Tees Valley Combined Authority Cabinet Agenda

Combined Authority Cabinet
Agenda
alley Combined Authority Cabinet

Date: Friday 26th January 2024, at 10.00am
Venue: Teesside Airport Business Suite, Teesside International Airport, Darlington DL2 1NJ

Membership:
Mayor Ben Houchen (Tees Valley Mayor)
Councillor Stephen Harker (Leader of Darlington Borough Council)
Councillor Mike Young (Leader of Hartlepool Borough Council)
Mayor Chris Cooke (Mayor of Middlesbrough)
Councillor Alec Brown (Leader of Redcar and Cleveland Borough Council)
Councillor Bob Cook (Leader of Stockton-On-Tees Borough Council)
Siobhan McArdle (Chair of Tees Valley Business Board)

Tees Valley Combined Authority Cabinet
Agenda

Agenda

1. **Apologies for Absence**

2. **Declarations of Interest**

   Attached

3. **Minutes**

   Minutes of the meeting held on 15th December , 2023

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

   Attached

5. **Treasury Management Strategy 2024/25**

   Attached

6. **Adoption of Investment Plan, Budget 2024-25 And Medium-Term Financial Plan**

   Attached

7. **Transport Programme**

   Attached

8. **Date and time of next meeting**

   Friday 15th March, 2024 at 10am

Members of the Public - Rights to Attend Meeting

With the exception of any item identified above as containing exempt or confidential information under the Local Government Act 1972 Section 100A(4), members of the public are entitled to attend this meeting and/or have access to the agenda papers.

TEES VALLEY

Persons wishing to obtain any further information on this meeting or for details of access to the meeting for disabled people, please contact: The Governance Team, - tvcagovernance@teesvalley-ca.gov.uk

Tees Valley Combined Authority Declaration of Interests Procedures

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

Personal Interests

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

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

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

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

Declarations of interest relating to the Councils' commercial role

4. The constituent councils of the Combined Authority are closely integrated with its governance and financial arrangements, and financial relationships between the Combined Authority and Councils do not in themselves create a conflict of interest for Council Leaders who are also Combined Authority Cabinet members. Nor is it a conflict

of interest if the Combined Authority supports activities within a particular council boundary. Nevertheless, there are specific circumstances where the Cabinet is considering entering into direct contractual arrangements with a council, for example in relation to a particular commercial investment project, or in which that council is a co-funder. In these circumstances a non-pecuniary declaration of interest should be made by the Council Leader or their substitute.

Procedures for Declaring Interests

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

Register of Interests

6. Each member is required to complete a register of interests form with their personal interests, within 28 days of their appointment to the Combined Authority. If no declaration is received from elected members within 28 days the matter may be referred to the Head of Paid Service of your local authority and Leader of the political group you represent on your council for action. If a Declaration is not submitted within an appropriate timescale you may be prevented from attending committee meetings.
7. 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

8. 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.

9. 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.

10. 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

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

Minutes

TEES VALLEY COMBINED AUTHORITY CABINET

Friday 15th December 2023 at 10am
Teesside Airport Business Suite, Teesside International Airport, Darlington

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

ATTENDEES	
Members	
Mayor Ben Houchen (Chair)	Tees Valley Mayor
Councillor Stephen Harker	Leader, Darlington Borough Council
Councillor Mike Young	Leader, Hartlepool Borough Council
Councillor Robert Cook	Leader, Stockton-on-Tees Borough Council
Matthew Ord	Deputy Chair, Tees Valley Business Board
Officers and Others in Attendance	
Julie Gilhespie	Group Chief Executive, Tees Valley Combined Authority
Emma Simson	Acting Group Chief Legal Officer and Monitoring Officer, Tees Valley Combined Authority
Victoria Smith	Group Financial Controller, Tees Valley Combined Authority
Tom Bryant	Assistant Director Transport & Infrastructure, Tees Valley Combined Authority
Helen Kemp	Head of Business & Skills, Tees Valley Combined Authority
Ged Morton	Director of Corporate Services, Stockton-on-Tees Borough Council
Denise McGuckin	Managing Director, Hartlepool Borough Council
Ian Williams	Chief Executive, Darlington Borough Council
Sally Henry	Governance Officer, TVCA

Apologies	
Councillor Alec Brown	Leader, Redcar and Cleveland Borough Council
Mayor Chris Cooke	Leader, Middlesbrough Council
Siobhan McArdle	Chair, Tees Valley Business Board

TVCA 18/23	APOLOGIES FOR ABSENCE Apologies received and noted as above.
TVCA 19/23	DECLARATIONS OF INTEREST There were no declarations of interest declared.
TVCA 20/23	MINUTES OF PREVIOUS MEETING The minutes of the meeting held on 22nd September 2023 were agreed as an accurate record. There were no matters arising. RESOLVED that the minutes of the meeting held on 22nd September 2023 were confirmed as an accurate record.
TVCA 21/23	MAYOR'S UPDATE REPORT The Chair introduced a report providing a general update on the key activities of the Mayor and Combined Authority since the last Cabinet meeting. Cabinet members were invited to ask questions or comment on the report. Councillor Cook commented that he is pleased to see the Investment Zone Programme progressing for the Tees Valley. He noted that the report states that the Tees Valley Investment Zone will focus on digital and technology high growth clusters in Middlesbrough, Hartlepool and the Airport. He asked if TVCA will make a commitment to support the growth of a care and health technology cluster as part of the Care and Health Innovation Zone in Stockton? He advised Cabinet that over one third of all digital businesses in Tees Valley are in Stockton meaning that this is the heart of the sector in the region so to increase sector growth, we must invest in this area.

	The Mayor advised that, following the Autumn statement, Tees Valley will receive £160m for Investment Zones and while we are currently working with Hartlepool and Middlesbrough, the Investment Zone programme is not specific to those areas and that he fully committed to work with Stockton. Councillor Cook commented that he is pleased to see that losses at the Airport are down from last year. He asked whether the MTFP for the airport can be presented to a future TVCA Cabinet meeting. The Mayor advised that Council's are shareholders in their own right and have access to the same information TVCA has, as well as the Airport Board comprising of Local Authority representatives - appointed by each council - and they receive financial updates so he encouraged Cabinet members to speak to their TIA Board representatives. **RESOLVED** that Cabinet noted the update.
TVCA 22/23	**GOVERNANCE & APPOINTMENTS** Cabinet was presented a report which had several items for noting and approval. Cabinet was informed of the sad death of Jim Whiston who had been a valued member of the Independent Remuneration Panel. Cabinet extended their sympathy to his family, friends and colleagues. Cabinet was invited to ratify the appointments set out in Paragraphs 2, 3 and 5 of the Governance & Appointments Cabinet Report. Cabinet was invited to note the proposed position in respect of the term of Membership for Independent Members of the TVCA Audit & Governance Committee. Cabinet was invited to ask questions or comment on these items. There were no questions or comments. **RESOLVED that Cabinet:-** i. Expressed their sadness at the death of Jim Whiston and extended their sympathy to his family, friends and colleagues; ii. agreed the appointments set out in the report;

	iii. noted the proposed position in respect of the term of Membership for Independent Members of the TVCA Audit & Governance Committee.
TVCA 23/23	QUARTER 2 BUDGET REPORT AND MEDIUM TERM FINANCIAL PLAN UPDATE Cabinet was provided a report which provided an update on the financial position of the Combined Authority for the period ending 30 September 2023 and presented a revised Medium-Term Financial Plan (MTFP). Cabinet members were invited to ask questions or comment on the report. There were no questions or comments. RESOLVED that Cabinet:- i. Approve the quarter 2 outturn position for 2023/24; and ii. Approve the revised Medium-Term Financial Plan.
TVCA 24/23	TREASURY MANAGEMENT MID-YEAR REVIEW 2023/24 Cabinet was informed of the mid-year performance against the treasury management and prudential indicators set in the Treasury Management Strategy approved by the authority in March 2023. Cabinet members were invited to ask questions or comment on the report. There were no questions or comments. RESOLVED that Cabinet approved the content of the update report.
TVCA 24/23	ADOPTION OF INVESTMENT PLAN, BUDGET 2024-25 AND MEDIUM-TERM FINANCIAL PLAN Cabinet members were invited to consider and reconfirm the high-level financial allocations for the Investment Plan 2023-29 and consider and approve the Draft Budget for 2024-25 for the purposes of consultation. It was noted that this item would be brought back to the January Cabinet for final approval/amends following the consultation process. Cabinet members were invited to ask questions or comment on the report.

	Councillor Harker enquired when the Overview & Scrutiny sub-committee were meeting to discuss the draft budget. He was advised that the TVCA Overview & Scrutiny Committee had met earlier this week as part of the consultation process, and they will produce a report that will come to the January Cabinet. RESOLVED that Cabinet considered and reconfirmed the high-level financial allocations for the Investment Plan 2023-29 and considered and approved the Draft Budget for 2024-25 for the purposes of consultation.
TVCA 25/23	TVCA INVESTMENT PLAN PERFORMANCE REPORT Cabinet was provided a report which provided an update of the TVCA Investment Plan Performance. Cabinet members were invited to ask questions or comment on the report. Councillor Young commented that the report showed we are on track which is impressive to see. The Group Chief Executive, Julie Gilhespie asked Cabinet members if they had any comments on the format of the report as this is the first time this report has been presented to Cabinet. There were no comments. RESOLVED that Cabinet approved the content of the update report.
26/2023	DIRECTOR APPOINTMENT *At this point in the meeting, a resolution should have been proposed to exclude the press and public under paragraphs 1 & 2 of schedule 12a of the Local Government Act 1972, in order that Cabinet could consider matters of a confidential nature.* *The Mayor suggested that the report be discussed without excluding press and public, but without mentioning the individual's name and Cabinet agreed.* In line with the requirements of the s113 of the TVCA Constitution, Cabinet was asked to approve the re-grade of Assistant Director of Infrastructure to Director grade. Cabinet was advised that the proposal does not seek to directly increase headcount, rather to re-grade an existing post to reflect the level of responsibility and budget accountability in the post given the expansion of the Transport portfolio to include Infrastructure and Project Development as

	well as its significant increase in budgetary responsibility in light of the current and anticipated level of transport spend. Cabinet members were invited to ask questions or comment on the report. Cllr Cook commented that the Mayor clearly recognises the importance of investing in additional capacity at Director level to ensure that TVCA can deliver the ambitious plans for the regional economic growth and offered his support with this appointment. He added that one third of the Tees Valley economy is in Stockton and they have a transformational capital programme in delivery and expressed his disappointment that the importance of appropriate leadership and Director-level capacity is not supported by some councillors in Stockton-on-Tees. He further advised that it is vital that Stockton continues to grow its economy in this important area, despite challenges to public finances. This will lead to a more prosperous future for everyone and in order to do that we need to invest in capacity to deliver the economy. The Mayor commented that he is disappointed that there has been a delay in the appointment of a Director of Regeneration on Stockton and that he shared Cllr Cook's frustrations with the situation in Stockton. He added that he hoped the appointment could be made soon and the situation could move forward positively. Ian Williams enquired whether, given the importance of the programme, there is sufficient capacity in the Transport team to deliver. He was advised that the first role of the Director will be to restructure the team to ensure there is sufficient capacity. There is funding within the CRSTS for this and it will not affect TVCA's core budget. RESOLVED that Cabinet approved the re-grade of the Assistant Director of Infrastructure to Director and as a result, promoted Tom Bryant to Director.
	DATE OF NEXT MEETING Friday 26th January 2024 at 10am At this point, The Mayor wished everybody a Merry Christmas and closed the meeting.

AGENDA ITEM 4

REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET

26TH JANUARY 2024

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 not covered in other reports to this meeting.

RECOMMENDATIONS

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

DETAIL

INDEPENDENT REVIEW

1. On 7 June, it was announced that Angie Ridgwell, Chief Executive of Lancashire County Council had been appointed to lead a review into Teesworks following allegations about the organisation being made by the press and in the Commons. The investigation commenced at the beginning of June, with the panel reviewing TVCA's oversight of STDC and the Teesworks Joint Venture, including consideration of specific allegations made in relation to the Joint Venture, of corruption, illegality and wrongdoing. It is also looking at governance and financial management, reflecting the Government's existing approach to external assurance reviews.

2. In total we have provided more than 700 documents to the panel and have answered more than 185 questions. At this stage, we do not have a publication date for the independent review panel's report.

TEESSIDE INTERNATIONAL AIRPORT

3. Teesside Airport commenced its Turn of Year 2024 campaign on 26*th* December. This is a key time of year within the industry to promote holidays and flights to encourage early bookings. The campaign tactics include digital marketing as well as traditional media including radio, billboards and door drops. The campaign will run to the end of

March. The airport has also agreed partnerships with local travel agents that will guarantee joint promotion throughout the region of the airport summer 2024 offer.

BUSINESS SOLUTIONS

4. UKSPF Supporting Local Business was launched prior to Christmas with an information event led by the Business Board held on 10th January. This event was aimed at all businesses and support organisations that were interested in applying to the open call opportunity to work with TVCA to develop a new Business Support offer to Tees Valley businesses. The open call launched £5.5m available to support all activity to help businesses start-up, grow and thrive. The event was well attended by over 150 people. Applicants were encouraged to propose new solutions to delivering business support.

5. This UKSPF call will close on 31st January, funding awards will be concluded during March and delivery will commence as soon as possible after March for a period to March 2025.

6. TVCA officers are working with the Department of Work and Pensions to shape the new Universal Support programme that will be commissioned by TVCA as the lead authority. This programme will provide personalised support to those who are disabled, have health conditions and those who have complex barriers to accessing work.

NET ZERO

7. The Tees Valley's Innovation Cluster Coordinator is now in post and is delivering TVCA's Launchpad Cluster Management programme as part of our Launchpad Pilot, in partnership with Innovate UK. Launchpad Cluster Management will bring innovative companies and supporting institutions together to develop technologies that help to decarbonise Tees Valley and wider UK industry.

8. TVCA and its local authority partners are developing a Local Area Energy Pathway for the region, which will look at the Tees Valley's future energy needs. This will tackle infrastructure and constraints, supply and demand, domestic energy efficiency, as propose an indicative pipeline of investible green energy and low carbon projects.

SCREEN INDUSTRIES DEVELOPMENT

9. The first film to have been supported through the North East Production Fund will premier at The Showcase Cinema in Stockton-on-Tees on 24 January 2023. Jackdaw is the first feature film from Hartlepool-based Jamie Childs whose previous credits include directing The Sandman for Netflix, His Dark Materials for BBC and Willow for

Disney.

10. Jackdaw is an action-thriller, starring Oliver Jackson-Cohen, Jenna Coleman and Rory McCann. It follows the story of Jack Daeson, a fictional former motocross champion and army veteran, who returns home to care for his brother after their mother drives. The film was shot on location across Hartlepool, Middlesbrough and Redcar & Cleveland and used the Northern Studios as a production base.

11. The UK premier will bring cast and crew back to the region with public screenings running alongside – tickets for which have sold out three times with additional screens being added. 250 cinemas nationwide will also show the film with a major streaming platform confirmed to be hosting the film later in the year.

FINANCIAL IMPLICATIONS

12. There are no financial implications to this report.

LEGAL IMPLICATIONS

13. There are no legal implications to this report.

RISK ASSESSMENT

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

Name of Contact Officer: Rachel Mills
Post Title: Policy Advisor to the Mayor
Telephone Number: 01325 792600

Email Address: rachel.mills@teesvalley-ca.gov.uk

AGENDA ITEM 5

REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET

26th JANUARY 2024

REPORT OF GROUP DIRECTOR OF FINANCE & RESOURCES

TREASURY MANAGEMENT STRATEGY 2024/25

SUMMARY

This report presents the Authority's Treasury Management, Capital and Investment Strategies for the financial year 2024/25. The Capital Strategy incorporates within it the Minimum Revenue Provision Policy.

This report reflects a review of the Treasury Management Strategy taking account of the latest 2024/25 budget and Investment Plan report and the implementation of two new Mayoral Development Corporations for Hartlepool and Middlesbrough ("MDCs").

The strategy also takes into account discussions with the five Tees Valley Local Authorities regarding potential borrowing requirements for future strategic economic regeneration projects that may partner with TVCA in terms of the financing solutions. This update for potential strategic economic regeneration projects is for projects not yet included in the current investment plan however it is felt prudent to ensure Treasury Management limits and thresholds are appropriately future-proofed over the short to medium-term.

Any business cases and/or business plans associated with future strategic economic regeneration projects requiring debt finance will be agreed in accordance with key considerations form part of this Treasury Management Strategy.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet approves: -

(1) the Treasury Management, Investment and Capital Strategies for 2024/25;
(2) the Revised Treasury Management limits incorporating potential future borrowing requirements for strategic economic regeneration projects for both Hartlepool Development Corporation (HDC) and Middlesbrough Development Corporation (MDC) (£75m each) and for the other three Tees Valley Local Authorities (£75m each) representing a total facility of £375m.
(4) the approach to financing for Tees Valley Local Authority, Middlesbrough Development Corporation and Hartlepool Development Corporation strategic economic regeneration projects as set out at Appendix 4;

(4) the delegation of authority to TVCA statutory officers to conduct the appropriate due diligence procedures and processes and make the final TVCA investment decisions in terms of financing the strategic economic regeneration projects.

It is recommended that the Combined Authority Cabinet also notes the following as set out in Appendix 4: -

(1) the TVCA Group borrowing and Investment position;
(2) the TVCA Treasury Management, Capital and Investment strategy position;
(3) the respective roles of TVCA, Tees Valley Local Authorities, MDC and HDC in the Group Treasury Management arrangements going forward set out at Appendix 4;
(4) the risks and associated risk management plans, controls and processes that will be operating to ensure that the Authority is securing value for money in the provision of appropriate finance solutions across Tees Valley Local Authorities, HDC and MDC to achieve their objectives whilst safeguarding public funds.

DETAIL

1. The Chartered Institute of Public Finance and Accountancy Treasury Management Code was updated in 2021. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2. The code defines Treasury Management as, the management of the organisations borrowing, investments and cash flows, banking, money market and its capital market transactions. The effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks. This definition is intended to apply to all public service organisations in their use of capital and project financings, borrowings and all investments.

3. To meet with these requirements the following three strategies have been produced:-

    i. Treasury Management Strategy (Appendix 1) - the management of the Authority's cash flows, borrowing, investments, and the associated risks.
    ii. Capital Strategy (Appendix 2) - a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the functions of the Authority. Including an overview of how associated risk is managed and the implications for future financial sustainability.
    iii. Investment Strategy (Appendix 3) – investments held by the Authority that are not managed as part of normal treasury management processes.

   Financing requirements in respect of future strategic economic regeneration projects proposed by Tees Valley Local Authority/MDCs for their respective projects are proposed to follow the systems/processes set out at Appendix 4.

4. The proposals set out in this paper are for facilities for the Hartlepool and Middlesbrough local authority areas to be available to the HDC and MDC respectively. The other three local authority areas (Stockton/Darlington/Redcar

and Cleveland) will have access to the Tees Valley Local Authority facility. All areas will have a facility of £75m each through these arrangements totalling £375m of facilities. The detail regarding drawdown of these facilities will be dependent on the review of individual project requests and business cases/plans for investment approved and agreed by either Local Authority Cabinet or Development Corporation Board meetings respectively.

5. The underpinning Treasury Management Practices adopted to implement the Treasury Management Strategies have been revised this year to incorporate changes to CIPFA's Code of Practice for Treasury Management in Public Services and are elsewhere on this agenda for approval.

FINANCIAL IMPLICATIONS

1. The financial implications of this report are summarised as: -
    a. 2024-25 Treasury Management Strategy approval – This recommendation is to approve the annual strategy and associated strategies that underpin its delivery. The main changes are to limits to account for strategic economic regeneration projects (see below).
    b. Strategic Economic Regeneration Projects – Tees Valley Local Authorities and MDC and HDC project proposals – The financial implication for these proposals are provided below with full detail provided at Appendix 4.

Investment Plan

2. TVCA approved the creation of both MDC and HDC at Cabinet on 22 July 2022. The TVCA Cabinet approved £10m for each Development Corporation from within the Tees Valley Investment Plan.

Commercial Projects outside the Investment Plan

3. TVCA makes investments to assist in delivering the Strategic Economic Plan, including making loans to the special purpose vehicles, Local Authorities and local businesses. TVCA Cabinet has previously approved the use of their borrowing powers to support the delivery of the STDC Business Case approved by Government up to a value of £350m.

