

AGENDA ITEM 10**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET****26 JULY 2019****REPORT OF THE STRATEGY DIRECTOR****TEES VALLEY LOCAL INDUSTRIAL STRATEGY****SUMMARY**

In July 2018, Tees Valley was identified by government as a wave 2 area to develop a Local Industrial Strategy (LIS). LISs are jointly agreed strategies between local areas and government. They are required to identify local strengths and challenges, future opportunities and the action needed to drive productivity.

This report outlines the draft Tees Valley LIS for Cabinet consideration, prior to formal submission to government for final discussions and publication of the co-produced strategy.

The Tees Valley LIS is founded on an open and robust evidence base, which has been tested and discussed with stakeholders to identify a distinctive set of policy priorities that can drive an increase in productivity across the area. A copy of the evidence document underpinning the LIS is attached at Appendix 1.

Development of the LIS has identified the following overarching ambition: *Tees Valley will be a global leader in clean energy, low carbon and hydrogen. The area will achieve a net zero carbon industrial cluster by 2040, providing good jobs with long term prospects that local people can access.*

Priorities for intervention have been organised around five interlinked themes:

- i. Lead the way as an exemplar region for clean energy, low carbon and hydrogen
- ii. Develop pioneering capabilities in industrial digitalisation and ensure implementation of digital applications at scale
- iii. Leverage the full potential of our innovation ecosystem in support of building innovation capability, R&D capability, commercialisation, business creation and growth
- iv. Grow and widen the pipeline of talent to support our competitive advantages and help more people into jobs with good long-term prospects
- v. Attract investment and establish a global reputation for Tees Valley as a vibrant and thriving place to be, with world leading opportunities in clean energy, low carbon and hydrogen.

Further detail is provided throughout the report, and a copy of the draft Tees Valley LIS is attached at appendix 2.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

- i. Agree the draft Tees Valley LIS subject to further discussion and agreement with government, and to delegate to the Mayor and Combined Authority Chief Executive, the agreement of any further amends in discussion with government, where they are consistent with the overall direction and principles of the emerging strategy.

DETAIL

1. The government's Industrial Strategy White Paper identified a requirement for all areas to have a Local Industrial Strategy (LIS) in place, co-produced and agreed with government by March 2020. The draft attached at appendix 2, has emerged through significant local engagement and on-going discussions with government throughout the process to develop the LIS. The final, designed document will be published by government, including local images and case studies.
2. LISs are required to identify local strengths and challenges, future opportunities and the action needed to drive productivity. They will set out a collective and shared course for the long-term, developed from a robust and transparent evidence base, and reinforced by local intelligence. The strategies will be developed and owned locally, and also involve close working with government. The LIS will identify specific interventions that can deliver a step change in the local economy, whilst also making a significant contribution to increase productivity at a national level.
3. Tees Valley was identified in July 2018 as being in 'Wave 2' for the development of a LIS, meaning that the area was one of the first to work with government to identify priorities and set a new framework for delivering an increase in productivity, based around the distinctiveness of the Tees Valley economy.

DEVELOPING THE LOCAL INDUSTRIAL STRATEGY

4. Development of the Tees Valley LIS has included robust data analysis, to create a thorough and open evidence base. There has also been extensive stakeholder engagement to test our understanding of the Tees Valley economy, and to identify and refine policy priorities.

Evidence base

5. A copy of the Evidence Document underpinning the LIS is attached at Appendix 1. This sets out the relative strengths and weaknesses of the local economy, opportunities for the future, and local barriers to productivity. In developing the evidence base, the Combined Authority has analysed new economic data. We have also harnessed the expertise of universities, independent experts and other stakeholders to develop a granular understanding of the local economy and the market failures that need to be addressed at the local level.
6. The evidence report, informed by business survey responses and specialist research, includes data analysis in relation to key areas that contribute towards growth in our economy, including:

- i. Economy and Productivity (economic conditions, the business base and key sectors)
- ii. Skills and Labour Market (attainment, employment and future demand)
- iii. Growth Enablers (connectivity, education, place and culture)
- iv. Analysis of firm level productivity across key sectors in Tees Valley. This considered 'Total Factor Productivity', including labour productivity (GVA per worker); R&D and innovation; adoption of technologies and ownership; and absorptive capacity
- v. Analysis of digital activity (business environment and skills / talent)
- vi. An assessment of the bio-economy in Tees Valley, and future opportunities for biosciences
- vii. Baseline review of culture and tourism assets.

