

## Leadership Board

Tuesday, 21st November 2017 at 2.00 pm

Meeting to be held in a Committee Room, Town Hall, Westoe Road, South Shields, NE33 2RL

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## AGENDA

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### Page No

1. **Apologies for Absence (Members)**
2. **Appointment of Chair for the Purpose of the Meeting**
3. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.
4. **Minutes of the Previous Meeting held on 19 September 2017** 1 - 8

For approval as a correct record.
5. **The Appointment of the Independent Vice-Chair of the Overview and Scrutiny Committee** 9 - 12
6. **Updates from Thematic Leads**
  - (a) **Economic Development and Regeneration** 13 - 28
  - (b) **Employability and Inclusion** 29 - 40
  - (c) **Transport and Digital Connectivity** 41 - 48
7. **Draft Budget 2018/19 and Transport Levies** 49 - 66

- |     |  |                |
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| 8.  | <b>Treasury Management 2017/18 Mid-Year Review</b>   | <b>67 - 76</b> |
| 9.  | <b>Enterprise Zone Implementation Update</b>   | <b>77 - 88</b> |
| 10. | <b>Project Approvals – International Advanced Manufacturing Park (IAMP) and Gateshead Quays</b>  | <b>89 - 92</b> |
| 11. | <b>Date and Time of Next Meeting</b>   |                |
|     | Tuesday, 16 January 2018 at 2pm at Gateshead Civic Centre.   |                |
| 12. | <b>Exclusion of Press and Public</b>   |                |
|     | Under section 100A and Schedule 12A Local Government Act 1972 because exempt information is likely to be disclosed and the public interest test against disclosure is satisfied. |                |
| 13. | <b>Confidential Minutes of the Previous Meeting held on 19 September 2017</b>  | <b>93 - 94</b> |

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**To All Members**

## Leadership Board

19 September 2017

Meeting held: Committee Room, Civic Centre, Regent Street, Gateshead, NE8 1HH

### Present:

Councillor P Watson (Chair)

Councillors M Gannon, S Henig, P Jackson, I Malcolm and B Pickard and Mr A Hodgson

### 26 **APOLOGIES FOR ABSENCE (MEMBERS)**

Apologies for absence were received from Councillor N Forbes and Mayor N Redfearn.

### 27 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

### 28 **MINUTES OF THE PREVIOUS MEETING HELD ON 18 JULY 2017**

The minutes of the previous meeting held on 18 July 2017 were approved as a correct record and signed by the Chair.

### 29 **MINUTES OF THE EXTRAORDINARY MEETING HELD ON 7 AUGUST 2017**

The minutes of the extraordinary meeting held on 7 August 2017 were approved as a correct record and signed by the Chair.

### 30 **UPDATES FROM THEMATIC LEADS**

#### (a) **Economic Development and Regeneration**

Submitted: An update report of the Thematic Lead for Economic Development and Regeneration (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority. The ensuing discussion included the importance of the relationship with the Department for International Trade and the joint and coordinated working between partners in the region.

**RESOLVED** – That the report be noted.

(b) **Employability and Inclusion**

Submitted: An update report of the Thematic Lead for Employability and Inclusion (previously circulated and copy attached to Official Minutes).

Members considered the report which provided information on progress in delivering the Employability and Inclusion and Skills themes of the Strategic Economic Plan. The ensuing discussion included matters such as the progress of Generation NE, the young people employment programme, its dependency on the continuation of funding under the European Social Fund and the importance of securing this funding in future, which would be a decision for a relevant management authority.

**RESOLVED** – That the report be noted.

(c) **Transport and Digital Connectivity**

Submitted: An update report of the Thematic Lead for Transport (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on progress regarding activities in the region that were helping to deliver the key principles of the Transport Manifesto.

**Work to Acquire New Rolling Stock for the Tyne and Wear Metro**

As an update, it was noted that the consideration of the matter with regard to securing the new rolling stock for the Tyne and Wear Metro was now with the Department for Transport (DfT) ministers and an announcement was hoped for soon.

The ensuing discussion included the following matters:

- the financing options;
- the importance of the government being clear about the preferences of the NECA with regard to financing options;
- the importance of progress in securing the new fleet;
- the importance of increasing the lobbying activity on this matter;
- the importance of encouraging representations by partners in order to strengthen lobbying on behalf of the region; and
- the importance of working jointly on transport matters, including in future.

Members received confirmation from T Hughes, the Managing Director (Transport Operations), that the DfT was aware of grant funding being the preferred financial approach of the NECA. Members also noted his advice with regard to the importance of understanding the detail of both options, which were being worked out and which would be subject to further engagement with the DfT.

Members noted advice from the Chief Finance Officer that the representation to the Chancellor for the 2017 Autumn Budget regarding the need to provide funding for a new fleet of Metrocars could also be made through the North East Local Enterprise Partnership (North East LEP).

Members also noted that the North East LEP had already made a representation to the government with regard to the new Metro fleet and would raise this matter again at a forthcoming meeting with ministers.

### **Decisions on Bus Routes**

The discussion also included the need for elected members to be able to influence decisions on bus routes in order to ensure effective bus links to key services, including medical services, and residential areas. It was noted that this matter was being considered as part of a health care services review in South Tyneside and Sunderland, which was currently underway. Should the review fail to meet residents' needs, this matter would be subject to further discussions.

### **RESOLVED – That:**

- i. The contents of the report be noted; and
- ii. The NECA should make representations to the Chancellor for the 2017 Autumn Budget, regarding the need to provide funding for a new fleet of Metrocars.

## **31 STATEMENT OF ACCOUNTS 2016/17**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which presented the Annual Accounts 2016/17, which included the Audit Completion Report. The report was presented by P Woods.

The following amendments to the report were noted:

- Expenditure and Funding Analysis
  - The 2016/17 Net Expenditure in the Comprehensive Income and Expenditure Statement (CIES) figure for the Local Growth Fund should now read £16,307 instead of £17,608; and
  - The 2016/17 Net Expenditure in the CIES figure for North East LEP should now read £3,690 instead of £4,991.
- Non-Financial Performance
  - Transport
  - Tyne and Wear Passenger Transport Executive – Nexus
    - The fifth bullet point should read “Rail passengers in Tyne and Wear made 1.5 million journeys on local services, which was an increase on the 1.3 million journeys in the previous year”.

The findings of the Audit Completion Report were presented by C Waddell of Mazars LLP. The following updates were noted in respect of Significant Findings:

- Management override of control (relevant to single entity and group accounts):
  - Work had been completed and no issues had been identified.

- Revenue recognition in relation to Tyne Tunnel tolls and grant income (relevant to single entity and group accounts):
  - Work was almost completed with only some minor tasks remaining. No issued had been identified.

As an update, it was noted that the Governance Committee had considered the Annual Accounts 2016/17 and made a positive observation with regard to the presentation of the North East Local Enterprise Partnership figures.

Members and the Chief Finance Officer thanked officers of NECA, in particular E Goodman, and Mazars for their work on the Annual Accounts and Audit.

On advice from the Chief Finance Officer, Members noted the challenges associated with the timetable for the production and audit of the Annual Accounts for the next year, which had to be completed two months earlier than this year, and on the staffing changes and the additional capacity required to achieve this.

**RESOLVED** – That:

- i. The Leadership Board considered the report of the External Auditor (Appendix 1);
- ii. The Chief Finance Officer be authorised to sign the Letter of Representation on behalf of the Authority;
- iii. The final NECA Accounts for 2016/17 (Appendix 3), taking into account views from the Governance Committee, be approved;
- iv. The Chair of the Leadership Board and the Chief Finance Officer be authorised to sign the NECA and Group Accounts;
- v. The Annual Governance Statement (Appendix 4) be approved; and
- vi. The Chair of the Leadership Board and the Head of Paid Service be authorised to sign the Annual Governance Statement.

## 32 **BUDGET PROCESS AND TIMETABLE 2018/19**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which set out the process and timetable for the preparation, consultation and approval of the 2018/19 budget and indicative medium-term financial strategy.

**RESOLVED** - That:

- i. The 2018/19 Budget process and timetable be agreed; and
- ii. The consultation on the Initial Budget Proposals would commence on their publication on 14 November 2017, and any subsequent amendments made by the Leadership Board on 21 November 2017 would be incorporated in the Initial Budget Proposals.

**33 UPDATE ON PROPOSED AUDITOR APPOINTMENT FROM 2018/19**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which provided information on the proposed appointment of Mazars LLP as the auditor of NECA for a five year period from 2018/19. No issues were raised with regard to the proposal; and the Chief Finance Officer would respond to the consultation and accept the proposed appointment.

**RESOLVED** – That the report be noted.

**34 AGREEMENT FOR THE PROVISION OF TEMPORARY ACCOMMODATION ACROSS NORTH EAST COMBINED AUTHORITY (NECA)**

Submitted: A report of the Head of Paid Service (previously circulated and copy attached to Official Minutes).

Members considered the report which provided information regarding the proposed agreement for the provision of temporary accommodation across the NECA area in the event of an emergency or major incident.

In welcoming the scheme and the forward planning, Members noted the nature and character of the North East local authorities in their readiness to help each other and previous examples of such work.

**RESOLVED** – That:

- i. The report be noted; and
- ii. The Leadership Board acknowledged the work that was being undertaken by the seven local authorities within the NECA area to work together under the “Agreement for the provision of temporary accommodation” as set out in appendix 1 of the report.

**35 PROJECT APPROVALS - LOCAL GROWTH FUND AND ENTERPRISE ZONE INFRASTRUCTURE APPROVALS**

Submitted: A report of the Head of Paid Service and Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which sought approvals in relation to the Local Growth Fund (LGF) programme projects.

The report also provided an update on the Enterprise Zone Infrastructure programme, the timetable for consideration of the approval of business cases and the progress that was being made to develop an overarching legal agreement between the constituent local authorities in the NECA and the North East Local Enterprise Partnership (North East LEP) area.

The ensuing discussion included the benefit of developing a standardised funding agreement for each Enterprise Zone site to sit below the overarching legal agreement.

**RESOLVED** - That:

- i. Agreement be given to programme entry for the North East Education Challenge and Ambition Programme and Local Growth Fund (LGF) budget allocation of £750,000 from within the LGF Round 3 Skills, Innovation and Business Growth mini programme budget subject to business case approval by the North East Local Enterprise Partnership (LEP) Board, as set out in section 2.1.2 of the report;
- ii. Agreement be given to a LGF budget award of £948,364 for the Innovation Project Development Fund from the LGF Round 3 skills mini programme allocation subject to the approval of the North East LEP Board, as set out in section 2.2 of the report;
- iii. Agreement be given to a LGF budget award of £2,027,114 for the Incubation Project Development Fund from the LGF Round 3 skills mini programme allocation subject to the approval of the North East LEP Board, as set out in section 2.3 of the report;
- iv. Agreement be given to an LGF Grant Funding Agreement of £7.0m for the South Shields Metro Maintenance, Renewals and Skills Centre, as set out in section 2.4 of the report;
- v. The Leadership Board noted the progress made with the refresh of the Enterprise Zone financial model and the development of an overarching Enterprise Zone funding agreement between the seven constituent councils and NECA as the accountable body for the LEP, and the timetable for the consideration of further Infrastructure approvals by the LEP Board and NECA as set out in section 2.5 of the report; and
- vi. The Monitoring Officer be authorised to finalise and enter into any legal and grant funding documentation required to enable the approved schemes in the report to proceed.

36 **HOUSING INFRASTRUCTURE FUND**

Submitted: A report of the Head of Paid Service (previously circulated and copy attached to Official Minutes).

Members considered the report which provided information on the national Housing Infrastructure Fund, sought agreement to progress the development of a NECA proposal for the Forward Funding Element of the fund and sought associated delegated authority for the Head of Paid Service.

**RESOLVED** – That:

- i. The report be noted;



- ii. The Leadership Board agreed to progress the development of a NECA proposal for the Forward Funding Element of the Housing Infrastructure fund; and
- iii. Delegated authority be given to the Head of Paid Service in consultation with the Chair and Vice-Chairs of the Leadership Board and the Chief Finance Officer to submit an Expression of Interest form to Government on the 28<sup>th</sup> September 2017.

37 **EXCLUSION OF PRESS AND PUBLIC**

**RESOLVED** – That press and public be excluded from the remainder of the meeting during the consideration of agenda item 13 (Tyne Tunnels – Update) by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, because exempt information was likely to be disclosed and the public interest test against the disclosure was satisfied.

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## Leadership Board

**Date:** 21 November 2017

**Subject:** The Appointment of the Independent Vice-Chair of the Overview and Scrutiny Committee

**Report of:** Monitoring Officer

### Executive Summary

The purpose of this report is to recommend and appoint the Independent Vice-Chair of the NECA Overview and Scrutiny Committee, following the recent recruitment and selection exercise.

### Recommendations

Mr Simon Hart is recommended for the appointment as the Independent Vice-Chair of the Overview and Scrutiny Committee, for an initial term of 3 years.

The Leadership Board is invited to agree the appointment.

## **Leadership Board**

### **1. Background Information**

1.1 On the 21<sup>st</sup> March 2017, the Leadership Board agreed to the establishment of the role of the Vice-Chair for the Overview and Scrutiny Committee and that the appointment would be on the same basis (an Independent Person) as the appointment of the Chair of the Overview and Scrutiny Committee.

1.2 A recruitment exercise has recently been undertaken again which identified Mr Simon Hart as the most suitable applicant for the post.

1.3 Consultation has been undertaken with the Chair of the Leadership Board, the 7 Local Authority Leaders, and the Chair of the Overview and Scrutiny Committee regarding recruitment and the appointment.

### **2. Proposals**

2.1 It is recommended that Mr Simon Hart be appointed as the Independent Vice-Chair of NECA's Overview and Scrutiny Committee for an initial term of 3 years.

### **3. Reasons for the Proposals**

3.1 The appointment of the Vice-Chair will provide support to the Chair and the Committee Members in ensuring that the Overview and Scrutiny Committee fulfils its functions of providing review and scrutiny, within the decision making structures of the North East Combined Authority.

### **4. Alternative Options Available**

4.1 Option 1 – To accept the recommendation in this report and appoint Mr Simon Hart as the Independent Chair.

Option 2 – To not appoint to the position which would result in a further delay and a further recruitment exercise being undertaken.

Option 1 is the recommended option.

### **5. Next Steps and Timetable for Implementation**

5.1 Following the confirmation of the preferred option and decision, Mr Simon Hart would be appointed to the role of the Independent Vice-Chair.

5.2 Informal training and induction has been carried out with Mr Simon Hart with a commencement date of the 16 October 2017, and it is proposed that if appointment is confirmed at the meeting, that remuneration will be back dated from the 16 October 2017.

## **Leadership Board**

### **6. Potential Impact on Objectives**

- 6.1 The role of Vice-Chair of the NECA Overview and Scrutiny Committee will ensure that the Committee fulfils its functions in support of the agreement for a Vice-Chair made by the Leadership Board on the 21 March 2017.

### **7. Financial and Other Resources Implications**

- 7.1 The post was advertised with a remuneration of £1,000 per annum (in monthly instalments).

### **8. Legal Implications**

- 8.1 None.

### **9. Key Risks**

- 9.1 None.

### **10. Equality and Diversity**

- 10.1 There are no specific equality and diversity implications arising from this report

### **11. Crime and Disorder**

- 11.1 None.

### **12. Consultation/Engagement**

- 12.1 Consultation has been undertaken with the Chair and Local Authority Leaders regarding the appointment of the Independent Vice-Chair. This has also included the Chair of the Overview and Scrutiny Committee, who participated in the recruitment process along with the Head of Paid Service and the Monitoring Officer.

### **13. Other Impact of the Proposals**

- 13.1 No other impacts arising from the proposals outlined in this report.

### **14. Appendices**

- 14.1 None.

## **Leadership Board**

### **15. Background Papers**

15.1 NECA Leadership Board Report – 21 March 2017 *“NECA Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2016*

NECA Leadership Board Minutes – 21 March 2017 *“Minute number 103, (Resolution No iii & iv)”*

### **16. Contact Officers**

16.1 Peter Judge, Monitoring Officer, [peter.judge@northeastca.gov.uk](mailto:peter.judge@northeastca.gov.uk)  
07342 069 371

### **17. Sign off**

- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

### **18. Glossary**

NECA – North East Combined Authority

## **Leadership Board**

**Date:** 21<sup>st</sup> November 2017

**Subject:** Economic Development and Regeneration Theme Update

**Report of:** Economic Development and Regeneration Thematic Lead

### **Executive Summary**

The purpose of this report is to provide an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority.