4. Decisions on such investments will be considered by TVCA statutory officers. The Section 73 officer is responsible for ensuring that adequate due diligence is carried out before investment is made. The following factors will be taken into consideration (not exhaustive as there may be some project specific factors to take into account): -

- Loan to value ratio (security)
- Debt service cover ratio (affordability)
- Financing costs as % revenue (affordability)
- Debt yield level (sustainability)

- Treasury Management limits and boundaries (prudence)
- Step-in rights
- Exit strategy

5. Both MDC and HDC have Business Cases will be signed off by their respective Board meetings. Any Tees Valley Local Authority equivalent business cases/plans will be expected to be signed off by their respective Cabinets prior to submission to TVCA statutory officers for consideration of financing requirements.

6. Any MDC or HDC commercial investment decisions will be considered on their own respective merits in terms of risk and reward in line with each Development Corporation Masterplan and associated risk framework.

7. Tees Valley Local Authority strategic regeneration projects that are commercial proposals outside the investment plan will consider the business plans, risks/opportunities associated with the investment and the type and level of finance required to deliver the proposals as part of TVCA s73 officer Final Investment Decision(s) including any debt finance requested. Any investment decision will be required to be a joint funding arrangement between the relevant Local Authority and TVCA.

8. For MDCs' commercial investment decisions these will also require the respective Development Corporation Board to consider the business plans, risks/opportunities associated with the investment and the type and level of finance required to deliver the proposals as part of the Development Corporation's Final Investment Decision(s) including any debt finance requested from TVCA. The Board will be kept appraised of any terms agreed with TVCA and obligations placed on MDC and HDC, wherever applicable, as part of loan agreements with TVCA and will ensure appropriate approvals are in place to consider and, as required, accept the loan agreements.

9. For Tees Valley Local Authorities commercial investment decisions these will also require the respective Local Authority Cabinet to consider and approve the business plans, risks/opportunities associated with the investment and the type and level of finance required to deliver the proposals as part of the Local Authority Final Investment Decision(s) including any debt finance requested from TVCA. The Local Authority officers will ensure that their respective Cabinet meetings are kept appraised of any terms agreed with TVCA and obligations placed, wherever applicable, as part of loan agreements with TVCA and will ensure appropriate approvals are in place to consider and, as required, accept the loan agreements.

10. This paper sets out the approach that TVCA (as funder) will take to making these investments and the controls and limits that will be applied as part of due diligence processes. The following key limits and indicators are proposed for MDC, HDC and

Tees Valley Local Authorities in respect of any request for debt finance coming for consideration by the s73 officer in consultation with the Group Chief Executive Officer and Monitoring Officer: -

Middlesbrough Development Corporation	-	£75m
Hartlepool Development Corporation	-	£75m
TVCA led local authority commercial projects	-	£225m

11. The proposed limits and thresholds in respect of debt finance from TVCA to HDC, MDC and the other three Tees Valley Local Authorities are estimates of the potential future commercial transactions that they would wish to undertake in furtherance of their respective objects and Masterplans.

12. Whilst these levels represent the limits for TVCA investment purposes each proposal for development will be considered by the respective Development Corporation Board/Cabinet including an assessment of commercial risk and reward prior to them approving proposals. TVCA will conduct its own due diligence of any request for debt funding from these parties.

13. The proposed revised Treasury Management limits compared to previous levels are summarised in the Table below: -

	2023/24 £m		2024/25 £m		2025/26 £m		2026/27 £m		2027/28 £m	
	Prev	Now	Prev	Now	Prev	Now	Prev	Now	Prev	Now
HMT Borrowing Cap	1,000	1,000	1,237	1,237	1,237	1,237	1,237	1,237	1,237	1,237
Authorised Limit – Borrowing	426	426	447	1,017	457	1,017	443	1,017	n/a	1,017
Authorised Limit – Leases	207	207	207	220	207	220	207	220	n/a	220
Authorised Limit - Total	633	633	654	1,237	664	1,237	650	1,237	n/a	1,237
Operational Boundary – Borrowing	355	355	372	943	380	943	369	943	n/a	943
Operational Boundary – Leases	173	173	173	190	173	190	173	190	n/a	190
Operational Boundary – Total	528	528	545	1,133	553	1,133	542	1,133	n/a	1,133

LEGAL IMPLICATIONS

6. The CIPFA Code on Treasury Management clearly states that a Local Authority should not invest primarily for yield. All proposed commercial economic regeneration projects will have regeneration as the first priority with yield secondary in order to comply with the CIPFA Code.

7. The incurring of expenditure on new projects will consider the overall value for money of the business case/plan and will be appraised accordingly on this basis.

8. Both MDC and HDC are distinct legal persons respectively – they are each a statutory corporation. They are public bodies with the specific objects to secure the regeneration of their respective areas over which they are granted very wide powers. The creation of MDC and HDC, continuation and dissolution are in the remit of the Combined Authority. But in respect of operation they are each given very wide powers.

9. Both MDC and HDC for the most part, operate independently of the TVCA in that property, rights and liabilities are vested (unless transferred) with the corporations and not the Combined Authority.

10. Both MDC and HDC have the power to borrow funds in line with the following legislation: -

    Extract Localism Act 2011: -

    > ***“..201Object and powers***
    >
    > ***(1)The object of an MDC is to secure the regeneration of its area.***
    >
    > ***(2)An MDC may do anything it considers appropriate for the purposes of its object or for purposes incidental to those purposes..”***

11. All five Tees Valley Local Authorities have established legislative provisions and powers to enter into borrowing arrangements with third parties as part of their respective governance structures.

12. TVCA will ensure that all necessary legal and commercial due diligence has been undertaken prior to transacting any loan documentation and associated money flows. This will include arrangements for security and default conditions.

RISK ASSESSMENT

13. The Treasury Management Strategy is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

14. All future commercial economic regeneration projects will have project risk assessments produced as part of the preparation of business cases/plans. By approving these proposals the Cabinet are agreeing to approval for these projects to be conducted at Local Authority Cabinet and MDC/HDC Board meetings respectively prior to submission to TVCA statutory officers. The final statutory officer sign off on financing requirements would be under delegated powers from TVCA Cabinet.

15. The Corporate Risk Register has the following relevant financial risks that are tracked and managed throughout each financial year. The proposed approach to funding Tees Valley Local Authority strategic regeneration projects and both HDC and MDC via debt finance has controls and management plans built into the arrangements as part of the required due diligence work on any investment decision by TVCA officers.
16. The proposed loan agreements will have requirements for regular reporting on programme/project performance to provide assurance to TVCA that the purpose of the investment is being met and the required milestones, outputs are being achieved to deliver the necessary revenue streams and cashflows to service debt and interest costs. The necessary default provisions and security arrangements will be factored into the due diligence process and loan documentation processes and the interest rates determined by the relevant TVCA advisory teams.

CONSULTATION & COMMUNICATION

17. The approval of business cases/plans for future projects will require TVCA Cabinet approval which includes consultation with Local Authority officers.

Name of Contact Officer: Gary Macdonald
Post Title: Group Director of Finance and Resources

Appendix 1

TREASURY MANAGEMENT STRATEGY 2024/25

1. Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Tees Valley Combined Authority are supported by professional advisors Arlingclose Limited, in order to ensure that up to date market advice and information on the most appropriate investment / borrowing options are obtained.

Through a service level agreement, Stockton Borough Council (SBC) provides the Combined Authority with a treasury management service. The CIPFA code requires that staff with responsibility for treasury management receive adequate training to carry out this role. SBC assess the requirements for training as part of the staff appraisal process and they regularly attend courses and seminars provided by Arlingclose and CIPFA.

2. Economic Context

Economic Background

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with upside risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Credit Outlook

Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest Rate Forecast

Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

3. Local Context

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation during 2024/25.

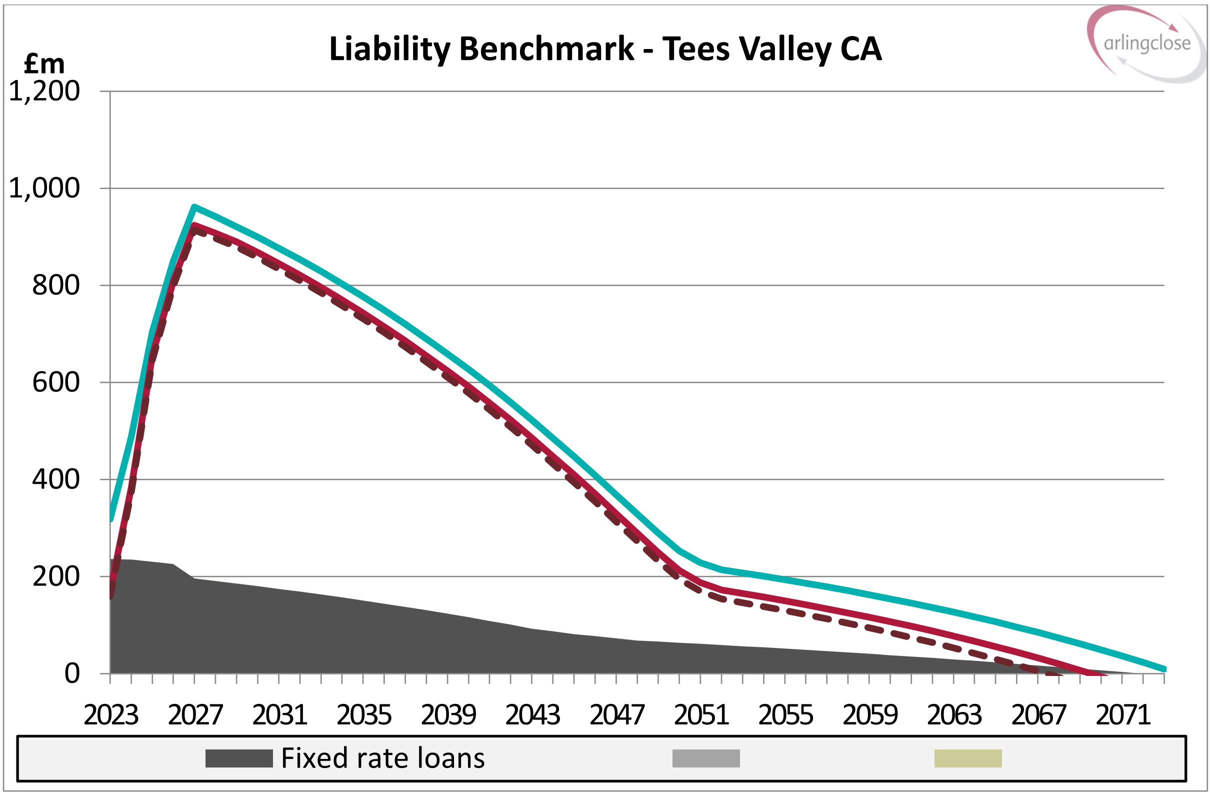
	31.3.23 Actual £'000	31.3.24 Estimate £'000	31.3.25 Forecast £'000	31.3.26 Forecast £'000	31.3.27 Forecast £'000
Capital financing requirement	421,521	588,500	807,713	955,898	1,074,936
Less: External borrowing	301,859	417,865	757,558	939,569	1,057,825
	119,662	**170,635**	**50,155**	**16,329**	**17,111**

Liability benchmark: To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the table above, but that cash and investment balances are kept to a minimum level of £10 million at each year-end to maintain sufficient liquidity but minimise credit risk.

The liability benchmark is an important tool to help establish whether the Authority is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Authority must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Loans CFR	318	488	705	849	962
Less: Balance sheet resources	159	115	59	51	48
Net loans requirement	159	373	646	798	914
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**169**	**383**	**656**	**808**	**924**

Following on from the medium-term forecasts in the table above, the long-term liability benchmark assumes capital expenditure to deliver the remainder of the investment plan, minimum revenue provision on new capital expenditure based on a 25 year asset life for general investment plan projects 50 year for specific regeneration project and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



4. Borrowing Strategy

In the Autumn Statement 2016, the government announced that it would give Mayoral Combined Authorities powers to borrow for their new functions subject to agreeing a borrowing cap with HM Treasury. This will align the Combined Authorities' financial powers with their new responsibilities and give them the ability to invest in important priorities such as economic development and regeneration.

In March 2023 the borrowing cap was agreed between the Authority and Treasury (set out in the table below).

	2022-23	2023-24	2024-25
TVCA long-term external debt	£774,000,000	£1,000,000,000	£1,237,000,000

The Authority's chief objective when borrowing money will be to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

The Authority's borrowing strategy will address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources or to borrow short-term loans.

By following the borrowing strategy, the Authority will be able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the Authority borrows sums at long-term fixed rates in future years with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans during 2024/25, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow.

Sources of Borrowing

The approved sources of long-term and short-term borrowing are:

- HM Treasury’s PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

Other Sources of Debt Finance

Capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority when borrowing will investigate all available sources of finance, such as local authority loans and bank loans, to achieve the most favourable rates.

The Prudential Code for Capital Finance in Local Authorities (Prudential Code) has been developed by the Chartered Institute of Public Finance and Accountancy to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003.

The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable. The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other.

The Prudential Indicators which the Authority will follow, and the minimum revenue provision statement are set out in the capital strategy report (Appendix 2)

5. Investment Strategy

The Authority currently holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Authority's investment balance has ranged between £18 million and £82 million. The Combined Authority Investment Plan sets out the forecasted expenditure profile over the Investment Plan period to 2029. The increased spending plans will reduce the previously held balances significantly and as such the invested funds will reduce to a minimal amount reserved for unforeseen circumstances during 2024/25.

The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits, with other local authorities and money market funds. As a result of the anticipated increased expenditure in the coming year the Authority will continue with this approach, maximising interest returns through a managed cashflow process.

The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

<u>Approved investment counterparties and limits</u>

Credit rating	Banks unsecured	Banks secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 10 years	n/a	n/a
AAA	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA+	£7,500,000 5 years	£15,000,000 10 years	£15,000,000 10 years	£7,500,000 10 years	£7,500,000 10 years
AA	£7,500,000 4 years	£15,000,000 5 years	£15,000,000 10 years	£7,500,000 5 years	£7,500,000 10 years
AA-	£7,500,000 3 years	£15,000,000 4 years	£15,000,000 10 years	£7,500,000 4 years	£7,500,000 10 years
A+	£7,500,000 2 years	£15,000,000 3 years	£7,500,000 5 years	£7,500,000 3 years	£7,500,000 5 years
A	£7,500,000 13 months	£15,000,000 2 years	£7,500,000 5 years	£7,500,000 2 years	£7,500,000 5 years
A-	£7,500,000 6 months	£15,000,000 13 months	£7,500,000 5 years	£7,500,000 13 months	£7,500,000 5 years
None	n/a	n/a	£15,000,000 10 years	£5,000,000 5 years	£7,500,000 5 years
Pooled funds and real estate investment trusts	£15m per fund				

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in but are exposed to the risk of the company going insolvent.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £25 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £1,058k on 31st March 2024 and £1,058k on 31st March 2025. The maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15,000,000
UK Central Government	unlimited
Any group of organisations under the same ownership	£15,000,000
Any group of pooled funds under the same management	£37,500,000
Negotiable instruments held in a broker's nominee account	£37,500,000
Foreign countries	£15,000,000
Registered providers and registered social landlords	£37,500,000
Unsecured investments with building societies	£15,000,000
Loans to unrated corporates	£15,000,000
Money Market Funds	Unlimited
Real estate investment trusts	£37,500,000

Liquidity management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's investment plan and cash flow forecast.

6. Treasury Management Indicators

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

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£1m

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. Based on the current level of investments held, the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
One-year revenue impact of a 1% rise or fall in interest rates	£700,000

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

The limits will be reviewed and amended as the authority takes out further borrowing.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£15m	£10m	£5m

7. Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Combined authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance believes this to be the most appropriate status.

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 73 officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below and will be considered if circumstance significantly change.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2023

Underlying assumptions:

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the timelier PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects have diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.

- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

UK Infrastructure Bank Rate = Gilt yield + 0.40%

Appendix 2

CAPITAL STRATEGY 2024/25

1. Introduction

The capital strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the delivery of the Authority's Strategic Economic Plan along with an overview of how associated risk is managed and the implications for future financial sustainability.

2. Capital Expenditure and Financing

Capital expenditure is where the Authority spends money on assets, such as land, property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets, this is predominantly the nature of the Authority's capital expenditure.

In January 2019 a new investment plan was approved by the Combined Authority Cabinet which set out the investment priorities for the next 10 years, the plan was revised in January 2023. This plan included a mixture of both capital and revenue investments which will contribute to successful delivery of the Authority's Strategic Economic Plan.

As part of the devolution deal Government gave a 30-year commitment to the Authority of £15 million devolved grant funding annually. This long-term commitment from Government enables the Authority to borrow funds to unlock growth in the earlier years when it is critical to developing our economy.

The capital programme will be looked at on a holistic approach and required borrowing will be made against the gap on the whole programme not individual projects. The assurance process in place for all capital investments will ensure that each meets the requirements of the prudential code that they are prudent, affordable, and sustainable.

Any commercial opportunities that arise will be appraised and reviewed individually assuring they also meet the requirements of the prudential code and fit in with the Authorities' strategic economic plan.

In 2024/25, the Authority is planning capital expenditure of £412 million as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Capital Expenditure	259,820	392,922	247,679	213,448	62,000

Governance: Business cases are submitted to the Authority by the lead applicant for all capital projects and they are fully appraised and approved in line with the Combined Authority Assurance Framework approved by the Department for Levelling Up, Housing and Communities (DHLUC). The assurance framework sets out how projects will be monitored through delivery and beyond completion to measure the economic impact of the investment.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Capital Grant Reserve	0	54,353	18,197	22,012	0
Capital Grants	82,744	108,932	71,602	62,436	62,000
Capital Receipts	775	780	784	0	0
Revenue Contributions	5,108	3,944	0	0	0
Borrowing Required	171,193	224,913	157,096	129,000	0
Total	**259,820**	**392,922**	**247,679**	**213,448**	**62,000**

Where possible the Authority will utilise short term internal borrowing to reduce the overall requirement for external borrowing within a given year, this is required to be repaid when it is required for its original purpose. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The below table sets out the estimated split between internal and external borrowing across the period:

Table 3: Borrowing estimate in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Internal Borrowing	52,103	-121,869	-40,339	-10,000	-4,000
External Borrowing	119,090	346,782	197,435	139,000	4,000
Total Borrowing	**171,193**	**224,913**	**157,096**	**129,000**	**0**

Debt is only a temporary source of finance, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Planned MRP is as follows:

Table 4: Replacement of debt finance in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Revenue Streams	4,214	5,699	7,537	8,548	8,868

Department for Levelling Up, Housing and Communities (DHLUC) Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The recommended statement is attached at schedule 1 for approval.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP, loan fund repayments and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
CFR	558,500	807,713	955,898	1,074,936	1,064,614

3. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. Using internal borrowing the revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Borrowing strategy: The Authority's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and therefore when borrowing the Authority will seek to strike a balance between cheap short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Authority's total outstanding external debt are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Debt	417,965	757,558	939,569	1,057,825	1,037,176
CFR	558,500	807,713	955,898	1,074,936	1,064,614

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen in table 6, the Authority expects to comply with this in the medium term.

Affordable borrowing limit: The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. As a Mayoral Combined Authority a borrowing cap was agreed with Treasury which cannot be exceeded, this cap is set out below alongside the limits.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
HMT Borrowing Cap	1,000,000	1,237,000	1,237,000	1,237,000	1,237,000
Authorised Limit – Borrowing	426,130	1,017,000	1,017,000	1,017,000	1,017,000
Authorised Limit – Leases	207,180	220,000	220,000	220,000	220,000
Authorised Limit - Total	633,310	1,237,000	1,237,000	1,237,000	1,237,000
Operational Boundary – Borrowing	355,110	943,000	943,000	943,000	943,000
Operational Boundary – Leases	172,650	190,000	190,000	190,000	190,000
Operational Boundary – Total	527,760	1,133,000	1,133,000	1,133,000	1,133,000

Further details on borrowing are included in the Treasury Management Strategy included at Appendix 1.

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Authority's policy on treasury investments is to prioritise security and liquidity over yield, which is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.

Further details on treasury investments are included in the Treasury Management Strategy included at Appendix 1.

Risk Management. The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 73 officer and finance staff, who must act in line with the treasury management strategy and treasury management practices approved by Cabinet. Mid-term and annual reports on treasury management activity are presented to the audit committee and cabinet.

4. Investments for Service Purposes

The Authority makes investments to assist in delivering the Strategic Economic Plan, including making loans to the special purpose vehicles, Local Authorities and local businesses.

Governance: Decisions on such investments have to adhere to the assurance framework and as such will follow the same assessment and decision-making process as all Combined Authority investments into projects or programmes. The Section 73 officer is responsible for ensuring that adequate due diligence is carried out before investment is made.