Stakeholder engagement

7. There has been a three-stage approach of engagement to inform the development of the LIS including:
 - i. Sector Challenge sessions – initial sessions with public and private sector representatives to test the existing evidence base
 - ii. Policy Prioritisation workshops – 5 sessions were held based around the foundations of productivity, and a session relating to Inclusive Growth. Discussion focused on key messages from the evidence gathering and emerging policy priorities
 - iii. Policy Choices – detailed discussions with key stakeholders (including Local Authorities and LEP members, sector leads, innovation leads and business representation groups).

Tees Valley Local Industrial Strategy

8. The draft Tees Valley LIS (Appendix 2) sets out an ambitious plan to transform the economic performance of the area. It builds on the distinctiveness of the local economy and responds to the opportunities and challenges that flow from this. It centres around our niche offer in relation to clean energy, low carbon and hydrogen.
9. Our platform for growth focuses on Tees Valley strengths and challenges in relation to the 'foundations of productivity' identified in the government's Industrial Strategy White Paper: ideas; people; business environment; infrastructure; and place. These are positioned alongside the role and economic contribution of our priority sectors for growth: Chemicals & Process; Advanced Manufacturing; Bioscience; Clean Energy, Low Carbon & Hydrogen; Digital; Culture & Tourism; Business & Professional Services; Logistics; and Construction.
10. Development of the LIS has identified an overarching ambition: *Tees Valley will be a global leader in clean energy, low carbon and hydrogen. The area will achieve a net zero carbon industrial cluster by 2040, providing good jobs with long term prospects that local people can access.* This sits at the heart of our framework for growth.

Platform for growth

11. Tees Valley is a £13.1bn economy, with £206m trade in goods surplus. Although the region is relatively small, we have economic assets of national significance: we are home to the UK's largest chemical complex, the UK's largest port for outward

tonnage and one of the UK's leading higher education institutions for working with business (Teesside University). We have globally recognised strengths in the process, chemicals and advanced manufacturing sectors. In many respects, the scale of our economic impact and influence is disproportionately large.

12. Our established industrial strengths are supported by:
 - i. Internationally excellent industrial research institutions
 - ii. A well-established geographically-concentrated and highly integrated industrial ecosystem
 - iii. South Tees Development Corporation area - one of the UK's greatest development opportunities
 - iv. A strong export-facing transport infrastructure, including the Port of Tees & Hartlepool; and Durham Tees Valley Airport.

13. Whilst the Tees Valley economy provides a strong platform for growth, a number of economic challenges exist. It is critical that these are addressed to realise our ambitions for success, and also to retain the competitiveness of our key sectors in the future.
 - i. Without solutions to decarbonise the high CO2 emitting industries (our globally significant sectors) they will not be able to remain competitive and be sustainable in the UK
 - ii. The Tees Valley business base is under developed relative to the size of the population and scale-up performance is weak
 - iii. Despite the presence of leading innovation and research organisations, and high levels of Innovate UK funding awards, levels of R&D activity among the local business base remains low
 - iv. Low levels of participation in the labour market and underperformance in relation to education and skills continue to impact on economic performance
 - v. External perceptions of the area are influenced by our industrial past, and do not reflect realities of life in many parts of Tees Valley.

Core proposition – delivering Clean Growth in Tees Valley, through clean energy, low carbon and hydrogen

14. A 'core proposition' focused on delivering Clean Growth and Industrial Decarbonisation has been developed to achieve our ambitions for the Tees Valley economy. This centres around our unique offer in relation to clean energy, low carbon and hydrogen. Our core proposition also responds to the government's aim to have one large UK industrial cluster fully decarbonised by 2040. Our ambitions are underpinned by a breadth and depth of assets in Tees Valley, which mean that the area is uniquely well-placed to pilot and demonstrate the benefits of clean growth on productivity and supply chain integration.

