
17. In 2016/17 the ESFA funded 177 skills providers that delivered adult skills provision to Tees Valley residents and it is unlikely that this has changed significantly. These providers were funded by the ESFA on either a “grant funded” or “contract for services” basis and are a combination of colleges, local authority providers and independent training providers who were based in Tees Valley (10%), the North East region (20%) or nationally (70%).
18. Of the 177 skills providers, there were 114 providers who are “grant funded”, with 14 of these being located in Tees Valley and 18 located in the North East region. In addition to the 114 grant funded providers there were 49 Contract for Services providers.
19. There were also 92 providers who were sub-contracted to one or more of the main providers. These sub-contractors were primarily independent training providers who were either based in Tees Valley (26%), the North East region (44%) or nationally (34%).
20. The Combined Authority has sought external legal advice regarding the options for establishing funding awards via an open and transparent process as required as part the devolution deal.

21. This advice has established that the Combined Authority can undertake a process to establish funding arrangements for all providers. In addition to this, the Combined Authority may also put in place an arrangement to establish a framework for ad-hoc or specialist training as required. The funding process would be undertaken via a prioritisation approach for delivery period 2019/21. Extension beyond July 2020 will be subject to satisfactory delivery and performance.

Scenario Planning

22. In order to establish an understanding of current provision and test various scenarios for awarding funding to providers, several options have been considered. Data interrogation and analysis has been tested against five scenarios. The scenario models considered were based around minimum contract values, accessibility of learning and direct funding awards. Further sensitivity exercises have been undertaken against the 114 grant funded providers to consider as much as possible, the unintended consequences of the funding process and the direct implications to individual providers.
23. In order for the Tees Valley Combined Authority to begin the process of how to award future AEB funding, the 2016/17 ESFA full year provider data has been extensively interrogated and analysed. The analysis of this data has included:
- What is currently being delivered to Tees Valley residents?
 - Who are the providers that are delivering this provision?
 - Where is it being delivered - locally, regional and nationally?
 - How is provision being delivered (direct, sub-contracted or distance learning)?
 - What sectors are the qualifications being delivered in?
 - Number of learners accessing AEB?
24. Further analysis of the year to date data for the academic year 2017/18 has also been undertaken. To date there has been no significant change to delivery and performance compared to 2016/17 which would impact on our current approach. Full year data will be available in November 2018 that will inform any additional actions required as part of the funding award process. As the process is reliant upon the submission of provider led delivery plans, it is unlikely that significant change will be required.
25. It is not considered practical or appropriate to establish agreements with all 177 existing providers as this would impact on the resourcing levels required by the Tees Valley Combined Authority to manage those providers and also reduce the potential to effectively performance manage them.

Process for funding award

26. It is recommended that the Tees Valley Combined Authority seek to implement, subject to legal assurance a scenario that establishes funded arrangements with providers, with a minimum contract value of £50k. The process would prioritise funding applications which offer the best outcomes for the Tees Valley (including in strategic and economic terms).
27. Providers wishing to secure a funding award under this arrangement will be expected to submit a delivery plan which outlines how they will meet the needs of Tees Valley learners and the level of their intended delivery for academic year 2019/20. Previous track record of delivery at the level quoted will be an important factor in the evaluation process.
28. In line with the devolution funding allocation process it is anticipated that delivery and funding will be at similar levels to the Academic Year 2017/18 and will be subject to adequate funding being received by the Combined Authority from the Department for Education.
29. The assessment process will be in line with the Treasury Green Book principles and the Combined Authority's Assurance Framework. Priority will be given to those delivery plans that will deliver the most benefit to the Tees Valley, including in terms of strategic and economic impact. The stability of the current provider base should not

therefore be affected. A sensitivity analysis has been undertaken to ensure that smaller, niche or specialist providers are also not adversely affected by this approach. This approach will enable smaller, community providers to continue their existing sub-contracting arrangements.

30. A process to secure call off, ad-hoc or specialist provision that would be responsive to labour market changes and employer demand may also be established as need demands. This is likely to be via a Framework contracting model.
31. Our approach is likely to result in a reduction of nationally based providers, the majority of which are based some distance outside of the Tees Valley and the North East region, therefore the direct accessibility to skills provision for Tees Valley residents would not be adversely affected. The provision that is currently offered by these providers is substantially duplicated. Data analysis concludes that there is no specialist or niche provision being delivered by any of these main providers or their sub-contractors on a local, regional or national basis. The average contract value of the providers expected to be displaced is £10,800 p.a. to an average of 20 Tees Valley residents.
32. Based on 2016/17 data this could reduce the 177 funded providers to approximately 80, who are in the main based in the Tees Valley and North East. However, it is likely that this number will be lower as many will be likely to continue their current sub-contracting arrangements. This would support the aim to establish stronger management arrangements and relationships with fewer providers. In addition the management resources required by the Tees Valley Combined Authority would be less than if the number of Providers remained at 177.
33. This scenario would have the least impact on learners being able to access learning. As a comparison, based upon learners accessing training in 2016/17, 1804 potential learners would be affected in this scenario (approx. 3.6%). As the provision being accessed by those learners is duplicated, future learners could still access their learning from alternative providers.
34. An additional £1.4m would be available to be reinvested in Year 1 from displaced provision.
35. This scenario would have the least impact on displacing any sub-contractors who are in the main (72%) Independent Training Providers based either in Tees Valley or the North East region.
36. This also provides an opportunity to begin to reduce the level of sub-contracting in year one by at least £500k with the aim of further reduction from year 2, following further analysis to ensure that further funding is maximised to the learner. This will enable sub-contracting management fees to be re-invested in direct provision.

Timescales for Funding award for 2019/20

37. It is proposed to implement the following funding award timeline:
 - Launch of funding opportunity 26th October 2018
 - Provider Information event W/C 5th November 2018
 - Closing date for submission 18th January 2019
 - Indicative Funding awards 5th April 2019
 - Cabinet approval of funding awards May 2019

Performance Management

38. To establish the funding arrangements the Tees Valley Combined Authority will require providers to submit a delivery plan as part of the application process. This delivery plan will include details of the qualifications, learner numbers and anticipated performance levels to be delivered. It will highlight any sub-contracting and associated delivery arrangements. The plan will allow providers to set out the detail of their intended delivery to meet the needs of Tees Valley residents, employers and local strategic and sector priorities. The delivery plan will be assessed in its totality against

the impact that it will make in contributing to all aspects of adult learning across Tees Valley.

39. Engaging providers that deliver high quality provision and outcomes to Tees Valley residents is of high importance. Therefore, in order to ensure the high quality of provision that is delivered and maintained under the Adult Education Budget, there will be in year performance monitoring, specifically focused on learner outcomes and positive progression. Similar levels of performance monitoring will be carried out for subcontracted delivery.
40. It is realised that in the first year any significant change to the existing provider funding methodology and core data collection arrangements could destabilise the current provider base. It is therefore the intention to minimise disruption to existing systems and processes for providers. The Tees Valley Combined Authority will therefore be adopting many of the existing ESFA funding policies and contractual conditions and documents for 2019/20 and 2020/21, with the intention of developing and testing new models under a shadowing arrangement to help inform new approaches to funding models in 2021/22.
41. The Combined Authority will reserve the right to reconcile significant underperformance at a mid-year point and adjust payment profiles from March onwards. In addition the ability to stop payment will be retained if any inappropriate, illegal or unsatisfactory delivery is undertaken.