Table 8: Prudential Indicator: Proportion of income from investments to net revenue stream £'000

	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
Total Income from Investments	5,663	8,794	19,441	27,879	34,379
Proportion of net revenue stream	5%	8%	18%	24%	30%

Further details on service investments are included within the Investment Strategy included at Appendix 3.

5. Liabilities

As set out in table 6 above, the Authority forecasts to hold £418 million of long-term debt at 31st March 2024.

Governance: The risk of liabilities crystallising and requiring payment is monitored by the Finance team and reported appropriately.

6. Revenue Budget Implications

Within the 10-year investment plan it was agreed that in order to ensure successful delivery of the Strategic Economic Plan the Authority would borrow funds to unlock growth in the earlier years when it is critical to developing our economy. The increasing ratio of net financing costs to net revenue is driven by this nature of Investment Programme delivery whereby borrowing in the early part of the programme is supported by longer term revenues (namely devolved funding and enterprise zone income).

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount of revenue funding available for investment excluding specific grant schemes.

This ratio may appear to be large in comparison to a Local Authority, but a Combined Authority does not require revenue streams to provide statutory services and as such all funding is available for investments into projects. The Section 73 officer is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2023/24	2024/25	2025/26	2026/27	2027/28
Financing costs (£'000)	8,342	11,232	19,498	20,083	18,778
Proportion of revenue	38%	41%	77%	82%	70%

7. Knowledge and Skills

The Authority has professionally qualified staff across a range of disciplines that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills. The skills available from internal resources allow the Authority to assess business cases for capital investment and external professional advice is taken where required.

Through a service level agreement Stockton Borough Council (SBC) provides the Combined Authority with the treasury management service. The CIPFA code requires that staff with responsibility for treasury management receive adequate training to carry out this role. SBC assess the requirements for training as part of the staff appraisal process and they regularly attend courses and seminars provided by Arlingclose and CIPFA.

Schedule 1 – Annual Minimum Revenue Provision Statement 2024/25

Where the Authority finances capital expenditure by debt, the Capital Financing Requirement (CFR), it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Grants, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. The following statement incorporates options recommended in the Guidance as well as locally determined prudent methods.

- The nature of the majority of Authority's capital expenditure is in the form of loans and grants towards capital expenditure by third parties as part of the investment plan. As the Authority's borrowing cannot be indirectly linked to an individual asset the number of years used for MRP calculations will be 25. The MRP will be determined by charging the expenditure over this period on an annuity method.
- Where borrowing occurs to directly support projects outside of the Investment Plan, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset determined on an annuity method. MRP will commence from the 1st April of the year following the asset becoming operational.
- Where Capital Expenditure is incurred on capital loans, which are not an investment for commercial purposes, MRP will be charged to the equivalent of the expected credit loss which has been recognised in the year. Capital loan repayments received will be used to reduce the CFR on that loan.
- Finance Lease principal repayments are used to reduce the CFR on the leased asset on an annual basis.

Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until the following year.

Appendix 3

INVESTMENT STRATEGY 2024/25

1. Introduction

The Authority invests its money for two broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments), and
- to assist in delivering the Strategic Economic Plan by lending to or buying shares in other organisations (investments)

This investment strategy meets the requirements of statutory guidance on local government investments issued by the government in January 2018 (issued under section 15(1)(a) of the Local Government Act 2003) and focuses on the second of these categories.

The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Authority interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Authority's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

2. Treasury Management Investments

The Authority typically receives its income in cash (predominantly in the form of Government grants) before it pays for its expenditure in cash. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA).

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the Treasury Management Strategy, attached at Appendix 1.

3. Investments – Loans

The Authority can lend money to its subsidiaries, constituent Local Authorities and local businesses to support delivery of the Strategic Economic Plan and stimulate local economic growth. Loans are not issued by the Authority for purely financial return, they are provided if the proposal meets the priorities set out in the Investment Plan and related strategies.

Applications for financial support are received from various sources relating to a range of investments. As part of the assessment process a full financial, legal, and commercial evaluation is carried out. This evaluation will assess and recommend the nature of the Authority's proposed investment into the project whether it be a grant or loan. Loans may be given in order to comply with state aid regulations, or alternatively it may be that the applicant has the ability to repay the support via increased revenues as a result of the investment.

Several projects approved by Cabinet both within and outside the investment plan have been issued as loans. In some cases the loans have been funded by grant funding received which is held in reserve and only released for re-investment once repayments against the loans have been received. Where interest is rolled up into the loan balance this is also held in reserve and not re-invested until received.

In order to limit this risk and ensure that total exposure to loans remains proportionate to the size of the Authority, statutory government guidance requires the Authority to set upper limits on the outstanding loans to each category of borrower. This limit is set on the exposure to the Authority and therefore does not include balances that are covered by funding held in reserves as set out previously.

Details of the loans provided as at 30 September 2023 are shown in table 1 below, with the approved limits being the total value approved by Cabinet previously.

Security: The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk and ensure that total exposure to loans remains proportionate to the size of the Authority, statutory government guidance requires us to set upper limits on the outstanding loans to each category of borrower. The limits are set as follows;

Table 1: Loans in £'000

	Balance at 30.09.23 £'000	2024/25 Approved Limits £'000
Subsidiaries / JVs	329,196	787,274
Constituent Authorities	6,833	239,500
Local Businesses	3,680	3,680
TOTAL	339,709	1,030,454

Risk assessment: In making loans the Authority is exposing itself to the risk that the borrower defaults on repayments. The Authority therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Authority is proportionate and prudent.

The Authority will ensure that a full due diligence exercise is undertaken, and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

4. Proportionality

The Authority is not materially dependent on profit generating investment activity to achieve a balanced revenue budget. Table 2 below shows the extent to which the expenditure planned to meet the service delivery objectives of the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan.

Table 2: Proportionality of Investments

	2023/24	2024/25	2025/26	2026/27	2027/28
Revenue Expenditure £'000	118,857	117,908	93,964	83,765	85,493
Investment Returns £'000	5,663	8,794	19,441	27,879	35,379
Proportion	5%	7%	21%	33%	40%

5. Borrowing in Advance of Need

Government guidance is that Authority's must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority has not borrowed and has no plans to borrow in advance of need.

6. Capacity, Skills and Culture

Elected members and statutory officers: For all investment decisions the Authority follows the Assurance Framework agreed with Department for Levelling Up, Housing and Communities (DLUHC). The Authority employs highly experienced portfolio leads covering each of the investment plan themes who are able to assess each investment decision based on their individual knowledge and experience. Due Diligence is carried out on all investments by internal and external resources depending on the type of investment. Internal resources available cover economic, legal and financial issues but external expertise is drawn on when required. Internal members of staff carry out regular professional development through training courses and conferences. The input from the above resources results in a comprehensive appraisal of all investments which is consulted on and provided to the Cabinet for a decision.

Commercial deals: Within the Authority there is significant experience in both Public and Private Sector deals. Where required external support is drafted in to assist in these deals.

Corporate governance: The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity, and accountability.

The Authority had adopted and has implemented the key recommendations of the CIPFA Prudential Code. This, together with the other arrangements such as the production of Treasury Management Practices and Treasury Management Strategy are considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

7. Investment Indicators

The Authority has set the following quantitative indicator to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third-party loans.

Table 3: Total investment exposure in £'000

	31.03.23 Actual £'000	31.03.24 Forecast £'000	31.03.25 Forecast £'000
Treasury Management Investments	40,500	10,000	10,000
Investment – Loans*	339,709	427,677	563,994
TOTAL INVESTMENTS	**380,209**	**437,677**	**573,994**
Commitments to Lend	99,285	386,317	250,000
TOTAL EXPOSURE	**479,494**	**823,994**	**823,994**

*As an economic regeneration body the Combined Authority provides grant funding as the last option. Where possible/appropriate the Authority will seek to provide support in the form of a loan with collateral secured where possible. The default risk is that the Authority will convert the loan to a grant.

Appendix 4

TVCA GROUP BORROWING REQUIREMENTS 2023-24 TO 2027-28

SUMMARY

The purpose of this appendix is to support the Treasury Management Strategy request for approval in respect of TVCA lending to both the Middlesbrough Development Corporation and the Hartlepool Development Corporation ("the MDCs") and to potential strategic economic regeneration projects across the Tees Valley. All projects would be in support of the delivery of the respective TVCA Strategic Economic Plan and two MDCs Vision and Masterplan designed to drive investment and support transformation by stimulating private sector investment and growth, creating partnerships to unlock opportunities and promoting both areas to investors.

This report sets out how proposed updates to the TVCA Group Treasury Management Strategy and associated indicators will reflect these changes to the TVCA Group structure specifically ensuring that the following additional Group entities and any of their subsidiaries are all factored into the existing plans, strategies and limits: -

- Middlesbrough Development Corporation (MDC)
- Hartlepool Development Corporation (HDC)

The approval is to support commercially viable development and regeneration projects across TVCA commercial regeneration projects and the two Development Corporations whilst ensuring the necessary controls and processes are in place to deliver value for money.

The TVCA Treasury Management Strategy sets out three strategies that support and enable compliance with the Chartered Institute of Public Finance and Accountancy Treasury Management Code updated in 2021.

These three strategies are: -

- Treasury Management Strategy - the management of the Authority's cash flows, borrowing, investments, and the associated risks.
- Capital Strategy a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the functions of the Authority. Including an overview of how associated risk is managed and the implications for future financial sustainability.
- Investment Strategy – investments held by the Authority that are not managed as part of normal treasury management processes

Both Hartlepool and Middlesbrough MDCs will also produce and approve their own respective Treasury Management Strategies.

This paper sets out how TVCA and both MDC and HDC will access, manage and repay borrowing via these strategies and associated policies and procedures.

BACKGROUND

TVCA current position

1. The current proposals for Commercial projects are identified as part of the Annual Budget process and updated quarterly with the MTFP each year. Any TVCA Commercial projects are separately identifiable underneath the TVCA Investment Plan.

2. The financing of Mayoral Development Corporations and Commercial projects are a Treasury Management activity subject to financial governance and controls led by the s73 officer working under parameters approved by TVCA Cabinet as part of the Treasury Management Strategy set each financial year.

3. Any commercial proposals are assessed on their own merits to determine if the provision of debt/grant, or any combination thereof, is appropriate and affordable and represents value for money. TVCA Cabinet approve the Treasury Management Strategy each year to provide the framework under which the statutory officers operate. Individual proposals and requests for financing adhere to this framework and report back throughout the year both as part of the Treasury Management mid-year review process and the quarterly financial updates.

Proposal

4. The proposal is for all Mayoral Development Corporation and Local Authority financing requirements for their respective commercial Business Cases to be presented under the "Commercial projects" section of quarterly MTFP reporting, providing a full overview of all Commercial activities across the TVCA Group. Any such activities cannot be undertaken solely for yield and will only be considered and approved providing they represent a strong case for economic regeneration for the Tees Valley.

5. The respective Local Authority Cabinet's or Mayoral Development Corporation Boards will be responsible for review and approval of any Business Cases/Plans in support of proposed investments that are seeking financing solutions from TVCA. Once the respective Cabinet/Board has approved proposals a full copy of the Business Case/Plan for each proposal will be provided to the TVCA s73 officer for consideration of the financing request.

6. The TVCA s73 officer will work in consultation with other TVCA statutory officers and in partnership with HDC/MDC Board representatives or Local Authority s151 officers to review the proposals and the financing request in line with the TVCA Treasury Management Strategy. The s73 officer will be responsible for engaging external specialist advice as required to fulfil these responsibilities. The s73 officer will consider how any proposals pass the required financial/commercial parameters that must be met in order for any financing request to be approved.

Limits and thresholds

7. Whilst projects are in development it is anticipated that a level of debt finance from each Development Corporation and Local Authorities will be required for potential projects. The specific project details are still to be determined. To enable momentum to be maintained in

the delivery of projects it is recommended that an appropriate level of facility is made available to each Development Corporation and Local Authorities via TVCA. These levels will be kept under review and any proposals for accessing these facilities will be subject to the appropriate robust due diligence and decision-making controls (see later in this report). The proposed facility for each Development Corporation is set out below: -

Middlesbrough Development Corporation	-	£75m
Hartlepool Development Corporation	-	£75m
Other three TVCA/local authority area commercial projects	-	£225m

The updated TVCA Treasury Management indicators are provided as Appendices to the Treasury Management Strategy report.

Monitoring and Reporting

8. All approved financing requests will be reported as part of the Quarterly Finance update process to TVCA Cabinet and clearly shown as part of the Commercial Projects section of these reports.

9. The proposed project expenditure will be shown in the expenditure analysis. The financing solution will be shown in the funding section with any exception reporting in respect of the terms of the agreements and performance explained in the report. This reporting will also incorporate the previously approved STDC Regeneration Business Case facility of up to £350m ensuring all commercial regeneration investments are presented and reported in a consistent format.

Governance and key considerations

10. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. The latest TVCA Treasury Management Strategy was approved by TVCA Cabinet on 17th March 2023 and can be found here.

11. The management of the proposed borrowing facilities for both Development Corporations will adhere to the CIPFA Code and the TVCA Treasury Management Strategy. The components of the TVCA Treasury Management Strategy are set out below: -

Capital Strategy

12. Capital expenditure is where the Authority spends money on assets, such as land, property or vehicles that will be used for more than one year. In local government ***this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets***, this is predominantly the nature of the Authority's capital expenditure.

13. The proposals set out in this paper are for TVCA to provide loans to MDC/HDC/Tees Valley Local Authorities enabling them to buy/invest in assets for economic regeneration purposes.

Investment Strategy

14. TVCA is proposed to secure borrowing to onward lend to both MDC, HDC and the other Tees Valley Local Authorities. TVCA will be following the TVCA Investment Strategy to discharge this process. The TVCA Investment Strategy states: -

"..The Authority can lend money to its subsidiaries, constituent Local Authorities and local businesses to support delivery of the Strategic Economic Plan and stimulate local economic growth. Loans are not issued by the Authority for purely financial return, they are provided if the proposal meets the priorities set out in the Investment Plan and related strategies.."

15. Both MDC, HDC and the other Tees Valley Local Authority activities are designed to stimulate local economic growth and regeneration.

TREASURY MANAGEMENT STRATEGY, POLICIES AND PROCEDURES

16. The TVCA Group has Treasury Management Strategy, Policies and Procedures provide the detailed approach that TVCA will take to its Treasury Management activities.

17. The latest approved version was approved by TVCA Cabinet on 17 March 2023 with a link provided here. There are key elements of these procedures that govern the transacting of borrowing and investment decisions by TVCA and specifically those that will govern how the arrangements with MDC and HDC will operate. These provide for what TVCA will take into consideration: -

    - In respect of **every decision made**
    - In respect of **borrowing and other funding decisions**
    - In respect of **investment decisions**

18. TVCA will adhere to the policies and procedures set out in detail within the Treasury Management Practices. These guidelines in addition to the key limits and metrics in the following section will govern how TVCA administers any lending to MDC and HDC and the other Tees Valley Local Authorities respectively.

    In respect of **every decision made** TVCA will:

    a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.
    b) Be certain about the legality of the decision reached and the nature of the transaction and that all authorities to proceed have been obtained.
    c) Be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained
    d) Be satisfied that the documentation is appropriate to deliver the Authority's objectives, protect the Authority's interests, and to maintain an effective audit trail.
    e) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded.
    f) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.
    g) Follow best practice in implementing the treasury transaction

INVESTMENT AND BORROWING ROLES AND LIMITS

TVCA role – borrowing to source funds

19. TVCA as a branch of Local Government has access to the Public Works Loans Board (PWLB) that provides lower cost financial products than the wider markets. The lending

market to public bodies has developed further with the introduction of the UK Infrastructure Bank who also provide lending products to local authorities at discounted rates to the PWLB rates for certain categories of project(s). The UKIB products are linked to UK infrastructure needs their products have additional flexibilities that may not be available under the PWLB.

20. TVCA sources its long-term borrowing from either PWLB or UKIB (depending on the nature of the project) to meet the investment needs of the TVCA Investment Plan and Commercial projects that are developed with stakeholders.

21. In making loans (investing funds) the Authority is exposing itself to the risk that the borrower defaults on repayments. The Authority therefore ensures they are prudent and fully considers the risk implications, with regard to both the individual loan and that the cumulative exposure of the Authority is proportionate and prudent. For clarity any lending to the Group entities would be predicated on robust proposals with clear commercial returns and cashflows that are identifiable to repay the debt.

22. In terms of timing of any borrowing Government guidance is that Authority's must not borrow more than, or in advance of, their needs purely in order to profit from the investment of the extra sums borrowed. The Authority has not borrowed and has no plans to borrow in advance of need or purely for profit purposes in relation to both MDC/HDC and the other Tees Valley Local Authorities.

23. The key matters that TVCA will consider **in respect of borrowing and other funding decisions** are set out below. TVCA will:

    a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
    b) Evaluate the amount, structure, and duration of new borrowing and the timing thereof in relation to the Authority's planned borrowing needs (e.g. by use of a liability benchmark)
    c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
    d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
    e) Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets
    f) Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years

<u>TVCA role – investing to provide funds to MDC/HDC</u>

24. The TVCA Group Treasury Management Strategy, and specifically the Investment Strategy, sets out to ***"..assist in delivering the Strategic Economic Plan by lending to or buying shares in other organisations (investments). This investment strategy meets the requirements of statutory guidance on local government investments issued by the government in January 2018 (issued under section 15(1)(a) of the Local Government Act 2003)..***"

25. TVCA will also ensure that a full due diligence exercise is undertaken, and adequate security is in place. The business case will balance the benefits and risks. All loans are approved in line with the constitution and approved policies. All loans will be subject to close, regular monitoring.

26. TVCA will have its own advisors with responsibility for conducting due diligence on any other Local Authority/MDC/HDC projects requesting borrowing. As part of the assessment process a full financial, legal, and commercial evaluation will be carried out in line with the TVCA Investment Strategy. The cumulative effect of programmes/projects will be taken into consideration to assess the overall impact on total borrowing against approved Treasury limits and relevant performance ratios.

27. The key matters that TVCA will consider **in respect of investment decisions** are set out below. TVCA will:

    a) Determine that the investment is within the Authority's pre-determined strategy and comply with instruments (set out in TMP 4) and any credit criteria (set out in TMP 1) as well as the credit risk associated with unsecured investments with banks and building societies
    b) Consider the risks to capital and returns and the implications for the Authority's future plans and budgets, including implications of any market-related changes to the value of the capital invested
    c) Consider whether monies can be used in lieu of externally borrowing
    d) Consider the optimum period, in the light of cash flow availability and prevailing market conditions
    e) Consider alternative investment products and techniques available, if appropriate

28. As part of the consideration of the risks to capital and returns and the implications for the Authority's future plans additional decision controls are proposed. These decision controls would apply to all requests for borrowing from MDC/HDC: -

    - Loan to value ratio (security)
    - Debt service cover ratio (affordability)
    - Financing costs as % revenue (affordability)
    - Debt yield level (sustainability)
    - Treasury Management limits and boundaries (prudence)
    - Step-in rights
    - Exit strategy

MDC and HDC borrowing additional provisions

29. Where MDC and HDC have a borrowing requirement, it is proposed that they will source this from TVCA. Both Development Corporation Boards will be responsible for considering and approving programme/project proposals including appropriate risk assessment and value for money assessment activity. These proposals will require robust work with appropriate expertise to provide the necessary assurances to TVCA regarding any request for debt finance.

30. The existing TVCA Treasury Management systems provide the framework over which any such borrowing and lending would take place and both Mayoral Development Corporations are expected to follow this framework and the associated guidance.

31. All Tees Valley Mayoral Development Corporations have the power to borrow as set out in the Localism Act 2011: -

    201Object and powers

    (1)The object of an MDC is to secure the regeneration of its area.

(2)An MDC may do anything it considers appropriate for the purposes of its object or for purposes incidental to those purposes.

32. The CIPFA Code titled "CIPFA Treasury Management in the Public Services – Code of practice and cross-sectoral guidance notes" governs the definition of treasury management activities and how these activities should be managed. The TVCA Treasury Management Strategy and associated strategies set out how TVCA will comply with the code in terms of its activities.

33. Access to debt finance costs and transaction details will be dependent on the funders requirements and the relative strength of the counterparty borrowing. Both MDC and HDC have the powers to borrow however this does not necessarily mean they will be able to secure the necessary finance on appropriate terms that represent value for money due to being recently established without a significant balance sheet. It is therefore unlikely that both MDC and HDC will be able to access the PWLB and UKIB funding solutions available to local authorities due to this lack of balance sheet strength and or other security. The Mayoral Development Corporations can approach TVCA for funding in line with the proposals in this report or the alternative would be to attempt to access the private sector lending markets at a far higher cost of capital thereby eroding the spending power both MDC/HDC can generate for investment to support both Masterplans.