### **Recommendations**

The Leadership Board is recommended to:

- i. note this report for information, and
- ii. agree to the key messages to inform the UK Shared Prosperity Fund development as endorsed by the Economic Development and Regeneration Advisory Board.

## **Leadership Board**

### **1. Background Information**

1.1 This report provides an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority, including:

- Inward Investment North East Update
- Strategic Economic Plan Update
- Government Policy Update
- Brexit Monitoring
- Migration Advisory Committee
- Enterprise Zone Update
- European Structural Investment Fund update

1.2 The Leadership Board is recommended to receive the update for information.

### **2. Inward Investment North East Update**

#### **2.1 Department for International Trade (DIT) Inward Investment Figures 2016/17**

DIT end of year figures have confirmed that the North East is ahead of every other area of the UK, outside of London, for creating new jobs from foreign investment, compared to population size.

In the last financial year, in the NECA area, there were nearly twice as many new overseas investment jobs for every one million people of the working age population compared to the UK average.

The NECA area secured 3,160 jobs from foreign direct investment and reinvestment in 2016-17 per one million working age people, compared to the UK average of 1,600 jobs.

#### **2.2 Enquiries**

The Invest North East England (INEE) Team is exceptionally busy handling a range of enquiries. Good quality enquiries have been generated through the OCO contract in London, direct via the INEE website, and through DIT.

Current enquiries on the INEE pipeline include both UK and foreign owned enquiries in a number of sectors from life sciences, software, contact centres, automotive and other advanced manufacturing including offshore energy.

Of particular interest is a very significant potential advanced manufacturing enquiry for the energy sector, a significant enquiry from a large US software company and a substantial legal services enquiry.



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### **2.3 Marketing**

The INEE team, with support from the North East LEP communications team and Sarah Hall Consulting, continue to improve and refresh a range of marketing materials, website and plan/deliver campaigns. Of particular note is the increasingly successful social media presence. On Twitter, the INEE page now has over 1800 followers, which is increasing daily as a result of a successful social media strategy. Over time, it is expected that this will generate new investment enquiries in addition to raising the profile of the region nationally and internationally.

Following the completion of the Offshore Energy Study, INEE has produced a strategy document and recommendations for taking this work forward. A working group from across the local authorities has been established with a view to developing new marketing collateral and proactively engaging with potential energy sector investors.

### **2.4 Invest North East England Proactive Lead Generation**

The INEE team continues to increase the size and quality of the investment enquiry pipeline through a more proactive approach to generating new investment enquiries.

As previously reported to the Leadership Board, INEE appointed OCO Global as a lead generation consultant. OCO Global is providing in-market representation for INEE in London and the South East. The focus of the contract is twofold:

- Actively generate new leads for the North East, with a particular focus on software/digital, and financial, professional and business services (with a light-touch on advanced manufacturing).
- Work with key London-based intermediaries (e.g. property agents, solicitors, accountants, Venture Capitalists etc.) to ensure they understand the North East offer to companies so they will consider the area for current and future client requirements.

The contract was for an initial period of six months with a possible extension of a further year. The contract has proved to be very worthwhile with a number of excellent projects added to the pipeline. Projects with a potential to create between 500 and 1,000 jobs have already visited the region, with two projects in particular where the NECA area is down to a final shortlist.

The initial contract review has now taken place and after consultation with Investment Gateway Management Group and the Thematic Lead for Economic Development and Regeneration a contract extension of six months is currently being progressed.

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The team has visited London a number of times to meet some key contacts and leads generated by OCO Global and further trips are scheduled.

### 2.5 Events

The INEE team have attended/will attend a number of events in 2017 which align with some of the key priority sectors which are being targeted for investment.

These include:

#### ***MIPIM London 2017***

As in previous years, the INEE team represented the region at MIPIM UK with support from individual local authorities and private sector sponsors. A range of regional development opportunities were showcased. Feedback received to date from the private and public sectors has been excellent.

#### ***Vrtgo Conference, November 2017***

Following a very successful Vrtgo Conference for the Virtual Reality/Immersive Reality tech sector in Gateshead in 2016, INEE has worked with a range of partners, including local authorities, DIT, the Digital Catapult and Secret Sauce events management company, to attract potential inward investors to the conference. A 'wrap around' programme of activity was developed in addition to the conference to showcase the strength and assets of the digital and tech sector in the North East. At the time of writing ten overseas companies and five out of region UK companies are attending the 'wrap around' programme of activity.

#### ***TIGA Awards, November 2017***

INEE sponsored a category at this key games industry awards in London with the objective of raising the profile of the digital gaming sector in the North East. A separate pre-awards lunch was arranged to showcase the strength of the gaming sector and opportunities in the region.

#### ***Offshore Wind Week, November 2017***

For the past two years in November, the offshore wind industry has come together to create Offshore Wind Week to promote the capabilities of the UK offshore wind supply chain and present the UK as an attractive inward investment proposition. Working with NOF Energy, INEE and Tees Valley Unlimited have sponsored a three day series of events in the North East of England. The primary objective is to get a number of inward investors to visit the region, meet key players in the sector and to visit the sites and support assets.

### 2.6 DIT Account Management Resource

Contracts have recently been put in place to broaden the delivery of Strategic Account Management of foreign owned firms in the North East. DIT Northern Powerhouse (NPH) have committed £145k of funding through a contract with NECA to enable local authority partners to deliver additional account management which adds value to the existing arrangements delivered by DIT.

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### 2.7 Northern Powerhouse

INEE continues to work closely with the DIT Northern Powerhouse team. There are now sector specialists in place covering:

- Advanced Manufacturing;
- Digital and Creative;
- Financial, Professional and Business Services; and,
- Energy
- Life sciences (post currently vacant)

The INEE team has arranged for each sector specialist to visit the region and also hosts regular visits by DIT overseas staff and Investment Service Team HQ staff to ensure they are aware of the North East's offer. The team is also feeding information into the Northern Powerhouse proposition documents that are being prepared.

INEE have recently coordinated a response for Economic Directors following consultation on the 'Closer Working in the North of England' report and presentation.

### 3. Strategic Economic Plan Update

- 3.1 Since the launch of the refreshed Strategic Economic Plan (SEP) earlier this year, the North East Local Enterprise Partnership (LEP) continues to lead its delivery with partners across the North East. The SEP identifies six key performance indicators (KPIs) which are updated to track progress as the performance data is released by Government, in order to track economic performance in the North East. The North East LEP reports progress on each of the six programmes within the SEP to each North East LEP Board, which meets every two months. The latest report can be found on the LEP website at: <https://www.nelep.co.uk/wp-content/uploads/2017/10/lep-board-sep-17-agenda-and-papers-for-website.pdf>

### 4. Government Policy Update

#### 4.1 UK Shared Prosperity Fund

The 2017 Conservative Manifesto included a commitment to create a UK Shared Prosperity Fund which would “use the [European] structural fund money that comes back to the UK following Brexit to create a UK Shared Prosperity Fund” “designed to reduce inequalities between communities across our four nations” and “...deliver sustainable, inclusive growth, based on our modern industrial strategy”.

Government are widely expected to consult on this fund. The Economic Development and Regeneration Advisory Board discussed the proposed fund at their 24 October meeting,

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As a fund to promote inclusive growth and productivity in the North East, informed by learning lessons from European Structural & Investment Funds (ESIF) and beyond, EDRAB endorsed the following characteristics proposed for the UK Shared Prosperity Fund:

1. A long-term, fully devolved funding programme, aligned to the regional strategic economic framework (the North East Strategic Economic Plan (SEP));
2. A multi-year funding programme (minimum 7 year);
3. Fully devolved to the North East to allow strategic management and long-term investment decisions;
4. At least at a scale of the current EU structural fund programme (c€560m);
5. To start before 2020/2021 to ensure continuity in activity;
6. A flexible fund which avoids a restrictive siloed approach, and instead funds activities across areas such as innovation, skills, business support, regeneration, and employment support, to fit the needs of the area;
7. Targeted to reflect economic conditions, recognising the latent potential in many currently underperforming areas, and not allocated on a competitive basis;
8. Support the aim to reduce disparities between and within regions;
9. A shift towards more broadly defined growth benefits (e.g. 'quality GVA');
10. Flexibility to both lever in private funds or other public funds where this is suitable or offer a wholly-financed approach where appropriate; and
11. Flexibility to fund both revenue and capital.

These key areas and the views expressed by the members of the Economic Development and Regeneration Advisory Board will be used to inform a regional response to any future consultation.

The Leadership Board is recommended to agree to these key messages to inform the UK Shared Prosperity Fund as endorsed by the Economic Development and Regeneration Advisory Board.

### **5. Brexit Monitoring**

#### **5.1 Closing remarks at the end of the fourth round of EU exit negotiations**

On 28 September 2017 the Secretary of State issued a statement from Brussels following the fourth round of negotiations for a new partnership with the EU. He remarked that the “constructive and determined” manner of talks was supporting “decisive” steps forward on a range of crucial issues such as citizens’ rights, financial settlement and separation issues. The remarks emphasise that

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negotiations over technical details are ongoing, which means that from a legislative perspective the implications remain unclear.

### **5.2 Update to the House of Commons on EU negotiations**

The Secretary of State spoke to the House about the fifth round of negotiations with the EU on 17 October 2017. He expressed confidence that after some tough discussions the UK is on the right path. The Secretary of State concluded that substantial progress had been made, and that building on the spirit of cooperation will allow us to best achieve our joint objectives.

## **6. Migration Advisory Committee**

6.1 In July 2017, the Government commissioned the Migration Advisory Committee (MAC) to advise on the economic and social impacts of the UK's exit from the European Union and also on how the UK's immigration system should be aligned with a modern industrial strategy.

6.2 As part of the call for evidence the Committee was seeking responses by the end of October around:

- EEA Migration Trends;
- Evidence about recruitment, training and skills practice; and
- Economic, social and fiscal impacts

6.3 North East economic partners are working together through a North East Brexit working group, established by the North East LEP to monitor the views, experiences and response of business, education and other organisations in the area as the UK moves through the Brexit process. As part of this work a joint North East response was prepared to the Migration Advisory Committee's call for evidence.

6.4 The drafting of the response was informed by a number of studies, surveys and ongoing discussions with economic partners from across the area including all the work undertaken as part of the Strategic Economic Plan refresh process. It should be noted that North East economic partners submitted evidence individually, through other sectoral networks or membership organisations.

6.5 The EDRAB committee considered the draft messages at their meeting on the 24<sup>th</sup> of October and endorsed the approach and key messages. The key messages from the final response submitted to MAC committee are attached at Appendix A.

## **7. Enterprise Zone Update**

7.1 As part of the delivery of the Enterprise Zone policy, partners are continuing to field investment interest and prepare development activity across the sites. The end of

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quarter review due shortly will include a full update on the current position and will be available to report into a future meeting.

- 7.2 The North East LEP, working with partners, is continuing to take forward the Commercial Support project to put in place the required structures and processes to accelerate the Enterprise Zone delivery. The current focus of activity is the finalisation of the Legal Agreement which will enhance and clarify the legal structures for delivery and provide long-term clarity over the twenty-five year lifespan of the programme. This is being part-funded through the Commercial Support Grant provided by the Department of Communities and Local Government which was provided to support actions to expand preparations for delivery. The Legal Agreement sits alongside work commissioned from Cushman and Wakefield to provide external validation of the financial mechanisms for the Enterprise Zone sites. Following a further round of Commercial Support the North East LEP has now received a second tranche of funding which will be used to support project appraisal and provide shared advice on key issues such as land ownership, elements of State Aid and port and quayside developments. These have been raised by delivery partners as areas of particular challenge.
- 7.3 The preparation for the International Advanced Manufacturing Park (IAMP) Enterprise Zone site is underway with a revised site boundary due shortly to be submitted to Government. This is part of the steps to put the site in law to enable a launch on the 1<sup>st</sup> April 2017. The Business Case for the full IAMP site which draws on both Enterprise Zone and Local Growth Funding has been received and is being progressed through appraisal.
- 7.4 Two new Enterprise Zone funding applications have been received from partners including a feasibility study for the Newcastle Airport site (£65,000) and more substantial application for £4.5m of works on Jade Business Park in County Durham.

## **8. European Structural Investment Fund Update**

- 8.1 The European Structural and Investment Fund (ESIF) continues to be delivered in the North East. The region is split into two areas; More Developed (Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland) and Transitional (Durham). An update on European Regional Development Fund, European Social Fund and European Agricultural Fund for Rural Development is provided below.

The North East LEP held 2 regional events to promote the ESF and ERDF calls in October, which were well attended.

## **8.2 European Regional Development Fund (ERDF)**

The notional allocation for the More Developed area is £152.7m, of this £123.5m represents projects in the pipeline, leaving a remainder of £29.2m for future calls,

## Leadership Board

including those recently announced. In the Transitional area the notional allocation is £75.4m, of which £41.2m is in the pipeline, leaving £34.2m for future calls, including those recently announced.

A Sustainable Urban Development (SUD) call was announced 15 September. The total funding available for SUD projects is £18.6m. The final deadline for Expressions of Interest (EOIs) is 30 March 2018 with two review points at; 30 November 2017 and 31 January 2018.

Two further ERDF calls (SME Competitiveness, £13.7m, and Promoting Research & Innovation, £9.5m) were announced in September with a closing date for EOIs of 10 November. In addition a Low Carbon call was been announced for the Transitional Area, £13.4m and a Low Carbon call for the More Developed area is expected.

### 8.3 European Social Fund (ESF)

Across the whole North East LEP area there was an allocation of £144.6m of which £73.29m has already been committed leaving £71.31m for the current and future calls.

There are currently two ESF open calls closing on 4 December.

- Raising the Skill Levels of the North East Health and Social Care workforce - £5m
- Specialist Support for those Furthest Away from the Labour Market - £8m

One call, in the Transition area only, with a deadline of 20 November

- Integration of Young People into the Labour Market - £4.79m

4 calls closed on 23 October

- North East Ambition Pilot Strategic Framework - £3m
- North East Ambition Pilot Tailored Delivery- £3m
- Digital Skills North East - £20m
- North East Specialist Support for the Unemployed/Inactive - £6m

### 8.4 European Agricultural Fund for Rural Development (EAFRD)

EAFRD funds form part of the National Growth Programme, from which the North East received an allocation of £10.5m. Although a number of scattered localities are potentially eligible for EAFRD funding in Tyne and Wear, the focus is on the designated rural areas of Northumberland, Durham and neighbouring parts of western Gateshead, including the Derwent Valley.

Current calls are open until 31<sup>st</sup> January 2018 with a value of £9.7m; this is capital funding to create jobs in rural areas, minimum grant value of £35,000 and maximum of c£170,000, an extension to this deadline is being considered. These calls are:

- Business Development - £1.4m
- Rural Tourism Infrastructure – £6.7m



## **Leadership Board**

- Food Processing – £1.6m

A further call, for Rural Broadband Infrastructure, was announced with a closing date of 31 May 2018. £30,000,000 is available (minimum grant is £500,000). Grants are expected to be between £1m and £4m).

### **9. Potential Impact on Objectives**

- 9.1 The report sets out issues that will support the Authority in meeting its objectives, particularly in relation to those set out in the Strategic Economic Plan.

### **10. Financial and Other Resources Implications**

- 10.1 There are no specific financial or other resource implications arising from this report.

### **11. Legal Implications**

- 11.1 There are no specific legal implications arising from this report.

### **12. Key Risks**

- 12.1 There are no key risks arising from this report.

### **13. Equality and Diversity**

- 13.1 There are no specific equalities and diversity implications arising from this report.

### **14. Crime and Disorder**

- 14.1 There are no specific crime and disorder implications arising from this report.

### **15. Consultation/Engagement**

- 15.1 There are no issues arising from this report for consultation.

### **16. Other Impact of the Proposals**

- 16.1 There will be no other impacts arising from this report.

### **17. Appendices**

- 17.1 Appendix A – Key messages from final response to Migration Advisory Committee



## **Leadership Board**

### **18. Contact Officers**

- 18.1 Sarah McMillan, Corporate Lead – Strategic Development  
Email: [sarah.mcmillan@southtyneside.gov.uk](mailto:sarah.mcmillan@southtyneside.gov.uk) Tel: (0191) 424 7948

### **19. Sign off**

- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

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## **Appendix A – Key messages from the final response to the Migration Advisory Committee**

### **Summary of key messages**

#### Economic performance

- The North East Economy has been growing at a stable rate since the 2008 recession. There has been business growth in key sectors and employment has been growing and has been at record levels over the last two years, although with some slow down in the last two quarters. From a labour market perspective, the North East has been closing the gap with national averages in terms of both the employment rate and economic activity rate, offering new and better job opportunities for local people. These are key performance indicators for the SEP.