Tees Valley Combined Authority Management costs

42. For the purpose of effectively managing the implementation and delivery of this devolved funding, the Tees Valley Combined Authority will require additional resources to carry out the required functions. In collaboration with the other devolved areas joint working and challenge has been made to the Department for Education to request and maximise additional administrative funding to support implementation.
43. It is recognised that the functions required to be provided include:
 - Modelling and impact assessment
 - Allocation of funding
 - Audit management
 - Financial Claims and payments
 - Data collection and analysis
 - Provider performance management
 - Provider relationship management
 - Evaluation
 - Intervention functions for non-compliance
 - Policy development
 - Support services-communications, legal advice, technical support for IT systems
 - Communications
44. The Adult Education Budget is devolved in a manner that assumes a top slicing of the devolved funding for management resourcing. The ESFA currently utilises funding to administer the Adult Education Budget from a wider administrative budget.
45. Joint working is taking place with the six other Mayoral led Combined Authorities that are receiving this budget to collaborate and consider a consistent approach on this matter where possible. All Combined Authorities are considering their requirements at the present time. Current estimates are that an average of around 2-3% will be utilised for management resourcing.
46. Top slicing of the devolved budget will be minimised where possible and where appropriate, existing functions within the Combined Authority will be utilised to support the implementation and management of this function.
47. Ongoing review of the resourcing required will be undertaken to ensure resourcing is appropriate to the level of commissioning and performance management required.

FINANCIAL IMPLICATIONS

48. The funding allocation to the Tees Valley Combined Authority will be awarded on an annual basis and is subject to the annual Autumn Statement. The initial allocation for 2019/20 will be made from a formula provided by the Department for Education based on 2017/18 actual delivery to Tees Valley residents.
49. In future years the allocation will be made upon the percentage allocation made in 2019/20 against the overall budget available in England as part of the Autumn Statement. This percentage will then be used as the baseline for the calculation of budgets from the 2020/21 Academic Year onwards.
50. The Department for Education has confirmed that Transfer of Undertakings Regulations 2006 (TUPE) conditions do not apply to the devolution of the Adult Education Budget to the Combined Authority.
51. Financial costs:
 - From 2019 all management costs and operational costs will be covered from the devolved funding allocation.
 - The decision making timeline will ensure that no binding funding obligation will be entered into until such time as the devolved budget from the Department for Education is confirmed and received.
 - Grants and contracts will be awarded within the annual budget envelope and there will be no scope for over profiling.
52. External Audit arrangements will be secured to provide assurance of legal compliance.
53. DfE has not made funds available to meet the management costs of delivery and have instructed that the Combined Authority's management costs should be top-sliced from the devolved budget. Comparative assessment has been carried out and will continue with the other devolved areas.

LEGAL IMPLICATIONS

54. The Tees Valley Combined Authority has sought external legal advice on a number of matters related to the award of funding which include:
 - The proper categorisation of the arrangements the Combined Authority intends to enter into with training providers, that is, specific options for funding agreements
 - The considerations to be taken into account when drafting funded agreements
 - Decommissioning existing funded provision within a minimum funding value
 - Procurement of call-off, ad hoc or specialist training provision
 - Any risk in seeking to restrict sub-contracting management fees
 - Any risk in potentially making a funding award for longer than one academic year, subject to funding allocation to the Tees Valley Combined Authority
55. A requirement of the Devolution Deal is to establish a Conflict of Interest policy and external and independent legal advice has been sought to advise on the production and implementation of the policy. The advice gained highlights the required recording processes for identifying any potential conflict, alongside the consideration of establishing Ethical Wall agreements to distinguish between individuals acting as stakeholders and consultees.
56. A project risk register is in place for the implementation of the Adult Education Budget and has been submitted and considered by the Audit and Governance Committee. The register will be up-dated and submitted to this group for further consideration on a regular basis.

CONSULTATION & COMMUNICATION

57. Throughout the recent months the Adult Education Team has undertaken consultation and feedback with the Tees Valley Management Group, Audit and Governance Committee, the Business LEP members, Tees Valley Chief Executives and Council Leaders, Education, Employment and Skills Officer Group, Education and the Employment and Skills Partnership Board.
58. An Adult Education Budget Steering Group of key stakeholders (Local Authority, Further Education Colleges, Association of Colleges and ESFA) was established for consultation purposes and their input has been invaluable in challenging and informing the Combined Authority's strategic approach.
59. In addition, the Combined Authority has offered consultation opportunities to existing and interested providers, via stakeholder events in June and September. Further similar events will be hosted and information available as appropriate on the Combined Authority's website to ensure effective communication is undertaken and providers are as informed as possible.
60. Regular joint meetings have been held with all 6 devolved Mayoral led Combined Authorities, the Greater London Authority, ESFA and the Department for Education to compare approaches, learn from each other and both support and challenge our individual approaches.

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AGENDA ITEM 9

REPORT TO THE TEES VALLEY COMBINED AUTHORITY

28TH SEPTEMBER 2018

REPORT OF STRATEGY DIRECTOR

IMPLEMENTATION OF THE LEP REVIEW

SUMMARY

This report details the outcome of the Local Enterprise Partnership (LEP) review and the necessary actions that the Tees Valley Combined Authority will need to put in place to respond to the review recommendations.

In Tees Valley the Combined Authority is the LEP with the private sector members Associate Members of the Cabinet, therefore all are fully involved in all aspects of the Combined Authority's work. This is not the case across the country so not all elements of the LEP review recognise our local arrangements meaning some proposals are more relevant than others. However, many of the proposals would be considered as good practice and are useful. In particular specific actions are identified in relation to Mayoral Combined Authority (MCAs) areas consolidating Government's engagement with MCAs and LEPs.

The actions that we have identified from the published LEP review and initial proposals to address them are set out below. This will be developed further through the detailed implementation plan which is to be submitted to Government by 31st October 2018.

RECOMMENDATIONS

It is recommended that the Combined Authority:

- i. to agree the report, in particular:
- ii. the submission of the statement on LEP geography (ANNEX 2) for the Tees Valley to Government today, and,
- iii. draft implementation plan to be circulated to all members for comment before sign off for submission to Government;
- iv. to delegate to officers, in consultation with the LEP Chair and the Mayor, the sign off of the implementation plan to be submitted to Government by 31st October.

DETAIL

PUBLISHED LOCAL ENTERPRISE PARTNERSHIP REVIEW

1. Government published the conclusions of the LEP review on 24th July 2018. It includes a series of Government commitments together with a number of additional changes that Government will work with LEPs to implement. The summary of the recommendations is attached at Annex 1.

REVIEW RECOMMENDATIONS AND IMPLICATIONS FOR TEES VALLEY

Roles and responsibilities

2. LEPs will focus on productivity, through the development and delivery of a Local Industrial Strategy, including the requirement for an annual delivery plan and an end of year report (a separate report covers this in more detail). In Tees Valley the LEP is fully integrated within the Combined Authority therefore the Combined Authority will take the lead in developing the Local Industrial Strategy. Government will also publish an annual economic outlook to measure economic performance across all LEPs and the areas they cover.

Leadership and organisational capacity

3. Additional support from Government will be in place from a senior official sponsor - Rachel Fisher (Deputy Director for Regeneration and Infrastructure, Cities and Local Growth Unit), is the Tees Valley sponsor and she visited Tees Valley on 2nd August. Support will be given to recruit LEP Chairs as appropriate and induction and training for Board members and officers will be available. Additional capacity funding of up to £200k will be available to provide the strategic and analytical capability to develop the Local Industrial Strategy and to implement the LEP review.
4. We will be required to:

LEP review requirement	TV LEP current position / action plan
Consult widely and transparently with the business community before appointing a new Chair. <i>The draft process needs to be identified in the LEP Review Implementation Plan and in place by 28th February 2019.</i>	Current LEP Chair was agreed at the TVCA AGM on 1 June 2018. When the new Chair is to be appointed we will consult with the business community in an open and transparent way.
Define term limits for Chair and Deputy Chair <i>The Implementation Plan should outline plans to introduce the defined term limits and the process should be in place by 28th February 2019. A deputy Chair should also be in place by 28th February 2019.</i>	The current Chair has been in place since the start of the Combined Authority in 2016 for a one year term as specified in the constitution. The MCA constitution in 2017 set out a two year term with the potential to extend for a further two years. Therefore, a new Chair will need to be appointed either by the June AGM 2019, or by the AGM in June, 2021, if the current Chair is extended for a further two years.