34. It is clear to deliver both visions for Hartlepool and Middlesbrough respectively will require access to public and private sector finance. The programmes and projects identified to deliver the Masterplan will need to be assessed on their relative merits and consider the most efficient and effective way of delivering a value for money funding solution.

Appendix A

TREASURY MANAGEMENT POLICY STATEMENT EXTRACT

TMP 3 Decision-making and analysis

In respect of **every decision made** TVCA will:

a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.
b) Be certain about the legality of the decision reached and the nature of the transaction and that all authorities to proceed have been obtained.
c) Be certain about the legality of the decision reached and that the necessary authority to proceed has been obtained
d) Be satisfied that the documentation is appropriate to deliver the Authority's objectives, protect the Authority's interests, and to maintain an effective audit trail.
e) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded.
f) Be content that the terms of any transactions have been fully checked against the market and have been found to be competitive.
g) Follow best practice in implementing the treasury transaction

In respect of **borrowing and other funding decisions**, TVCA will:
a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund
b) Evaluate the amount, structure, and duration of new borrowing and the timing thereof in relation to the Authority's planned borrowing needs (e.g. by use of a liability benchmark)
c) Consider the merits and demerits of alternative forms of funding, including funding from revenue, leasing and private partnerships
d) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
e) Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets
f) Where applicable, monitor regularly the benefits of internal borrowing against the potential for incurring additional costs by deferring borrowing into future years

In respect of **investment decisions**, TVCA will:
a) Determine that the investment is within the Authority's pre-determined strategy and comply with instruments (set out in TMP 4) and any credit criteria (set out in TMP 1) as well as the credit risk associated with unsecured investments with banks and building societies
b) Consider the risks to capital and returns and the implications for the Authority's future plans and budgets, including implications of any market-related changes to the value of the capital invested
c) Consider whether monies can be used in lieu of externally borrowing
d) Consider the optimum period, in the light of cash flow availability and prevailing market conditions
e) Consider alternative investment products and techniques available, if appropriate

AGENDA ITEM 6

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

26TH JANUARY 2024

REPORT OF THE GROUP DIRECTOR OF FINANCE AND RESOURCES

ADOPTION OF INVESTMENT PLAN, BUDGET 2024-25 AND MEDIUM-TERM FINANCIAL PLAN

SUMMARY

The TVCA constitution requires that the Combined Authority annually sets out proposals for allocation of resources in an Investment Plan, which must be formally adopted by Cabinet each year. The current Investment Plan covers the period from 1 April 2019 to 31 March 2029. Where the annual Investment Plan proposal involves changes to funding priorities or commitments to projects and proposals already agreed, unanimous approval of Cabinet is required to enact the change.

The Group Chief Executive and Group Director of Finance and Resources submitted a draft budget to Cabinet on December 15th 2023 for consideration and approval for the purposes of consultation. The Budget provides the financial framework within which the Combined Authority will operate in the forthcoming financial year (2024-2025) and over the medium term.

The consultation process has now completed, including consultation with Overview and Scrutiny Committee (O&SC) Members, the O&SC Members report is included within this report at Appendix F - it should be noted that this report is being presented to Cabinet by the Group Chief Executive for the reasons set out in the Group Chief Executive's Report which precedes the O&SC Report at Appendix F. The Local Authority Chief Executives, Tees Valley Management Group and Tees Valley Directors of Resources have scrutinised the proposed Budget.

In accordance with the statutory requirements, the budget shall separate Non-Investment plan expenditure into:

- Expenditure on the Mayors General Functions; and
- Expenditure on Combined Authority Functions.

This report includes the high-level financial allocations within the Investment Plan and provides the final budget for 2024-25. There are no expenditure items on the Mayors General Functions within this paper.

RECOMMENDATION

It is recommended that the Combined Authority Cabinet:

i. approves the final Budget for 2024-25.
ii. Note the pay policy statement 2024-25 (**Appendix G**)

DETAIL

1. This report provides details of the high-level financial allocations within the Investment Plan and provides the final Budget to Cabinet for consideration and approval.

BUDGET SUMMARY

2. There are no changes proposed to the Investment Plan.

3. This report sets out the Budget for 2024-25 and the medium-term financial plan (MTFP) for the period to March 2028. The Budget presents all forecast funding and expenditure for the plan period.

4. There is no expenditure relating to Mayors General Functions and no precepts are proposed in relation to this. All expenditure is designated at relating to Combined Authority Functions.

5. For the MTFP period the Authority forecasts to spend a total of £885.2 m. During the period the Authority will have a total of £785.2 m available funding resources. This comprises £683.0 m funding to be received in the period and £102.2 m of borrowing. In addition to this the Authority will utilise £100.0 m of usable reserves during the period

Investment Plan

6. This budget does not propose any amendments to the existing allocations within the Investment Plan.

Economic Outlook

7. UK inflation remained high over much of the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

8. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

9. Following the September MPC meeting, Arlingclose, the Authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the

remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

10. Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

11. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%.

12. Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.

13. The Authority has been working closely with our treasury management advisors to establish the short- and long-term rate forecasts. This work has enabled various models to be produced with sensitivities conducted to inform a borrowing strategy which has informed the rates built into this budget.

14. Senior management have set parameters for accessing future borrowing to allow the Authority to be agile in reacting to market changes in order to secure the most cost-effective rates.

EXPENDITURE

15. The below table summarises the projected expenditure across the medium term and the investment plan period.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transport	73,219	130,541	94,352	84,449	62,000	62,000	**506,561**
Education, Employment & Skills	45,294	41,678	38,794	38,794	38,604	38,604	**241,768**
Business Growth	33,459	46,215	4,843	2,949	2,710	3,148	**93,324**
Culture & Tourism	16,818	18,844	4,952	0	0	0	**40,614**
Innovation & Clean Growth	28,561	24,387	2,000	0	0	0	**54,948**
Place	20,645	52,302	24,926	0	0	0	**97,873**
Investment Plan Total	**217,996**	**313,967**	**169,867**	**126,192**	**103,314**	**103,752**	**1,035,088**
Concessionary Fares	12,786	12,786	12,786	12,786	12,786	12,786	**76,716**
Commercial Projects	38,303	2,380	0	0	0	0	**40,683**
Research & Evaluation	91	100	0	0	0	0	**191**
Core Running Costs	5,294	5,894	4,794	4,794	4,794	5,304	**30,874**
Costs of Borrowing	9,388	20,941	24,924	25,229	26,894	27,237	**134,613**
TOTAL EXPENDITURE	**283,858**	**356,068**	**212,371**	**169,001**	**147,788**	**149,079**	**1,318,165**

16. As reported during the year as part of the quarterly MTFP updates the Combined Authority have secured various other sources of funding to deliver specific projects and programmes over the period. This has resulted in changes to the total expenditure which have been incorporated into the above table.

Transport

Investment Plan	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	73,219	130,541	94,352	84,449	62,000	62,000	**506,561**

17. The Tees Valley Strategic Transport Plan (STP) was adopted in January 2020 and provides the framework for investment into transport projects with the aim of providing "a high-quality, quick,

affordable, reliable, low carbon and safe transport network for people and freight to move within, to and from Tees Valley".

18. Following a year-long bidding process and negotiation with government, the Authority secured £310m of City Region Sustainable Transport Settlement (CRSTS) to deliver a government agreed programme of projects in July 2022. The bid set out how we need to deliver a world-class transport system at pace to underpin our transformative economic growth ambition.

19. The CRSTS1 period concludes in 2026/27, 2 years prior to the end of the Investment Plan period. CRSTS2 indicative allocations for mayoral combined authorities for the period 2027/28 – 2031/32 were announced on the 4th October 2023. The CRSTS2 indicative allocation for TVCA is £978m. The investment plan financials will be updated accordingly when the funding allocations are confirmed.

Transforming the Tees Valley Rail System

20. The transformation of the Tees Valley rail system will provide:
    - a modern 'metro style' passenger rail system with an aspiration for a minimum 30-minute service frequency at every station so that passengers can turn up and go; and
    - capacity for freight growth linked to Teesworks and the Freeport.

21. Cabinet has previously approved funding to develop strategic rail infrastructure projects that will unlock network capacity, and this forms a significant element of the Integrated Transport Plan. A total of £144m (of which £119m is within the period covered by this report) has been earmarked as TVCA's contribution to transforming the rail network. Including projects to improve capacity at Darlington, Middlesbrough and Hartlepool stations, for freight and for other projects to improve accessibility and the passenger experience. This sum is expected to leverage £150m of additional funding.

22. The Darlington Station Final Business Case (FBC) was approved in Q3 of 2022, with enabling works taking place from early 2023. Main construction for the new multi-storey car park and station building began in May 2023, following completion of the new temporary car park and closure of the old facility. Progress is being made on the TVCA-led works, which will be completed by early 2025.The overall Darlington Station project, including the works being delivered by Network Rail, will complete in summer 2025.

23. Phase 1 of the Middlesbrough Station project, the extension of platform 2, started in December 2020 and completed in May 2021. This enabled the initial 1 train per day Middlesbrough to London service to commence in December 2021. The station undercroft redevelopment project is being delivered by Network Rail with a funding contribution being provided by TVCA. The project, which will create a new station entrance and two new business units, will be completed in early 2024. Development work has progressed on phase 3 of the project, which aims to increase station capacity for new services by improving the track and signalling infrastructure and building a new platform. Discussions are taking place with DfT around the development of a full Business Case for this project for submission early next year.

24. The Hartlepool Station project will see the reinstatement of a second through platform to improve capacity and resilience on the Durham Coast Line, facilitating future growth in services. Funded by TVCA and being delivered by Network Rail, the project is currently in the later stages of construction and has commenced regulatory approval processes. Following completion, a new semi-fast, limited stop train service between Middlesbrough and Newcastle will be introduced by Northern, speeding up journey times between the major towns and cities and providing much needed additional capacity on the line.

25. The Eaglescliffe Station project will provide a new fully accessible pedestrian footbridge. This will provide a connection between the existing eastern car park, the island station platform and the new western car park to be built by Stockton Borough Council. Also resulting in improved access to the industrial estate and nearby new residential development. The full business case for the TVCA sponsored footbridge improvements is currently being finalised with Network Rail and the main contractor BAM Nutall, with planning for works to start in early 2024. Work on the Stockton Borough Council-led highway improvements and access road have started, with work on the car park expected to commence in spring 2024.

26. Development work is continuing on a number of other rail projects, which contribute to the objectives set out above.

<u>Ensuring the Key Route Network can facilitate sustainable growth.</u>

27. The Key Route Network (KRN) is made up of the most important roads for growth and productivity. The KRN accounts for 22% of the total road network in Tees Valley. There are specific locations that are already at capacity or are forecast to be over capacity by 2025. The consequence of taking no action will be a significant increase in congestion, which will negatively impact upon journey times, reliability, and air quality, and threaten the economic transformation of the region.

28. The A19 New Tees Crossing OBC has been updated by National Highways and is being considered by Government as part of the third Road Investment Strategy (RIS3), which covers the period 2025-2030. TVCA has repeatedly emphasised the importance of the scheme for wider priorities, specifically Teesworks and the Freeport. The next phase of work would be a commitment to develop an FBC for the scheme.

29. The A689 Corridor improvements scheme was not supported by government as they decided the scheme did not offer value for money. This assertion was robustly challenged by TVCA.

30. TVCA are considering the CRSTS allocation and the Key Route Network will be looked at as part of this.

<u>A shared commitment with the operators to transform Tees Valley bus services and grow passenger numbers.</u>

31. TVCA, the local authorities and the regional bus operators work collaboratively through the Enhanced Partnership to deliver the Bus Service Improvement Plan (BSIP).

32. The BSIP is focussed on five ambitions, which are:
    - Sustainable network for the future – a collaborative approach to establish a network focused on commercial services and emerging commercial services, which will require short-term financial support (subject to securing revenue funding);
    - Bus priority improvements – new infrastructure and digital investment to prioritise bus on core corridors and improve customer experience;
    - Improved fare offer – simpler fares, a new offer for young people (subject to securing revenue funding) and targeted promotions to drive growth;
    - Enhanced customer experience – putting the needs of customers at the heart of service delivery and improving information provision with one brand identity; and
    - Decarbonising the bus fleet – one of the first regions in the UK to have an entirely zero emission local bus fleet.

33. TVCA was allocated £1.5m of BSIP+ funding for 2023/24. Working collectively with all local authorities, TVCA has already utilised some of the funding to intervene on several of the service withdrawals made by Arriva. The second phase of work will involve ‘kick-starting’ a package of service enhancements where there is the potential for them to become commercial over time. Procurement of the services is ongoing with an expectation that they start in early 2024. TVCA has an allocation of £1.5m of BSIP+ funding, and £3.85m of BSIP funding for 2024/25 and further DfT guidance is awaited.

Making Cycling & Walking the natural choice for shorter journeys

34. TVCA has an approved Local Cycling and Walking Infrastructure Plan (LCWIP) setting out a long-term approach to developing a comprehensive Tees Valley cycling and walking network. The LCWIP has received positive feedback from Government. The plan is underpinned by analysis, which identifies the priorities for investment, with a focus on corridors where there is the greatest potential to encourage people to walk or cycle to work, school or to access essential services.

35. The package is complemented by a programme of activity delivered through five active travel hubs to encourage cycling and walking. This includes personalised advice, training, better information, and positive incentive programmes.

36. TVCA is working alongside local authorities to deliver the programme, with several schemes complete and many at an advanced stage of development.

37. TVCA has successfully secured additional money from the Active Travel Fund, Levelling Up Fund and the Capability and Ambition Fund to support delivery of the programme.

Ensuring everyone can access opportunity

38. The Tees Valley Wheels 2 Work scheme continues to provide a subsidised transport solution for those with no access to a private vehicle or public transport. The fleet is now all electric and includes electric motorbikes and electric bikes. The scheme takes referrals from Job Centre Plus, but any individual can apply, and is being widely publicised to raise awareness.

39. The Tees Flex on-demand bus service has been extended through to August 2024.

40. TVCA are considering the CRSTS allocation and access opportunities will be looked at as part of this.

Positioning the Tees Valley at the forefront of decarbonising transport

41. TVCA is working alongside the DfT to deliver hydrogen refuelling infrastructure, long-term trials, and research activity through the Hydrogen Transport Hub. The DfT has committed £20m to support this activity and several projects have been awarded funding following a competition.

42. One project, led by ULEMCo, will be based at Teesside International Airport. This will develop hydrogen-powered airport ground-based support vehicles, such as tow trucks for aeroplanes and sweepers to clean runways. Another project, led by Element 2, will create new hydrogen refuelling stations, including a permanent station at the airport, which will be used to fuel a range of vehicles, such as airside vehicles, heavy goods vehicles and supermarket delivery trucks.

43. TVCA is also committed to delivering a step-change in the provision of electric vehicle charging infrastructure. Installation is complete on the initial roll-out, focused on publicly accessible car parks.

44. Government's Local Electric Vehicle Infrastructure (LEVI) fund aims to deliver a step-change in the scale of deployment of local, primarily low power, on-street EV charging infrastructure across England, and accelerate the commercialisation of, and investment in, the local charging infrastructure sector. Residents without off street parking are the primary focus of the LEVI fund.

45. The funding has been split across two tranches and, following an expression of interest process, TVCA has been invited to submit a full application to be submitted by 30th November 2023, with funding granted by 31st March 2024. The date for delivery of the EV charging infrastructure to be funded from the LEVI fund has yet to be confirmed and will be incorporated into the Investment Plan once confirmation is received. TVCA has worked alongside the five Local Authorities to develop the LEVI application.

Putting Tees Valley at the heart of the digital transport revolution

46. TVCA is delivering a wide-ranging package of digital infrastructure and services to accelerate our ambition for a digitally enabled transport system across the region. The package includes:

- Managing and optimising the highway network using the Urban Traffic Management & Control (UTMC) system. The system facilitates faster and safer traffic flows across the region and the technology can change traffic lights, improve traffic flows, support the emergency services and collect data to improve urban planning
- Interventions to encourage, support and incentivise people to use active travel and public transport
- Interventions to collate and provide data on multi-modal journeys, real time movement and occupancy data to enable customers to make informed travel choices.

Teesside Airport

47. The Airport continues to perform in line with the revised Business plan presented to Cabinet in July 2022 and this will continue to be closely monitored.

Education, Employment & Skills

Investment Plan	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	45,294	41,678	38,794	38,794	38,604	38,604	**241,768**

48. The Investment Plan includes a range of externally sourced and devolved funding streams. This includes new sources of funding, including UK Shared Prosperity Funding and existing streams, including the devolved Adult Skills funding and Careers Education. The Multiply programme is an integral part of UKSPF and provides numeracy support for Tees Valley residents that will assist in raising skills levels, improving their access to and progression in work.

49. Adult Education functions continue to be devolved and Cabinet annually approves the funding awards to appropriate Training Providers from the public, private and voluntary sectors.

50. The devolved funding enables a more flexible and responsive approach to awarding funding for skills development, this better addresses business skills needs while supporting more people to access work, especially new job opportunities being created across Tees Valley.

Business Growth

Investment Plan	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	33,459	46,215	4,843	2,949	2,710	3,148	**93,324**

Infrastructure Projects

51. The £20m 'Welcome to Redcar & Cleveland' Programme has been developed to promote area regeneration in support of economic growth in the tourism and visitor economy of R&C and the wider Tees Valley. Prior to the periods included in this report £15.3m had been incurred on delivery, with the remaining £4.7m to be incurred during 2023-25 period. The range of projects within the programme will act as a key catalyst to promote and attract a sustainable visitor economy as part of its wider place-based regeneration plans for the borough, in line with national policy.

52. Stockton's allocation of £20m, £14.8m within this report, will be used to deliver the vision for Stockton Town Centre. The vision is to create a vibrant, modern town centre by building on past investment to provide a sustainable retail offer that safeguards the traditional function of the High Street. This is alongside creating a space that enables diversification of uses though a combination of public and private investment. It aims to capitalise on the River Tees as a significant natural asset and create investor confidence through increased footfall and new uses.

53. In December 2022 the Authority secured £15m from DLHUC, from which an indicative allocation of £7m was made for business infrastructure subject to final business case completion. The Business case has now been completed and as a result £3m has been reallocated to the project from the £15m allocation.

Business Support Programme

54. Tees Valley's Business Support Offer is continuing to support businesses via the website, email portal, telephone and directly through business solutions advisors. In the year to date, the service has supported 1,101 businesses and demand for business support services and advice remains strong, particularly with the difficult economic climate.

55. The business support approach in TVCA will continue to provide responsive and direct support to business enquiries. However, through the development of the new Business Solutions-led approach, there will be a greater focus upon being more proactive in engaging with businesses to establish what support they need. This will help develop bespoke and responsive solutions to assist them to start-up, grow and thrive.

56. The UK Shared Prosperity Funding for Business Support has been developed and just over £5.6m has been awarded to provide support for Net Zero, Digital, Access to Finance and Supply Chain development.

57. A further £5.5m will be allocated to additional projects to commence delivery from April 2024. This will support innovative and pilot projects that directly support Tees Valley businesses and create a more flexible approach to accessing support that fits their needs.

58. The Tees Valley Large Capital Grant scheme has defrayed £6.7m to date against private sector capital investments in excess of £28m supporting the creation and safeguarding of more than 900 jobs. The pipeline of applications currently being processed is strong. It is forecast that the funds will be fully defrayed against private sector investments by 2026.

Creative Place

Investment Plan	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	16,818	18,844	4,952	0	0	0	**40,614**

59. The Investment Plan allocation for our Culture & Tourism Programme is £20m, of which £16.2m is within the period contained in this report. Of this, £11.1m is sourced from the UKSPF allocation for ‘Communities & Place’. In June 2022 a programme Business Case was approved which set out the objectives, outputs and impacts of the Growth Programme for the Creative & Visitor Economies. Committed and intended investment through the four Programme pillars is described below.

Sector Growth & Sustainability

60. Baseline analysis of Tees Valley’s creative cluster identified that interventions were required to stimulate network development and collaboration; support the development and progression of sector skills and talent; enable the development of IP and support innovative practice; and build resilience and capacity within sector businesses. Investment made through the Sector Growth & Sustainability pillar of the programme has sought to address these barriers to growth.

61. Most projects supported through the Sector Growth & Sustainability pillar of the Growth Programme are multi-year projects due to conclude in 2025/26. In 2024/25, focus will be directed to key areas where meaningful interventions have not yet been made, including local music industry development, a new strategy for supporting visual arts, and activity to support a sustainable increase in region-made content and creative products.