#### Demographics

- Over recent decades the North East has experienced periods of population decline, and has only recently returned to population growth, whilst at the same time seeing significant population ageing. Labour market growth, age balance and vibrancy in the labour force has been supported both by migration and higher birth rates amongst migrant populations are likely to be important in maintaining this position.
- Given the age structure of the population forward projections anticipate that to deliver on our economic plan and to ensure the continuing viability of public services we will need to plan for both growth in the labour force, and address very significant replacement demand as older cohorts leave the labour force. This will require a combination of approaches including continuing labour market mobilisation, skills retention and positive flows of migration. This applies at all levels of the labour force and this was a prominent issue in the engagement around the SEP.

#### Migrant profile and role in the population

- Whilst the absolute numbers of migrants in the population are relatively small compared with other regions of the UK, there are some key and distinctive features including:
  - A high number of students enrolled in our 4 Universities and concentrated in our key urban centres with much lower concentrations in other parts of the region
  - A relatively highly skilled profile in the employed migrant labour force with evidence suggesting that there are concentrations of migrant workers in our higher value industrial and smart specialisation sectors in professional, managerial and technical roles and in key public sector occupations including our Universities and Health care organisations. Case studies from engineering, digital and shared services sectors show the importance of these workers to key sectors.

- At the same time, the North East exhibits above national average skills shortages for managers, professionals, skilled trade occupations and machine operatives. Migrant labour has played a key role in filling such vacancies.
- Looking at migration flows directly from the EEA into the North East, data about the most recent location of incoming migrants, evidence suggests that once students are extracted, the next highest cohorts of recent incomers are likely to be UK citizens returning from Southern Europe in older age and forces personnel returning from postings in Germany. This does not cover flows into the North East from migrant labour which originally located into other parts of the UK and then relocated
- The North East has to work hard to retain higher level skills and high employment scenarios at national levels can lead to an outflow of labour to other parts of the economy. A key part of our economic strategy is to support the lengthening of careers escalators in a group of key parts of our economy to provide a more attractive offer to both existing residents and incomers. Whilst there is no quantitative data available showing patterns of movement of EEA nationals into the North East from other parts of the UK, evidence from a number of our leading companies suggests that this is important. There are therefore concerns that any future system which makes it hard for migrants to move out of the capital and south east into roles in the region, or limits overall labour force movement, will have the net effect of drawing labour from the regions to ‘thicker’ jobs markets with more extended careers escalators and challenging our ability to build and maintain our labour force

#### Internationalisation of businesses

- Both the North East economy and many individual businesses have an international focus and operating model. Foreign direct investment has played a significant and disproportionate role in the North East’s recent economic transition. Companies in a number of key sectors such as Nissan, Proctor and Gamble, Ubisoft, MSD, Komatsu and Hitachi have brought significant investment to the North East with the net result that parts of the region have a significantly higher proportion of employment in foreign owned businesses compared with other parts of the UK.
- Many of these investors regard our region as an important platform for accessing European markets and our flows of trade reflect strongly integrated supply chains.
- Whilst the overall stock of businesses hosting high numbers of international workers is small, those who do find them very valuable and freedom to recruit into employment and on to training schemes across Europe within a common framework of regulation and employment policy has been an important factor in decision making.

- We are concerned that both the current tone of the discussion on migration and emerging proposals will have an impact upon these existing investments and future opportunities. Complicated migration controls, uncertainties faced by current employees and increased costs may well in time disincentive investment and lead to relocation of key businesses to inside the European market. The impacts on the wider supply chain would also be substantial.
- The NE has a smaller business base compared to other areas, so any weakening of this base or reduction in the competitiveness of businesses (due to labour force restrictions) will result in proportionally greater impacts on our economy than would occur in other areas.

### **Implications and recommendations**

In its work it is important, therefore, that the Migration Advisory Committee consider:

The distinctive demographic characteristics of the North East including:

- both the relatively small size of the current stock of migrants in the labour force, but also the longer term demographic trends and the flows and trends as a result of internal and external migration
- the relative concentration of migrants in higher value roles in key growth sectors including manufacturing, life sciences, digital and tech services and education and their importance to the regions key businesses
- that in considering numerical data about migration in the North East the presence of students and returning UK citizens in the data needs to be understood

Labour market modelling should take into account the dynamic effect of an overall reduction in migration on labour markets in the UK regions. If there is a significant reduction of migration from the EEA, or indeed elsewhere, into London, it should identify the extent to which this will pull migrants and other workers into the capital and the South East. Past experience and trends would suggest that, unless managed carefully, an overall reduction of migration into the UK would have a proportionately much greater impact on the regions and would have a damaging effect on those specialisations where capital or labour is particularly mobile such as in the digital and tech sector.

The economic priorities set out by business and political leaders in the region articulated in the North East Strategic Economic Plan to maintain growth in the quantity and quality of employment and to improve the regions employment and inclusion rates. The tone of the discussion on migration and the proposals which emerge should not deter investment by damaging confidence that labour will be available or unwelcome, and existing EEA workers should be assured about their future and guaranteed the right to remain.

In the context of any future schemes, businesses in the region are concerned that:

- schemes which set down requirements for an earnings level for migrants must take into account the fact that wages in general are lower in the NE and there needs to be a mechanism for ensuring that any new requirements do not disadvantage regions outside of London for example by ensuring that wage levels are set relative to levels prevailing in local labour markets.
- schemes which seek to put a ceiling on the number of migrants entering the country should not do so in such a way which disadvantages the North East's need to build its working population to both grow employment and meet replacement demand.
- schemes which seek to direct migrant labour to specific parts of the country must not create friction for those internationalised businesses whose workers move in and out of the UK, or who need to move around the UK to and from the North East.
- sectoral classifications need to be considered carefully in the design of any sectoral allocations given the way that sectors are developing. In the North East context for example, recruitment in key manufacturing sectors increasingly relies on digital skills to support high value manufacturing processes. Many North East shared services centres (often mistakenly described as call centres) deliver high level support in both the public sector and private sectors in organisations such as PWC Legal services, HMRC and DWP IT services.

Given the importance of the Universities to the North East, schemes should not prevent the recruitment of EEA staff and students, and should enable higher skill students to join work related training schemes and remain to fill skills shortages in key North East businesses.

## Leadership Board

**Date:** 21<sup>st</sup> November 2017

**Subject:** Employability and Inclusion Update

**Report of:** Thematic Lead for Employment and Inclusion

### Executive Summary

The purpose of this report is to provide an update as to the latest progress being made in delivering the Employability and Inclusion, and Skills themes of the Strategic Economic Plan (SEP) for the North East.

### Recommendations

The Leadership Board is:

- i. recommended to note the contents of the report;
- ii. asked to consider a response to DWP (see section 1.13) with regard to both their action to vary the contract and the process of decision-making on locally delivered programmes to meet strategic priorities.

## Leadership Board

### 1. Background Information

- 1.1 This report provides an update on the employability, inclusion and skills programmes and projects that the Combined Authority and the LEP are delivering within the context of the SEP for the North East.

#### *Labour Market Intelligence (LMI)*

- 1.2 Labour Market Intelligence (LMI) for the North East continues to be developed. Discussions about future developments are taking place with the North East LEP and a number of digital partners who are designing some innovative tools to present data and information to various audiences.
- 1.3 A series of Careers Videos to promote our key priority sectors was completed in February 2017 and is part of a toolkit available for schools and colleges in the North East. Their purpose is to help teachers communicate the many exciting careers available in the North East, and the paths young people can take to get them. The videos and toolkit have now been requested by over 180 educational establishments.
- 1.4 The toolkit includes four videos, all showcasing young people and the jobs and training they're participating in, in our region. Feedback has been extremely positive.
- 1.5 Each of the four videos is accompanied by a toolkit for teachers, including powerpoint presentations and lesson plans. Anyone can sign up to receive the resources from the North East LEP website.
- 1.6 Work is on-going to support various initiatives with their LMI needs including the Good Career Guidance Benchmarks, development of Devolution proposals and support to ensure that ESF proposals meet our strategic priorities.
- 1.7 Work has been undertaken in recent months by the LEP developing labour market information for graduate retention. Case Studies and videos have been produced to promote the opportunities in the North East, reasons to stay and to provide examples of working in the key sectors and opportunity areas. The campaign will be launched in mid-November and provide a further resource for schools, colleges and universities.



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### *DWP European Social Fund Opt-In for the North East*

- 1.8 The DWP 'Opt-In' programme for the North East is utilising £6m European Social Fund (ESF) to test a local approach to support 2,500 long term unemployed residents with health conditions to find work over 2017-19. The programme is delivered by Working Links.
- 1.9 Performance data from January to the end of October show 677 people attached to the programme and a further 75 waiting for eligibility to be confirmed. 112 are currently in employment, there have been 137 job starts in total. County Durham continues to be the best performing area with around one-third of total attachments and job starts.
- 1.10 Analysis of performance data shows:
- Over 70% of participants are male, and one third are aged 50+.
  - Most are very long-term unemployed, many for over ten years, and have multiple barriers to work.
  - The majority have health conditions, many of which were undiagnosed prior to engagement with the programme.
  - Mental Health concerns impact approximately 70% of participants, mainly anxiety and depression.
  - Lack of accessibility to transport is a key barrier to taking up work.
- 1.11 The programme is targeted specifically at long-term unemployed people who completed the DWP Work Programme without moving into sustained work. Evidence showed that those with health conditions did not achieve the job outcome rates of other cohorts, and needed a subsequent intensive and specialist intervention to prevent them from becoming longer-term unemployed. Latest data (Feb 2017) show the LEP area still has large numbers of the cohort, with 63,000 residents who have claimed Employment Support Allowance for over two years, including almost 14,000 in the 'work related activity group' and available for work. (Contract targets are to work with 670 participants in County Durham and 1,830 in the rest of the areas over three years).
- 1.12 However, programme starts are not fully reflecting the intended target group for the contract. Jobcentre Plus (JCP) (while not solely responsible for all referrals to the programme accounts for over 90% due to the need to check eligibility) is not referring in the required volumes and provider attempts are not yet engaging sufficient numbers. Over 85% of participants are claimants of Jobseekers Allowance (JSA), rather than the health-related Employment Support Allowance (ESA) the provision is primarily aimed at. The issue is

## Leadership Board

regularly raised with DWP at local engagement meetings with a view to finding ways to engage the intended target cohort and improve performance. NELEP / NECA representatives will continue to scrutinise with DWP and the provider to support an improvement.

- 1.13 **Contract variation:** In early October DWP advised the LEP that due to performance in the ESF more developed category area (Northumberland, Tyne and Wear) falling below 70% of profiled performance, a clause in the contract can trigger a contract variation to widen the eligibility cohort criteria to include all groups of unemployed people, rather than the intended target groups. The terms of the opt-in agreement state that any variation should be in consultation and agreement with the LEP.

At a meeting with DWP on 24th October, LEP representatives made the case that the contract should not be varied on the grounds that:

- The programme specification was designed to meet a specific local need identified through local intelligence and data.
- Widening eligibility will direct the provider away from the original intent of the contract.
- Data show that sufficient numbers of the original target cohort still exist. Efforts should be made to improve performance by engaging with them rather than vary the contract, in particular by taking action to improve referral volumes from Jobcentres.
- The varied contract would place the provision in competition for referrals with other local programmes (including those funded by ESF). This could detract from a targeted and co-ordinated approach to maximising performance across local ESF programmes.
- The evidence from opt-in programmes in other LEP areas does not indicate that wider eligibility improves performance (this was confirmed by DWP).

*Despite the case made by LEP representatives, DWP made the decision to vary the contract by widening eligibility criteria with effect from November.*

DWP was advised at the meeting that reports to Leadership Board and the ESIF Sub-Committee would note the LEP preference is to retain the original cohort eligibility and not vary the contract by widening eligibility.

The Leadership Board is asked to consider a response to DWP with regard to both their action to vary the contract and the process of decision-making on locally delivered programmes to meet strategic priorities.

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### *North East Mental Health Trailblazer*

- 1.14 The North East Mental Health Trailblazer is piloting integration of employment and mental health services, with employment coaches delivering Individual Placement and Support (IPS) services in Increasing Access to Psychological Therapies (IAPT) teams in co-ordination with clinical staff. The programme targets support to long-term unemployed residents with depression and anxiety acting as barriers to work.
- 1.15 Performance data show that from January to September 191 people attached to the programme and 34 moved into employment. While starts are still below profile, job outcomes are close to target, indicating a higher job conversion rate than expected at a relatively early stage (currently around 20% but showing an increase). County Durham continues to be the best performing area with over 35% of total programme starts and almost 40% of all job starts. Northumberland and Gateshead are also beginning to perform well with around 20% of starts each, and Gateshead has 35% of all job outcomes.
- 1.16 As with the DWP Opt-In programme, Jobcentre referrals are primarily of JSA rather than ESA claimants. However, participants are generally long-term unemployed and have a range of mental health conditions, mainly anxiety and depression as both a cause and effect of long-term unemployment.
- 1.17 Referral volumes from Jobcentres continues to be below profile and some intensive work is underway with Jobcentre Plus to improve performance. The DWP / DH Work and Health Unit have made recommendations for improved processes in JCP which will be implemented in quarter 4 of 2017. Actions are also being taken to generate greater referral volumes of people already engaged with IAPT services. This is proving very effective in some areas with regard to both volumes and appropriateness of referral, reflected in good job outcome rates for direct IAPT referrals.
- 1.18 The Behavioural Insights Team conducted an IPS fidelity assessment of the service in late October. The outcome has not yet been finalised but it has been indicated that the rating will be 'Good'.
- 1.19 A request to DWP for extension of the trial to March 2019, to allow a full two years of delivery and significant evaluation sample size, has not yet been processed. Approval of the extension will be prioritised in quarter 4.
- 1.20 The NHS England commitment to doubling IPS access in mental health services by 2020 is expected to focus on secondary care provision (rather than the primary care services the Trailblazer works with). Funding bids are expected in the autumn and the Trailblazer will discuss with partner

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organisations to ensure a local bid will not adversely affect the trial and assess how it can benefit sustainability of IPS services across the area post-trial.

### *Generation NE*

- 1.22 Generation NE has been operational since July 2014 and the programme has supported 4140 young people, of which 1889 have moved into employment to date; 1105 of those gaining employment have now sustained employment for 6 months or more. Generation NE funds have also supported a further 756 participants, 345 into work through provision of match-funding for Durham Works. The project has now exceeded all targets set as a part of the funding agreement by the Cabinet Office and continues to perform well.
- 1.23 A Digital Service has been launched to complement the support available through Generation NE on a face to face basis; this service is testing innovative approaches to engaging and supporting young people which accommodates their changing attitudes, particularly a desire to engage with services in non-traditional ways. There are currently 170 young people being supported in this way with, on average, an additional 30 young people engaged each month. A full Randomised Control Trial of digital services within Generation NE is being explored with the Governments What Works Centre for evaluation.
- 1.24 A call for projects to support young people into employment and training was released under the European Social Fund (ESF) on 26<sup>th</sup> July 2017 and an application was developed by a cross authority working group and submitted on behalf of Generation NE on 23<sup>rd</sup> September to extend and expand the programme, including to those young people not claiming benefit. A decision on outline approval of the application is pending.

### *Durham Youth Employment Initiative (DurhamWorks)*

- 1.25 Q3 figures are currently being collated and verified. At the end of Q2 (June 2017), 2833 young people had registered with DurhamWorks and 2485 had been verified which is above target by 235 (10.4%). During the quarter, work was undertaken to source additional match funding and identify potential Delivery Partners. This followed the offer to Durham County Council of an additional £1.26m of YEI / ESF funding for the DurhamWorks programme. However, following a re-profiling exercise and contract management of existing Delivery Partners, the decision was taken to decline the growth unless the programme end date was extended accordingly.

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### *Good Career Guidance Benchmarks*

- 1.26 From June 2015 and in partnership with The Gatsby Foundation, North East LEP has been supporting the application of the Good Career Guidance benchmarks. This provides the opportunity to test the benchmarks in action; lead the development of practice which will have local impact and national profile; and improve the quality of provision and opportunity for young people.
- 1.27 The pilot has been subject to on-going review, with schools and colleges submitting regular reports and case studies, and analysis against each benchmark to track progress. The pilot phase of implementation has now ended.
- 1.28 Reports now evidence impact in a number of key areas:-
- One clear finding from the pilot in the North East is the usefulness of the benchmarks as an auditing tool for users to report on their own career guidance provision and to 'action plan' specific, measurable improvements
  - The rate of progress in year one (+2) is accelerated in year 2 (+4)
  - Every school and college now fully achieves at least four benchmarks (previously 50% of the schools / colleges fully achieved zero benchmarks). All schools and colleges now partially achieve every benchmark.
  - 88% of schools and colleges now fully achieve 6-8 benchmarks (previous national surveys showed that no school had achieved more than 5 of the benchmarks)
  - The results demonstrate that it is possible to make significant and rapid progress – using the benchmarks as a framework – to carefully target improvements in schools / colleges of every type, size, location and structure. These improvements are documented in focussed actions plans with measurable targets.
  - New strategic relationships with employers now existing and schools / colleges have clear plans for engagement and systems in place to measure quality and impact. This includes an increase in the number of 'careers' or 'business' governors.
  - New strategic delivery structure structures have also emerged in schools and colleges maximising the impact of the benchmarks, including the reallocation of existing resource towards careers provision.
  - Curriculum integration – joint CPD, teacher / career leader placement in industry.
  - The pilot has inspired collaboration and pioneering thinking in the approach to delivering good career guidance
  - Schools and college participating in the pilot are significantly closer to providing 'good career guidance' for 'each and every' young person than they were at the outset.