15. Our industrial legacy, infrastructure and geology means that the main sources of low or zero carbon energy available in the UK are already in use or can be deployed at scale in Tees Valley. A well-established, geographically concentrated and highly integrated cluster is also supported by the proximity to offshore wind; decommissioning growth potential; the opportunity to access to carbon capture and storage; hydrogen infrastructure and expertise; and innovation specialisms.

16. Successful implementation of our core proposition will provide a renewed platform for growth, driven by inward investment, reshoring and a vibrant business base. In

addition, our ambition provides an opportunity for Tees Valley to make a significant contribution to carbon emissions reductions at the national level. It is estimated that the areas has the potential to deliver reductions of 80MtCO₂ over the period to 2050.

Inclusive Growth

17. The successful implementation of our core proposition will be defined not just by increasing productivity, but by ensuring that the growth of our economy is inclusive. Delivering inclusive growth will mean providing more good quality jobs with long term prospects – jobs that local people can access. This is central to the overarching ambition for the area and will be underpinned by a series of interventions designed to create more good jobs and support more people to access good jobs.

Delivering the ambition

18. Interventions to deliver our ambition have been organised around five interlinked themes:
- i. Lead the way as an exemplar region for clean energy, low carbon and hydrogen
 - ii. Develop pioneering capabilities in industrial digitalisation and ensure implementation of digital applications at scale
 - iii. Leverage the full potential of our innovation ecosystem in support of building innovation capability, R&D capability, commercialisation business creation and growth
 - iv. Grow and widen the pipeline of talent to support our competitive advantages and help more people into jobs with good long-term prospects
 - v. Attract investment and establish a global reputation for Tees Valley as a vibrant and thriving place to be, with world leading opportunities in clean energy, low carbon and hydrogen.
19. Further detail on the interventions is set out below.

Lead the way as an exemplar region for industrial decarbonisation and clean growth

20. This theme focuses on developing the technology, infrastructure and supply chain linkages needed to maximise the impact of industrial decarbonisation within Tees Valley. It seeks to ensure that the regulatory framework is fit for purpose and to strengthen relationships and synergies with key national and international clusters. Priorities include:

Position Tees Valley as the UK's Hydrogen Capital

- i. Establishing a nationally recognised Research and Development Centre for Hydrogen in Tees Valley. This will build on the skills, infrastructure, and existing innovation infrastructure to develop, demonstrate, and deploy new hydrogen applications
- ii. Supporting partner bids and activity that could see the region play a critical role in delivering the first fleet of hydrogen-powered passenger trains and hydrogen fuelled vehicles

Establishing Tees Valley as the pioneer region for CCUS and clean growth technologies

- i. Working with government to pilot a CCUS financing mechanism and business models
- ii. Pursuing an ambition to be designated as the UK's first net-zero 2040 cluster
- iii. Seeking government support for the OGCI Clean Gas project to achieve financial close
- iv. Maximising the potential allocation of Industrial Energy Transformation Fund and Industrial Strategy Challenge Funding streams to support decarbonising clusters
- v. Developing skills and education provision for CCUS, hydrogen, and other clean technologies, and working with wind, biogas and nuclear sectors to develop local capability
- vi. Building on commitments set out in the Offshore Wind Sector Deal, supporting the further development of the existing cluster that exists in the area, with supply chain links extending into the wider North East region
- vii. Harness the strengths of our world leading chemical sector to build and enhance our role in the Electric Vehicle supply chain through the production of component parts for vehicle batteries
- viii. Prioritising Hartlepool Power Station as a preferred location for the development and deployment of new commercial scale nuclear technologies.
- ix. Hosting a series of Industrial (and Open to the World) Show Cases of the demo / pilots developed for CCUS and clean growth technologies in Tees Valley, to further cement our position as pioneer region for CCUS and clean growth technologies.