Festivals and Events

62. Investment through this pillar aims to balance the development of Tees Valley’s indigenous festival ecosystem with attraction of high-profile national event brands which shine a spotlight on the region and galvanise interest from visitor markets.

Destination Product Development

63. Through this pillar of the programme, in 2024/25 we will invest in interventions which strengthen the proposition of the region as a visitor destination. Significant preliminary work has taken place to inform the activity which will be delivered with intended emphasis on heritage, walking, cycling and food.

Profile Raising

64. This programme pillar is focused on destination marketing (through the Visit Tees Valley destination platforms); raising awareness of the strengths and achievements of the region's creative and visitor sectors; and building the proposition of the region as a location for business tourism (conferences, events etc).

Infrastructure Projects

65. An Investment Plan allocation of £20m (£9.4m in the period covered by this report) has been provided for Darlington Council's priority project, a major capital scheme which will establish a Railway Heritage Quarter. This will be based around the "Head of Steam" museum on North Road/Station Road, north of Darlington town centre. The aim is for the Railway Heritage Quarter to become a major visitor attraction and museum by 2024, becoming a central part of the bi-centenary celebrations of the birth of the Stockton & Darlington Railway in 2025.

66. The £20m Hartlepool Waterfront project (£15m in the period covered by this report) will create a 'destination' at the waterfront, encouraging growth in visitor numbers to regenerate the place via the tourism / leisure / culture offer. The Project will work with the National Museum of the Royal Navy to expand the exhibition space while leisure facilities will be constructed along with external event space and improved public realm.

Innovation and Clean Growth

Investment Plan	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	28,561	24,387	2,000	0	0	0	**54,948**

67. Our £19m innovation programme, approved in January 2020 is focused on supporting the key sector areas identified in the SEP, namely, bio science, digital, advanced engineering, and clean growth. The programme has several linked activities to provide the cornerstones for growth in these sectors, as well as funding for key industrial networks helping develop the wider supply chains. Further support for these networks is being developed for partnership and direct delivery as part of TVCA's UK Shared Prosperity Fund Programme.

68. Key projects include support for a bioscience incubator at central park in Darlington; the Net Zero Industry Innovation Centre being developed at Teesside University; facilities to support hydrogen and offshore engineering innovation at TWI, support for future digital research projects, including a new research centre at Teesside University, and the new Centre for Digital Trade and Innovation in partnership with The International Chamber of Commerce.

69. The programme is leveraging national funds wherever possible to maximise its impact. The region has been selected to participate in the Innovate UK launch pad programme, which will see £7.5m invested in stimulating innovation activity focusing on clean growth. TVCA also secured £150,000 from Innovate UK for Cluster Coordination to support delivery of the Launchpad programme in the region and promote engagement with funded projects and other innovation companies.

70. TVCA has invested £2m in CPI to help develop its novel foods innovation activities and which will bid into central government for further funding. We have supported The Materials processing Institute to secure over £20m of funding for their work on the transition to a net zero economy. The region has been successful in bringing the DfT's hydrogen Transport Hub to the region with more than £20m of hydrogen related infrastructure and trials.

71. TVCA, through the Net Zero Hub, is delivering a series of Housing Retrofit schemes within Tees Valley and the wider North East and Yorkshire Net Zero Geography. This is alongside a Social Housing Decarbonisation Fund (SHDF) £33.6m and a £3.2m Home Upgrade Grant scheme. The smaller schemes will be completed by December 2023, and SHDF will conclude in March 2025.

72. TVCA has secured £305,000 from the Woodland Creation Accelerator fund to support the region's five local authorities in their woodland related ambitions and its own agenda for strategic level nature-led Net Zero activity. This funding was supplemented by £82,000 from the Net Zero Hub to create the Trees on Tees initiative.

73. The Hub has secured additional funding of £1.1m for its core activities until September 2024 and indicative funding up to March 2025, in addition to its total core funding to £4.1 m 2018 to date.

Place

Investment Plan	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	20,645	52,302	24,926	0	0	0	**97,873**

74. Over ten years a total of £60m (£4323m in the reporting period) has been allocated to create the Indigenous Growth Fund (IGF). Each of the five boroughs that make up Tees Valley has distinct economic assets and opportunities, and it is essential that we can unlock these opportunities for residents.

75. A programme Business Case has been developed and approved for the fund. The constituent authorities are currently bringing forward proposals to call off funding from the programme.

76. Six projects have been approved for funding, committing £38.8m (65%). These include:
- Supporting the acquisition of key assets in Stockton & Darlington as part of the wider Town Centre redevelopments
- Darlington Railway Heritage Quarter
- High street support schemes within Redcar
- Kirkleatham Walled Garden & Catering Academy (completed)
- Boho 8 & X in Middlesbrough (completed)

77. Projects currently in appraisal will commit a further £7.3m. Projects include:
- Redcar & Cleveland – Town Centre improvements around Loftus
- Middlesbrough – Southlands Housing enablement
- Darlington – the refurbishment of Market Hall will support the wider programme of works under their Towns Deal.

78. Pipeline projects are currently being developed considered to commit the remaining balance of the IGF.

79. The Authority has secured a total of £26.7m of Brownfield Housing Funding, £15.5m in the period covered by this report. The programme fund must be fully defrayed by March 2025. There have been delays to a number of the projects due to factors including the impact of Nutrient Neutrality on securing planning approvals, supply chain issues and a significant increase in inflation and costs of materials. In order to deliver the programme a review has taken place of the pipeline which has resulted in funds being earmarked for the Gresham redevelopment.

80. An allocation of £20m to support the new Mayoral Development Corporations (MDCs) in Hartlepool and Middlesbrough was approved by Cabinet in July 2022. The Corporations are progressing masterplans and evaluating a number of development propositions which will be appraised and reported to the relevant boards for approval.

81. Alongside this the Authority secured an indicative allocation of £8m subject to business case development for the redevelopment of Gresham in Middlesbrough from DLHUC in December 2022 as part of an overall £15m allocation. As a result of the Brownfield Housing funds now being made available for Gresham, £3m of this indicative allocation is not required and has been reallocated to the Business Support theme.

82. An allocation of £10m has been made for other place-based investments in non-Mayoral Development Corporation areas. From this allocation, £6m is ring fenced for projects to drive the economic development of Billingham for which a Business Case is currently being developed. Darlington Council is bringing forward place-based proposals for the remaining £4m.

Expenditure outside the Investment Plan

Concessionary Fares

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	12,786	12,786	12,786	12,786	12,786	12,786	**76,716**

83. The English National Concessionary Travel Scheme (ENCTS) budget for 2023/24 is £12.8m. The budget for future years has been based on the current value, however this is subject to change based on future negotiations.

Commercial Projects

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	38,303	2,380	0	0	0	0	40,683

84. The commercial projects section of the MTFP contains projects which have been invested in via either a commercial loan or with returns on investment. The projects currently within this section are: -

- Southside Development at Teesside International Airport
- Tees Valley Waste project loan to the constituent Local Authorities, in respect of procurement costs that will begin to be recovered once the project is live
- The development of the South Bank Quay to enable offshore wind which will see returns from proceeds of usage of the Quay

Research and Evaluation

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	91	100	0	0	0	0	191

85. To assess impact and inform future funding requirements, a budget for research and evaluation was set aside. This includes the expenditure associated with the Government Gateway evaluation carried out by SQW.

CORE COSTS

The core costs of the Authority relate to general running costs of the organisation, developing and supporting investment in projects and programmes included in the Investment Plan.

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£’000	£'000
Core costs	5,294	5,894	4,794	4,794	4,794	5,304	30,874

86. The table below sets out the core costs budget for 2024/25 and the previously agreed budget for 2023/24. It is proposed that any inflationary cost pressures will be managed within the current budget envelope.

Core costs	2023/24	2024/25
Salaries (incl Ni & Pension)	4,281,236	4,281,236
Other Staffing Costs	15,000	15,000
Total Staff Costs	4,296,236	4,296,236
Premises	335,000	335,000
General Running Costs	502,967	502,967
Marketing & Communications	160,000	160,000
Non-Salary Expenditure	997,967	997,967
Election Costs	0	600,000
TOTAL EXPENDITURE	5,294,203	5,894,203

Cost of Borrowing

87. The arrangements for Combined Authority borrowing are set out in the annually agreed Treasury Management Policy. The loan repayments are made up of the minimum revenue provision which is calculated based on the methodology set out in the Treasury management statement based on the capital financing requirement and interest on the actual external borrowing taken out.

88. The Authority minimises its costs of borrowing by utilising internal resources where required, sometimes known as internal borrowing, this reduces risk and keeps interest costs low. The calculations have been updated based on the latest profile of required borrowing requirements.

89. A borrowing strategy has been developed which includes a range of maturities, short and long term, with ability to refinance built in. These are all driven from the latest interest rate forecasts from Arlingclose which are set out in the table below.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.38	4.50	4.50	4.40	4.25	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.27	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.67	4.65	4.60	4.55	4.45	4.35	4.25	4.20	4.20	4.20	4.20	4.20	4.20
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.25	4.25	4.20	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.50	-0.70	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

90. Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility. In line with this advice the interest rate for future borrowing has been updated based on Arlingcloses forecasts. The latest borrowing requirements and repayments are set out in **Appendix 2**.

FUNDING

91. The below tables summarise the forecast funding across the medium term and the investment plan period.

Funding	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	283,858	356,068	212,371	169,001	147,788	149,079	**1,318,165**

Funding Source	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£’000	£'000ap
Devolution	15,000	15,000	15,000	15,000	15,000	15,000	**90,000**
Enterprise Zones	2,900	5,882	6,036	6,348	6,348	6,348	**33,862**
Transforming Cities Fund / CRSTS	62,437	62,436	62,436	62,436	62,000	62,000	**373,745**

Loan Repayments & Investment returns	8,305	12,659	9,206	7,733	9,346	9,660	56,909
Government Grants	62,203	82,452	21,144	7,565	7,135	7,555	188,054
Adult Education Budget / Level 3	34,429	35,179	35,179	35,179	35,178	35,179	210,323
Concessionary Fares	12,786	12,786	12,786	12,786	12,786	12,786	76,716
Borrowing	81,493	74,096	28,096	0	0	0	183,685
Movement -to / from reserves	4,305	55,578	22,488	21,954	-5	551	104,871
Total	283,858	356,068	212,371	169,001	147,788	149,079	1,318,165

Devolution

92. Funding of £15m per year for 30 years was agreed as part of the devolution agreement with government. This funding is subject to a five-year review which was successfully achieved in 2021. For the purpose of the budget plan period it is assumed that this level of funding will continue beyond each of the five-year review points.

Enterprise Zones

93. The Combined Authority retains business rate funding from a number of designated enterprise zones. As the zones continue to attract more business the funding generated is forecast to increase.

94. The current projections for the investment plan period are based on rates that are currently being collected, together with known projects currently under construction. Business rates from future potential projects on the Enterprise Zones are not accounted for in the forecasts but will be kept under review.

Transforming Cities Fund & City Region Sustainable Transport Settlement

95. The Transforming Cities Fund was announced by Government in the 2017 Budget to transform local public transport. The fund gives the Combined Authority freedom to invest on strategic transport priorities such as rail, bus rapid transit, cycling or other public and sustainable transport improvements.

96. The City Region Sustainable Transport Settlement (CRSTS) is the successor to the Transforming Cities Fund and has seen the annual average funding increase from £15.1m to £62m following a successful bid to DfT. The Authority has been awarded £310m to invest in local transport networks to improve the quality of local transport networks over a five-year period which commenced in 2022/23.

97. The CRSTS1 period concludes in 2026/27, 2 years prior to the end of the Investment Plan period. CRSTS2 indicative allocations for mayoral combined authorities for the period 2027/28 – 2031/32 were announced on the 4th October 2023. The CRSTS2 indicative allocation for TVCA is £978m. The investment plan financials will be updated accordingly when the funding allocations are confirmed.

TEES VALLEY

Loan Repayments & Investment Returns

98. A number of Combined Authority investments are made on a recoverable and/or commercial basis. The returns from these investments, including those from Group entities, have been reviewed thoroughly and it is estimated that £57m will be repaid during the period including interest. These returns will be kept under constant review taking account of all internal and external economic factors.

Government Grants

99. The Combined Authority receives a number of other grants from Central Government which can be either awarded for specific purposes following an application process or where is awarded with fully devolved discretion regarding expenditure. This allocation includes secured grants of UKSPF £40.4m, Levelling Up Fund £17.8m, Transport Development Fund £10.7m, Brownfield Housing £7.8m, Local Energy Advice Demonstration £4.4m, Bus Service Improvement Plan £3.1m, along with a number of other specific project grants.

100. Current estimates are based on secured grants and some assumptions regarding the continuation of current funding. We remain in constant discussions with Government to ensure we secure the maximum funding possible to achieve our priorities set out in the Strategic Economic Plan. Based on current secured income the budget is fully funded for 2024/25.

Adult Education Budget

101. Devolution delivery of the Adult Education Budget commenced August 2019 and aims to provide those aged 19 and over in the Tees Valley area with support into training and education to enhance skills in order to meet the skills requirements of employers. The Combined Authority will be working with a wide range of providers to align training to business needs and to prevent young people becoming long-term unemployed.

Concessionary Fares Funding

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

RESERVES

103. The Combined Authority holds two classifications of usable reserves these are non-ring-fenced funds which have been received but not yet applied against expenditure and the General Balance Reserve. The Combined Authority manages overall resource requirements by reference to the MTFP and overall Investment Plan.

104. At April 2023 the balance of usable reserves was £106.0m which is forecast to reduce through drawdowns by £4.3m in 2023/24 leaving a balance at April 2024 of £101.7m of available funds held in reserve, and it is forecast that this will reduce by £100.0m over the MTFP period.

105. Good practice guidance for Local Authorities is that a proportion of net revenue expenditure should be held in the General Balance Reserve to manage risk and any unforeseen circumstances. The Combined Authority manages overall resource requirements by reference to the MTFP and overall Investment Plan and the general reserve currently stands at £1.058m.

106. As agreed in the 2019/20 Budget we consider that the appropriate way of calculating a general reserve level is to take the average of the risk-based revenue that we expect to receive over the period of the MTFP and hold a proportion of this in the General Reserve. This calculation has resulted in a requirement of £0.4m, however management has decided to not amend this from the current reserve of £1.058m.

DEVOLUTION DEAL FORWARD FUNDING

107. As part of the devolution deal Government agreed to provide the Combined Authority with a devolved fund of £450m. Although this funding is released by Government on an annual basis of £15m per year for 30 years the aim was that Mayoral Combined Authorities could use this funding stream to forward fund through prudential borrowing. The original approval to access borrowing was approved as part of the previous investment plan and this report reaffirms the borrowing requirement.

108. Within the Investment Plan there is still flexibility to fund immediate requirements that are not funded by Central Government and generally these are funded from within agreed allocations. Any such amendments require the unanimous approval of Cabinet in line with the constitution. The level of borrowing and the amount of headroom available following these and other allocations are reviewed by Cabinet annually as part of the Investment Plan and review of the Medium-Term Financial Plan.

109. Devolution funding is evaluation every five years which leads to the release of the next tranche of five-year funding from Central Government. The first of the five-year review periods was 31 March 2021, which was successfully completed.

BORROWING

110. In addition to forward funding from devolution funds to deliver the Investment Plan the Combined Authority also has borrowing requirements to fund commercial investment propositions. The arrangements for Combined Authority borrowing are set out in the annually agreed Treasury Management Policy.

111. The Capital Financing Requirement (CFR) shows the underlying need to borrow to fund capital investments. The Authority's chief objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Therefore the actual timing of the borrowing may not always follow the profile of the CFR as the Authority looks to strike this balance, details of this "internal borrowing" can be found at Appendix D.

112. Within the MTFP period the total CFR to deliver the Investment Plan and fund commercial projects is £102m as part of a wider borrowing requirement of £450m over the Investment Plan Period of 2019 to 2029, details of which can be found at Appendix D. This is well within the Government agreed borrowing caps of £1,000m.

113. The repayments for the borrowing are affordable and can be financed from revenue funding received both during and beyond the investment plan period.

MEDIUM TERM FINANCIAL PLAN 2024-28

114. Funding and expenditure for the plan period, including the final 2024/25 budget is summarised in the medium-term financial plan as set out in Appendix A, split into capital and revenue in Appendix B & Appendix C respectively.

FINANCIAL IMPLICATIONS

115. This report gives an update on performance against the budget for the Combined Authority, updates the Medium-Term Financial Plan and Investment Plan forecasts.

LEGAL IMPLICATIONS

116. There are no legal implications associated with the recommendations within this report.

RISK ASSESSMENT

117. This Budget Report has been categorised as medium risk to reflect the updated work on the implementation of our group risk management strategy. The group corporate risk register has been updated to reflect funding uncertainty from Government. The existing management systems and daily routine activities are sufficient to control and reduce risk.

118. The risk of increased costs through economic factors is closely monitored and is being managed through the revised borrowing strategy put in place. A robust business case development process reduces the risk of cost pressures of investments by ensuring sufficient contingencies are built in resulting in no additional asks of Authority funds.

CONSULTATION

119. Formal consultation will be undertaken in the period 11th December to 9th January. This is in addition to circulation of this report to Local Authority Directors of Finance, Tees Valley Management Group and Chief Executives.

Name of Contact Officer: Gary Macdonald
Post Title: Group Director of Finance and Resources

Appendix A

Medium Term Financial Plan 2024-28

MEDIUM TERM FINANCIAL PLAN	2024/25	2025/26	2026/27	2027/28	TOTAL
	£'000	£'000	£'000	£'000	£'000
Funding	226,394	161,787	147,047	147,793	683,021
Borrowing	74,096	28,096	0	0	102,192
TOTAL FUNDING	300,490	189,883	147,047	147,793	785,211
Investment Plan	313,967	169,867	126,192	103,314	713,340
Concessionary Fares	12,786	12,786	12,786	12,786	51,144
Commercial Projects	2,380	0	0	0	2,380
Research & Evaluation	100	0	0	0	100
Core Running Costs	5,894	4,794	4,794	4,794	20,276
Costs of Borrowing	20,941	24,924	25,229	26,894	97,988
TOTAL EXPENDITURE	356,068	212,371	169,001	147,788	885,228
TRANSFER TO / FROM RESERVES	-55,578	-22,488	-21,954	5	-100,015
Reserves Opening Balance	101,695	46,117	23,629	1,675	
Transfer To / From Reserves	-55,578	-22,488	-21,954	5	
Reserves Closing Balance	46,117	23,629	1,675	1,680	

Appendix B

Capital Medium Term Financial Plan 2024-28

CAPITAL MEDIUM TERM FINANCIAL PLAN	2024/25	2025/26	2026/27	2027/28	TOTAL
	£'000	£'000	£'000	£'000	£'000
Funding	109,712	72,306	62,381	62,000	306,399
RCCO	3,944	0	0	0	3,944
Borrowing	74,096	28,096	0	0	102,192
TOTAL FUNDING	187,752	100,402	62,381	62,000	412,535
Investment Plan	239,725	118,679	84,448	62,000	504,852
Commercial Projects	2,380	0	0	0	2,380
TOTAL EXPENDITURE	242,105	118,679	84,448	62,000	507,232
TRANSFER TO / FROM RESERVES	-54,353	-18,277	-22,067	0	-94,697
Capital Reserves Opening Balance	94,697	40,344	22,067	0	
Transfer To / From Reserves	-54,353	-18,277	-22,067	0	
Reserves Closing Balance	40,344	22,067	0	0	

Appendix C

Revenue Medium Term Financial Plan 2024-28

REVENUE MEDIUM TERM FINANCIAL PLAN	2024/25	2025/26	2026/27	2027/28	TOTAL
	£'000	£'000	£'000	£'000	£'000
Funding	116,682	89,481	84,666	85,793	376,622
RCCO	-3,944	0	0	0	-3,944
TOTAL FUNDING	112,738	89,481	84,666	85,791	372,678
Investment Plan	74,242	51,188	41,744	41,314	208,488
Concessionary Fares	12,786	12,786	12,786	12,786	51,144
Research & Evaluation	100	0	0	0	100
Core Running Costs	5,894	4,794	4,794	4,794	20,276
Costs of Borrowing	20,941	24,924	25,229	26,894	97,988
TOTAL EXPENDITURE	113,963	93,692	84,553	85,788	377,996
TRANSFER TO / FROM RESERVES	-1,225	-4,211	113	5	-5,318
Revenue Reserves Opening Balance	6,998	5,773	1,562	1,675	
Transfer To / From Reserves	-1,225	-4,211	113	5	
Reserves Closing Balance	5,773	1,562	1,675	1,680	