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- 1.29 Analysis of evidence, emerging data and observations within the school and college visits over the duration of the pilot also suggests that progress against the benchmarks is greater and more rapid when the careers leader is either a member of the senior leadership team or when they have a dedicated and active SLT link responsible for the strategic leadership and quality of careers provision.
- 1.30 The career benchmarks are central to the skills element of the Strategic Economic Plan. From the start of the Autumn term 2017 / 2018 all schools and colleges in the North East LEP area are encouraged to adopt the benchmarks in anticipation of the launch of the new Careers Strategy in Autumn 2017.
- 1.31 An event titled 'North East Ambition' marking the end of the pilot phase and the introduction of a LEP-wide roll-out was held in July 2017. There were over 300 attendees, including over 150 schools and colleges. Feedback and uptake was extremely positive. A follow-up event was held in October 2017 and there are now over 100 schools and all 9 FE colleges working to implement and achieve the benchmarks.
- 1.32 The North East LEP is preparing to expand the career benchmarks, designed originally for secondary schools and colleges, for use in primary schools. We continue to seek funding to allow us to map the benchmarks for delivery in a primary setting, engage 10% of primary schools across the region (approx. 70 schools) in a pilot that seeks to test the implementation of the benchmarks and facilitate support for primary schools to achieve the benchmarks. Evidence of the impact will be through an action research approach. The proposal has the support of the members of the Careers IAG Advisory Group, chaired by the CBI. Discussions are on-going with a number of foundations and charitable trusts.

### *Enterprise Advisors*

- 1.33 This key Government-backed initiative was initiated in September 2015. The Careers & Enterprise Company (CEC) is an employer-led organisation that has been set up to inspire and prepare young people for the fast-changing world of work.
- 1.34 The North East LEP has taken the opportunity to shape and adapt the original CEC model to enhance the opportunities for school and business engagement. The Enterprise Advisor network is active in 38 or 39 LEP areas.



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- 1.35 To date over 140 Enterprise Advisers have signed up. 84 schools and colleges have returned their self-assessment and supporting Enterprise Adviser action plan. Of the 80 schools, 69 have been matched with an EA, and 22 further schools and college who have met with an Enterprise Coordinator are in the process of completing the self-assessment document and are being followed up. All 9 colleges have signed up and in varying degrees of completion. From a slow start due to the rigorous matching process opted for by the North East LEP, we are pleased that our 'matches' and the sustainability of those matches are now amongst the highest in the country.
- 1.36 With the support of the Communications Team we continue to grow the numbers of business leaders becoming Enterprise Advisers in the North East network. Other activities within the network include school CPD sessions for staff to support benchmarks 4, 5 & 6. Skills North East hosted the most recent EA networking event and Virgin Money hosted an information and awareness session for new EAs.

### *Apprenticeships*

- 1.37 The North East has a strong and active part to play in meeting the Government's target of three million apprentices by 2020. However, there is also a recognition that there is still much to be done to deliver the ambitious targets that the region has set within the Strategic Economic Plan (SEP).
- 1.38 In light of the apprenticeship reforms earlier this year, the Apprenticeship Growth Partnership (AGP) reviewed its work plan and membership at its meeting in July 2017; and confirmed their role in supporting the following:-
- Maximise employer engagement and the take-up of apprenticeships including higher and degree apprenticeships.
  - Promote the parity of apprenticeships with academic routes and qualifications.
  - Encourage and support greater collaboration across and within sectors to share good practice.
  - Consider the impact of the apprenticeship reforms on employers as they are implemented – ensuring examples of good practice are promoted, lessons learned and potential 'unintended consequences' are carefully monitored to inform future policy and strategy.
- 1.39 Apprenticeship Growth Partnership meetings continue with the next planned for November 2017. Although there have been some concerns raised by members collectively around the 'confirmed' lack of standards, speed of development and the slow-down in response from IoA, there are membership organisations that are lobbying on behalf of businesses and

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sectors and the AGP monitoring North East KPIs against National performance.

- 1.40 The general feedback from members is that the group is adding real value to raise an awareness of apprenticeship provision to business, highlighting issues and challenges and we have been made aware that other 'national' apprenticeship groups and aligning their work with what is being done within the North East LEP's AGP.
- 1.41 The North East LEP has recently been asked to nominate a representative to join the North East Apprenticeship Ambassador Network (AAN). The primary aim of the Apprenticeship Ambassador Network is to support the delivery of a high quality apprenticeships programme. As members of the AAN we will support government in enabling employers and wider stakeholders to realise the benefits and aims of the apprenticeship programme.

The work of the AAN is linked to the Strategic Objectives of the Apprenticeship Reform Programme, Benefits Realisation Strategy:

- To create more quality apprenticeships
  - To meet the skills needs of employers
  - To create progression for apprentices
  - To widen participation and social mobility in apprenticeships
- 1.42 North East LEP's Growth Hub website is being further developed to provide access to links and further information on recruitment of apprentices

### *Skills – capital investment*

- 1.40 Four from five original LGF Skills Projects are now physically completed and the remaining project at Northumberland College in Ashington commenced on site in early December 2016 and is on schedule.
- 1.41 Following the project call in March 2016, two new skills focussed projects were approved, both are social-enterprise led – Foundation of Light in Sunderland, which is underway and Eagles Foundation in Newcastle where construction commenced in summer 2017.
- 1.42 In January 2017 the North East LEP received confirmation from Government of its funding award from Round 3 of the Local Growth Fund. A total of £49.7m has been awarded over the period 2017-21 to support the development of the 'International Advanced Manufacturing Park', north of the Nissan factory and the introduction of an 'Innovation, Skills and High Growth



## **Leadership Board**

business' mini programme. The focus of the mini programme is still under development

### **2 Proposals**

2.1 There are no proposals as this is an information item.

### **3 Reasons for the Proposals**

3.1 This section does not apply as the report is only for information.

### **4 Alternative Options Available**

4.1 This section does not apply as the report is only for information.

### **5 Next Steps and Timetable for Implementation**

5.1 The Employability, Inclusion and Skills Steering Group will continue to co-ordinate and monitor the delivery of these programmes and projects.

### **6 Potential Impact on Objectives**

6.1 The work being taken forward is consistent with the Combined Authority's stated objectives and SEP for the North East.

### **7 Financial and Other Resources Implications**

7.1 There are no financial implications arising from this report.

### **8 Legal Implications**

8.1 There are no legal implications arising from this report.

### **9 Key Risks**

9.1 There are no key risks arising from this report.

## **Leadership Board**

### **10 Equality and Diversity**

10.1 There are no equality and diversity issues arising from this report.

### **11 Crime and Disorder**

11.1 There are no crime and disorder issues arising from this report.

### **12 Consultation/Engagement**

There are no consultation or engagement issues arising from this report.

### **13 Other Impact of the Proposals**

13.1 There are no other impacts arising from this report.

### **14. Appendices**

14.1 This report has no appendices

### **15. Background Papers**

15.1 There are no background papers for this report

### **16. Contact Officers**

Michelle Rainbow, Skills Director, North East Local Enterprise Partnership  
michelle.rainbow@nelep.co.uk  
0191 338 7439

### **17. Sign off**

- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

## Leadership Board

**Date:** 21 November 2017

**Subject:** Transport and Digital Connectivity Thematic Lead Update Report

**Report of:** Thematic Lead for Transport and Digital Connectivity

### Executive Summary

This report provides an update to the Committee on progress in our region regarding activities that are helping to deliver the key principles of the Transport Manifesto.

The Leadership Board has now given its consent for Transport for the North (TfN) to become a Sub National Transport Body. Work has started between Heads of Transport, Economic Directors and NECA Chief Executives to develop protocols for the governance of NECA's involvement in TfN. TfN continues to work on developing the TfN Strategic Transport Plan and a first draft is expected to be published once Statutory body status has been confirmed later this year.

Metro performance continues to be challenging due to ageing rolling stock and infrastructure. In addition, a failure to the power supply to the Metro depot on Sunday 29<sup>th</sup> October caused major disruption to the system. Trains were unable to enter service and, although engineers restored power by mid-evening, the solution came too late to avoid major disruption around the region during the course of the day.

The Managing Director (Transport Operations) Tobyn Hughes has given a full explanation as to the cause of the disruption and a detailed investigation will now take place to investigate all aspects of the disruption.

Discussions with the DfT continue in respect of new rolling stock for the Tyne and Wear Metro and a separate paper is provided on the agenda to cover the latest position in more detail. NECA has made representations to the Chancellor concerning the 2017 Autumn Budget for the need to provide funding for a new fleet of Metrocars.

The Transport Plan and sub strategies for Cycling and Walking and Bus Services continue to be developed to help guide future transport work.

Work to improve the public transport offer for young people continues. All bus operators now offer some form of discounted ticket for all those aged up to 19, and pending approval from Tyne & Wear Sub Committee, Metro will be following suit.

NECA continues to take steps to seek improvements to air quality and is looking to develop an area wide strategy.

### Recommendations

It is recommended that Leadership Board notes the contents of this report.

## **Leadership Board**

### **1.0 Background Information**

- 1.01 Delivering a world class transportation network is a key aspiration for the NECA area. Strong economic growth and prosperity can only be fully realised with a state of the art infrastructure underpinning the local economy. This is what drives the ambitions of the region for a strong transport network.
- 1.02 The NECA will continue to push for funding for a new Metro fleet. It will continue to work on setting out its strategic vision through the NECA Transport Plan, and sub strategies such as the Bus Strategy and Cycling and Walking Strategy. Finally, the NECA will continue to seek ways to prepare the region for the future, through investment and development in innovative technologies that reduce the impact of transport-based emissions.
- 1.03 This report provides a commentary on recent activities in the transport and digital connectivity sectors. The Government will publish its Autumn Budget on Wednesday 22nd November 2017 and will likely have an impact on a number of work streams detailed in this report.

### **1.1 Transport for the North (TfN) and Rail North**

- 1.11 Following the 7<sup>th</sup> August 2017 approval for NECA to give its consent for Transport for the North (TfN) to become a Sub National Transport Body (STB), this consent has now been returned to the Secretary of State. It is currently expected that TfN will receive formal status by the end of 2017.
- 1.12 It was requested at the 7<sup>th</sup> August 2017 Leadership Board that work to define internal protocols for the governance of NECA's involvement in TfN was required. Work has started between Heads of Transport, Economic Directors and NECA Chief Executives to develop these protocols and a paper will be brought to a future meeting to seek approval.
- 1.13 In the meantime, the development of the TfN Strategic Transport Plan continues, with a view to publishing a draft for consultation once Statutory body status has been confirmed by the end of the year. TfN's Strategic Transport Plan will set out the strategic priorities for transport investment in the North between now and 2050 and will enable TfN, and its Partners (including NECA), to make a unified case to Government for investment that is much needed in the North.
- 1.14 Work continues to develop plans for the major strategic rail programme, Northern Powerhouse Rail. The Secretary of State has recently announced that £300m will be added to the HS2 budget to develop the Northern Powerhouse Rail and HS2 network 'touch points'. This will enable provision for future Northern Powerhouse Rail services to use sections of HS2 infrastructure.

## **Leadership Board**

- 1.15 Rail North are reviewing the Long Term Rail Strategy (LTRS) published in 2014. This document was instrumental in enabling the franchises for Northern and TransPennine Express, which are starting to deliver service and fleet improvements. More service enhancements are coming over the next couple of years as well as new and refurbished rolling stock. The LTRS update is looking at the next level of progress for Rail services in the North and will become the Rail Strategy for TfN as part of the Strategic Transport Plan. The public consultation on the draft LTRS will be carried out as part of the wider STP consultation.

### **1.2 Metro**

- 1.21 Since the transition from DB Regio, there have been improvements to service punctuality and the latest Metro customer satisfaction tracking survey in May 2017 showed some improvement, with a score of 7.78 compared to 7.45 in May 2016. However, on Sunday 29<sup>th</sup> October a major and sudden fault with the substation which provides high voltage power to the Metro Depot in South Gosforth meant that no trains could leave the depot for the start of service. Despite attempts to shunt Metrocars out of the depot, Nexus was forced to advise passengers to seek other forms of transport. This was a major failure which affected retailers, service providers and sports and cultural events taking place in the region. Nexus has apologised for the incident and will report its investigation findings to the Tyne and Wear Sub-Committee.
- 1.22 Fleet availability is a continuing challenge, resulting in a number of cancellations of additional peak services. This year has also been challenging with respect to patronage, with ridership in the year to 16<sup>th</sup> September 2.7% below the ridership reported at this point a year ago. These problems demonstrate the urgent need to acquire a new Metro fleet.
- 1.23 The decision regarding how to finance a new fleet of Metrocars has now been referred to Ministers. A decision is expected by the end of the year, and additional representations were made to the Chancellor ahead of the 2017 Autumn Budget regarding the need to provide funding for a new fleet of Metrocars. This highlighted the strong stakeholder support that has been received to support the case for a new fleet, with the business community in particular providing numerous endorsements from a wide range of industries. A more detailed report titled "Metro Futures New Fleet Procurement Update" is provided later on the Agenda.
- 1.24 Nexus continues to deliver the Metro Asset Renewal Plan with a number of station refurbishments. Refurbishment has commenced at five stations on the Airport line, including Callerton Parkway, Bank Foot, Kingston Park, Fawdon and Wansbeck Road and works will commence in November at Monkseaton, West Monkseaton and Cullercoats stations.

### **1.3 Developing NECA Transport Strategies**

- 1.31 NECA Transport Plan

## **Leadership Board**

- Work on the NECA Transport Plan continues. Member approval of the Transport Plan will be sought before any public consultation takes place
- 1.32 NECA Cycling and Walking Strategy and Implementation Plan
- Progress continues in developing a ten year NECA Cycling and Walking Strategy and a five year Implementation Plan for the area and is on course for presenting a final draft to TNEC in February 2018 for approval.
- 1.33 NECA Bus Strategy
- Working groups, comprising of bus operators, NECA local authorities and Nexus continue to meet, pulling together key information and data to help inform the production of a first draft.
  - Detailed guidance with respect to the Bus Services Act which received Royal Assent in April 2017 is expected to be released by the end of the year.
- 1.4 Improving public transport ticketing for young people**
- 1.41 A Task and Finish group was established earlier this year to consider ways to improve public transport fares for young people, with a vision to “develop a more consistent and attractive ticketing offer for young people travelling by bus across the NECA area”. Young people have frequently highlighted concerns regarding cost and availability of discounted tickets for young people. Further, the Overview and Scrutiny Committee policy review on transport related barriers to education, employment and training, found that “transport barriers are most acute for young people”.
- 1.42 Through the work of the Task and Finish group, commercial bus operators Arriva and Stagecoach introduced improved ticketing for young people from September 2017. This now means that all young people aged up to 19 can access some form of discounted ticket across all major bus operators in the NECA area, as Go North East already offered such a ticket from September 2016.
- 1.43 Currently on the Metro, discounted single and day tickets are offered for young people, but only for those aged 16 and under. Nexus is taking forward a proposal to November 2017 Tyne and Wear Sub Committee to offer discounted single and return tickets for all those aged up to 19 and if approved by the Committee, will be introduced in January 2018.
- 1.5 Air Quality**
- 1.51 Three authorities in the NECA region, Newcastle, North Tyneside and Gateshead Councils, are subject to a Direction from the UK Government to set out a Plan by December 2018 showing how they will reduce Nitrogen Dioxide concentrations below the statutory limit (40 micrograms per cubic metre) in the shortest possible time. Intensive work is taking place to develop a Proposal for a Feasibility Study

## **Leadership Board**

that will assess what additional data is necessary and what possible measures might be undertaken to meet these objectives.

- 1.52 At the same time, and in conjunction with this work, a NECA-wide air quality strategy is being developed to examine region-wide interventions that would enhance air quality across the whole NECA footprint with particular benefit for those areas with the most severe air quality issues.