Working with government to establish the region as a Centre for Excellence in Decommissioning

Tees Valley's position as an exemplar region for industrial decarbonisation and clean growth will be cemented by a broader approach to develop the infrastructure and regulatory environment, and by undertaking place promotion to ensure the region's holistic offer presents a compelling and cohesive case to investors. Priorities include:

- i. Working with government to evolve the regulatory framework in support of standalone energy projects that can meet the needs of key industrial sectors such as chemical process and advanced manufacturing
- ii. Continuing to make the case to establish a Free Trade Zone
- iii. Working with DIT to develop an aligned and targeted approach to attract Foreign Direct Investment.

Develop pioneering capabilities in industrial digitalisation and ensure implementation of digital applications at scale

21. This theme is focused on creating the necessary conditions to accelerate the innovation and diffusion of Industrial Digitalisation technologies, including the development of test-bed projects and a co-ordinated package of advocacy, support, advice and funding. Activity will support achievement of our Clean Growth ambitions, whilst simultaneously supporting the growth and development of a thriving Digital sector in the region.

- i. We will develop a Made Smarter Pilot – supporting businesses to increase productivity through the adoption of 'Made Smarter' principles and

- technologies, as well as through the up-skilling and retraining of the workforce to operate in an Industry 4.0 enabled economy
- ii. We will develop proposals for a sectoral 5G Testbed and Trials Programme, with a focus on technology testing for businesses in priority industry sectors for the Tees Valley economy
 - iii. Future Mobility Zone – develop proposals for a new data driven approach which will utilise live data to develop new system approaches to manage traffic flows, enhancing regional connectivity and the role of the logistics sector in Tees Valley
 - iv. A confirmed a commitment to longer term support for the Growth Hub Programme. This will simplify the business support environment in Tees Valley and provide a targeted approach for businesses of different sizes, including a focus around digitalisation, building digital capacity and individual business productivity.

Leverage the full potential of our innovation ecosystem in support of building innovation capability, R&D capability, commercialisation, business creation and growth

22. This theme will ensure that Tees Valley accelerates growth and builds R&D capacity to deliver tangible economic and societal impacts. Interventions harness the potential of the region’s national innovation assets, alongside a local business base that demonstrates specialisms in Clean Growth, Industrial Digitalisation and Bioscience (including biologics and bio-processing).

Tees Valley Combined Authority will lead a cross-sector, whole system approach to R&D and innovation.

- i. An Industrial Collaboration Board will broker more effective partnership working between business, higher education and research institutes. The Board will have a remit to ensure that local strategy, programme and project development actively encourages and creates opportunities that stimulate R&D and innovation activity, and also that that more national innovation resource is directed towards opportunities in Tees Valley
- ii. A Collaborative Networks Programme will focus on supply chain support and programme consortia development - supporting groups of businesses and organisations to jointly deliver pilot / demonstration projects related to Industrial Digitalisation and Circular Economy solutions
- iii. A Memorandum of Understanding between the Combined Authority and UKRI will ensure that national innovation resources are aligned with programmes and opportunities in Tees Valley
- iv. The Combined Authority will commission bespoke research to better understand the successes, barriers and opportunities for firms innovating in Tees Valley, and particularly experiences in accessing innovation funding
- v. We will pursue the ambition for Teesside University to be recognised as a University Enterprise Zone – supporting sustainable business growth through innovation and scale-up activity
- vi. We will seek to increase post-study work visas for international students, helping to address short-term skills shortage vacancies in key sectors
- vii. Tees Valley, together with government will confirm a commitment to longer term support for the Growth Hub Programme, with activity focused around: start up support, growth and innovation, skills support and access to finance.

Grow and widen the pipeline of talent to support our competitive advantages and help more people into jobs with good long-term prospects

23. Develop an education and skills system for business growth

- i. Work with government to enhance the role of a Skills Advisory Panel in Tees Valley
- ii. Work with government to co-design and pilot technical education routeways from age 14, and an appropriate 'Transition Offer' for young people in Tees Valley not immediately able to progress to a T Level at age 16.