Appendix D

Borrowing

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing Required	81,493	74,096	28,096	0	0	0	183,685
				MTFP PERIOD	102,192		

	Bal c/f	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing Required	266,715	81,493	74,096	28,096	0	0	0	450,400
Internal Borrowing	55,015	-8,507	-17,986	-18,522	-10,000	0	0	0
External Borrowing	211,700	90,000	92,082	46,618	10,000	0	0	450,400

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Minimum Revenue Provision	4,374	7,163	9,042	10,095	10,452	10,822	51,948
Loan Interest	5,014	13,778	15,882	15,134	16,442	16,415	82,665
				MTFP PERIOD	97,988		

Appendix E

Investment Plan Projects & Programmes

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Access to Opportunities	426	3,530	56	0	0	0	**4,012**
Active Travel Programme	4,443	38,096	22,013	15,005	0	0	**79,557**
Bus Programme	2,850	3,992	22,786	21,605	0	0	**51,233**
Decarbonisation Programme	999	1,032	1,060	0	0	0	**3,091**
Digital	1,714	2,902	5,192	2,000	0	0	**11,808**
Local Highways Funding	18,675	19,686	16,578	16,578	0	0	**71,517**
Place Based Transport Investment	326	8,243	10,457	13,000	0	0	**32,026**
Rail Programme	35,505	50,560	16,210	16,261	0	0	**118,536**
Teesside Airport	8,281	2,500	0	0	0	0	**10,781**
CRSTS 2 Programme TBC	0	0	0	0	62,000	62,000	**124,000**
Transport Total	**73,219**	**130,541**	**94,352**	**84,449**	**62,000**	**62,000**	**506,561**
Careers Support	411	145	0	0	0	0	**556**
Skills Capital	0	667	0	0	0	0	**667**
Support for Business	1,347	190	190	190	0	0	**1,917**
Support for Individuals	41,865	37,347	35,179	35,179	35,179	35,179	**219,928**
UKSPF People & Skills Programme	1,671	3,329	0	0	0	0	**5,000**
UKSPF People & Skills Programme TBC	0	0	3,425	3,425	3,425	3,425	**13,700**
EES Total	**45,294**	**41,678**	**38,794**	**38,794**	**38,604**	**38,604**	**241,768**
Boho “The Digital City”	902	0	0	0	0	0	**902**
Business Infrastructure Projects	12,010	7,972	0	0	0	0	**19,982**
Business Support Programmes	15,792	19,269	4,843	2,949	2,710	3,148	**48,711**
STDC Projects	1,197	3,000	0	0	0	0	**4,197**
Stockton High Street	1,348	13,477	0	0	0	0	**14,825**
Welcome to Redcar & Cleveland	2,210	2,497	0	0	0	0	**4,707**
Business Growth Total	**33,459**	**46,215**	**4,843**	**2,949**	**2,710**	**3,148**	**93,324**
Culture & Tourism Programme	3,809	7,426	4,952	0	0	0	**16,187**
Hartlepool Waterfront (incl NMRN)	3,619	11,418	0	0	0	0	**15,037**
Darlington Railway Heritage	9,390	0	0	0	0	0	**9,390**
Culture Total	**16,818**	**18,844**	**4,952**	**0**	**0**	**0**	**40,614**
Housing Retrofit	19,353	18,660	0	0	0	0	**38,013**
Innovation Capital Infrastructure	2,363	2,941	2,000	0	0	0	**7,304**
Net Zero Hub Activity	5,902	2,170	0	0	0	0	**8,072**
Network Support Programme	943	616	0	0	0	0	**1,559**

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Innovation & Clean Growth Total	28,561	24,387	2,000	0	0	0	54,948
Brownfield Housing	3,436	12,102	0	0	0	0	15,538
Car Parking	36	0	0	0	0	0	36
Indigenous Growth Programme	14,740	24,300	4,200	0	0	0	43,240
UKSPF Communities & Place	1,233	2,100	0	0	0	0	3,333
Place Based Investment Fund	1,200	13,800	20,726	0	0	0	35,726
Place Total	20,645	52,302	24,926	0	0	0	97,873
INVESTMENT PLAN TOTAL	217,996	313,967	169,867	126,192	103,314	103,752	1,035,088

TEES VALLEY

Appendix F

REPORT OF GROUP CHIEF EXECUTIVE

OVERVIEW AND SCRUTINY COMMITTEE BUDGET CONSULTATION

26 JANUARY 2023

OVERVIEW & SCRUTINY BUDGET CONSULTATION

SUMMARY

1. Tees Valley Combined Authority (TVCA) is required to set a budget on an annual basis and undertake public consultation before the budget proposals are submitted to Cabinet for approval.
2. The Overview and Scrutiny Committee has previously established the practice of convening a Finance and Resources Sub-Committee to scrutinise the budget and conduct an analysis of the draft budget documents submitted to Cabinet
3. Following its meeting on 11 December 2023, the Overview and Scrutiny Finance & Resources Sub-Commitee submitted its Report on the Budget the Overview & Scrutiny Committee which was due to be held on 11 January 2024.
4. The meeting of the Overview & Scrutiny Committe on 11 January 2024 did not meet the quoracy requirements of 10 Members from 4 Local Authorities. Only 8 Members attended, with some of those not attending presenting apologies too late for the meeting to be cancelled. None of those who presented apologies sent their substitute. As such the Statutory Meeting was brought to a close and no decisions were able to be made.
5. This Report sets out the decision of the Group Chief Executive to present the Overview & Scrutiny Committee Report to Cabinet.

RECOMMENDATION

It is recommended that pursuant to Paragraph 19 of Part 2 of the TVCA Constitution, that Cabinet note the content of the draft Overview & Scrutiny Budget Report.

REPORT

1. Following the inquorate meeting of the Overview & Scrutiny Committee due to be held on 11 January 2024 an informal discission took place between TVCA officers and those Members present regarding the Budget Consultation report which was due to be presented to Cabinet.

2. The Acting Monitoring Officer confirmed that the decision to present the report was that of the Committee and in the absence of a quorate meeting, this could not be achieved.
3. Whilst those Members present were keen for the Budget Report to be presented to Cabinet, they were keen that this be dealt with in accordance with appropriately and pursuant to the TVCA Constitution.
4. Following consultation with the Chair of the Overview & Scrutiny Committe, it was agreed that Members would be informed of the Chief Executives intention to recommend the Overview & Scrutiny Committee Budget Consultation Report to Cabinet pursuant to Paragraph 19 of Part 2 of the TVCA Constitution.
5. Paragraph 19 of Part 2 of the TVCA Constitution provides:

   19. Urgent Decisions

   19.1 Without limitation to the above, where a decision needs to be taken urgently and it is not practical to convene a quorate meeting of the Cabinet or relevant committee or subcommittee of the Combined Authority, the Group Chief Executive, in consultation with the Chair (or in their absence the Vice Chair) of the Cabinet or relevant committee or subcommittee, the Group Director of Finance and Resources and the Monitoring Officer, has the authority to take an urgent decision.

   19.2 The Monitoring Officer will maintain a record of all 'urgent' decisions and submit a report on these decisions at least annually to the Cabinet. The report will include a summary of the subject matter of the decisions taken.

6. On 11 January 2024, the Acting Monitoring Officer emailed all Members setting out the proposal to utilise Paragraph 19 of Part 2 of the TVCA Constitution in order to recommend the Overview & Scrutiny Budget Report to Cabinet. The email asked Members to confirm by return email should they not agree with the proposed process for referral of he Budget Consultation Report to Cabinet.
7. Of the 12 Members of Overview & Scrutiny Committee emailed, 6 responded to confirm they were content with the proposals – 6 did not respond.
8. Pursuant to Paragraph 19 of Part 2 of the TVCA Constitution, it is the Group Chief Executive's decision to refer the Overview & Scrutiny Committee Budget Report to Cabinet, Cabinet is asked to note that the decision of the Group Chief Executive is only to refer the report to Cabinet. It does not extend to approving the report and Cabinet is reminded that the Overview & Scrutiny Committee could not approve the report as its meeting at which is intended to do so was inquorate.

DRAFT REPORT TO OVERVIEW AND SCRUTINY COMMITTEE

11 JANUARY 2024

BUDGET CONSULTATION

SUMMARY

Tees Valley Combined Authority (TVCA) is required to set a budget on an annual basis and undertake public consultation before the budget proposals are submitted to Cabinet for approval.

The Overview and Scrutiny Committee has previously established the practice of convening a Finance and Resources Sub-Committee to scrutinise the budget and conduct an analysis of the draft budget documents submitted to Cabinet.

This report details the findings of the Finance and Resources Sub-Committee meeting held on 11 December 2023, prior to submitting its final response to Cabinet for consideration on 26 January 2024.

RECOMMENDATION

That the Overview and Scrutiny Committee considers and approves the response from Finance and Resources Sub-Committee arising from its meeting on 11 December 2023, to be submitted to Cabinet for consideration at its meeting on 26 January 2024.

REPORT

1. The Overview and Scrutiny Committee agreed at its meeting on 8 November 2023 to establish a Finance and Resources Sub-Committee to scrutinise the budget and conduct an analysis of the draft budget documents submitted to Cabinet.
2. The Sub-Committee is chaired by Councillor Ian Haszeldine (Darlington Borough Council). The other members of the Sub-Committee are Councillor David Branson (Middlesbrough Council), Councillor Jim Lindridge (Hartlepool Borough Council), Councillor Steven Nelson (Stockton Borough Council) and Councillor Paul Salvin (Redcar and Cleveland Borough Council).
3. The Sub-Committee met to scrutinise the budget for 2023/24 on Monday, 11 December 2023, following publication of the draft budget documents on Thursday, 7 December 2023.
4. The Group Director of Finance and Resources attended the Finance and Resources Sub-Committee meeting to present the draft budget documents and respond to members' questions and comments.
5. Relevant officers also attended the meeting to respond to specific questions and comments.
6. The key points of discussion arising from the Finance and Resources Sub-Committee

meeting held on 11 December 2023 are included below for consideration and approval by Overview Scrutiny Committee. A final response is to be submitted to Cabinet for consideration at its meeting on 26 January 2024.

- Clarification sought about usable reserves. Members were advised that there was a relatively small general reserve budget to undertake core functions and then one consisting of grants received in prior years which were earmarked for larger projects approved by TVCA Cabinet.

- A query about a reduction in expenditure in key areas over future years. It was advised that the budget information showed identified funding and provisional allocations. Some areas required bidding for funding that was not included. Net zero was one example of this.

- A query about whether a change of Mayor at TVCA provided scope for making changes to budget proposals. It was advised that budget proposals were presented to Cabinet and any changes to the Investment Plan required unanimous approval. As part of this there was a consultation process to undertake.

- In response to a query, it was advised that a settlement had been negotiated with local bus operators in relation to concessionary fares ensuring collective agreement with all local authorities across the Tees Valley area.

- Clarification was sought regarding the cost of borrowing and whether the current interest rate was sustainable. It was advised that TVCA had gradually increased the amount it had borrowed. Treasury advisors assisted with tracking movements in the market over the short, medium, and long term against agreed borrowing parameters which allowed TVCA to react quickly to any favourable changes in interest rates.

- Concern that the 30 minutes service frequency (as part of the transformation of the Tees Valley rail system) was aspirational. It was advised that the current investment programme was focussed on creating capacity to operate more trains. Opportunities existed as part of rail devolution to make better use of the current infrastructure.

- Members of the Sub-Committee emphasised the point that the constant use of acronyms in the report was confusing.

- Options for decarbonisation of trains. It was advised that Northern had previously pursued options for decarbonisation, but progress had stalled due to lack of funding. It was also advised that new technology was in place to address issues. There was a need to establish the most effective means of decarbonising the rail network and then to identify ways to fund it.

- Concern that some of the information about Teesside Airport was difficult to find in the report. Members were advised that a business plan for Teesside Airport had been published on the TVCA website, which contained further information. Members emphasised the need to include all key financial information in the report and ensure that it was easy to find.

- It was reported that approximately £34m per year was devolved to the Combined Authority to deliver adult education and skills. The provision was for adults aged 19 and above and the value confirmed on an annual basis. The focus of this funding was to support businesses to address current and future skills needs, particularly in growth sectors; for example, hydrogen and net zero.

- A request that all members of the Overview and Scrutiny Committee were provided with the medium-term financial strategy on an ongoing basis. It was agreed to provide Members with this information as part of the quarterly reports to Cabinet.
- Members were advised about the types of engagement with businesses to establish levels of support required, particularly in terms of ensuring that businesses remained and invested in the Tees Valley area.
- One Member pointed out that there was a need to develop ways to attract tourists to the Tees Valley area. Also, whether there was potential to invest in tourist information points. It was advised that this had been considered, including the identification of resources required to undertake the work and whether it required development of a physical or digital resources. It was acknowledged that there was more work to be done. Members were advised that there were opportunities for TVCA thematic groups to work in partnership with local authorities to review this area of work and consider different approaches.

Appendix G

Tees Valley Combined Authority
Pay Policy Statement
(Section 38, Localism Act 2011)

This pay policy statement applies to the financial year 2024/25.

Introduction

1. This document sets out the Combined Authority's Pay Policy in relation to the remuneration of its employees in accordance with section 38 of the Localism Act 2011. The policy is subject to annual review which must be approved by the Cabinet before 31st March each year. Any amendments during the course of the year must also be considered and approved by the Cabinet. The policy will be published on the Combined Authority's website as soon as reasonably practicable after approval or amendment.appen

2. The Combined Authority is committed to ensuring fairness, transparency and equality of pay in the remuneration of its employees. The Combined Authority has adopted the Human Resources Framework and Policies of Stockton-on-Tees Borough Council, which includes the pay and grading structure.

Chief Officers and Senior Management Team

3. The Combined Authority's Senior Management Team, including posts defined as Chief Officers under the Localism Act, consists of the following posts:

Job Title	Grade	Salary
Group Chief Executive	Chief Executive	£180,582
Group Director of Finance & Resources	Director	£125,954
Business Solutions Director	Director	£125,954
Director of Infrastructure	Director	£125,954
Group Chief Legal Officer	SM1	£87,295

4. Joint National Conditions of service (JNC) are incorporated into all Chief Officers' contracts of employment.

5. The salaries for Chief Officers have been determined through independent analysis and benchmarking and reflect rates which are reasonably sufficient to recruit and retain senior officers, taking into account market conditions. The grades attributable to Chief Officer posts are subject to job evaluation and based on clear salary differentials which reflect the level of responsibility attached to any particular role.

6. Chief Officers do not receive bonus payments or performance related pay nor do they receive any benefits in kind paid for by the employer. Where a Chief Officer meets the criteria for entitlement to expenses these are paid in accordance with the Combined Authority's policies, aligned with those of Stockton-on-Tees Borough Council. Increases in pay for Chief Officers will occur only as a result of:

    - Pay awards agreed by way of national/local collective pay bargaining arrangements;

- significant changes to a Chief Officer's role which result in a higher salary being appropriate as confirmed by the outcome of an appropriate job-evaluation process; or
- recruitment and/or retention payments which, in all the given circumstances at the relevant time, are deemed necessary in the best interests of the Combined Authority and which are determined under the relevant policy relating to such payments.

7. It is expected that Chief Officers will perform to the highest level. Performance related pay therefore does not form part of current remuneration arrangements. This position will be reviewed if legislation and/or guidance relating to Chief Officer posts changes.

8. Under the Combined Authority's constitution, appointment to the Chief Executive and Director roles are a matter for Cabinet. All other posts are appointed under delegation to the Chief Executive.

Payments to Chief Officers upon termination of their employment

9. Chief Officers who cease to hold office or be employed by the Combined Authority will receive payments calculated using the same principles as any other member of staff, based on entitlement within their contract of employment, their general terms and conditions, and existing policies. The Combined Authority adopts the policies of Stockton-on-Tees Borough Council, for application in these circumstances.

10. In the case of termination of employment by way of early retirement, redundancy (voluntary or otherwise) or on the grounds of efficiency of the service, the Pensions and Retirement Policy sets out provisions which apply to all staff regardless of their level of seniority. The Pensions and Retirement Policy also sets out the applicable provisions in respect of awarding additional pension entitlement by way of augmentation or otherwise.

Employment of Individuals Already in Receipt of a Local Government Pension

11. The approach to the employment of individuals already in receipt of a local government pension is set by the Teesside Pension Fund. The Fund has resolved not to abate pensions on re-employment, having regard to the enactment of regulations introducing flexible retirement, unless an enhanced ill-health retirement has been awarded.

Employment of Ex-Employees as Chief Officers under a Contract for Services

12. The Combined Authority does not generally support the employment of ex-employees as Chief Officers under a contract for services. However, there may be circumstances where the employment of an ex-employee under these terms is the most effective and efficient way of meeting the Combined Authority's needs. If this situation applies formal approval will be sought from the Chief Executive in their role as head of the paid service, in consultation with Cabinet members, and any such arrangement would not progress without their support. In addition the Government has introduced legislation to enable the recovery of exit payments for higher paid employees returning to the public sector.

Remuneration of Lowest Paid Employees

13. Stockton Borough Council introduced its Single Status Agreement on 1st April 2008, and this framework has been adopted by the Combined Authority. The lowest paid employees

within the Combined Authority are appointed to jobs which have been evaluated using the NJC Job Evaluation Scheme and are remunerated accordingly.

14. As part of the budget setting process for 2024/25 the Combined Authority has adopted the recommendations of the Living Wage Foundation, in respect of directly employed staff. From 1st April 2020, the Combined Authority committed to paying no less than the Real Living Wage, currently £12.00 per hour, and apprentices are paid at this rate accordingly.

<u>Relationship between Chief Officer and Non-Chief Officer Remuneration</u>

15. The ‘pay multiple’ for the Combined Authority is determined by comparing the pay of the highest paid employee (Chief Executive) against the median average pay, using hourly rates as at 30th December 2023, for employees within the scope of this statement.

16. The Combined Authority’s current Median Hourly rate is £21.47 and the pay multiple (the ratio between the highest paid salary and the average salary of the whole of the Combined Authority’s workforce) is 4.36.

<u>General Principles Regarding the Remuneration of Staff</u>

17. The Combined Authority has established pay and grading structures, founded on evaluation of job roles using job evaluation, which ensures a fair and transparent approach to pay and the same grading of jobs which are rated as equivalent. The Single Status Agreement was subject to an equality impact assessment by Stockton-on-Tees Borough Council, as well as being approved by the respective trade unions’ equal pay units.

18. All employees are recruited in accordance with the Combined Authority’s Recruitment Policy and are appointed on the minimum of the grade unless there are exceptional circumstances which would warrant appointment above the minimum of the grade. However, where an employee is redeployed because of redundancy or ill health into a lower graded job they will generally be appointed to the highest spinal column point of the lower grade, where appropriate, with salary protection to minimise the financial loss.

<u>Publication of and access to Information Relating to Remuneration of Chief Officers</u>

The Combined Authority will publish their Pay Policy Statement, following approval of the Cabinet, on the Combined Authority’s website. In addition, remuneration related data associated with the Pay Policy Statement and Code of Recommended Practice for Local Authorities on Data Transparency will be published on the Council’s website no later than 31st March and information related to the public sector equality duty no later than 3

AGENDA ITEM 7
REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET

26th JANUARY 2024

REPORT OF THE DIRECTOR OF INFRASTRUCTURE

TRANSPORT PORTFOLIO

TRANSPORT PROGRAMME

SUMMARY

This report sets out the proposed transport programme to be delivered with the second round City Region Sustainable Transport Settlement (CRSTS2) published indicative allocation of £978m. The funding is notionally allocated for the period 2027/28 to 2031/32, but the Government has said that there will be an opportunity for some of this funding to be brought forward into the last two years of CRSTS1 (2025/26 and 2026/27). The proposed CRSTS2 programme builds upon the current transport investment programme and will deliver on the ten-year Strategic Transport Plan (STP), which provides the framework for all transport investment by the Combined Authority, and was approved by Cabinet in 2020. The CRSTS2 programme has been developed to include interventions included in the STP, or to enable new strategic opportunities that have been identified since the publication of the STP. There has been engagement with, and input from, each of the Combined Authority's constituent local authorities in the development of the CRSTS2 programme.