	Tees Valley does not have a formally appointed Deputy role and needs to consider this.
<p>More representative boards of a maximum of 20 persons (option to co-opt additional 5). Aspiration that 2/3rds of Board are private sector.</p> <p><i>The Implementation Plan will set out how this is to be achieved and changes needed should have been implemented by the end of the 2019/20 financial year.</i></p>	<p>At present the TV membership as detailed in the TVCA constitution has 15 members, eight from the public sector and nine from the private sector. However, we currently have a total of 18, nine public sector members (Mayor and 5 LA Leaders, HE, FE and NHS) and 9 private sector.</p> <p>For 2/3rds of the LEP Board to be private sector, with a maximum number of 20 members we would need to reduce the number of public sector members to a maximum of 7 and increase the private sector to 13. There is also the option to retain the other public sector members as co-opted members.</p> <p>It should be noted that this is an aspiration and Cabinet need to consider whether this is appropriate for Tees Valley.</p>
<p>Improve gender balance and representation of those with protected characteristics on boards</p> <ul style="list-style-type: none"> - Aim for women to represent 1/3rd of Board members by 2020 and ½ by 2023 - Ensure Boards are representative of the businesses and communities they serve <p><i>The implementation plan will set out how we will seek to achieve the equality and diversity ambitions.</i></p>	<p>TVCA Cabinet on 27th July, agreed to aim for 50% female representation on the Cabinet by 2020.</p> <p>Of the 18 members we only have 3 female members (one LA Leader, one NHS and one private sector). Therefore, to get to half by 2020 we could recruit a further 6 female members and stand down 6 male members or we could increase the total to 20 and recruit a further 7 female members and stand down three male members. By the end of May 2019, all bar one of our existing private sector members will have served the two year term. It also assumes that the LA membership would remain with the existing balance and this might change.</p> <p>Ongoing private sector recruitment will also be addressing this and the broader representation issues but before any further appointments are made the approach will need to be agreed to ensure that appointments are not making the gender balance more challenging to achieve.</p>
Provide a Secretariat independent of local government	Government has confirmed that this does not apply to LEPs in Combined

	Authorities where joint arrangements are considered appropriate.
<p>Develop a strong local evidence base of economic strengths, weaknesses and comparative advantages, supported by robust evaluation of individual projects and interventions.</p> <p><i>A proposal for this funding has to be submitted as part of the Implementation Plan by 31st October 2018.</i></p>	<p>The Tees Valley Economic Assessment underpins the Strategic Economic Plan and is updated bi-annually. Sector Action Plans have been and continue to be prepared to develop a better understanding of business in the area. Further evidence will be developed during the development of the Local Industrial Strategy. Funding of up to £200k will be available to develop the evidence and implement the LEP review.</p>

Accountability and Performance

5. Government will retain overall accountability for the system of LEPs and local growth funding, will publish LEP performance against quantitative and qualitative measure set out within LEP delivery plans and will work with the LEP Network to develop a peer to peer LEP review process.
6. We will be required to:

LEP review requirement	TV LEP current position / action plan
Have a legal personality such as incorporation as companies, or MCAs or CAs	TVCA is the accountable body – no change required.
<p>Set out clearly and transparently the responsibilities of the Chair, Board, Director and Accountable Body</p> <p><i>We will need to set this out in detail for the implementation plan and also in being compliant with the new national Assurance Framework by 28th February 2018.</i></p>	This is covered in part in the TVCA Constitution.
Actively participate in relevant local authority scrutiny panel enquiries	The LEP Chair should be invited to attend the TVCA Overview and Scrutiny Committee quarterly as does the Mayor. However, it should be noted that the LEP Chair is not accountable to the TVCA Overview and Scrutiny Committee as the Mayor as Chair of TVCA is accountable.
<p>Hold AGMs in public</p> <p><i>Arrangements are to be set out in the Implementation Plan.</i></p>	TVCA Annual General Meeting (AGM) and Cabinet meetings are held in public.

Geography

LEP review requirement	TV LEP current position / action plan
LEP Chairs and stakeholders are to put forward proposals by the end of September on geographies that reflect functioning economic areas, remove overlaps and potentially propose mergers.	Although Tees Valley has no overlap issues we are still required to submit our position on our geography to indicate that we have considered these issues and how we wish to proceed. Response attached at Annex 2 stating that we wish to retain the existing LEP boundaries as a functioning economic area, coterminous with the TVCA boundary.
Government will support LEPs to collaborate across boundaries	TVCA actively collaborates across boundaries on a variety of themes including, transport (a formal member of Transport for the North), low carbon, and innovation. Other northern groupings have been established including the Northern Powerhouse 11 (LEPs) partnership with Tees Valley leading on energy and the Convention of the North which was launched in June 2018 to represent the views of the North. TVCA will engage in cross boundary groups and networks where they add value to the development and delivery of the Strategic Economic Plan and the Local Industrial Strategy.

Mayoral Combined Authorities

7. The review recommendations specifically refer to arrangements in Mayoral Combined Authority Areas (MCAs). Government will consolidate its engagement with MCAs and their LEPs with a collaborative approach to agreeing a Local Industrial Strategy (LIS). In Tees Valley the LIS will be developed by TVCA working as a fully integrated public and private partnership. The revised National LEP Assurance Framework and revised Single Pot Assurance Framework, to be published in the autumn, will provide further clarity on the requirements for MCAs and LEPs. It is hoped that this consolidation will include one Annual Conversation with the Combined Authority rather than separate conversations on elements of the “single pot”.

LEP review requirement	TV LEP current position / action plan
Ensure LEPs have a distinctive role in setting and commissioning interventions to drive growth, jobs and private sector investment	TVCA is the LEP and operates as one body with one brand – TVCA and it would now be a backward step to have a separate identity for the LEP. However, the private sector members also meet on their own to consider their inputs to TVCA activity. Civil servants have indicated that the integrated nature of TVCA and TV LEP might make it difficult to demonstrate the distinctiveness of the LEP. If Government had stated LEPs’ role to be private sector advisory groups this would be a valid argument.

	However, Government has reinforced LEPs' role as public / private partnerships and TVCA is the most integrated public, private partnership in England. A meeting is being arranged with civil servants to discuss this matter.
LEPs and MCAs to develop local agreements setting out roles, responsibilities and accountability <i>An update on this is to be provided in the Implementation Plan and to be included in detail in the revised Local Assurance Framework by 28th February 2019.</i>	TVCA constitution sets this out and will be updated regarding membership numbers, gender balance and the deputy role.
LEPs and MCAs to move towards coterminous boundaries	Boundaries are already coterminous – no action required.

FINANCIAL IMPLICATIONS

- The LEP review should not result in a need for existing TVCA funds to be allocated to its implementation. Further LEP capacity funding of up to £200k will be made available to support the development of the evidence base, analysis and preparation of the Local Industrial Strategy, Annual Delivery Plan and Annual Report and the implementation of the LEP review.

LEGAL IMPLICATIONS

- There are no legal implications for TVCA resulting from the LEP Review.

RISK ASSESSMENT

- The major risk is that the LEP review will disrupt our established and successful partnership that has driven our work for the last decade and ensured that we were in the first wave of MCAs etc. A meeting with senior civil servants is being arranged to discuss the issue of the distinctiveness of the LEP
- A further risk associated with the implementation of the LEP Review in Tees Valley is the potential inability to recruit sufficient female members and to have appropriate representation from the businesses and communities of Tees Valley. A recruitment action plan will be developed to mitigate against these risks. .