Overcome business workforce planning challenges in relation to current and future skills gaps and skills needs

- i. Produce Tees Valley Sector Skills Action Plans to include detailed analysis of the current and future skills needs for identified sectors
- ii. Build on the success of the devolved Adult Education Budget and the DWP Innovation Pilot, including ring fencing the overall size of the AEB budget at the level of the 2019/20 Academic Year budget or 2021/22 Academic Year budget, whichever is the greatest.
- iii. Develop and pilot a number of tailored Tees Valley retraining programmes, including comprehensive packages of personalised 'in-work' support
- iv. Any 'unutilised' apprenticeship levy in Tees Valley be devolved to the Combined Authority
- v. Work with Tees Valley employers and providers to consider the approach to the Industrial Placement requirements of T-Levels, creating practical and meaningful experiences in key sectors and providing opportunities that would not be available otherwise.

Careers education - Government to devolve the Tees Valley element of both the National Careers Service and Careers and Enterprise Company budgets to Tees Valley in order that we can develop an all-age place-based programme

Ensure access to learning and work through an effective and affordable transport system.

Attract investment and establish a global reputation for Tees Valley as a vibrant and thriving place to be, with world leading opportunities in clean energy, low carbon and hydrogen

24. This theme is fundamental to achieving our overall priorities set out in the LIS. It is focused on a set of interlinked priorities, based around enhancing the infrastructure, perceptions and working environment of Tees Valley as a place to locate, invest, learn, visit and grow. Interventions include:

- i. Maximising the potential of the STDC site, with a focus on clean energy, the circular economy and environmentally sustainable industrialisation. Alongside

- public sector commitments, a business plan will aim to secure substantial private sector investment
- ii. Continuing to make the case for establishing a test-bed for Free Trade Zone status at the South Tees Development Corporation site
 - iii. Working collaboratively with DIT to attract Inward Investment - developing and promoting global sales pitches in key sectors where the area has a globally competitive edge, and with a focus on Tees Valley as the UK's leading location for Clean Growth
 - iv. Implementing plans to increase the role and impact of Durham Tees Valley Airport
 - v. Pursuing a Future Mobility Zone, with a data driven approach to manage traffic flows, particularly freight consignments, and enhance regional connectivity
 - vi. Delivering priority transport schemes for the area, as set out in the Tees Valley Strategic Transport Plan and also identified as priorities by Transport for the North: Improvements at Darlington Station and Middlesbrough Station; a New Tees Crossing; Darlington Northern Link Road; and Northallerton to Teesport Rail Gauge Enhancement
 - vii. Ensuring that Tees Valley businesses in flood risk areas are protected, and that natural infrastructure defences are in place to maximise productivity potential – working with the Environment Agency, Northumbrian Water and Local Authorities in the North East to support a fully integrated approach to flood risk management
 - viii. Building capacity, ambition and creative talent through investment to promote a thriving cultural offer within Tees Valley that supports a highly productive economy and increases attractiveness for business. This includes co-investment with the Arts Council to maximise the potential of cultural development and cultural opportunity for all people in Tees Valley
 - ix. Establishing Tees Valley as an exemplar region for providing good employment with long term prospects and delivering Social Value in procurement.

NEXT STEPS

25. Subject to Cabinet agreement, the draft Tees Valley LIS will be formally submitted to government for further discussion leading to the publication of a co-produced strategy, potentially after the summer recess. It is anticipated that Tees Valley Combined Authority and government will publish a jointly agreed LIS after summer recess.

FINANCIAL IMPLICATIONS

26. There are no financial implications arising from this report. The LIS will provide a framework to mobilise and direct future funding streams at local and national levels, to deliver agreed priorities and commitments.

LEGAL IMPLICATIONS

27. There are no legal implications arising from this report. The draft LIS sets out the Combined Authority's framework to deliver an increase in productivity.

RISK ASSESSMENT

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

CONSULTATION & COMMUNICATION

29. Extensive consultation has taken place to develop the draft LIS. Further detail is set out at section 7.

EQUALITY & DIVERSITY

30. A core focus of the LIS is to ensure that we deliver Inclusive Growth. This will ensure that all residents benefit from the opportunities for growth that are created as a result of proposals in this report.

LOCAL ENTERPRISE PARTNERSHIP

31. LEP members have played an integral role in developing the LIS. This has included a 'check and challenge' of the evidence base, as well as influencing and informing policy priorities.

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