It needs to be emphasised that the indicative CRSTS2 allocation is over three times bigger than the current CRSTS1 allocation. Approving the CRSTS2 proposed transport programme will demonstrate to Government that TVCA agrees on the strategic priorities. It will also enable officers to proceed to develop the programme in advance of delivery commencing in the coming years.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

i. Approves the proposed transport programme totalling £1bn, as detailed in paragraph 12, to be delivered with the second round City Region Sustainable Transport Settlement (CRSTS2) indicative allocation of £978m.

ii. Delegates authority to the Director of Infrastructure to take all decisions required to progress delivery of business cases for each project within the approved funding allocations. In accordance with the Tees Valley Assurance Framework, the approval of business cases is delegated to the Tees Valley Combined Authority Chief Executive, in consultation with the Tees Valley Management Group, and the Tees Valley Combined Authority Section 73 Officer and Monitoring Officer.

iii. Notes that the outcome of all business case appraisals will be reported to Cabinet and there will be a twice-yearly update report to Cabinet and Transport Committee on the programme.

iv. Notes that where an individual project cannot be delivered within the funding allocation set out in this report or the business case does not demonstrate value for money, then this will be reported back to Cabinet for a decision on how to proceed.

DETAIL

Background

1. On 31st January 2020, the ten-year Tees Valley Strategic Transport Plan (STP) was approved by Tees Valley Combined Authority (TVCA) Cabinet. The STP defines the vision, objectives and outcomes for transport, sets out the actions that will be delivered, and provides the framework for all transport investment. The STP sets out the transport investment priorities by the following themes:

    - National rail
    - Major roads
    - Connecting economic centres
    - Unlocking key sites
    - Local journeys
    - Social equality and environment

2. The primary factor that underpins transport need is the polycentric nature of the Tees Valley with multiple towns, key employment sites and residential areas. This results in a complex pattern of movement, which is very different to a city region with a dominant commercial centre. Addressing the transport need in the Tees Valley therefore requires a programme of interventions to ensure that:

    - Everyone, no matter where they live in the Tees Valley, is connected to opportunity; and
    - Existing business can grow and the Tees Valley is able to continue attracting new businesses and inward investment.

3. The £75m Transforming Cities Fund (TCF) allocation, £310m City Region Sustainable Transport Settlement (CRSTS1) and over £148m of competitively secured funding over the period 2018/19 – 2026/27 is enabling good progress to be made in delivering against the STP.

4. The evidence base on which the STP was developed is continually evolving, for example the Tees Valley traffic model has been updated to take account of new Local Plan sites and 2021 census data has been analysed. However, the fundamental evidence base on which the STP was developed has not changed. TVCA is of the firm view that the challenges, opportunities and outcomes in the STP remain sound and should continue to be the primary drivers for transport investment. Clearly there have been developments that now need to be considered, for example in relation to the STP 'Unlocking key sites' theme where new opportunities have come forward since the publication of the STP.

5. As with the continually evolving evidence base, TVCA has also been in regular dialogue with its constituent Local Authorities and other stakeholders to develop an investment pipeline. There is a wealth of analysis, feasibility studies and development work that underpins this pipeline, some of which started when TVCA was established back in 2016.

Second round of City Region Sustainable Transport Settlement (CRSTS2) context

6. TVCA has an indicative allocation of £978m for CRSTS2 over the period 2027/28 to 2031/32. However, government has said that there will be an opportunity for some of this funding to be brought forward into the last two years of CRSTS1 (2025/26 and 2026/27). TVCA has been in discussions with the Department for Transport (DfT) around using the confirmed CRSTS1 funding to cash flow development work.

7. CRSTS1 also included the consolidated highways funding that is passported to local authorities. Furthermore, government recently announced an additional minimum £100.1m of highways maintenance funding for TVCA between 2023/24 – 2033/34.

Developing a CRSTS2 programme

8. It needs to be emphasised that the indicative CRSTS2 allocation is over three times bigger than the current CRSTS1 allocation. There are several critical factors that need to be fully considered:
   - the lead time and level of work required to develop a programme of this scale that can start to deliver in the coming years is significant;
   - there is a need for an appropriate level of resource to ensure delivery; and
   - being able to demonstrate to government that TVCA agrees on the strategic priorities.

9. The STP contains high-level outcomes, summarised in the table below, and the CRSTS2 programme has been designed to deliver on them.

Strategic Transport Plan high-level outcomes	
Investment Theme	Outcome
National rail	Improve rail links between Tees Valley and the rest of the country
	Improve rail station infrastructure
	Ensure that the rail network can cater for future growth in both freight and passenger demands
Major roads	Deliver and maintain a safe, resilient and reliable Key Route Network[1], facilitating future economic and housing growth
Connecting centres	Deliver and maintain a frequent, high quality, reliable and integrated public transport network
	Develop and improve transport interchanges, ticketing options and information – providing a seamless integrated experience for the travelling public
Unlocking key sites	Address specific constraints on the strategic and local transport networks – providing a transport system that facilitates future economic and housing growth
	Develop and maintain a transport system that facilitates efficient freight movements
Local journeys	Deliver and maintain safe walking and cycling routes and local bus services that link housing sites to key destinations and transport interchanges
Social equality and environment	Improve equality of opportunity for remote and deprived communities and enhance health and wellbeing

[1] The Key Route Network was agreed between TVCA and the Local Authorities and represents those roads that are most critical to connectivity across the Tees Valley.

	Improve access for those with physical disabilities, mental health conditions, learning difficulties and those with sensory impairment
	Reduce carbon emissions and deliver measures to improve local air quality
	Protect Tees Valley’s built and natural environment, and reduce noise and vibration from transport
	Ensure that the existing transport network and planned investment is resilient to climate change

10. As highlighted in paragraph 4, the CRSTS2 programme has been developed to include interventions identified in the STP, or to enable new strategic opportunities that have been identified since the publication of the STP.

11. There has been engagement with all local authorities throughout the process, including Chief Executives, Management Group, Transport Advisory Group and a dedicated workshop.

<u>CRSTS2 Programme</u>

12. The following table outlines the proposed CRSTS2 programme by STP theme.

Strategic Transport Plan (STP) theme		
STP theme: National Rail		
Project	Description	Allocation
Develop business case for electrification of the rail network from Northallerton to Saltburn	The Transpennine Route Upgrade (TRU) will deliver major improvements to the line between Manchester and York, including full electrification for passenger and freight trains. The East Coast Main Line is already fully electrified, which includes the line between York and Northallerton. However, there are no current plans to electrify the network from Northallerton to Saltburn. This presents a risk to the Tees Valley as electric trains on the Transpennine Route will not be able to travel north of Northallerton towards Middlesbrough / Saltburn, as the diesel trains currently do. In addition this would also benefit the Middlesbrough <-> London services as they currently require bi-mode trains due to the same issue and there is a risk that this limits future opportunities. The proposal is to develop a business case for electrification of the network between Northallerton and Saltburn, with options for shorter sections to be considered. The benefit of electrifying this network is that electric trains on the East Coast Main Line and Transpennine Line would be able to extend to the Tees Valley. It will also enable electric freight trains to operate to/from the Tees Valley.	£3m

	Once the business case is complete, a funding strategy will need to be considered. The current thinking is that the business case is used to influence the DfT and seek a commitment to deliver the intervention from the national rail budget. This was the funding strategy successfully deployed by TVCA on the Darlington Station project, where significant funding was secured from the Rail Network Enhancements Pipeline (RNEP) budget.	
Deliver Middlesbrough Station new platform 3 and associated infrastructure	Middlesbrough Station is one of the key rail hubs in the Tees Valley for both strategic and local connectivity. TVCA has already invested in improvements to the station, including the extension of platform 2 and the redevelopment of the station undercroft, which is nearing completion. However, to address capacity constraints at the station there is a need for a new platform 3. TVCA has been working with Network Rail to develop the intervention and the original intention had been to try and secure RNEP funding to complement TVCA funding to deliver the scheme. However, there is currently significant national pressure on RNEP funding and CRSTS2 now provides an opportunity to get on and deliver this intervention locally. The intervention will provide a new platform 3 and additional track and signalling to enable increased use of the carriage sidings, whilst also maintaining freight capacity. This will deliver performance and reliability benefits to the existing services at Middlesbrough Station and provide capacity for potential additional services including: • Additional LNER services to / from London (currently 1 train per day, but potential to increase to 1 train in alternate hours). • Additional Northern services to / from Newcastle via Hartlepool (currently additional 1 semi-fast train in alternate hours from December 2023, but potential to increase to 1 semi-fast train every hour, complementing the existing all stations stopping service). • Potential for a new service between Middlesbrough and Ferryhill (subject to a Restoring Your Railways Fund proposal from Durham County Council and identified in Network North as a potential new station) • Other potential local service enhancements.	£40m
STP theme: Major Roads		
East-west connectivity – A66 and A689 Corridors		

Deliver Darlington Northern Link Road	The A66 provides critical east-west connectivity between the Tees Valley, the A19 and the A1(M). However, there is a missing strategic link for traffic travelling from the Tees Valley heading north on the A1(M), and vice versa for traffic travelling south on the A1(M) heading to the Tees Valley. This traffic is currently using the A1150 and A167 through the north of Darlington, but these routes are unsuitable for the volume and type of traffic using them. The project will therefore provide a new strategic link better connecting the A66 to the A1(M) to the north of Darlington. The intervention would provide the following strategic benefits: • better link the Tees Valley, including key assets such as the Teesside Freeport and Teesside International Airport, with the A1(M) and beyond; • better link Newton Aycliffe to the Teesside Freeport; • relieve the existing congestion problems on the A1150 and A167 routes to the north of Darlington; • reduce the severance effect currently experienced by those residents adjacent to the A1150 and A167; and • improve the resilience of the network, reduce journey times, improve journey time reliability and improve safety. TVCA has previously completed an Outline Business Case, which identified a preferred route alignment. However, this was several years ago, so the next phase of work will review the optimum route alignment and consider potential other complementary measures on the A1150 and A167 to ensure that the strategic benefits are maximised. There will then be a need to develop the detailed design and full business case. The cost estimate is based on the current route alignment, but this will be refined as the next phase of development work is progressed. It is possible that the intervention could be classified as a Nationally Significant Infrastructure Project (NSIP). These are projects of certain types, over a certain size, which are considered by the Government to be so big and nationally important that permission to build them needs to be given at a national level, by the responsible Government minister (the 'Secretary of State'). Instead of applying to the local authority for Planning Permission, the developer must apply to the Planning Inspectorate for a different permission called a Development Consent Order (DCO).	£250m
Deliver A66 resilience package	The A66 provides critical east-west connectivity between the Tees Valley, the A19 and the A1(M). The road carries	£20m

	more than 70,000 vehicles daily on its busiest sections. On the section of the A66 managed by Middlesbrough Council, as the local highway authority, approximately 75% of the carriageway is well over the normal life expectancy. There are also critical issues with the safety barrier system, bridge structures and sign gantries. The condition of this section of the A66 presents a risk of weight restrictions, lane closures and in a worst-case scenario structural failure, which would result in the road being closed. The package of work will include carriageway resurfacing, remediation work on bridges and structures, and safety barrier replacement. It will ensure the future resilience of the road, with the interventions extending the lifespan of all assets to at least 15 years and in some cases many more.	
Deliver package of interventions to address A66 capacity constraints Middlesbrough – Teesport – Redcar	There are several roundabout junctions on the section of the A66 between Middlesbrough – Teesport – Redcar, where interventions are required to address identified capacity constraints: • A174 / A1053 Greystones Roundabout – lane widening, improvements to A174 eastbound exit, a new link through the roundabout i.e. a through-about, and other minor improvements. • A1085 Trunk Road roundabout – lane widening and other minor improvements. • Tees Dock Road / Lackenby Access roundabout – lane widening and other minor improvements. There is also a smaller package of works required on Cargo Fleet Lane/Longlands Road and the A66/A1032 Newport Interchange. Initial design work and road safety audits have already been undertaken. There will be a need to undertake detailed design work and refine the cost of each intervention as part of the next phase of work.	£40m
Deliver A689 corridor improvements	The A689 provides strategic connectivity within the Tees Valley, and a connection to the wider North East region. It is a key east-west link, connecting Hartlepool and Stockton to the A19 and A1(M). It also provides a key route between the A1(M) and the A19, and is used for many journeys to/from Middlesbrough, Stockton, Redcar and surrounding areas. There are key locations on the road where congestion is problematic. Furthermore, there is limited provision for active travel on the corridor, which is constraining opportunities for cycling and walking trips. TVCA has developed an Outline Business Case for a package of interventions on the corridor that will:	£50m

	- address the existing congestion pinch points, increase capacity, create a more resilient network and significantly improve east-west connectivity in the region; - improve journey time reliability and reduce journey times; - improve access to multiple strategic employment locations on the corridor; and - facilitate housing growth in the vicinity of the corridor. The package of interventions includes: - A19 / A689 Junction improvements – signalisation of the services roundabout, plus A19 cycle/pedestrian overbridge and carriageway widening of grade separated junction to three lanes on northern overbridge. - Park Road / Huckelhoven Way Junction – widen approaches and provide additional lanes. - Tesco / Burn Road Roundabout – widen eastbound approach to two lanes. - Brenda Road / Belle Vue Way Roundabout – left turn filter lane from the north-eastern A689 arm to the southern B1277 arm. - Stockton Road / Belle Vue Way – realignment of the A689 central reserve on the westbound approach and provision of dedicated right turn lane into Stockton Road. - Owton Manor Lane roundabout – replace roundabout with signalised junction. - Truro Drive Junction – provision of additional left turn lane on the A689 northbound approach. - Dalton Back Lane / Greatham Back Lane crossroads – removal of staggered junction and uncontrolled right turn arrangements and replacement with full signalisation (will also serve the Hartlepool South West Extension site). - A1185 (Wolviston) Roundabout – widen northern circulatory section to three lanes. - Wynyard Avenue / A689 – signalisation. - Hanzard Drive / The Wynd / A689 – cross road, signalisation and pedestrian crossing over the A689. - Package of improvements to cycleways and footways to connect existing infrastructure, providing a traffic-free shared use route on the corridor from Hartlepool to Wynyard.	
North-south connectivity A19 Corridor		
A19 New Tees Crossing further development work	The A19 is a key north-south corridor through the Tees Valley. The current Tees Crossing carries more than 100,000 vehicles per day and is a pinch-point, with delays	£15m

TEES VALLEY

	and queuing traffic common in peak periods. Analysis has demonstrated that the crossing is at capacity and there is a risk that it constrains growth without intervention. TVCA has been making the case to government for the A19 New Tees Crossing (NTC) for several years. TVCA first submitted an Outline Business Case (OBC) to government back in 2019 and has since submitted a multitude of additional information and evidence to support the case. In 2023, given the time that had elapsed since the first submission of the OBC, government asked National Highways, as the highway authority responsible for the Strategic Road Network (SRN), to update the OBC. TVCA inputted into this process and again stressed the importance of the project to the economic transformation of the region. Government is now in the process of developing their next Road Investment Strategy (RIS), which covers the period 2025-2030. The NTC is being considered as part of this process. However, there is limited funding available and many competing projects nationally, so the likelihood of securing any additional development funding is unknown. The current preferred option is to widen the existing Tees Viaduct structure to provide three southbound lanes throughout the length of the Viaduct, in addition to the provision of a new bridge crossing to carry local northbound traffic. However, in updating the OBC, National Highways has concluded that the current preferred option is too high risk for several reasons: • Further analysis of the current structure has led National Highways to conclude that widening the existing structure is not feasible. • Technical design guidance has changed and the current preferred option is not consistent with this new guidance. National Highways has therefore recommended that further work needs to be undertaken to consider alternative, lower risk options. Should a feasible, lower-risk option be identified, this has the potential to reduce the scheme cost and therefore the case for government investment to deliver the scheme should be stronger. Given the uncertainty around potentially securing additional government funding for further development work, the proposal is that TVCA get on and fund this work locally. Presuming a new preferred option could be agreed with National Highways, then the funding allocation would allow detailed design and a full business case to be developed. The development work would need to be	

	undertaken in full collaboration with National Highways, given their responsibility for the SRN.	
Contribution to deliver the A19 / Elwick Road / North Lane Junction and Elwick Road / Hartlepool Western Link Project	This scheme will provide a new strategic route from Hartlepool to the A19, supporting growth ambitions in the Borough. The scheme will also relieve pressure on the existing A179 and A689 routes from Hartlepool to the A19. The project consists of the development of a by-pass for the village of Elwick and an overbridge and compact grade separation at the current Elwick North junction to the A19, which will improve the strategic and local road network. This will provide a third main route into Hartlepool, enabling the development of significant levels of new housing in the west of the Borough. It will also address capacity issues across the wider road network, and improve road safety through Elwick village and on the A19 in relation to the right turns across the expressway. TVCA has previously committed £4.2m to the project. The proposal is to make a further contribution of £5m, with the remainder of the cost to be funded by Hartlepool Borough Council, who is delivering the scheme.	£5m
Eastern Tees crossing feasibility work	Previous work has explored the concept of an additional crossing of the River Tees to the east of the existing structures, linking Hartlepool and Redcar. This work articulated the strategic case for an Eastern Tees Crossing (ETC), identified the potential economic benefits and explored the financial feasibility. A new ETC could join up industrial development land on either side of the River Tees, improving connectivity for key industrial sites and economic assets within the Tees Valley and supporting longer-term growth and regeneration plans. The ETC has the potential to significantly reduce north-south journey times and severance in the eastern area of the Tees Valley. It could support the productivity and expansion of priority industries in the region, such as advanced manufacturing and chemicals processing. An investment in the ETC could improve economic density and productivity in the eastern area of the Tees Valley, where these priority industries are expected to expand in future. This in turn could have wide spread impacts for residents through increased and higher-paid employment opportunities, and regeneration benefits for the local communities north and south of the Tees. However, the work to date acknowledges that an ETC is still at the concept stage. This next phase of feasibility work would culminate in a Strategic Outline Business Case (SOBC). The purpose of the SOBC is to set out the	£1m

	strategic context of the scheme; make an initial recommended way forward for options appraisal, including consideration of a potential tunnel and bridge; and assess the affordability of the scheme.	
STP theme: Connecting Centres		
Delivery of a transformational digital technology package	The ambition is to make the Tees Valley a leader in utilising digital technology to optimise the performance of the road network. The project will upgrade existing technology and deliver a step-change with the roll-out of new cutting-edge technology. It will represent a significant step towards the ambition set out in the Digital Strategy, previously agreed by Cabinet, for the Tees Valley to become the UK's first truly smart region by 2032. Middlesbrough Council currently act as the lead authority within the Tees Valley and provide a traffic signals service, including design, modelling, maintenance, installation/commissioning, and management and development of the Urban Traffic Management & Control (UTMC) system. TVCA is now proposing that it takes on responsibility for this service, which will require separate agreement between TVCA and each of the local authorities, to allow full control and oversight. This will enable the local authorities to achieve savings and secure the future resilience of this function. The investment will effectively enable: • The UTMC system to be upgraded to the most cutting-edge technology currently available. • Deployment of a significant expansion of equipment across the road network, including traffic counters to classify vehicles, cyclists and pedestrians, Automatic Number Plate Recognition (ANPR) cameras, smart junction technology, Variable Message Signs, Artificial Intelligence (AI) CCTV cameras and air quality sensors. This will deliver a step-change in the amount of data captured. The new equipment will also communicate with the UTMC system in real-time, thereby reducing the current latency of data communication and identifying potential issues sooner. • Creation of a regional data platform to enable collaborative data sharing across multiple partners and facilitate joined-up strategic planning. To further enhance the UTMC system, TVCA will use the latest innovation and bring together predictive and adaptive control of traffic signals. The technology will create what is referred to as a 'digital twin', which is a virtual representation of the road network that is updated from real-time data. This in turn will use and create	£60m

	strategies, using simulation, machine learning and reasoning to optimise how the road network is managed. Enhancing the efficiency of movements on the network will benefit all road users and freight. It will reduce journey times, improve journey time reliability, deliver road safety benefits and alleviate air quality issues. Traffic Signal obsolescence will also be addressed to ensure failing assets on the network are replaced with more efficient and lower energy equipment. There will be multiple benefits to the customer, including improved real-time traffic information, the implementation of real-time bus information, contactless tap on/tap off payments on all buses, better incident management, and dynamic live wayfinding to parking and electric vehicle charging facilities. The investment will also support the creation of the landscape needed to facilitate the roll-out of autonomous vehicles.	
Delivery of autonomous public transport	<u>Autonomous trackless trams in town centres</u> The Digital Strategy identifies that a key component of a smart region is a smart transport system, which enables more people to move around, more quickly. This project will see the introduction of 15 autonomous trackless trams, three in each of the five town centres of Darlington, Hartlepool, Middlesbrough, Stockton and Redcar. There is also a need to implement associated digital infrastructure to enable the trams to operate. It is envisaged that the trackless trams will provide a circular hop on, hop off service to key destinations around each of the town centres. The exact routes will need to be determined as part of the project development. The project will deploy proven, electric, autonomous vehicles that can operate safely on the highway network. The vehicles are not fixed to set physical infrastructure and services can be adapted or temporarily relocated for events and seasonal tourism purposes if, and when required. Trialling any level of automated vehicle technology is possible on any UK road if carried out in line with UK law. As part of complying with the current law, trialling organisations will need to ensure that they have: • a driver or operator, in or out of the vehicle, who is ready, able, and willing to resume control of the vehicle • a roadworthy vehicle • appropriate insurance in place	£20m