CONSULTATION & COMMUNICATION

- Elements of the review implementation will require consultation and communication and a consultation and communication plan will be prepared as part of the detailed implementation plan.

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STRENGTHENED LOCAL ENTERPRISE PARTNERSHIPS – SUMMARY RECOMMENDATIONS

Role and responsibilities:

Government will:

Publish a **statement on the role and responsibilities** of LEPs. LEPs will focus on enhancing productivity. This will be achieved through the development and delivery of their Local Industrial Strategy.

- Publish a **further statement on Local Industrial Strategies** to guide locally-led work. This statement will be published over the summer. Government will aim to agree Local Industrial Strategies with all areas of England by early 2020.
- Commission an **annual economic outlook** to independently measure economic performance across all LEPs and the areas they cover.

Government will support all LEPs to:

- Develop an evidence-based **Local Industrial Strategy** that sets out a long-term economic vision for their area based on local consultation.
- Publish an **annual delivery plan and end of year report**. This will include key performance indicators to assess the impact of their Local Industrial Strategy, funding and interventions. It will inform objective assessment on LEP performance.

Leadership and organisational capacity:

Government will:

- Increase **regular dialogue** with LEPs. This includes the **Prime Minister chaired Council** announced in the Industrial Strategy, as well as a **senior official sponsor** for every LEP from across government departments.
- Actively **work with LEPs to advertise opportunities** for private sector leaders to become a LEP Chair when vacancies emerge. While these are not public appointments, we will offer to list vacancies on the Centre for Public Appointments website.
- Offer an **induction and training** programme for LEP board members and officers on working with Government. We will work with the LEP Network, Local Government Association and other professional development bodies to develop this programme.
- Provide **up to £20 million between 2018-19 and 2019-20 in additional capacity funding to support LEPs** to implement the review and to provide the strategic and analytical capability needed to develop ambitious Local Industrial Strategies.

Government will support LEPs to:

- **Consult widely and transparently** with the business community before appointing a new Chair; and introduce **defined term limits** for Chairs and Deputy Chair.

- Establish more **representative boards of a maximum of 20 persons** with the option to co-opt up to five additional board members. Our aspiration is that two-thirds of board members should be from the private sector;
- **Improve the gender balance and representation of those with protected characteristics on boards** with an aim that women make up at least one third of LEP boards by 2020 with an expectation for equal representation by 2023, and ensuring all LEP boards are representative of the businesses and communities they serve.
- **Provide a secretariat independent of local government** to support LEPs' decision making.
- **Develop a strong local evidence base of economic strengths, weaknesses and comparative advantages** within a national and international context. This will be supported by **robust evaluation of individual projects and interventions**.

Accountability and performance:

Government will:

- Continue to maintain **overall accountability for the system** of LEPs and local growth funding, and implement in full the recommendations of the Ney Review and any future recommendations that may be made as the performance of LEPs is scrutinised and reviewed.
- Assess and publish annual performance against **quantitative and qualitative measures** set out within LEP delivery plans.
- Set out within a revised National Assurance Framework a clear statement on an **escalating approach to intervention** in any instances where LEPs demonstrate that they are found to be underperforming.
- Develop with the LEP Network and LEPs a **sector-led approach to assessing and improving performance** through regular peer review.

Government will support all LEPs to:

- Have a **legal personality**, such as incorporation as companies, or mayoral combined authorities or combined authorities where they exist.
- Set out clearly and transparently the **responsibilities of the Chair, Board, Director, and Accountable Body**, including over spending decisions, appointments, and governance.
- Actively participate in relevant **local authority scrutiny panel** enquiries to ensure effective and appropriate democratic scrutiny of their investment decisions.
- Hold **annual general meetings** open to the public to attend to ensure the communities that they represent can understand and influence the economic plans for the area.

Geography:

Government will:

- Ask LEP Chairs and other local stakeholders to come forward with **considered proposals by the end of September on geographies which best reflect real functional economic areas, remove overlaps and, where appropriate, propose wider changes such as mergers**. Government will respond to these proposals in the autumn and future capacity funding will be contingent on successfully achieving this.

Government will support all LEPs to:

- **Collaborate across boundaries** where interests are aligned when developing strategies and interventions to maximise their impact across their different objectives.

Mayoral combined authorities:

Government will:

- **Consolidate its engagement with mayoral combined authorities and their LEPs** with a collaborative approach to agreeing a Local Industrial Strategy.

In mayoral combined authority areas, we will work with each LEP and mayoral combined authority to:

- **Ensure LEPs have a distinctive role in setting strategy and commissioning interventions** to drive growth, jobs and private sector investment
- Require **LEPs and mayoral combined authorities to develop local agreements** which clearly set out roles and responsibilities and accountability.
- **Encourage LEPs and mayoral combined authorities to move towards coterminous geographies where appropriate** in line with the wider discussions on LEP geographies.

Implementation

We will work with LEPs to develop revised proposals for geography by 28 September 2018 and a detailed plan for implementing the above changes before 31 October 2018. We will then work with LEPs, as above, to ensure these plans are implemented effectively across the country.

To support this, Government will publish a revised National Assurance Framework. This will clearly define what is required of each LEP to be compliant and to receive future core and growth funding.

We will also work with the LEP Network to identify and develop case studies of good practice and commission an additional training offer that will be available to LEP Chairs and board members.

Proposed Statement on Tees Valley LEP Geography

Tees Valley Combined Authority proposes that there is no change required to its existing geography.

The region represents a well-established and successful functioning economic area. This was recognised by Government in establishing the Mayoral Combined Authority in 2016, covering the same geography.

Tees Valley represents one of the most significant integrated industrial economies in the UK. Covering 304 square miles, and with a population of 672,500, it is made up of the Local Authority areas of Darlington, Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton. The region has a strong history of collaboration between local business leaders and the five Local Authorities, which has seen Tees Valley lead the way in setting a regional economic agenda and become a flagship for devolution.

The Tees Valley proposal for retaining the existing LEP geography is based around the following:

- 88% of residents work within the Tees Valley, and the area has a great deal of self-containment, with relatively few commuters crossing the Tees Valley boundary; many people work within their area of residence, with significant proportions travelling between the Tees Valley Local Authority areas;
- The Mayoral Combined Authority governance arrangements reflect the historical workings of the Tees Valley as a functional economic area. Combined Authority and LEP geographies are co-terminus, and the LEP is fully integrated within the Combined Authority with supporting structures that are independent of the constituent Local Authorities;
- Tees Valley has unique strengths in large scale production and processing industries. It is one of the largest industrial areas in the UK with process, energy and industrial technology plants of world scale. The area also has emerging strengths in new, innovative technologies such as subsea, biologics, energy from waste, and digital industry. Business clusters and supply chains have, and continue to grow at the Tees Valley level;
- Tees Valley Business Compass was established in 2014 as part of the national growth hub network, recognising the need for co-ordinated business support activity at the Tees Valley level, working with local and national providers; and
- There are not considered to be any advantages in changing the LEP boundaries with neighbouring LEPs. The functional economic geography of the North Eastern LEP involves sector strengths and travel to work patterns that are distinctly separate from those in Tees Valley. Whilst the economy of North Yorkshire and East Riding LEP covers a much larger geographic area, with a predominantly rural focus that does not align to the economic functioning of Tees Valley. However, Tees Valley Combined

Authority actively collaborates with areas beyond its boundaries where there are synergies and added value. For example, leading the development of a Science Innovation Audit for the chemicals and process sector across the northern powerhouse area and leading on the northern hub for hydrogen.

There is a strongly held view amongst business and civic leaders in Tees Valley that, due to the reasons outlined above, the existing Tees Valley LEP area is the appropriate and accepted economic geography, which should continue into the future.