### **1.6 Electric Vehicles**

- 1.61 Electric Vehicles could play a key role in helping to tackle poor air quality. The NECA area was successful in securing grant funding to deliver two Electric Vehicle Filling Stations, including one in Newcastle that will be owned by the University of Newcastle and one in Sunderland which will be owned by NECA. These will be complemented by up to eight rapid electric vehicle chargers.
- 1.62 A tender exercise in order to procure an operator for the filling stations was put out to the market in October with the expectation that a contract will be awarded by the end of the calendar year. In addition, further work has been undertaken to identify the best locations of the rapid electric vehicle chargers and it is expected that a contractor will be appointed in early 2018.
- 1.63 Work is also on-going with local authorities to construct a model for the management, operation and enhancement of the existing portfolio of charging posts to improve the offer customers and compliment the upcoming rapid charging installations.
- 1.64 On the 19<sup>th</sup> October, the region welcomed delegates from across the country to the GreenFleet North East event. Hosted by former Top Gear presenter Quentin Wilson, the aim of the event was to help the region's fleet operator's develop a deeper understanding of the low emission and electric vehicle market and the role such vehicles could play in fleets. The event received positive feedback from delegates, with NECA considering the possibility of hosting a follow up event in partnership with GreenFleet.

### **1.7 Digital Connectivity Update**

- 1.71 The North East Digital Leads group are making significant progress with their work to position the region as a 5G Connectivity trailblazer and to sustain and grow the region's competitiveness in the Digital Economy. Appointments have been made to the positions of Project Director – 5G and Project Manager - 5G, who will be engaging with the private sector and leading the response to DDCMS in relation to the introduction of 5G Testbeds and trials.
- 1.72 The Annual Conference of the Independent Network Cooperative Association (INCA), the trade body for Independent Network providers (smaller organisations

## **Leadership Board**

who compete with BT Openreach and Virgin) will take place at the Hilton, Gateshead in November. This will be an opportunity to share the region's ambitions with key players in the industry. Matt Hancock, Minister of State for Digital, will be in attendance.

### **2. Proposals**

2.1 This report is for information purposes only. Therefore, no proposals are contained in this report.

### **3. Reasons for the Proposals**

3.1 This report is for information purposes only.

### **4. Alternative Options Available**

4.1 Not applicable to this report.

### **5. Next Steps and Timetable for Implementation**

5.1 Development of the Transport Plan and NECA Cycling and Walking Strategy will continue, with further opportunities for members to scrutinise the process through various forums. A draft TfN Strategic Transport Plan is expected before the end of the year. Nexus will continue to work with the DfT and Ministers to define the type of funding for a new fleet of Metrocars. The NECA area has seen some success in improving public transport ticketing for young people, but further work in this area is required.

### **6. Potential Impact on Objectives**

6.1 Successful delivery of the various transport and digital connectivity schemes and investment proposals outlined in this document will assist the Combined Authority in delivering its objective to maximise the area's opportunities and potential.

### **7. Financial and Other Resources Implications**

7.1 The report includes information on funding and financial opportunities. There are no specific additional financial implications for NECA arising from this report.

7.2 There are no Human Resource or ICT implications.

### **8. Legal Implications**

8.1 There are no specific legal implications arising from this report.



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### **9. Key Risks**

- 9.1 Risk of work streams not progressing in a timely manner may impact upon the region's ability to achieve its aspirations for improving transport.

### **10. Equality and Diversity**

- 10.1 There are no specific equalities and diversity implications arising from this report.

### **11. Crime and Disorder**

- 11.1 There are no specific crime and disorder implications arising from this report.

### **12. Consultation/Engagement**

- 12.1 Many of the transport programmes outlined in this report have been the subject of consultation, at either a regional or national level.

### **13. Other Impact of the Proposals**

- 13.1 No specific impacts

### **14. Appendices**

- 14.1 None

### **15. Background Papers**

- 15.1 Not applicable

### **16. Contact Officers**

- 16.1 Tobyn Hughes, Managing Director (Transport Operations)  
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### **17. Sign off**

- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

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## Leadership Board

**Date:** 21 November 2017

**Subject:** Draft Budget 2018/19 and Transport Levies

**Report of:** Head of Paid Service and Chief Finance Officer

### Executive Summary

The purpose of this report is to set out the key budget issues, principles and proposals that are likely to be included in the 2018/19 budget report for the North East Combined Authority, which will be presented for consideration by the Leadership Board on the 16<sup>th</sup> January 2018.

### Recommendations

The Leadership Board is recommended to:

- i. Receive this report for consideration and comment;
- ii. Agree the budget approach of setting out a detailed revenue budget for 2018/19 as another transitional year, while the future role and responsibilities of NECA are clarified. This will take into account the need to meet the statutory responsibilities of NECA that will continue in 2018/19 as well as the need to achieve savings to help constituent authorities deal with reductions in their transport funding as part of continuing Government austerity measures. Indicative transport budgets will be set out over a three year period, where it is possible to do so;
- iii. Agree the following proposals for the basis of consultation about the NECA 2018/19 Revenue Budget:
  - a. The Transport Budget for Tyne and Wear is indicatively proposed to be set at £61.800m which is a further reduction of £1.240m (1.97%) compared with the budget for 2017/18. The budget savings needed to deliver this are expected to be made in 2018/19 without any significant impact on transport services, through efficiencies and temporary use of Nexus reserves.

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- b. The indicative Transport Budget and Levy for the Durham County Council area is expected to be £15.690m, which is a small net increase of £0.208m (1.3%). No significant reductions in services are envisaged for 2018/19.
  - c. The indicative Transport Budget and Levy for the Northumberland County Council area is expected to be £6.199m, which is a small net decrease of £0.023m. No significant reductions in services are envisaged for 2018/19.
  - d. The £250k contribution towards the North East LEP, which is required to match fund government grant, is proposed to be continued in 2018/19.
  - e. NECA will need to maintain sufficient capacity to meet its statutory requirements. It is proposed that the level of corporate contributions from the constituent authorities is maintained at £300k.
  - f. The contribution to the Invest North East England team is subject to discussion with constituent councils and the North East LEP. The current council contributions of £140k are proposed to be maintained for 2018/19, as part of an overall budget of at least £461k.
  - g. The North East LEP budget is being prepared to reflect its responsibilities and the estimated available resources for 2018/19. A draft budget has been prepared and more detailed information will be included in the January Leadership Board report.
  - h. NECA will need to set out a balanced budget for 2018/19, maintaining a sufficient but minimal level of reserves to managed risk and will set out a treasury management strategy for borrowing and lending which will comply with the Prudential Code.
- iv. Agree the following in relation to the tolls on the Tyne Tunnels:
- a. Approve the increase in tolls for class 3 vehicles from £3.30 to £3.40 to take effect during February 2018, as set out in section 2.1.17 to 2.1.20, with tolls for class 2 vehicles (cars) being maintained at £1.70;
  - b. Approve the continuation of the 10% discount for permit holders as set out in section 2.1.20;
  - c. Authorise the Monitoring Officer to publish the relevant notices and submit the necessary documentation to the Secretary of State, as prescribed in the River Tyne (Tunnels) (Modification) Order 2011.

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- v. Agree that this report, which has already been circulated to start a two month budget consultation period, be updated to reflect any changes agreed at this Board meeting and be re-circulated as part of the budget consultation.

## **Leadership Board**

### **1. Background Information**

#### **Policy Context**

- 1.1 The Leadership Board have made clear the importance of a policy led budget, within the context of the national programme of austerity measures, to underpin the delivery of the NECA's policy priorities including its Transport responsibilities and the delivery of the Strategic Economic Plan (SEP).
- 1.2 The capital and revenue resources of NECA and North East LEP will be targeted to achieve the priorities set out in the SEP and the transport levies that NECA will set will help meet the statutory Transport responsibilities of the NECA, which can also contribute to priorities in the SEP.
- 1.3 NECA has agreed three broad policy priority areas:
- Transport
  - Employability and Inclusion
  - Economic Development and Regeneration
- 1.4 In March 2017, North East LEP published its refreshed Strategic Economic Plan for the North East, detailing how it will deliver 100,000 more and better jobs into the North East economy by 2024. This was a refresh of the original SEP published in 2014, which takes into account the changing economic climate and the UK's decision to leave the European Union, reflecting on new evidence relating to the region's economic position and evolving public policy environment.
- 1.5 The revenue budget and capital programme of NECA will contribute to the achievement of these objectives.
- 1.6 Ongoing discussions between the North of Tyne constituent authorities and government regarding a potential devolution agreement for the northern part of the NECA area could have an impact on the scope of responsibilities of NECA next year. The NECA budget for 2018/19 is being prepared on the basis of the assumption that it will be NECA, in the absence of any other legally recognised body, which will be required to set the budget and transport levies for 2018/19 by 15 February 2018, in line with the Transport Levying Bodies regulations.

#### **Background information – budget process**

- 1.7 Levying Bodies regulations require Transport Authorities to set their budget and levies by 15<sup>th</sup> February preceding the financial year to which they apply. Traditionally, levies for this region have been set in January to ensure that this statutory deadline is met, but also to give constituent councils information about the transport levies as early as possible to enable them to reflect the confirmed figures in their budgets. As well as transport levies, the budget in January will set out any contributions from constituent councils to meeting the non-transport costs of the

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Authority and will set out information about the capital programme for NECA and how it will be funded.

- 1.8 As the accountable body for the North East LEP, the budget will include information about the funds available to North East LEP and its proposed budget for 2018/19, which will be agreed by the LEP Board. The budget will need to reflect decisions about the level of government grant available to support LEP costs as well as the guidance and resource requirements needed to meet grant conditions.
- 1.9 It is good practice for all organisations to develop a Medium Term Financial Strategy (MTFS) and it would be preferable to develop the 2018/19 budget for NECA in the context of as much information as possible over a three to five year Medium Term Plan period. In recent years the transitional position of NECA itself has not made this possible and this continues to be the case for 2018/19, although areas of the budget such as Nexus are planning across a longer period.
- 1.10 The constitution of NECA requires an early consultation on budget proposals, giving at least two months for the consultation process to be completed. The circulation of this report on the 14<sup>th</sup> November will start the consultation process, which will include consideration of the budget report by the Overview and Scrutiny Committee, Transport North East Committee, the seven constituent councils, consideration by North East LEP and a consultation with the North East England Chamber of Commerce.
- 1.11 The timetable for developing the 2018/19 revenue budget and capital programme is tight, and involves a number of steps for discussion, consultation and development of the budget. Initial technical briefings and discussions on the budget process and timetable have taken place with Chief Executives, Directors of Finance, Economic Directors and Transport Officers and this has resulted in the high level proposals for 2018/19 set out in this report. Further details will be developed and fine-tuned in partnership with North East LEP, councils and delivery organisations over the next few weeks. This additional detailed work and the feedback from consultation will be reflected in a detailed 2018/19 budget report for consideration in January 2018.

## **2. Proposals**

### **2.1 Transport Revenue Budgets and Levies for 2018/19**

- 2.1.1 The overall total proposed net revenue budget for transport in 2018/19 is currently estimated to be £83.690m, which is an overall reduction of £1.054m (-1.2%) on the current year. Information about the draft budget and the levy for each of the three areas in NECA is summarised in the table overleaf and sets out in more detail in the following sections. Three separate transport levies are required by NECA, because the cost per head of population of delivering transport services varies greatly between Durham, Northumberland and Tyne and Wear due to their very different geographies and demographics.

## Leadership Board

This reflects higher concessionary travel usage (including Metro) in the urban areas of Tyne and Wear and other transport costs e.g. the cross-Tyne ferry as well as pensions and capital financing costs which are not included in the levies in Durham and Northumberland.

Area	Transport Budget and Levy	Change from 2017/18	Levy per Person
	£	£	£/person
Durham	15,690,493	208,069	£30.04
Northumberland	6,199,460	(22,280)	£19.62
Tyne and Wear	61,800,000	(1,240,000)	£54.75
<b>Total</b>	<b>83,689,953</b>	<b>(1,054,211)</b>	

### Durham County Council

- 2.1.2 The budget and levy for public transport activity in Durham is £15.685m and £15.690m respectively for 2018/19. This compares with a budget of £15.482m for 2017/18. The budget and levy for 2018/19 is summarised in the table below.

	Gross Expenditure £	Gross Income £	Net Expenditure £
Concessionary Fares	11,949,130	(9,500)	11,939,630
Subsidised Bus Services	4,656,971	(1,806,551)	2,850,420
Bus Stations	457,791	(314,211)	143,580
Bus Shelters	31,350	(12,120)	19,230
PT Information	184,440	(95,514)	88,926
Staffing	643,707		643,707
<b>Total Grant</b>	<b>17,923,389</b>	<b>(2,237,896)</b>	<b>15,685,493</b>
Share of NECA Transport Costs	5,000	0	5,000
<b>Transport Levy</b>	<b>17,928,389</b>	<b>(2,237,896)</b>	<b>15,690,493</b>

- 2.1.3 The net budget for 2018/19 is comparable with 2017/18 with minor changes in relation to an increase in payments for concessionary fares and an estimated 1% pay award.

### Northumberland County Council

- 2.1.4 The budget and levy for public transport activity in Northumberland is £6.194m and £6.199m respectively for 2018/19. This compares with a budget of £6.222m for 2017/18. The budget and levy for 2018/19 is summarised in the table below.



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	<b>Gross Expenditure £</b>	<b>Gross Income £</b>	<b>Net Expenditure £</b>
Concessionary Fares	4,734,940	(12,940)	4,722,000
Subsidised Bus Services	1,826,740	(546,340)	1,280,400
Bus Stations	23,000	0	23,000
PT Information	25,000	0	25,000
Staffing	144,060	0	144,060
<b>Total Grant</b>	<b>6,753,740</b>	<b>(559,280)</b>	<b>6,194,460</b>
Share of NECA Transport Costs	5,000	0	5,000
<b>Transport Levy</b>	<b>6,758,740</b>	<b>(559,280)</b>	<b>6,199,460</b>

- 2.1.5 The net budget for 2018/19 is comparable with 2017/18 with minor changes on staffing due to vacancies and an analysis of time spent on combined authority activities. The budget for Bus Services is unchanged to its current level with no significant investment in the county's bus stations planned for 2018/19. The budgets assume a 1% and that the grant received in respect of Bus Service Operators Grant will remain unchanged.

### Tyne and Wear

- 2.1.6 Figures for the Tyne and Wear levy have been considered by the Tyne and Wear Transport Sub-Committee and have been prepared on the basis of the potential 2018/19 figures discussed by the Leadership Board when it set the 2017/18 budget at its January 2017 meeting. This involved a proportionate saving for constituent authorities in line with their reduction in spending power (excluding the social care precept increase). In headline terms this would involve a cash saving to constituent councils of £1.240m in 2018/19 and an additional saving of £0.590m in 2019/20, on top of the £2.080m (-3.2%) reduction applied in 2017/18.
- 2.1.7 The distribution of the levy within Tyne and Wear is based on population, and the amounts levied on each indicial authority will reflect changes in the population as well as the reduction in the overall total. The proposed levy for 2018/19 for each of the Tyne and Wear councils is shown below.