	This project will align with the government's ambition to support and facilitate the safe development and introduction of these technologies to the UK's roads. The project will need to be developed in collaboration with the local authorities and the Centre for Connected and Autonomous Vehicles (CCAV), which TVCA already has a good working relationship with. <u>Autonomous shuttle service for Teesworks and Teesside International Airport</u> This project will utilise a similar concept to the autonomous trackless tram project. It will provide a shuttle service for staff and visitors to the Teesworks site. Smaller autonomous pods will be deployed to move people from the park and ride site and railway station to locations across the Teesworks site. Similarly pods will move people around the airport site, connecting the rail station to the airport terminal and other locations across the airport site.	
Improved rail services through rail devolution		
Develop rail devolution proposition to government	There is an opportunity to make better use of the existing Tees Valley rail network. The current TCF/CRSTS1 investment programme is creating more capacity in the network, improving station facilities and better connecting stations with communities. The next logical step is to enhance the service offer to communities so that rail travel becomes more attractive. There is a demonstrable latent demand with around 45% of households in the Tees Valley within walking distance of a rail station. Therefore it is felt that enhancing the service offer has the potential to achieve significant modal shift. There are multiple factors that need to be considered in terms of enhancing the service offer, for example rolling stock (type/quality of trains), service frequency, service stopping patterns, fare structure and parking provision at stations. The Government has set out plans to create Great British Railways. This will be a new public body that will run and plan the rail network, own the infrastructure, and receive the fare revenue. It will procure passenger services and set most fares and timetables. This will bring the whole system under single, national leadership. The Government also has ambitions for rail devolution, which TVCA believes provides an opportunity to radically transform rail services in a way that supports economic growth at the same time as improving the journey experience for passengers. In theory rail devolution	£5m

	should be simpler in the Tees Valley, as Northern, who provide local services in the Tees Valley, operate a relatively self-contained network across the Tees Valley and North East. It is felt that there is an opportunity for TVCA to pitch the Tees Valley as a frontrunner for rail devolution. However, this requires the development of a proposition, which articulates the case for change, sets out how rail devolution could work in the Tees Valley and provides a detailed financial assessment/commercial model. The proposal is therefore to allocate funding to complete this work, which can then be used to engage with Great British Railways and Government.	
Local rail journeys		
Deliver infrastructure to enable direct trains between Darlington and Hartlepool	Currently there are no regular direct rail services between Darlington and Hartlepool, which is a significant gap in connectivity between two key urban centres. It acts as a barrier to people seeking to access employment opportunities, including the Economic Campus, Central Park and other key sites in Darlington, and the Hartlepool Development Corporation, Tees Valley Investment Zone and other key sites in Hartlepool. Initial capacity work carried out by Network Rail as part of the development of the Darlington Station project identified the need for infrastructure upgrades to create the capacity for this service to be introduced. Further development work is needed to identify the specific infrastructure requirements to enable this service to be introduced. This will align with the improvements already committed at Darlington and Hartlepool Stations. The work will also need to demonstrate the viability of running the new service, which will require engagement with Northern and the DfT (potentially Great British Railways in the future). This will need to be developed alongside the rail devolution proposition.	£40m
Deliver the redevelopment of Teesside International Airport Station	The station at Teesside International Airport has been in poor condition for several years, due to the lack of investment by the previous owners. This has led to the downgrading of services to the current parliamentary 1 train per week, which has also had to be temporarily withdrawn due to safety concerns about the current condition of the platform. In response to the poor condition of the station, the unused platform and footbridge is being demolished to ensure the safety of passing trains. The remaining platform is to be repaired and the 1 train per week service reintroduced.	£20m

	The service frequency cannot be increased at Teesside International Airport Station until work to address the capacity constraints at Darlington and Middlesbrough stations is complete. Early-stage feasibility work has already been carried out and has identified a preferred option of redeveloping the station on the existing site. This work needs to be re-validated to ensure that it remains the preferred option and aligns with the Airport master plan. The project would deliver a new station, compliant with current standards, including step-free access to each platform. The project will also need to consider onwards access to the key trip generators on the site, including the Airport terminal and key employment locations (links to the delivery of the autonomous shuttle service project).	
Deliver South Bank Station Transport Hub	South Bank station is strategically important, located at the western edge of the Teesworks site. The station is served by trains between Saltburn <-> Bishop Auckland, providing 1 train per hour in each direction, and the current Saltburn <-> Darlington service passes through without stopping. There is a need to improve access for all users at South Bank Station. Currently access to the east-bound platform is via a footbridge and a flight of stairs, which acts as a barrier to potential station users. However, there are several constraints at this location resulting from the station platforms being situated in a narrow space in the middle of the passenger and freight lines. As well as serving the station, the footbridge also provides access over the railway line and will become an important strategic link between the residential community of South Bank and significant employment opportunities in the vicinity. The footbridge is currently in a poor state of repair and needs replacing. Initial feasibility work has taken place and an outline scheme developed. The scheme requires track realignment and signalling adjustments to create a larger footprint for a new widened station platform. This will allow a new fully accessible footbridge with lifts or ramps to be built. As part of the station redevelopment, the project will create a transport hub, including a park and ride facility and highway improvements. This hub will serve the significant employment opportunities in the vicinity of the station.	£40m

Middlesbrough to Nunthorpe rail enhancements feasibility study	Initial feasibility work for the development of a Nunthorpe Parkway Station is being carried out by Redcar and Cleveland Borough Council (RCBC) using money secured from the second round of the Levelling Up Fund. However, a constraint to the viability of this proposal is the potential service frequency which can operate to/from the station. This funding allocation will enable the initial feasibility work being carried out by RCBC to be further developed into an Outline Business Case for enhancements to the whole route. Currently, services are approximately hourly between Middlesbrough and Nunthorpe, with several of the services continuing to Whitby. The aspiration is for this to increase to 2 trains per hour, but as this is currently a single-line, used by trains in both directions, infrastructure upgrades will be needed to enable services to pass each other on the journey to / from Middlesbrough. The work will also need to demonstrate the viability of running a new service, which will require engagement with Northern and the DfT (potentially Great British Railways in the future). This will need to be developed alongside the rail devolution proposition.	£1m
East Cleveland rail feasibility study	There have been previous high-level feasibility studies on the potential to reinstate passenger train services on the Saltburn to Boulby freight line in East Cleveland. However, these studies have been desktop in nature and it needs to be recognised that reinstating passenger services on this line is still only at a concept stage. The rail line is currently only used by freight traffic servicing the British Steel Special Profiles Facility at Skinningrove and the Cleveland Potash, Boulby Mine site. Between Saltburn and Skinningrove the line is owned and maintained by Network Rail, but beyond this the line is owned by Cleveland Potash, who effectively act as the infrastructure manager. In order to develop this proposal TVCA is of the view that there are various issues/challenges that require much more detailed consideration: • Assessment of the existing infrastructure and the upgrades to this infrastructure that would be required to operate passenger services. • The feasibility of creating rail stations on the line. • The assumptions around cost are very high level and therefore come with a high degree of risk and uncertainty. • The need to balance existing and future freight requirements against potential passenger services.	£1m

	• Robust assessment of demand, both now and in the future, which is critical to the viability of running passenger services. This more detailed feasibility study would address these issues and focus on two key elements: • Review the strategic case for the project, including potential future demand, which is fundamental to the viability of extending rail services into East Cleveland. • Define the infrastructure requirements, including what interventions would be required to the track and signalling, identifying potential station locations, and providing a cost estimate for the project. The feasibility study would culminate in a Strategic Outline Business Case.	
STP theme: Unlocking Key Sites		
Deliver Stockton Care and Health Innovation Zone Package	Stockton-on-Tees Borough Council is working in partnership with TVCA, the NHS, Teesside University and other partners on proposals to develop a Care and Health Innovation Zone in Stockton. The vision sets out proposals to create a nationally significant cluster of social care and health provision at Teesdale Business Park and the nearby Tees Marshalling Yards. Part of the Tees Marshalling Yards remains in use as an operational railway asset and will continue to be needed into the future, but a large amount is under-utilised or disused, creating an opportunity to consolidate the operational requirements and redevelop the remaining brownfield site. The vision is to transform the Teesdale Business Park / Tees Marshalling Yards area, developing the 110-hectare brownfield site into a home for social care and health services, sector-specific businesses, research, teaching and learning facilities, and housing to meet local needs. A masterplan is currently being developed, but previous studies have identified the need for investment in the transport infrastructure to unlock the Tees Marshalling Yards and ensure that the site is well-connected by public transport and active travel. The masterplan work will define these requirements and further work will be needed to develop the package of interventions. At this stage of development it is envisaged that a new transport hub, including a rail station, will be created within the Tees Marshalling Yards that could serve both the Care and Health Innovation Zone and Teesside Park. There is a £140m allocation to this element of the package.	£150m

TEES
VALLEY

	There is also £10m within the funding allocation to deliver smaller-scale improvements to Thornaby Station, to create a multi-modal hub and better connect the station with the surrounding area. The development work will also need to consider how a new transport hub within the Tees Marshalling Yards works with Thornaby Station, particularly around rail service stopping patterns.	
Deliver Lackenby Transport Hub/Lorry Park	British Steel is proposing to make a significant investment to install an Electric Arc Furnace at its site in Lackenby, which will use greener technology to melt scrap and produce new steel. The scrap metal will be brought to the site in lorries. This funding will deliver a new Transport Hub/Lorry Park and associated highway works to provide a new access off the A66/Tees Dock Roundabout. The Transport Hub/Lorry Park will be utilised in several ways: as a holding area for British Steel's scrap delivery lorries for the proposed Electric Arc Furnace; to serve other vehicle movements to/from the Freeport; and as a general stopover facility.	£20m
Improving freight access to the rail network	With the recent Government announcement of a target to grow rail freight by at least 75% by 2050, it is proposed to allocate funding to support this target given the importance of the transport and logistics sector to the Tees Valley economy. A funding contribution from CRSTS1 is committed to gauge clearance work on the Northallerton to Eaglescliffe line, which involves infrastructure improvements at four locations to either lower the track or rebuild the bridges and tunnels. This will enable the largest shipping containers to travel via the most direct and efficient route from Teesside towards the south and has a strong value for money case, recognising that modal shift is predicted. Additional government Rail Network Enhancements Pipeline (RNEP) funding will be sought to deliver the scheme. This funding allocation will enable further work to be commissioned to explore opportunities in and around the existing rail network to identify any improvements that are needed to support rail freight growth. This could include looking at: • Supporting further infrastructure upgrades on the network that will remove constraints and improve freight efficiency. • Opportunities to reinstate / introduce new infrastructure that removes barriers to the use of rail freight at key locations.	£35m

	The funding allocation will enable a package of improvements to be delivered, subject to the outcome of the further development work.	
STP theme: Local Journeys		
Bringing the Tees Transporter Bridge back into operation	The Tees Transporter Bridge is Grade II* listed with Historic England and was opened in 1911. It provides a link between Port Clarence in Stockton-on-Tees and Middlehaven in Middlesbrough and is the furthest downstream bridge crossing over the River Tees. However, it has been closed since 2019 due to safety concerns. The bridge has three spans and supports a gondola, which is intended to carry vehicles and pedestrians connecting A178 Port Clarence Road to Ferry Road. A package of interventions will be required to bring the bridge back to full operational capacity.	£30m
Redevelop Middlesbrough Bus Station	Opened in 1982, Middlesbrough bus station is a core interchange facility located in a central position for the town. It is the base for multiple core services that provide vital connectivity across the Tees Valley region and to wider areas of North Yorkshire and the North East. The bus station currently has 21 stands for local bus services, with additional stands located on the upper floor for regional and national coach services. Given the age of the facility, there is a need for redevelopment to complement other regeneration activity across the town centre. This project will deliver a modern, fit-for-purpose, bus station that provides an appropriate gateway to Middlesbrough, which meets the needs of bus operators and the expectations of passengers / customers. There will be a need to develop the bus station design and ensure it complements the wider regeneration of Middlesbrough.	£15m
Package to deliver improvements to local journeys to access employment, education and training	This package is focussed on improving local short journeys. It will build upon the current CRSTS1 investment programme, with a focus on key corridors, providing access to town centres, major investment/regeneration sites, major employment sites, and university, college and school sites, across the Tees Valley. The types of interventions that will be delivered through this package include: • Walking, wheeling and cycling improvements targeted at encouraging people to use active travel modes for shorter-trips. • Highway schemes to benefit all road users and address issues where buses are being delayed.	£45m

	The focus of this investment will be on accessibility to: • town centres to support other regeneration projects (Billingham, Darlington, Guisborough, Hartlepool, Middlesbrough, Redcar, Stockton, Thornaby and Yarm); • major investment / regeneration sites, including Darlington Economic Campus, Hartlepool Development Corporation (Queen's Meadow / Oakesway Business Park), Teesside International Airport and Teesworks; • major employment locations; and • university, college and school sites. Significant development work has been undertaken as part of CRSTS1 to develop a long-term pipeline of projects that will need to be considered as part of the package development.	
Feasibility study to investigate addressing level crossing issue on West Dyke Road, Redcar	Although there are several access routes over the railway line into Redcar Town Centre, West Dyke Road forms the main access. With an increase in the number of rail services to or beyond Redcar, the level crossing adjacent to Redcar Central Station is becoming a key constraint. The increased amount of barrier down time is disrupting the traffic flow through the town for motorists and causing performance and reliability issues for bus services. This feasibility work will consider whether there is an alternative to the current level crossing, including exploring whether a bridge can be built at West Dyke Road or at any alternative locations along the line.	£1m
Local Highway Authority Consolidated Funding	A five-year allocation of funding for each of the five local highway authorities at the same level as included in the CRSTS1 programme. However, when combined with the recently announced additional local highways maintenance funding of a minimum of £100.1m over the period 2023/24 – 2033/34, this represents a significant increase in the local highway authority consolidated funding allocation. The funding will be allocated using the formula set out in the TVCA constitution. All expenditure will need to comply with any requirements from the DfT.	£83m
STP theme: Delivering Social Equity and Protecting the Environment		
Implementing solutions to overcome barriers to employment	The current Wheels to Work scheme expires in 2023. The scheme provides a subsidised transport solution for people seeking to access employment or training, where transport is a barrier. The scheme has been successful and there have been many beneficiaries. However, two of the barriers that have been identified as the scheme has evolved in terms of people accessing it are:	£10m

	• it only offers e-motorbikes or e-bikes and not cars; and • it is provided by a third party and isn't directly linked to employers. TVCA is therefore proposing to develop a new scheme that provides subsidised access to cars and is linked to employers. It is proposed that the scheme is developed alongside the Business Board to ensure it meets employers needs and becomes embedded in the business community. In developing the scheme, TVCA will need to consider the financial model, which may involve combining TVCA funding with contributions from the business community. Furthermore, TVCA is also exploring the potential to partner with a mobility provider to implement a personalised, on-demand, affordable mobility solution. It is envisaged that this solution is targeted at specific cohorts where transport is a barrier to accessing the labour market. The funding allocation will enable these proposed interventions to be developed and implemented.	

FINANCIAL IMPLICATIONS

13. The government published CRSTS2 indicative allocation for TVCA is £978m. The funding is notionally allocated for the period 2027/28 to 2031/32, but government has said that there will be an opportunity for some of this funding to be brought forward into the last 2 years of CRSTS1 (2025/26 and 2026/27).

14. The proposed CRSTS2 programme is currently estimated at £1bn. The funding allocations for each project are based on the information currently available. A risk allowance has been included for each project, appropriate to the current stage of project development. As projects progress, further refinement of costs will be undertaken to ensure expenditure is managed within the overall £978m budget. At this stage the small level of over-programming (£22m or 2.2%) is considered reasonable. Should it transpire that a project is not affordable within the funding allocation, then this will be reported to Cabinet with options for consideration. This could comprise a range of options, including looking at alternative delivery options or re-allocating funding to other priorities.

15. The £978m includes a split of capital and revenue, with the exact split to be confirmed by Government. Most projects in the proposed CRSTS2 programme are capital, but there are some that will require revenue funding and some capital investments that will require on-going revenue support.

16. As the CRSTS2 programme progresses, there will be a need to develop project spend profiles. The spend profile will need to be managed at a programme level to ensure delivery within the funding period. Government has previously been flexible with spend between financial years,

which will enable adjustments to be made should the spend profile change over the funding period.

17. One of the most significant risks is the lead time and level of work required to develop the £1bn programme, so that delivery can commence in the coming years. TVCA is therefore proposing to commit development funding to progress the programme. It is envisaged that this will ultimately be funded from the £978m CRSTS2 allocation, but in the meantime it is proposed to cash flow development work using the confirmed CRSTS1 funding, which has been discussed with the DfT. This will require a re-profiling of expenditure between now and March 2027, but will have no overall impact on the delivery of the schemes already identified in the CRSTS1 programme. There may also be a need to consider the re-profiling of project delivery across the two funding periods (2024/25 to 2031/32).

18. As part of the project business case development work, TVCA will consider if there are any further grant funding opportunities, the potential for developer contributions, or commercial opportunities that could leverage private sector investment. Should additional funding be leveraged on any project, then an element of the CRSTS2 capital could be freed up for other projects.

LEGAL IMPLICATIONS

19. There are not considered to be any legal implications arising from the recommendations in this report. However, there are very likely to be legal implications for individual projects and appropriate legal advice will be sought as required.

20. TVCA is the statutory Local Transport Authority, but will need to work closely with partners to ensure delivery of the CRSTS2 programme, including:
    - The five Tees Valley local highway authorities, where a project relates to the local highway network.
    - National Highways where a project relates to the Strategic Road Network.
    - Network Rail (and in the future Great British Railways) where a project is rail related.

21. Appropriate project governance arrangements will be established involving the relevant local authorities and other stakeholders, building on the existing arrangements for major transport projects.

22. The CRSTS2 programme will be delivered in accordance with the Tees Valley Assurance Framework and projects will be subject to the established decision-making processes and governance arrangements.

23. All procurements will be undertaken in accordance with the Contract Procedure Rules and Public Contracts Regulations 2015. Officers will ensure that all procurement activity maximises social value benefits, including encouraging use of the local supply chain and creating local employment opportunities.

RISK ASSESSMENT

24. The risks associated with the delivery of the CRSTS2 programme are significant for the reasons outlined in paragraph 8.

25. TVCA is already taking steps to mitigate these risks, including increasing the level of resource to ensure delivery. Approval of the programme will enable TVCA to demonstrate to government that it has agreement on the strategic priorities and a sound delivery plan. It will also enable development work to commence.

26. A risk allowance has been included in the funding allocation for each project, appropriate to the current stage of project development.

27. As each project develops, a detailed risk register will be produced, which will be used as a management tool to ensure risks are properly managed. This will be considered as part of the assurance process and managed as projects pass through investment gateways at key stages of project development, in accordance with the Assurance Framework.

28. At this stage and given the mitigations already being implemented, the proposed CRSTS2 programme is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk. However, this will need to be monitored very closely at a programme level to ensure effective delivery.

CONSULTATION & COMMUNICATION

29. There has been engagement with all local authorities throughout the process, including Chief Executives, Management Group, Transport Advisory Group and a dedicated workshop.

30. There is a Transport Committee meeting on the 23rd January 2024 where the proposed CRSTS2 programme will be on the agenda.

31. There has been dialogue with the Business Board in developing the proposed CRSTS2 programme.

EQUALITY & DIVERSITY

32. Two of the high level STP outcomes, which the CRSTS2 programme has been designed to deliver on, relate to equality and diversity:
    - Improve access for those with physical disabilities, mental health conditions, learning difficulties and those with sensory impairment.
    - Improve equality of opportunity for remote and deprived communities and enhance health and wellbeing.

33. As each project is developed, the equality impacts will be fully considered through Equality Impact Assessments and appropriate mitigations will be implemented.

34. TVCA is already effectively applying this approach in delivering the current transport programme, including engagement with local and national bodies representing the different protected characteristics.

Name of Contact Officer:	Tom Bryant
Post Title:	Director of Infrastructure
Telephone Number:	01325 792600
Email Address:	tom.bryant@teesvalley-ca.gov.uk