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AGENDA ITEM 10

**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY**

28th SEPTEMBER 2018

REPORT OF STRATEGY DIRECTOR

LOCAL INDUSTRIAL STRATEGY

SUMMARY

This report provides an update on the development of the Tees Valley Local Industrial Strategy (LIS).

On 23rd July Government announced that Tees Valley would be in Wave 2 for the development of Local Industrial Strategies. At the time of writing we are awaiting a letter from Greg Clark to set out the process and timescales for the development of the LIS. However, we have had some initial inputs from civil servants.

This item is also linked to the report of the Review of Local Enterprise Partnerships (LEPs) which sets out the role that LEPs will play in the development and delivery of the LIS.

RECOMMENDATIONS

It is recommended that Cabinet:

- i. Note the report, agree the general approach to the development of the Local Industrial Strategy including an initial session of the Combined Authority, including private sector members, which is being organised to consider the evidence base that we have for the LIS and what it tells us.

DETAIL

Background

1. On 23rd July Government announced that Tees Valley would be in Wave 2 of the development of Local Industrial Strategies (LIS). At the time of writing we are awaiting a letter from Greg Clark setting out the process and timescales for the

development of the LIS. However, we have had some initial input from civil servants so we are in a position to start preparations and planning. They have outlined the core principles as follows:

Developing a Local Industrial Strategy

2. Local Industrial Strategies will identify local strengths and challenges, future opportunities and the action needed to drive productivity. In doing so, they will represent the shared interests and needs of private, public and third sectors. They will set out a collective and shared course for the long-term. They will clearly identify strategic priorities based on robust transparent evidence. They will also set the context for proposed interventions. They should not aim to articulate specific bids for funding.
3. As detailed in the LEP Review report in Mayoral Combined Authority areas, the area will have a single LIS.
4. Building from this, it is important that Local Industrial Strategies:

Evidence

5. Are founded on a robust and open evidence base. This will set out the relative strengths and weaknesses of the local economy, opportunities for the future, and local barriers to productivity. Places should harness the expertise of universities, independent experts and other stakeholders to develop a granular understanding of the local economy and the market failures that need to be addressed at the local level.

Policy mix

6. Set out a distinctive long-term vision - this should be grounded in the evidence base to create shared purpose across local actors. The strategies should not set out to be exhaustive, but instead set out a strategic course, supported by specific ambitions and complementary policies.
7. Build on local strengths - they could harness local assets towards the Industrial Strategy's Grand Challenges or support other local opportunities. These might include existing powers, demographic opportunities, or established clusters of industrial activity. Individual sectors and large local employers should only be targeted when there are large benefits relative to the costs of addressing market failures that affect them.
8. Make choices and assess trade-offs - the best local economic strategies make clear the market failures that are being addressed and the case for intervention. They evaluate the costs and benefits implicit in addressing those specific market failures, and they draw on the best quality evidence of what works. They will make clear how these choices interact with the spatial geography of a place, indicating how decisions are intended to drive outcomes within and across boundaries.

9. Clarify specific actions and investments. This will ensure a well formulated policy mix, and in doing so, make clear how actions set out will:
 - Increase local collaboration between leaders, businesses, universities, and government on a shared set of local priorities over the long-term.
 - Coordinate with other local and national interventions to address cross-cutting opportunities, including the Grand Challenges. This will help increase the pace of growth by connecting initiatives and learning the lessons of previous successes.
10. Address the foundations of productivity - any strategy intending to drive productivity must address the fundamentals of local economies. In line with the Industrial Strategy, local strategies should identify priorities across Ideas, People, Infrastructure and Business Environment. In addition to this, they should set out the inter-connectedness of these priorities in a place, and where local action will add value in providing greater policy integration.

Evaluation

11. Integrate evaluation - this should be proportionate and initiated from the start of the policy design process. The best Local Industrial Strategies will specify what constitutes success and build in a transparent mechanism for monitoring it. Places should continue to engage with independent expertise in this area. This could include drawing on the lessons of policy evaluation such as the What Works Centre for Local Economic Growth and their recent work around Local Industrial Strategies.

Timing

12. Civil servants have indicated a 12 month process (starting in August) for the co-production of the Tees Valley LIS. This would mean getting to a final draft by the end of May 2019 with sign off by the Combined Authority and Government before the summer recess in July 2019. ANNEX 1 sets out the project plan for the preparation of the Tees Valley LIS, including a high level timeline diagram.

Developing the Tees Valley Local Industrial Strategy

13. The Local Industrial Strategy does not replace the Strategic Economic Plan, it sits alongside and has an emphasis on productivity, how the area will contribute to national productivity growth and how this can be achieved. The relationship between this, and the Combined Authority's other strategic planning documents is attached at ANNEX 2.
14. An officer steering group has been established, Chaired by Linda Edworthy, Strategy Director and involving the five local authorities and strategic partners.
15. We are currently assessing our evidence base and identifying the gaps in evidence required. We are also in discussions with Durham and Teesside Universities and other bodies about how they can support the process. However, it will be necessary to commission some external support to fill the gaps in evidence and to facilitate some of the debates that we will need to have throughout the development of the LIS both within the TVCA family and with businesses and broader stakeholders.

16. We are proposing to hold a series of cross cutting and sector based development workshops in two stages to firstly review the existing evidence base and to consider the interventions that are required to unlock productivity growth across the five drivers of productivity (Ideas, People, Infrastructure and Business Environment). This will build on work that has already been undertaken, particularly our economic assessment, quarterly economic reviews and the Sector Action Plans. We are planning to start this work with a joint session of the LEP / Combined Authority, members and officers, to consider the evidence base that we have so far and what it tells us. We will ensure that both public and private sector members of the Combined Authority will have the opportunity to be fully engaged in the development of the Strategy. Members of the Combined Authority will receive invitations to all workshops throughout the process and we will hold special Combined Authority sessions to consider the outcomes from the sector workshops and the development of the strategy as it progresses. These will be programmed in the detailed work plan which will be shared with the Combined Authority.

FINANCIAL IMPLICATIONS

17. The Development Fund will be used initially to provide external support to fill gaps in evidence and facilitation support for the preparation of the LIS. Additional Government funding will be made available for this purpose. We understand that up to £200k will be made available to support both the development of the LIS and the implementation of the LEP review. We will know how much funding is being made available to Tees Valley once we have submitted our LEP review implementation plan at the end of October. The LIS will identify future priorities to address productivity in Tees Valley. This work therefore needs to be closely aligned with the Tees Valley Investment Plan and the current prioritisation exercise.

LEGAL IMPLICATIONS

18. There are no legal implications at this stage. All external support will be procured through appropriate mechanisms.

RISK ASSESSMENT

19. The development of the project plan and subsequent project planning approach to be undertaken jointly with Government will identify and monitor the ability to deliver the LIS within the desired timescales. If the initial plan development flags up any issues these will be reported to the Project Steering Group / Management Group and will be discussed with Government officials.

CONSULTATION & COMMUNICATION

20. A consultation and communication plan will be prepared as part of the project management approach to the development of the LIS.