<b>Council</b>	<b>Population (2016 Mid Year Estimates)</b>	<b>2018/19 Proposed Levy</b>	<b>Saving compared to 2017/18</b>
		<b>£</b>	<b>£</b>
Gateshead	201,592	11,037,261	(253,824)
Newcastle	296,478	16,232,316	(220,583)
North Tyneside	203,307	11,131,158	(244,078)
South Tyneside	149,418	8,180,709	(170,984)
Sunderland	277,962	15,218,556	(350,531)
<b>Total</b>	<b>1,128,757</b>	<b>61,800,000</b>	<b>(1,240,000)</b>

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- 2.1.8 This reduction would bring the overall annual transport levy reduction since 2011 to £11.992m (or 16.3%), which has largely been achieved through efficiency savings and temporary use of reserves, whilst protecting service outcomes to date. This level of saving while protecting service outcomes is a significant achievement, particularly in the light of the cost pressures in respect of concessionary travel, and outcomes in other regions around the country where there have been some significant cuts in services.
- 2.1.9 Proposals for the Nexus budget are set out in detail for consideration by the Tyne and Wear Sub-Committee as part of their agenda. Nexus has considered its spending plans for 2018/19, assuming that the budget was being set at a 'stand-still' i.e. if it were to maintain service outcomes whilst absorbing pay and price inflation as well as a further reduction in the grant it receives from the NECA via the levy. Estimates illustrate that a £1.2m reduction in the NECA grant will result in a shortfall in Nexus' budget of £2.0m (central case) and between £1.7m and £3.7m depending on whether a pessimistic or optimistic position on cost pressures is adopted. This approach has been taken due to a number of uncertainties affecting areas of the Nexus budget including the public sector pay cap, Metro fare revenue and the transition from outsourced arrangements for Metro to in-house provision.
- 2.1.10 As at 31 March 2017, Nexus' revenue reserves amounted to £15.5m. This is in addition to its capital reserves, earmarked for investment in capital projects, the most notable amount being the £15.0m earmarked to provide a local contribution for the new Metrocar fleet. Total capital reserves amounted to £28.2m as at 31 March 2017. It is therefore apparent that Nexus has options to cushion the impact of any grant reductions from the NECA during 2018/19 and possibly 2019/20, although Nexus' ability to continue absorbing the kind of cost pressures it has faced in the past diminishes over time.
- 2.1.11 The proposed allocation of the Tyne and Wear Levy between the grant to Nexus and the non-Nexus Tyne and Wear Transport budget is set out in the table below:

	2017/18	2018/19	Change
	£	£	£
Levy budget (non-Nexus)	2,150,000	2,140,000	(10,000)
Grant to Nexus	60,890,000	59,660,000	(1,230,000)
<b>Total Levy</b>	<b>63,040,000</b>	<b>61,800,000</b>	<b>(1,240,000)</b>

2.1.12 **Tyne and Wear Levy budget (non-Nexus)**

This budget primarily relates to activity inherited from the former Tyne and Wear ITA along with central transport activity funded by the levy. The vast majority (83%) relates to financing charges on historic debt. Additionally, there is budget provision to pay for support services, other supplies and services, independent members allowances, the external audit fee and a repayment to the Tyne Tunnels for use of reserves in 2013/14 to pay off the pension deficit.

## Leadership Board

- 2.1.13 The Tyne and Wear (former ITA) Transport Revenue reserves are estimated to be £0.298m at the year end as a result of a largely breakeven forecast for the year. The indicative budget for 2018/19 has been prepared on a steady state basis, with some minor reductions in capital financing costs, and is summarised in the table below.

<b>NECA Tyne and Wear Transport Costs</b>	<b>2017/18 Revised Estimate</b>	<b>2018/19 Original Estimate</b>	<b>Change</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Support services	210	220	10
Administration and governance	42	42	-
Capital Financing Costs	1,775	1,752	(23)
Contingency	110	110	-
<b>Total Spending</b>	<b>2,137</b>	<b>2,124</b>	<b>(13)</b>
Use of Transport Reserve	(13)	(16)	3
<b>Contribution from Levy</b>	<b>(2,150)</b>	<b>(2,140)</b>	<b>(10)</b>

### Tyne Tunnels

- 2.1.14 The Tyne Tunnels are accounted for as a ringfenced trading account within the accounts of NECA, meaning that it is wholly funded from the tolls and Tyne Tunnels reserves, with no call on the levy or government funding at all.

- 2.1.15

The indicative budget for 2018/19 is set out in the table below:	<b>2017/18 Revised Estimate</b>	<b>2018/19 Estimate</b>	<b>Change</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Tolls Income	(26,296)	(25,970)	326
Contract payments to TT2	19,288	19,480	192
Employees	2	33	31
Pensions	54	54	-
Support Services	120	80	(40)
Supplies and Services	35	35	-
Community Fund	10	10	-
Financing Charges	6,996	6,579	(417)
Interest/Other Income	(50)	(50)	-
Repayment from TWITA reserves	(240)	(240)	-
<b>Contribution (to)/from reserves</b>	<b>(81)</b>	<b>11</b>	<b>92</b>

## Leadership Board

Further reductions in the tolls income for 2018/19 are forecast due to the continuing impact of the Silverlink works, which began in August 2016, and has been affecting traffic flows during the current financial year. Traffic levels are forecast to improve during 2019/20.

- 2.1.16 The overall forecast position for 2018/19 is a small deficit of £11k, which would be met from the Tyne Tunnels reserves.

### Tyne Tunnels Tolls – proposed increase

- 2.1.17 The first 'Concession Toll' was implemented on 1 January 2014, at a level of £1.60 for cars and £3.20 for HGVs with a 10% discount for permit holders. After that date, the Concession Toll could be adjusted by an amount to reflect actual Retail Price Index (RPI) figures over time. The first such increase was implemented in May 2016 when the toll for cars (class 2 vehicles) was raised to £1.70 and the toll for HGVs (class 3 vehicles) was raised to £3.30. Payments to the concessionaire TT2 automatically rise with RPI inflation and the financial model for the Tunnels assume that tolls will be maintained in real terms, rising periodically in line with RPI increases.
- 2.1.18 Levels of inflation (measured by RPI in accordance with the Order) are now such that an increase in the toll for HGVs is possible and necessary to finance the tunnels in line with the tunnel financing arrangements, but an increase in the toll for cars has not yet been triggered.
- 2.1.19 The proposal is to maintain the tolls at £1.70 for class 2 vehicles and implement an increase to £3.40 for class 3 vehicles, from a proposed implementation date in February 2018, which should enable the necessary process to be followed with the Secretary of State, in line with the Order, following approval by the Leadership Board. This restores the 2:1 ratio between class 2 and class 3 tolls.
- 2.1.20 It is proposed that the toll structure be set or maintained as follows:

Vehicle Class	Toll	Description
1	FREE (no change)	Motorcycles
2	£1.70 (no change)	Motor vehicles (Cars), 2 axles and height 2m or less; Motor vehicles (Cars/Vans) 2 axles and height less than 3m; Articulated motor vehicles with tractor 2m or less and trailer less than 3m
3	£3.40 (£0.10 increase)	Motor vehicle 2 or more axles and height 3m or more

Permits are available for all classifications and subject to 10% discount (no change is proposed to the percentage discount).

## Leadership Board

- 2.1.21 The Order prescribes the process to effect an increase in the tolls at the Tyne Tunnels. Following a decision to increase the tolls, the Authority is required to publish, in at least one local newspaper circulating in the area, a notice substantially in the form set out in the Order. Following publication of the notices, the Authority is required to submit to the Secretary of State:
- a) Details of the decision taken to increase the toll – report and minutes; and
  - b) Evidence that the public has been informed of the decision by notice in the local press.
- 2.1.22 Upon receipt of this information, the Secretary of State has 21 days to make an order revising the tolls, subject to being satisfied that the Authority has correctly adhered to the provisions of the Order. The tolls revision order will come into force 28 days thereafter.
- 2.1.23 Having made such an Order revising the toll, the Order precludes the making of another such tolls revision order within 12 months.

### Regional Transport Team

- 2.1.24 The Regional Transport Team budget is to support NECA and North East LEP as a whole, on a seven authority wide basis. The budget includes salary costs and the items required to ensure a functional central resource across the NECA area including the development of the new NECA Transport Manifesto and Plan and various research projects where value can be added at a NECA level including modelling works, major schemes bid development, the Freight Quality Partnership and NECA based studies.
- 2.1.25 The table below provides a summary of the 2017/18 budget and the forecast expenditure for 2017/18 and then the indicative budget for 2018/19, a more detailed report on which was discussed with the Heads of Transport group at their meeting in September 2017 when they agreed it could be put forward as the proposal for 2018/19.

	<b>2017/18 Budget £</b>	<b>2017/18 Forecast £</b>	<b>2018/19 Proposed Budget £</b>
Staffing	554,550	401,247	516,125
LTP4 Development	55,000	25,000	50,000
Research and Development (including LGF business case assessments)	285,000	450,503	199,000
Miscellaneous (e.g. Travel & meetings)	7,500	10,500	6,000

## Leadership Board

Go Smarter Legacy (e.g. funding bids)	-	-	200,000
	<b>902,050</b>	<b>887,250</b>	<b>971,125</b>
Funded by:			
NECA Integrated Transport Block	(500,000)	(500,000)	(500,000)
LGF Programme Management	(200,000)	(300,000)	(150,000)
Go Smarter Legacy Funding	-	-	(200,000)
Prior Year balances carried forward	(202,050)	(87,250)	(121,125)
	<b>(902,050)</b>	<b>(887,250)</b>	<b>(971,125)</b>

2.1.26 The proposed budget for staffing is based on a full establishment, whereas a significant number of vacancies, including the Head of Regional Transport, have been carried by this team during 2017/18, hence the lower forecast expenditure.

## 2.2 Economic Development and North East LEP capacity

2.2.1 The North East LEP core team is part funded from a Government contribution, which is required to be matched by a contribution from the NECA constituent authorities. It is proposed that the current match funding contribution of £250,000 will continue to be provided in 2018/19, and this is funded by equal contributions of £35,714 from the seven constituent local authorities. Part of the LEP costs of managing the LGF Programme are funded by a top slice from the LGF grant for this purpose, and the LEP budget is being prepared to take into account the latest estimates of this and other external grant funding which supports LEP activity.

2.2.2 In the 2017/18 budget a provision of £25,000 to support the work relating to each of the Skills and the EDRAW portfolios was approved, to be funded from interest receipts. The need to continue this provision will be reviewed taking into account the estimated costs claimed against these budgets, as part of the preparation of the detailed budget report for January.

## 2.3 Inward Investment

2.3.1 In recent years an Inward Investment Team has been established to help coordinate Inward Investment Activity across the NECA area. The Team was increased to three people this year, with a gross budget of £460k. This was funded in part from a contribution of £20,000 from each authority and this £140,000 was matched by funding from the LEP, other one off funds and contributions from Enterprise Zone surpluses for activity supporting and promoting Enterprise Zones. Options for the level of activity and funding for 2018/19 are currently being discussed with the constituent councils and the North East LEP and a specific proposal will be included in the January report on detailed budget proposals for 2018/19.

## **Leadership Board**

The two main options are to continue the current operation and funding at c£461k, or to continue the increased proactive activity of the team and to increase the activity of lead generation from London, with the potential to increase the Budget up to £638k. At this time it is proposed that funding continues the current operation at a level of £461k.

### **2.4 NECA Corporate Costs**

2.4.1 The NECA budget for Corporate Costs in 2017/18 was £360,000, which was part funded by council contributions of £300,000, on an equal shares basis of £42,857 per authority, the same as in the previous year. The balance was to be funded by interest on revenue balances and treasury management cash flow activity.

2.4.2 The main areas of cost relate to support costs in relation to the Head of Paid Service, Monitoring Officer and legal costs, Chief Finance Officer and Finance costs, HR Support, Internal and External Audit, support for the Scrutiny function and NECA policy, administration and co-ordination costs and other operating costs. It is important that the NECA is able to fulfil its statutory and corporate functions effectively and that reasonable costs are funded appropriately. This need for adequate corporate capacity has been raised as an issue by Governance Committee.

2.4.3 The corporate costs include activity relating to the accountable body of the LEP and a recent Government report requires additional assurance from the Chief Finance Officer in respect of the Local Growth Fund programme. The Chief Finance Officer is also involved in the national Fair Funding review and there is a need for the Monitoring Officer and legal support to complete transitional corporate activities. The current budget is considered to be at the minimum level necessary. It is proposed that the current council contributions amounting to £300,000 be continued for 2018/19 on an equal shares basis of £42,857 per authority, with interest receipts and a planned use of reserves if this is necessary to fund corporate costs.

2.4.4 Any changes that may be needed as a result of a devolution deal can if necessary be reflected in year end adjustments or an adjustment in the following year.

### **2.5 Fees and Charges**

2.5.1 The main fees and charges that feature as part of the NECA and Nexus budget relate to Metro Fares, the Gold Card for concessionary Travel on Metro and the Tyne Tunnel Tolls.

2.5.2 The Tyne and Wear Transport Sub-Committee will meet on 16 November and a report on Metro Fares is recommending proposals that would freeze Child single ticket prices, Pay as You Go fares and the price of the Gold Card; introduce a



## **Leadership Board**

new cheaper £1 single and £2 capped daily Metro under 19 Pay as You Go ticket; with other fares increased by a minimum of 10p or RPI inflation. The changes would, if approved, be implemented from 2 January 2018 and would maintain the Metro Fare Income budget broadly in line with its current level.

- 2.5.3 An increase in the Tyne Tunnels tolls for class 3 vehicles (HGVs) is proposed in line with inflation, which is set out in detail in sections 2.1.17 to 2.1.20.

### **2.6 Reserves and Contingencies**

The General Corporate Reserve of NECA was originally set at a relatively low level of £350k for 2014/15. After use of reserves in 2014/15 and 2015/16 this fell to £208k at the end of 2015/16. The general reserve increased slightly during 2016/17 to stand at £283k at 31 March 2017. The required level of the Corporate Reserve will be reassessed based upon a risk analysis taking into account risks and the resources available to meet corporate costs next year and included in the January Budget report. There is a Tyne and Wear transport reserve of £475k and a substantial financing reserve earmarked for the Tyne Tunnels. At this stage reserves are considered to be at an adequate level to manage financial risks.

### **3. Reasons for the Proposals**

- 3.1 NECA is required to consult on its budget proposals two months before it determines its budget in January 2018.

### **4. Alternative Options Available**

- 4.1 The Leadership Board can agree the proposals set out in this report or suggest amendments or alternative proposals to be considered as part of the budget consultation process.

### **5. Next Steps and Timetable for Implementation**

- 5.1 The budget proposals will be consulted upon with constituent councils, Overview and Scrutiny Committee, Governance Committee and with the North East England Chamber of Commerce.
- 5.2 The draft LEP Budget will be developed and considered by the LEP.
- 5.3 Detailed budget proposals will be developed and responses to consultation will be taken into account in preparing the more detailed report to the January Leadership Board.



## **Leadership Board**

### **6. Potential Impact on Objectives**

- 6.1 The budget proposals aim to help achieve the objectives of NECA and the Strategic Economic Plan.

### **7. Financial and Other Resources Implications**

- 7.1 The financial and other resource implications are summarised in this report where they are known. Further details which are developed as part of the consultation process will be identified in the budget report to the 16 January 2018 Leadership Board meeting.

### **8. Legal Implications**

- 8.1 The NECA is required by virtue of the Transport Levying Bodies Regulations 1992 to issue the transport levy before the 15 February preceding the commencement of the financial year in respect of which it is issued.

- 8.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA Constitution, at least 2 months before the calculations on the revenue budget and transport levy are required to be finalised, the Leadership Board will produce initial outline proposals to the NECA's Overview and Scrutiny Committee who can, after considering the consultation proposals and timetable, make appropriate recommendations to the Leadership Board. This report is being circulated in advance of the meeting in order to meet this two month requirement and will be amended as necessary to reflect any changes agreed at the Leadership Board meeting.

- 8.3 The Leadership Board must approve the final overall budget proposals unanimously.

### **9. Key Risks**

- 9.1 Appropriate risk management arrangements will be put in place and reported as part of the budget report in January. Key issues to consider will be the level of reserves held and the borrowing and lending criteria applied by the Authority.

### **10. Equality and Diversity**

- 10.1 There are no equality and diversity implications directly arising from this report.

### **11. Crime and Disorder**

- 11.1 There are no crime and disorder implications directly arising from this report.

## **Leadership Board**

### **12. Consultation/Engagement**

12.1 The NECA constitution requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed. It is proposed that the 2018/19 base budget proposals be reported to the Leadership Board on 21 November to start a consultation process, which will include the Overview and Scrutiny Committee, Governance Committee, councils and the North East England Chamber of Commerce.

12.2 The North East LEP will be considering and developing its budget from November to January. Consultation on any specific Transport proposals with service impacts in Durham, Northumberland and Tyne and Wear will be undertaken by individual councils / delivery organisations.

### **13. Other Impact of the Proposals**

13.1 There are no other impacts arising from this report.

### **14. Appendices**

14.1 None.

### **15. Background Papers**

- Budget 2017/18 and Transport Levies - report to the Leadership Board 17<sup>th</sup> January 2017
- Budget Process and Timetable 2018/19 - report to the Leadership Board 19<sup>th</sup> September 2017
- Revision to Metro and Ferry Fares 2018, report to Transport North East (Tyne and Wear) Sub-Committee 16<sup>th</sup> November 2017

### **16. Contact Officers**

16.1 Paul Woods, Chief Finance Officer, [paul.woods@northeastca.gov.uk](mailto:paul.woods@northeastca.gov.uk), 07446936840

### **17. Sign off**

- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

## Leadership Board

### 18. Glossary

**Balances** The total level of surplus funds the Authority has accumulated over the years.

**Budgets** A statement of the Authority's forecast expenditure, that is, net revenue expenditure for the year.

**Enterprise Zones (EZ)** An area in which state incentives such as tax concessions are offered to encourage business investment

**Local Growth Fund (LGF)** Funding provided to local enterprise partnerships or LEPs (partnerships between local authorities and businesses) for projects that benefit the local area and economy.