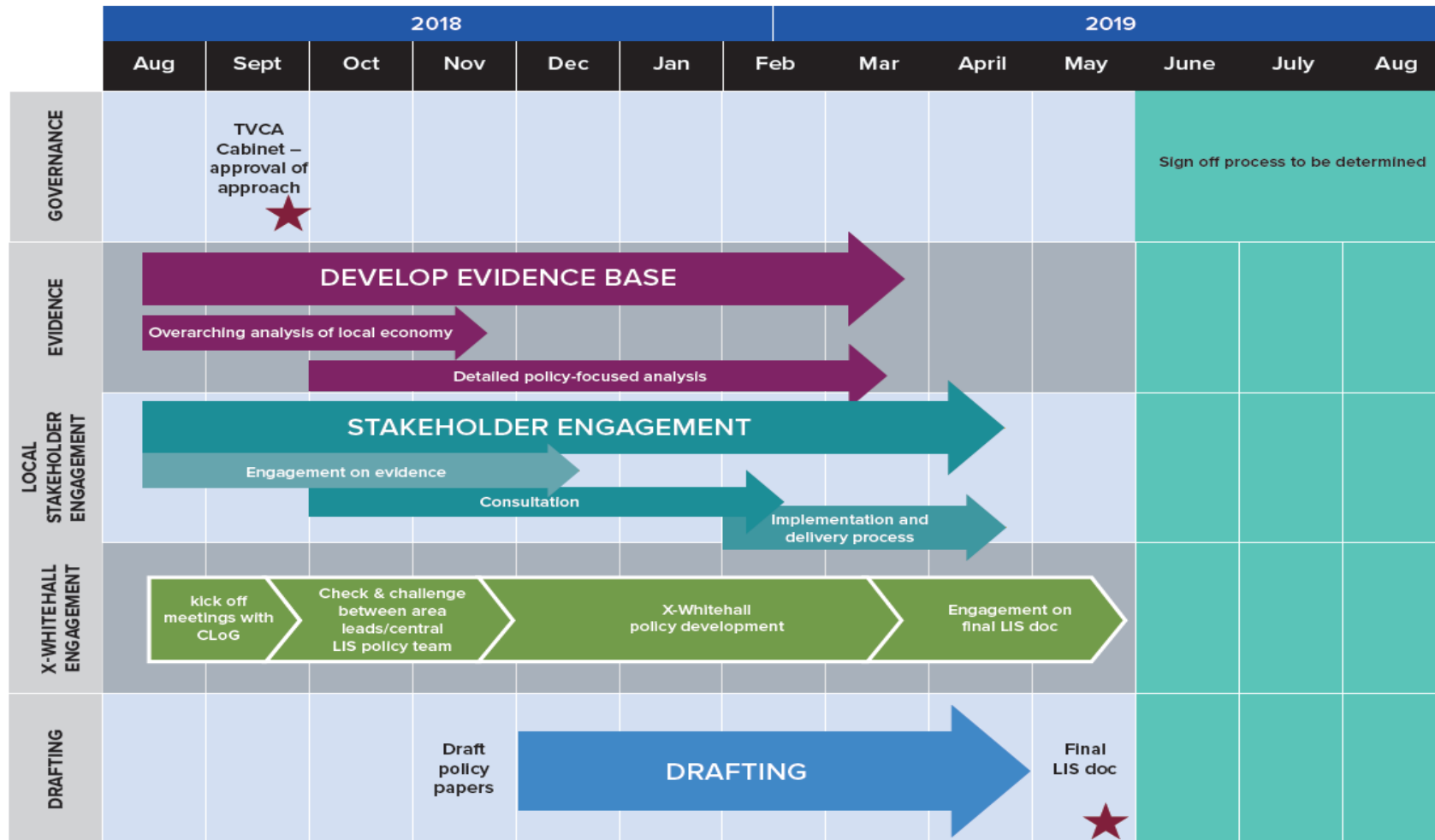
Name of Contact Officer: Linda Edworthy

Post Title: Strategy Director

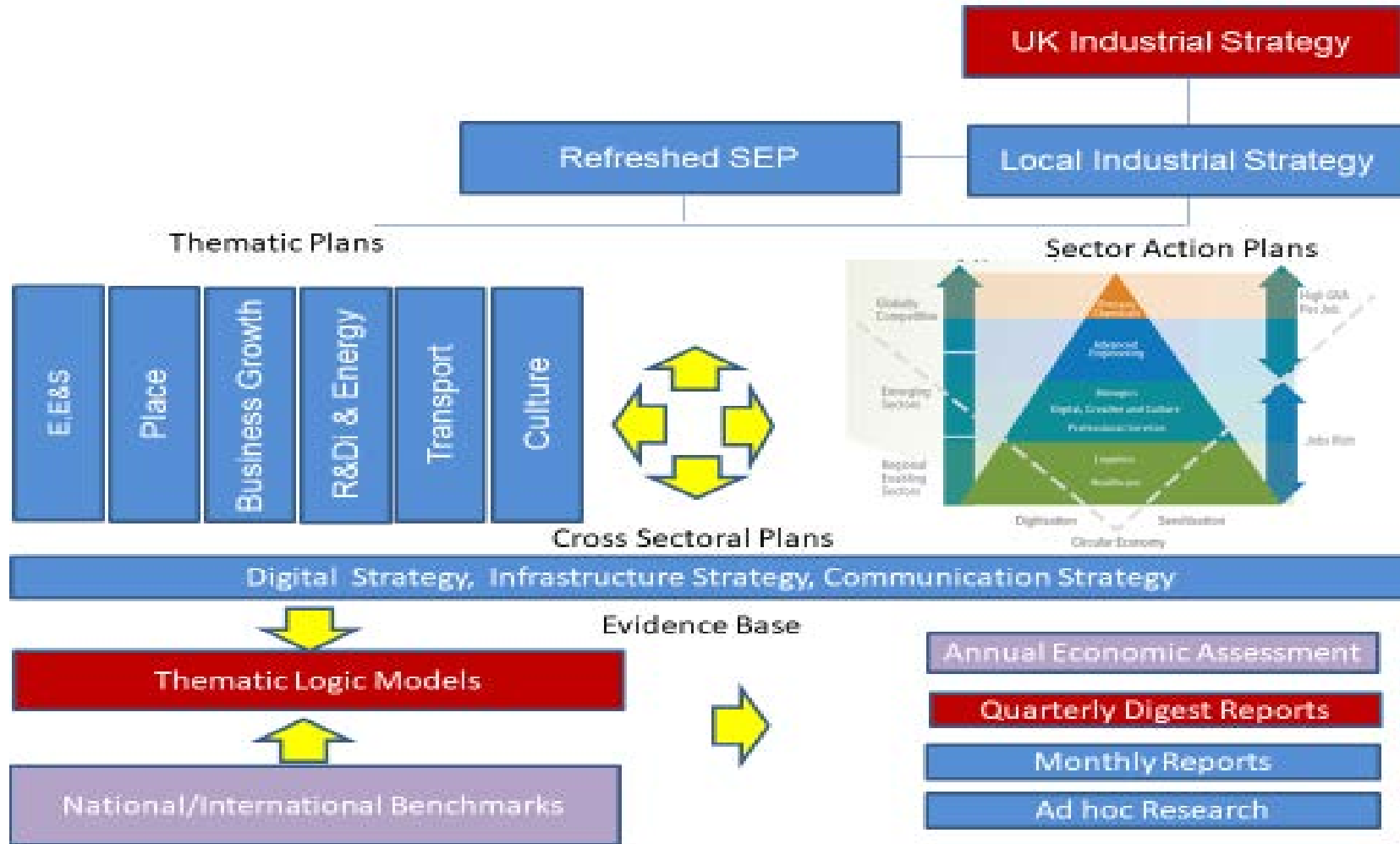
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LIS TIMELINE



ANNEX 2



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AGENDA ITEM 11

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

28th SEPTEMBER, 2018

REPORT OF HEAD OF FINANCE AND RESOURCES

BUDGET REPORT – QUARTER 1 (2018/19)

SUMMARY

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

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority:

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

DETAIL

Core Budget

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

	Qtr1 Budget	Actual @	Variance To
	£000	June	Date
	£000	£000	£000
Salaries Costs	987	923	(64)
Other Non-Staffing Expenditure	390	406	16
TOTAL EXPENDITURE	1,377	1,329	(48)
Single Revenue Pot Contribution	0	0	0
Mayoral Capacity Funding	0	(1,000)	(1,000)
Grants & Contributions	(519)	(519)	0
TOTAL FUNDING	(519)	(1,519)	(1,000)
NET EXPENDITURE	858	(190)	(1,048)

2. As at the end of June 2018 there is an underspend of £48k against the budgeted expenditure. There has been an underspend against salaries of £64k as a result of posts being vacant during the period, recruitment processes are ongoing and posts will be filled in the coming months. Non staffing expenditure is currently overspent by £16k which is predominantly as a result of a one off additional service charge.
3. In the Chancellor's 2017 Budget, the government recognised the need to support further capacity in Mayoral Combined Authorities, and as such £1m per annum for two years was allocated to the Combined Authority. This additional income has been brought into core funding for 2018/19 and was all received in quarter 1 resulting in the variance against the budget.
4. The table below details the budget and projected outturn for the core budget as at the end of quarter 1. The position will continue to be monitored and reviewed during the remainder of the financial year.

	Budget	Projected	Variance
	£000	£000	£000
Salaries Costs	3,948	3,794	(154)
Other Non-Staffing Expenditure	865	892	27
TOTAL EXPENDITURE	4,813	4,686	(127)
Single Revenue Pot Contribution	(3,180)	(2,053)	1,127
Income from Mayoral Capacity Fund	0	(1,000)	(1,000)
Grants & Contributions	(1,633)	(1,633)	0
TOTAL FUNDING	(4,813)	(4,686)	127
NET EXPENDITURE	(0)	(0)	0

5. The total projected underspend for 2018/19 is £127k. Salaries are projected to underspend by £154k during the year due to the phased implementation of recruitment towards the agreed staffing levels. This underspend is partly offset by additional non staffing costs of £27k for a one-off backdated premises service charge and additional expenditure for the purchase of a secure file sharing facility.
6. As mentioned previously an additional £1 million Mayoral Capacity Grant was awarded for the year, this together with the projected underspend this gives a reduced call on the single pot of £1.127m.

Progress Against Medium Term Financial Plan (MTFP)

7. Cabinet approved the MTFP at its meeting on 5 February 2018. As part of the agreed budget process it is required to report progress against the MTFP to Cabinet on a quarterly basis. Since the MTFP was set there have been a number of changes as a result of subsequent investment decisions and additional funding being secured.
8. In addition to the changes mentioned above there are also annual amendments relating to movement between years for previously approved expenditure and income to give the revised projected levels for each year.

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

MTFP Income

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

Income	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	78,982	69,284	69,485	37,878	255,629
Additional income	9,552	23,121	20,334	25,219	78,226
Movement In Years	-707	4,713	-780	457	3,683
Revised	87,827	97,118	89,039	63,554	337,538

11. Since the budget was set an additional £78 million funding has been incorporated into the plan:
- A £59m Transforming Cities Fund allocation to the Combined Authority. A report was presented to Cabinet in June 2018 outlining the approach to be taken to establish a delivery plan for the fund. To date none of this funding has been committed.
 - At the time of setting the MTFP it was reported that a further £8.3m had been secured for investment into local roads which would be channelled directly to the lead local authorities. However DfT subsequently awarded the grant to the Combined Authority for distribution to the local authorities and therefore it has now been incorporated into the MTFP.
 - The £2m Mayoral Capacity Funding has now been incorporated into the MTFP, which is received in equal instalments over 2 year period 2018/19 and 2019/20.
 - As a result of an increase in Enterprise Zones business rate income estimated receipts have been increased by £6.7m across the MTFP.
 - A further £2.2m additional funding has been secured for a range of projects:
 - £0.5 million from BEIS to extend the business growth hub;
 - £0.3 million to help to protect local roads from severe weather conditions;
 - £0.2 million to contribute towards further development of the business case for the South Tees District Heating Network;
 - £0.77 million from BEIS as the lead applicant in the delivery of the Local Energy Capacity Support programme;
 - £0.43 million of Local Authority contributions to fund the concessionary fares expenditure.

MTFP Expenditure

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

Expenditure	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	109,549	52,805	38,919	21,675	222,948
Additional Commitments	22,279	13,740	4,447	107	40,573
Movement In Years	-9,708	7,627	6,867	0	4,786
Revised	122,120	74,172	50,233	21,782	268,307

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

Business Growth

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

Business Growth	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	17,088	4,624	1,750	0	23,462
Additional Commitments	3,879	1,713	0	0	5,592
Movement In Years	-2,807	7,137	0	0	4,330
Revised	18,160	13,474	1,750	0	33,384

15. Since the budget was set an additional £5.6m has been committed as follows:

- In February 2018 Cabinet approved a £3.2m joint proposal to bring forward the development of new Grade A office accommodation at Feethams in Darlington Town Centre.
- In April 2018 the Combined Authority was successful in securing £0.5m from BEIS to extend the Business Growth Hub service for 2018/19 and 2019/20.
- At December 2017 Cabinet findings from the Sector Action Plan Work were reported which ring-fenced an initial £1.9m to deliver the plans.

16. The revised projection for expenditure in 2018/19 is £18.16m and at the end of quarter 1 the reported spend against this forecast is £383k. It is expected that expenditure will accelerate during the remaining periods as delivery on the Business Compass grant scheme increases, the sector action plans are further developed and the construction of business accommodation at TAMP and Feethams commences.

Research, Development, Innovation & Energy

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

RDI&E	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	18,183	6,000	0	0	24,183
Additional Commitments	1,490	0	0	0	1,490

Movement In years	-3,678	-2,250	6,000	0	72
Revised	15,995	3,750	6,000	0	25,745

18. Since the budget was set an additional £1.49m has been committed as follows:

- £500k to support the refurbishment of existing space to create a Non Destructive Testing (NDT) Research facility at TWI Middlesbrough, which will act as the future growth hub for the research group outside of Cambridge.
- £772k awarded from BEIS to act as the lead applicant in the delivery of the Local Energy Capacity Support programme.
- In April 2018 the Combined Authority secured a further £218k from BEIS to continue the development of the South Tees District Heating Network.

19. The revised projection for expenditure in 2018/19 is £16m and at the end of quarter 1 the reported spend against this forecast is £5.18m. Overall, expenditure projections are on track with the majority of expenditure related to the Teesside University National Horizons project which is progressing to plan.

Education, Employment & Skills

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

EES	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	10,062	2,600	1,031	0	13,693
Additional Commitments	2,530	5,594	4,000	0	12,124
Movement In Years	-397	1,500	867		1,970
Revised	12,195	9,694	5,898	0	27,787

21. Since the budget was set an additional £12m has been committed as follows:

- The £10.5m Inspiring Our Future Strategy was formally approved by Cabinet in February 2018. The strategy provides a comprehensive approach to addressing a wide range of challenges across the Education, Employment and Skills arena whilst maintaining the focus of creating a locally available skilled workforce that provides the skilled personnel that businesses require.
- In the Investment Plan a need to improve and sustain 16+ facilities was identified, and at June Cabinet £968k was approved for an IT Infrastructure project at Redcar College.
- It was reported to Cabinet in February that £656k had been committed to a project to bring back into use the mothballed £4.5m Northern Lights Academy facility in Hartlepool and turn it into a Centre of Excellence in Technical Training for Creative Industries for young people.

22. The revised projection for spend in 2018/19 is £12.2m and at the end of quarter 1 the reported spend against this forecast is £306k. Although the spend for the first quarter is lower than anticipated the Kirkleatham catering academy project has now

commenced and expenditure will catch up in the coming quarter. This along with accelerated delivery of the Routes to Work programme and commencement of delivery of the Skills strategy will see spend increase as the financial year progresses.