**North East Local Enterprise Partnership** A business-led, strategic partnership, made up of eighteen representatives from across the private, public and education sectors, responsible for promoting and developing economic growth. Each of the Leaders and the Elected Mayor from our seven local authority areas are members of the North East Local Enterprise Partnership Board.

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## **Leadership Board**

**Date:** 21 November 2017

**Subject:** Treasury Management 2017/18 Mid-Year Review

**Report of:** Chief Finance Officer

### **Executive Summary**

The purpose of this report is to provide a summary of treasury management activity during 2017/18. The activity is in line with the original budget for the year and no changes to the strategy are proposed as part of this mid-year review.

### **Recommendations**

The Leadership Board is recommended to:

- a. Note the investment criteria and limits set out in section 2.10
- b. Note the updated 2017/18 prudential indicators set out in section 2.11.

## Leadership Board

### 1. Background Information

- 1.1 In line with the CIPFA Code of Practice on Treasury Management in the Public Services, the Authority is required to approve a treasury management strategy (including a range of prudential indicators) before the start of each financial year and to monitor/report performance against these prudential indicators during the year (with a mid-year review).

### 2. Proposals

#### 2.1 Borrowing

External interest rates payable in the first five months of 2017/18 were at the level assumed in the treasury management strategy, with a weighted average rate of 4.3%. All borrowing currently relates to Transport activity in Tyne and Wear (borrowing taken out by the Tyne and Wear Integrated Transport Authority) and the costs of this borrowing are charged to the Tyne and Wear Transport levy budget, the Tyne Tunnels budget and the Nexus budget as appropriate.

- 2.2 No new loans have been taken out during the year or are anticipated. The table below shows the movement between the opening and closing level of external loans during 2017/18. External loans were £168m at 1 October, which is well within the NECA authorised borrowing limit of £240m.

**Table 1: Movement in external loans 2017/18**

	<b>Actual</b>	<b>Authorised Limit</b>
	<b>£m</b>	<b>£m</b>
<b>Level of external loan principal at 1 April 2017</b>	<b>168.333</b>	<b>240.000</b>
New loans taken out during 2017/18	-	-
Scheduled repayments during 2017/18	0.333	-
Early repayment of borrowing during 2017/18	-	-
<b>Level of external loan principal at 1 October 2017</b>	<b>168.000</b>	<b>240.000</b>

- 2.3 As can be seen from the above table, the overall level of borrowing has decreased to £168m in the first six months of the year. This is due to regular repayments on Equal Instalment of Principal (EIP) loans. This level of borrowing is well under the authorised limit for the year, as the Authority has used internal funds in place of external borrowing to part fund its capital financing requirement. The authorised limit has been retained at a consistent level despite repayment of external borrowing, to allow the flexibility to undertake external borrowing if required.

## Leadership Board

- 2.4 The Authority strives to minimise the interest rate risk it faces and maintain stability by seeking to maintain an appropriate debt maturity profile (i.e. the profile of when external loans need to be repaid), which is shown in Table 2 below.

**Table 2: External Debt Maturity Profile**

<b>Loans repayable:</b>	<b>01/04/2017 (actual) £m</b>	<b>01/10/2017 (actual) £m</b>	<b>31/03/2018 (estimate) £m</b>
In less than one year	0.667	0.333	0.667
Between one and two years	0.667	0.667	0.667
Between two and five years	2.000	2.000	2.000
Between five and ten years	3.333	3.333	2.333
In more than ten years	161.667	161.667	161.000
<b>Total</b>	<b>168.333</b>	<b>168.000</b>	<b>167.667</b>

- 2.5 As can be seen from the above table, the profile is weighted heavily towards long-term borrowing. This is because most of the borrowing relates to the New Tyne Crossing Project, where long-term borrowing was preferable to provide certainty of payments to enable accurate financial modelling over the period of the operating concession. As short-term loans have matured, they have not been replaced.
- 2.6 The current average rate of external interest payable (i.e. 4.3%) is in line with the assumptions made when the 2017/18 budget was set and total external interest charges to the year-end will be within budget.
- 2.7 The Bank of England recently increased the base rate from 0.25% to 0.5%. This increase in the base rate was priced in during mid-September with PWLB rates showing an increase of 0.25% from September to November. In terms of impact on our existing borrowing this remains unaffected because loans are already at a fixed interest rate. The 0.25% increase in interest rates will increase our investment income, which will be factored into the budget and will increase the forecast of the Enterprise Zone capital financing costs which will be reflected in the updated Enterprise Zone financing model.
- 2.8 **Investments**

At 1 October 2017 the Authority had £81m externally invested in short term deposits, plus short term bank current account balances not exceeding £5m.

## Leadership Board

- 2.9 Due to the receipt of £43m Local Growth Deal funding in April 2017 (following the receipt of £79m in April 2016), the Authority has had a higher level of cash during 2016/17 and 2017/18 than in previous years and the level of external investments has therefore increased. This requires additional flexibility and options to manage investments. Based on the current level of planned capital expenditure and the expected profile of LGF grant payments, which is weighted towards the year end, the level of external investments is expected to be around £30m to £35m by the end of the financial year and to fall further in 2018/19.
- 2.10 For 2017/18 the rate of external interest receivable ranges from 0.4% on short term balances to 0.8% on external investments held for up to 12 months. These rates are lower than those achievable in the previous financial year due to reductions in the rates available in the investment market in which NECA operates. Investments of cash balances are placed for up to 12 months where possible in order to help secure an increased average rate of return, with increased interest income used to help fund the costs of the Authority. Looking ahead to 2018 we are expecting to earn higher rates of interest on investments and we are currently assuming a range of interest rates from 0.5% to 0.9% for investments made over 12 months.
- 2.11 The primary objective of the Authority's investment strategy is to ensure the security of funds invested, and to achieve a reasonable rate of return commensurate with the level of security required. No changes are proposed at this time to the current investment and counterparty limits, and these will be reviewed in advance of setting the limits for 2018/19, which will be presented to the Leadership Board in January 2018.

**Table 3: Investment Limits**

Type of institution	Financial Limit	Time Limit
UK central government (Debt Management Office)	Unlimited	Unlimited
UK banks with AAA, AA+, AA, AA-, A+, A credit ratings	£15m each	1 year
UK banks with A- credit ratings	£10m each	1 year
UK Local authorities	£10m each	3 years
UK building societies whose lowest published long-term credit rating is BB <u>and</u> societies without credit ratings with assets greater than £250m	£5m each	1 year
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	£5m each	1 year
Local Authority controlled companies in the NECA area	£10m each	20 years



## Leadership Board

### 2.12 Prudential Indicators

The treasury management strategy agreed by the Leadership Board in January 2017 included a range of indicators to ensure the prudent use of the Authority's borrowing powers set out in the Local Government Act 2003. The Authority's borrowing powers currently extend to Transport related activity only and, as a result, the prudential indicators are currently focused on that area of NECA activity. These prudential indicators have been revised based on the most up to date capital expenditure/financing position and are set out in the following table. No external borrowing for Enterprise Zones is anticipated in the current year. A provisional sum of £20m has been included for 2018/19 and this will be updated in the January 2018 report to the Leadership Board.

**Table 4: Prudential Indicators**

	2016/17 actual	2017/18 estimate	2018/19 estimate	2019/20 estimate
	£m	£m	£m	£m
Capital expenditure (Transport capital programme)	78.728	82.326	70.000	70.000
<b>Financing costs to Net Revenue Stream</b>				
Tyne & Wear Transport levy	65.120	63.040	61.800	61.220
Tyne & Wear Transport financing costs	2.040	1.539	1.516	1.494
%	3.1	2.4	2.5	2.4
Nexus grant plus direct grants and external income	147.797	146.179	144.660	144.070
Nexus interest and principal repayments to NECA	3.623	3.481	3.346	3.215
%	2.5	2.4	2.3	2.2
Tunnels tolls income	27.795	26.296	25.970	29.278
Tunnels financing costs	6.774	6.732	6.716	6.701
%	24.4	25.6	25.9	22.9
<b>CFR at end of year</b>				
Tyne Tunnels and Tyne & Wear Transport	156.285	154.174	152.071	149.973
Nexus	41.637	39.938	38.302	36.726
Enterprise Zones transport infrastructure	-	-	20.000	20.000

## Leadership Board

<b>Total</b>	<b>197.922</b>	<b>194.112</b>	<b>210.373</b>	<b>206.699</b>
Incremental impact of CF decisions (impact on Transport levy)	(0.028)	(0.524)	(0.023)	(0.022)
<b>Operational Boundary for External Debt</b>	<b>235</b>	<b>235</b>	<b>235</b>	<b>235</b>
<b>Authorised Limit for External Debt</b>	<b>240</b>	<b>240</b>	<b>240</b>	<b>240</b>
<b>Actual External Borrowing</b>	<b>168</b>	<b>168</b>	<b>182</b>	<b>186</b>

### 3. Reasons for the Proposals

- 3.1 The purpose of the report is to provide for information a mid-year update of Treasury Management activity for 2017/18 on activity to September 2017.

### 4. Alternative Options Available

- 4.1 Proposals for the 2018/19 strategy will be developed further by officers and presented for agreement by the Leadership Board with the budget report in January 2018. Any significant proposals for change will be included with budget proposals presented to Governance Committee for consultation at its December meeting.

### 5. Next Steps and Timetable for Implementation

- 5.1 This report is presented for information. The treasury management limits will be included in the January 2018 Capital Programme Report for approval.

### 6. Potential Impact on Objectives

- 6.1 Effective treasury management enables financing charges to be minimised and interest income maximised while maintaining the security of the Authority's liquid assets. This supports the Authority's overall budget position which enables it to deliver all of its objectives more effectively.

### 7. Financial and Other Resources Implications

- 7.1 There are no direct financial implications arising from this report.

## **Leadership Board**

### **8. Legal Implications**

8.1 There are no direct legal implications arising from this report.

### **9. Key Risks**

9.1 The main risks relate to external interest rates and security of investments. Interest rate risks are mitigated by maintaining a balance of predominantly longer-term fixed rate borrowing, while seeking to minimise interest charges through reducing the total level of external borrowing as opportunities are presented. The risk of investments being lost due to the financial difficulties of a third party is being mitigated by revising the Authority's investment criteria to reflect the most up to date information on credit worthiness from external treasury management advisers.

### **10. Equality and Diversity**

10.1 There are no direct equalities and diversity implications arising from this report.

### **11. Crime and Disorder**

11.1 There are no direct crime and disorder implications arising from this report.

### **12. Consultation/Engagement**

12.1 The Treasury Management Policy and Strategy was included with the 2017/18 budget which was subject to consultation with NECA constituent authorities, NECA committees and key officer groups. The mid-year update was presented to Governance Committee at their meeting in September 2017, and they had no comments to bring to the attention of the Leadership Board.

### **13. Other Impact of the Proposals**

13.1 There are no other impacts arising from this report which is for information.

### **14. Appendices**

14.1 None.

## Leadership Board

### 15. Background Papers

15.1 CIPFA Treasury Management in the Public Services: Code of Practice

### 16. Contact Officers

16.1 Paul Woods, Chief Finance Officer, [paul.woods@northeastca.gov.uk](mailto:paul.woods@northeastca.gov.uk),  
07446936840

### 17. Sign off

- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

### 18. Glossary

Balances	The total level of surplus funds the Authority has accumulated over the years.
Budgets	A statement of the Authority's forecast expenditure, that is, net revenue expenditure for the year.
Capital Financing Requirement (CFR)	The capital financing requirement (CFR) measures an authority's underlying need to borrow or finance by other long-term liabilities for a capital purpose.
CIPFA Code of Practice on Treasury Management in Public Services	A code of practice specifically relating to Treasury Management in Public Services which provides a framework for effective treasury management in the public sector.
Enterprise Zones	An area in which state incentives such as tax concessions are offered to encourage business investment

## Leadership Board

Levying Bodies Regulations	These Regulations confer a general power on bodies to issue levies to local authorities for the purpose of meeting their expenses in respect of financial years.
LGF	Local Growth Fund (LGF) capital grant provided for projects that benefit the local area and economy.
Minimum Revenue Provision (MRP)	An amount charged by the Authority to the Comprehensive Income & Expenditure Account, for debt redemption or for the discharge of other credit liabilities.
Provisions	These are sums set aside to meet liabilities or losses which have been incurred but where the amount and/or timing of such costs are uncertain.
Public Works Loan Board (PWLB)	This is a Government agency which provides loans to local authorities at favourable rates.
Reserves	These are sums set aside to meet possible future liabilities where there is no certainty about whether or not these liabilities will be incurred.

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## Leadership Board

**Date:** 21 November 2017

**Subject:** Enterprise Zone Implementation Update

**Report of:** Head of Paid Service and Chief Finance Officer

### 1. Executive Summary

- 1.1 There are now 21 Enterprise Zone (EZ) sites approved in the North East Local Enterprise Partnership (North East LEP) area, with at least 1 site in each Local Authority area, as listed in Appendix A. Ten Round 1 sites became operational in April 2013; ten Round 2 sites became operational in April 2017; and one will become operational in April 2018.
- 1.2 Each of the seven Local Authorities in the North East LEP area have been asked to enter into an overarching pooled Business Rate Growth Income (BRGI) agreement with the North East LEP and NECA as its accountable body. The purpose of this is to provide a transparent and consistent approach for the treatment of pooled Business Rates Growth Income; the financing of site intervention costs; the funding of eligible revenue costs; the operation of a performance incentive arrangement aimed at accelerating development: the treatment of any net surplus after all costs have been funded; and the treatment of any borrowing costs that cannot be funded from the BRGI pool in the unlikely event of a shortfall in total pooled income resulting in a net deficit.
- 1.3 This agreement sets out the BRGI pooling arrangements for Enterprise Zones in the North East LEP area over the 25 year BRGI period for each site, with a final date of the agreement running to 31 March 2043. This overarching agreement will simplify the separate funding agreements that are needed for each site, which should help accelerate the process of approval and the development of the sites for which new funding agreements are needed.
- 1.4 This report seeks approval to enter into an overarching BRGI Pooling Agreement as accountable body for the LEP following the approval of the North East LEP Board on 30<sup>th</sup> November 2017.

## **Leadership Board**

### **2 Recommendations**

2.1 It is recommended that the Leadership Board;

1. agrees to enter into the overarching Enterprise Zone Pooled Business Rate Income Agreement in the form approved by the Monitoring Officer, having consulted the Chief Finance Officer and the Head of Paid Service. The Agreement will be with its seven constituent authorities, and NECA will enter into the agreement in its capacity as the accountable body for the North East LEP. The agreement will not be entered into without the prior approval of the North East LEP Board; and
2. agrees to arrange the use of NECA's internal funds or external borrowing where it is necessary to repay the LEP's North East Investment Fund (NEIF) or the Local Growth Fund (LGF) in respect of Round 1 funding agreements set out in section 8.1 of the report, where it is requested to do so by the constituent authority and where it has the legal power to do so.



## **Leadership Board**

### **3 Background Information**

- 3.1 The granting of Enterprise Zone status to these employment sites by the Government, means that businesses who occupy the sites can receive benefits of either discounted business rates or enhanced capital allowances for a limited period and within European state aid rules. Infrastructure and intervention costs needed to develop the sites can be funded from the retention of 100% of the growth in business rate income from the sites, which the North East Local Enterprise Partnership (North East LEP) can retain over a 25 year period. Outside this arrangement it is normal for Authorities only to be to keep a percentage of business rates growth for a short period until the National Local Government System Grant is periodically 'reset'. Thus sharing though this mechanism creates overall benefit across the LEP Area.
- 3.2 In most cases funding Enterprise Zone development will require borrowing to fund the works. The North East LEP will approve the capital and financing costs to be funded from pooled Business Rates Growth Income (BRGI) and determine the use of any BRGI surplus after costs have been met.
- 3.3 The initial ten Round 1 Enterprise Zone sites proposed by four Local Authorities and submitted for approval by the LEP in 2011 were formally approved by Government in 2012, with a 25 year Business Rate Retention period starting on 1 April 2013 and ending on 31 March 2038.
- 3.4 Ten sites were submitted and approved, clustered in three areas –
- A19 Ultra Low Carbon Vehicle Corridor
  - North Bank of Tyne
  - Port of Blyth
- 3.5 The original proposals envisaged that borrowing would be undertaken to fund the up front infrastructure costs and that this would then be financed by the Business Rate Growth Income (BRGI) retained over a 25 year period.
- 3.6 A funding protocol developed by the Local Authority Treasurers, and approved by the North East LEP, set out that borrowing and approved revenue costs would be met from pooled Business Rate Growth Income over the period as a priority, before the net surplus could be determined and allocated by the LEP. It was also proposed that grants be accessed where possible to minimise external borrowing costs and risk, and to maximising the net surplus.
- 3.7 When the first business cases were submitted to the North East LEP for approval, the North East LEP decided that rather than undertake expensive external borrowing, it would authorise the use of £21.026m of its own North East Investment Fund (NEIF) to finance the first of the infrastructure works needed. This 'internal loan' would be repaid to the NEIF from the BRGI from the Enterprise Zone sites. An

## **Leadership Board**

assumed profile of repayments from the EZ pooled Business Rate Income account to the NEIF was set equal to the estimated income stream provided by the Local Authorities as part of their business case submissions. The legal agreements for this funding that were drafted at the time reflected the receipt of a grant payment, as opposed to providing agreement for the Local Authorities to borrow and agree a schedule of loan funding repayments.