Culture and Tourism

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

Culture & Tourism	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	2,117	450	0	0	2,567
Additional Commitments	960	0	340	0	1,300
Movement In Years	373	-25	0	0	348
Revised	3,450	425	340	0	4,215

24. Since the budget was set an additional £1.3 million has been committed as follows:

- In the Culture and Tourism update to Cabinet in March 2018 a commitment was made to support the Great Tees City Games and Great Tees X-Country to the maximum value of £1.575m with £680k of this falling within the MTFP period. Alongside this £250k approval was given to support a proposal to become a host venue for the Rugby League World Cup 2021.
- In order to develop world-class heritage and attraction capital projects in readiness for our City of Culture bid for 2025 £370k was committed to developing a robust business case and accelerate delivery of the North Road Railway Heritage site.

25. The revised projection for expenditure in 2018/19 is £3.45m and at the end of quarter 1 the reported spend against this forecast is £101k. Overall, expenditure is on track with expected increases through the delivery of the Great Places and destination marketing programmes.

Transport

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

Transport	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	20,144	17,176	13,952	0	51,272
Additional Commitments	7,751	6,326	0	0	14,077
Movement In Years	463	0	0	0	463
Revised	28,358	23,502	13,952	0	65,812

27. Since the budget was set an additional £14m has been committed as follows:
- At the time of setting the MTFP it was reported that a further £8.3m had been secured for investment into local roads which would be channelled directly to the lead local authorities. However DfT subsequently awarded the grant to the Combined Authority for distribution to the local authorities and therefore it has now been incorporated into the MTFP (as both income and expenditure).
 - The Cabinet meeting in March 2018 allocated £2.5m towards delivering Phase 1 of the Middlesbrough Rail Station Masterplan. Working alongside investment from Network Rail and Middlesbrough Council the funding will carry out improvements to the fabric of the station in the short-term to improve the passenger experience and enable a review of the capacity needs of the station to ensure accommodation of current and planned rail services.
 - In June 2018 Cabinet agreed an additional contribution of £3m to support the next stage of development and design of the Darlington 2025 proposal. This resource will develop the Strategic Outline Business Case required to secure commitment from the Department for Transport to both further develop and deliver the scheme.
 - In March 2018 the Combined Authority was awarded £253k from DfT to help to protect local roads from severe weather conditions for 2018/19.
28. The revised projection for expenditure in 2018/19 is £28.36m and at the end of quarter 1 the reported spend against this forecast is £15.9 million which is in line with projections.

Infrastructure

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

Infrastructure	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	13,705	0	0	0	13,705
Additional Commitments	3,530	0	0	0	3,530
Movement In Years	-5,729	1,000	0	0	-4,729
Revised	11,506	1,000	0	0	12,506

29. Since the budget was set an additional £3.5m has been committed as follows:
- In February 2018 Cabinet approved investment of £3.36m to provide the infrastructure to unlock the wider development of the Kirkleatham Estate, including a new access road from the A174 and a car park.
 - The One Public Estate programme supports projects to transform local communities, and in March the Combined Authority secured an additional £170k to continue delivering the programme.
30. The revised projection for spend in 2018/19 is £11.5m and at the end of quarter 1 the reported spend against this forecast is £300k. Spend will be accelerated in the coming

months as work on the Kirkleatham Estate project commences and the Redcar Growth Zone project progresses.

Development Fund

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

Development Fund	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	2,738	462	0	0	3,200
Additional Commitments	2,259	0	0	0	2,259
Movement In Years	468	265	0	0	733
Revised	5,465	727	0	0	6,192

32. Since the budget was set an additional £2.259m has been committed to the following projects:

- Rail Gauge enhancement between Northallerton and Eaglescliffe;
- A689 Wynyard improvements;
- Darlington Sports Village;
- Middlesbrough District Heating commercialisation stage;
- Tees Crossing;
- Darlington North Link Road;
- Masterplan for Marshalling Yards;
- Full Fibre network.

SSI Task Force Funds

33. Under the SSI task force projects there has been £1.6m slippage from 2017/18 into 2018/19. This is as a result of agreement with BEIS to extend the projects and gives a revised spend of £5.699m over the MTFP.

Concessionary Fares

34. There has been an additional £443k built into the Concessionary Fares expenditure across the medium term as a result of revised agreement with the bus operators which is fully funded from additional income. This has resulted in revised expenditure of £66.4m over the period.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

36. None

RISK ASSESSMENT

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

CONSULTATION

38. None

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APPENDIX A

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Income					
Local Growth Fund	13,708	9,416	14,207	0	37,331
Devolution	15,000	15,000	15,000	15,000	60,000
Enterprise Zones	2,475	4,120	5,379	5,557	17,531
Local Transport Plan	13,952	13,952	13,952	0	41,856
Transforming Cities Fund	4,000	13,000	18,000	24,000	59,000
Loan Repayments & Investment Income	668	3,726	788	970	6,152
Local Enterprise Partnership Grant	500	500	500	500	2,000
Education, Employment & Skills Specific Grant Schemes	3,427	2,550	21	0	5,998
Transport Specific Grant Schemes	3,360	7,377	0	0	10,737
Other Specific Grant Schemes	2,709	246	0	0	2,955
European Structural Investment Fund	5,788	5,029	0	0	10,817
ERDF Legacy	3,667	3,667	3,666	0	11,000
Concessionary Fares Income	16,706	16,706	16,706	16,706	66,824
Local Authority Contributions	250	250	250	250	1,000
Mayoral Capacity Funding	1,000	1,000	0	0	2,000
Other Income	617	579	570	571	2,337
TOTAL INCOME	87,827	97,118	89,039	63,554	337,538
Approved Commitments					
Business Growth	18,160	13,474	1,750	0	33,384
Research, Development, Innovation & Energy	15,995	3,750	6,000	0	25,745
Education, Employment & Skills	12,195	9,694	5,898	0	27,787
Culture	3,450	425	340	0	4,215
Transport	28,358	23,502	13,952	0	65,812
Infrastructure	11,506	1,000	0	0	12,506
Development & Evaluation	5,465	727	0	0	6,192
SSI Related Schemes (not allocated to investment plan themes)	5,699	0	0	0	5,699
Core Running Costs	4,686	4,894	4,987	5,076	19,643
Mayoral Election	0	0	600	0	600
Concessionary fares	16,706	16,706	16,706	16,706	66,824
TOTAL EXPENDITURE	122,220	74,172	50,233	21,782	268,407
Reserves B/F	87,001				
Transfer To / From Reserves	(34,393)	22,946	38,806	41,772	

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Agenda Item 13

FOR INFORMATION

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

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

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

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

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

Decision	Amount	Date
GRIP3 Rail Options Selection - Eaglescliffe to Northallerton Branch Line Gauge enhancement work to improve rail connectivity to Teesport by addressing the constraints caused by four gauge fouts.	250,000	23.07.2018
Northern School of Art - Middlesbrough FE relocation Development of the proposal to submission of the Business Case (RIBA Stage 3). The proposal is to relocate the Northern School of Arts FE site at Green Lane in Middlesbrough, to a new purpose built building in a more central location in Middlesbrough.	580,000	23.07.2018
Hydrogen Transport Deployment Bid Development of a proposal to meet a call by the Office of Low Emission Vehicles (OLEV, part of DfT) for deployment of Hydrogen Vehicles and refuelling infrastructure and which will also support applications to related calls on Air Quality and potentially EU funding calls.	60,000	27.07.2018

Decision	Amount	Date
<p>TWI & TVCA Hydrogen Bus Development role To match fund a hydrogen business development role employed by TWI.</p>	80,000	27.07.2018
<p>Freeport status study additional amount Commissioning of research and expertise to understand the merits of Free Port Status, using Tees Valley as a test case. (Linked to previous decision dated 16.04.18)</p>	50,000	20.08.2018
<p>Tees Valley business accommodation study To strengthen the Combined Authority's prioritisation of business accommodation investment by provide a robust evidence base.</p>	60,000	20.08.2018