- 3.8 The remaining £43m of infrastructure works on the Round 1 site were to be funded by borrowing, with annual capital financing costs to be funded by payments from the North East LEP enterprise zone BRGI over a period up to March 2038. Over the last two years the LEP and NECA have in fact been able to make temporary use of Local Growth Fund grants to defer the need to carry out actual external borrowing. This has meant that no external borrowing has been carried out to date, which has minimised the costs falling on the Enterprise Zone account and this has therefore maximised the potential BRGI surplus.
- 3.9 In overall terms the pace of development has been slower than initially envisaged and BRGI income is lower than initially expected. This was partly reflected in a revised set of BRGI projections made when the Enterprise Zone Funding Model was updated by DTZ in November 2014. A revised estimate of income projections undertaken earlier this year indicated that BRGI income for 20 sites is now estimated to be at c £340m. This estimate will continue to be updated and will be included in a refreshed Model, based upon information provided by each Local Authority, which is expected to be finalised in March 2018. It is estimated that the EZ pooled business rate Income Account should produce a net surplus over the round 1 and round 2 sites, recently estimated at over £150million over the life of the Enterprise Zone in cash terms. These figures exclude income and a surplus for the Newcastle International Airport Enterprise Zone, where development plans are being reviewed.
- 3.10 It is now expected that if the planned repayment of the money provided from the North East Investment Fund is to be made in line with the current timetable, an element of refinancing will be required due to the lower level of income that has been received to date on some sites. Discussions about refinancing have taken place with round 1 councils and there was a strong preference from some councils that they would not be required to undertake additional external borrowing that had not been envisaged under the original grant funding agreements. It is proposed that NECA as the accountable body of the LEP undertake any refinancing that may be required through use of its internal funds or using its transport borrowing powers, unless individual councils want to undertake this refinancing themselves. It is envisaged

## **Leadership Board**

that any new infrastructure approvals would be funded by individual councils using their internal funds or borrowing powers with the financing costs met from the BRGI pool.

- 3.11 Since the last update to Leadership Board three new Enterprise Zone funding applications have been received from partners including a feasibility study (£65,000) for the Newcastle Airport site, the Port of Tyne Enterprise Zone sites (£132,000) and more substantial application for £4.5m of works on Jade Business Park in County Durham. These are currently being taken through the appraisal process alongside the Port of Blyth application. This follows on from the approval to Gateshead Council for feasibility work awarded previously.

### **Round 2 Enterprise Zones**

- 3.12 Eleven new Enterprise Zone sites were proposed by the Local Authorities and submitted for approval by the LEP in 2015 and were formally approved by Government in 2016, with a 25 year Business Rate Retention period starting on 1 April 2017 and ending on 31 March 2042 for 10 sites. The BRGI retention period for the IAMP site will commence a year later on 1<sup>st</sup> April 2018 and is expected to end on 31 March 2043 (the final date in this agreement), following formal approval of its red line boundary area by the Government before 31 March 2018.
- 3.13 Infrastructure costs estimated to be around £90m will need to be funded by borrowing agreements by each council, with the LEP agreeing the level of the infrastructure costs to be funded, with a funding agreement which will set out the annual amount of BRGI income that each council will receive to cover its borrowing costs. This will enable each council to use its prudential borrowing powers to finance the infrastructure works required on their own enterprise zone sites. The level of infrastructure costs will be subject to the approval of the North East LEP following the submission of final business cases on a site by site basis. Several business cases are expected to be received for consideration by the LEP Board in November 2017, January 2018 and March 2018.
- 3.14 The intention is to complete the refresh of the Enterprise Zone Financial Model taking account of the updated information from the LEP approvals in November and January. This would also include the business cases submitted by the end of February 2018 with the results being reported to the LEP Board for approval in March 2018. A full refresh of the Enterprise Zone Model is proposed to take place every third year, with periodic and annual update reports to the LEP Board. These

## **Leadership Board**

will monitor progress with development, job creation and the financial performance of the Enterprise Zone account.

### **Use of the EZ Surplus and Incentivising Performance and Accelerating Development**

- 3.14 The North East LEP will determine how any net surplus on the Enterprise Zone account is to be allocated. In consideration for the use of the North East LEPs NEIF and LGF funds and to help provide a secure medium term plan position for the LEP Core team, the North East LEP Board agreed in 2015 that if necessary up to £500k a year could be used to support the costs of the team. It is now proposed to adopt a good practice of reviewing this use of the surplus on a rolling three year basis with this use of the surplus agreed provided that an overall surplus on the Enterprise Zone account was still projected to occur.
- 3.15 In May 2017, the North East LEP Board considered and approved a proposal that Councils be eligible to use a ring-fenced element of their surplus as a performance reward incentive - as a result of achieving jobs and higher levels of BRGI on their sites. This would give a clear financial incentive to councils to accelerate development and income generation in their own Enterprise Zones. They would be able to apply this ring-fenced surplus to finance significant economic projects (that are in line with guidance to be issued by the LEP) that help with the achievement of the Strategic Economic Plan objectives. It is envisaged that investment decisions relating to surplus income will not be made in the early years of the programme but likely be beyond 2022 for some sites and significantly later for sites with greater levels of borrowing.
- 3.16 The incentive would allow Local Authorities to determine the use of 50% of any income in excess of a Baseline Income Target and 25% of income generated above 80% of a Baseline Income Target. This would include a 10% incentive to deliver the agreed outputs (e.g. jobs and developed floor space) in the Enterprise Zone areas. The Baseline Income Target will be set out in the separate site funding agreements and will be a prudent estimate of income from each site after deducting a 10% contingency from Round 1 site BRGI already being received and a 15% contingency from BRGI from potential new buildings on the sites.

### **Financial Benefits of Enterprise Zones to Councils**

- 3.17 Since the Government started to localise Business Rate Income, councils have been able to retain a proportion of business rate growth over their whole area. Currently councils can retain 50% of the Business Rates' growth in their area and it is possible

## **Leadership Board**

that after 2020 councils may be able to retain a higher percentage – possibly up to 100%. However this is not certain and councils are likely to only retain the benefit of any growth for a relatively short period of time – possibly from one to five years before the grant system is reset. While some growth may be retained for a second period (until the next reset) it is uncertain how much could be retained and indications are that it could be a relatively low percentage. The level of any retained growth is uncertain and it is therefore difficult to use this income to justify the funding of prudential borrowing to carry out infrastructure works.

3.18 In Enterprise Zones, the certainty of the retention of income over 25 years brings a significant additional retained income benefit to the area. The income can be used to justify prudential borrowing for capital infrastructure works. In addition to the benefits of job creation and economic growth, Councils benefit from the funding of capital infrastructure works in their area; the potential for a performance reward incentive and the potential to benefit from the allocation of any net surplus by the North East LEP or its successor body in the future.

3.19 The proposed pooled BRGI arrangements should put in place favourable cash flow arrangements that should avoid additional costs of Enterprise Zones impacting on the revenue accounts of constituent councils in the short and medium term and most likely in the long term as well (in the event of an overall surplus on the BRGI pool).

## **4 The need for an Overarching Legal Agreement**

4.1 The approach to date has been to enter into funding agreements for each project and this has resulted in inconsistent terms and formats. As part of the new agreement, standard Enterprise Zone funding terms have been developed with a simpler, site specific funding agreement template. This will help provide a level of consistency and should help accelerate the completion of new funding agreements and help accelerate the commencement of development.

4.2 The Enterprise Zone funding principles and arrangements have been developed since 2012 and have been subject to change over the last few years for a variety of reasons. There is now a need for transparency, clarity and greater certainty about the treatment of income and expenditure and the financing of infrastructure works and the treatment of any surplus in the short, medium and long term for up to 25 years into the future.

4.3 With the potential for councils to be carrying out significant prudential borrowing over the next few years in order to fund infrastructure works, it is necessary to be clear exactly how the borrowing is to be funded and exactly where the risk of repaying the

## **Leadership Board**

borrowing falls in the event of income from a particular site being less than that needed to cover the costs relating to that site. The proposed approach to manage and minimise this borrowing risk is to extend the principle of pooling income across all Round 1 and 2 Enterprise Zone sites to cover borrowing costs.

- 4.4 A formal agreement is needed that can be operated over the whole life of the agreement by council officers over the next 25 years and is capable of dealing with any changes to the parties to the agreement over time through novation and residual body arrangements. It also clearly sets out the financial position for councils when the Enterprise Zone life expires from 2038 to 2043.

## **5 Key Elements in the Agreement**

- 5.1 The agreement covers the following key elements: –

- clarification of the arrangement for the payment of Pooled of Business Rate Income each year to the North East LEP or its accountable body, including the calculation of income to be paid and the timing of the payment in May after the year end;
- the process for the approval of new interventions;
- the treatment of existing funding arrangements for Round 1 sites;
- the treatment of borrowing and the funding of borrowing costs;
- arrangement for utilising the pooled BRGI;
- the treatment of any BRGI deficit, which will fall to be met proportionately by those councils that have not generated their expected income and have a deficit on their own account, in the event of ant net deficit remaining over the whole period;
- reporting arrangements; and
- standard terms to form part of the funding agreements that will be issued for new projects that will be subject to the pooled BRFGI agreement.

## **6 The impact of Replacing Existing Funding Agreement(s)**

- 6.1 The replacement of the existing funding agreement(s) for the Round 1 Enterprise Zone(s) means that all councils will be in the same position and party to the agreement. This would mean that each council would be responsible for any ultimate deficit on its Enterprise Zone sites caused by reduced income on its own sites, in the unlikely event of there being an overall deficit on the pooled BRGI.

## **Leadership Board**

- 6.2 Most of the Round 1 agreements did not envisage that the councils would need to borrow for infrastructure works and some councils would prefer not to undertake additional borrowing themselves. In some circumstances NECA would be able to use internal funds or to borrow if it is necessary to do so (in relation to transport infrastructure), although the constituent council would still be ultimately responsible for its share of any net deficit. By undertaking the refinancing, NECA could earn additional interest on its investments and enable councils to be able to sign the agreement.
- 6.3 A council that did not sign the overarching agreement would not be able to benefit from the pooled BRGI agreement, which would increase their borrowing risk on any new infrastructure approvals; the council would not benefit from the performance reward incentive scheme and the LEP could take this into account in determining how any net BRGI surplus would be allocated in the future in order to stimulate investment, business growth, and create employment opportunities for local people.

## **7 Potential Impact on Objectives**

- 7.1 The approval of new Enterprise Zones pooled Business Rate Growth Income agreement should contribute to the acceleration of the development of Enterprise Zone sites and help to achieve of the SEP objectives, in particular those relating to job creation and employment.

## **8 Finance and Other Resources**

- 8.1 For Round 1 authorities the specific financial implications of this agreement relate to the termination of the existing agreements. For NECA this could involve the use of its internal funds or its transport borrowing powers if requested to do so on behalf of constituent authorities. The level of borrowing will depend on the requests received up to a maximum of c £15m. NECA would receive income from the BRGI pool to cover the estimated capital financing costs at a standard rate that would cover NECAs external borrowing costs. There should be no net additional revenue costs to the NECA budget. Use of NECA's internal funds would generate an interest rate income, which would be greater that NECA could normally have earned by investing its internal funds. This would result in an increase in interest earned, which it could use to help cover costs that would otherwise have to be met by all seven of its constituent authorities, for example costs associated with NECA's accountable body responsibilities for the LEP.



## **Leadership Board**

### **9 Legal Implications**

- 9.1 The current draft of the Business Rate Growth Pooling Agreement (BRGPA) had been prepared with the assistance of external lawyers. The draft is with legal officers from each authority and there is likely to be considerable discussion about the form and content of the agreement before it is finalised. To meet the project timetables for a number of projects, the agreement will need to be finalised at pace. Accordingly, a delegation is sought to allow the Monitoring Officer, with the advice of the Chief Finance Officer and the Head of Paid Service to settle the detail of the agreement.

### **10 Other Considerations**

#### **10.1 Consultation/Community Engagement**

The local Councils were been consulted about the opportunity of enterprise Zones in their area and the recent changes. No additional Community and business engagement is expected to be necessary.

#### **10.2 Human Rights**

There are no human rights implications directly arising from this report.

#### **10.3 Equalities and Diversity**

There are no equalities and diversity implications directly arising from this report

#### **10.4 Risk Management**

The pooled BRGI arranged is aimed at minimising the risks associated with the ability to fund the borrowing costs on individual sites through a pooling of income from all Round 1 and 2 Enterprise sites. Borrowing risks associated with any borrowing undertaken by NECA as the accountable body of the North East LEP on behalf of one constituent authority would fall on the BRGI pool in the first instance. In the unlikely event of an overall deficit, it would then be met by the individual constituent authority under the terms of the pooled BRGI agreement. It also confirms the Enterprise Zone BRGI financial position for Councils up to 2038.

#### **10.5 Crime and Disorder**

There are no crime and disorder implications directly arising from this report.



## **Leadership Board**

### **10.6 Environment and Sustainability**

There are no environment and sustainability implications directly arising from this report.

### **11 Background Documents**

11.1 Enterprise Zone Reports to the LEP and NECA Boards

11.2 Previous legal agreements

### **12 Appendices**

12.1 Appendix A: List of Enterprise Zone Sites

### **13. Contact Officers**

13.1 Paul Woods, Chief Finance Officer, [paul.woods@northeastca.gov.uk](mailto:paul.woods@northeastca.gov.uk) 07446936840

### **14. Sign off**

- Head of Paid Service: ✓
- Monitoring Officer: ✓
- Chief Finance Officer: ✓

## Leadership Board

### Appendix A

#### Round 1 Enterprise Zone Sites

Local Authority	Enterprise Zone Site	Existing Funding Agreement to be replaced	New Funding Agreement
Newcastle	North Bank of Tyne	Yes	Yes
North Tyneside	North Bank of Tyne : Swans North Bank of Tyne : Port of Tyne site	Yes	Possibly tbc Yes
Northumberland	Bates Commissioners Quay Dunn Cow East Sleekburn	Yes Yes Yes	Yes
Sunderland	A19 Corridor sites 1,2 and 3	Yes	

#### Round 2 Enterprise Zone Sites

Local Authority	Enterprise Zone Site	New Funding Agreement
Durham	Jade (originally Hawthorn)	Yes
Gateshead	Follingsby	Yes
Newcastle	North Bank of Tyne – Extension International Airport	Yes Yes
Northumberland	Ashwood, Ashington Fairmoor, Morpeth Ramparts, Berwick	Yes Yes Yes
South Tyneside	Holborn Riverside Phase 1 Holborn Riverside Phase 2	Yes Yes
Sunderland	Port of Sunderland	Yes
Sunderland and South Tyneside	International Advanced Manufacturing Park (IAMP) (Joint with South Tyneside)	Yes

## Leadership Board

**Date:** 21<sup>st</sup> November 2017

**Subject:** Project Approvals – International Advanced Manufacturing Park (IAMP) and Gateshead Quays

**Report of:** Head of Paid Service and Chief Finance Officer, NECA

### Executive Summary

This report informs the Leadership Board about two significant approvals to Local Growth Fund (LGF) programme grant decisions to be considered at the North East LEP Board on 30<sup>th</sup> November 2017 and requests that a special meeting be held on 12<sup>th</sup> December 2017 to consider these approvals, in order to expedite the implementation of the decisions taken by the LEP Board.

The report will include recommendations for the approval of LGF grants for the International Advanced Manufacturing Park (IAMP) project and the Gateshead Quays project; together with the approval of the financing of Infrastructure for the IAMP Enterprise Zone Scheme.

### Recommendations

The Leadership Board is recommended to agree to hold a special meeting on 12 December 2017 to consider grant approvals agreed at the LEP Board on 30<sup>th</sup> November 2017.

## **Leadership Board**

### **1 Background Information**

- 1.1 The Local Growth Fund (LGF) programme includes LGF allocations of over £41m for the IAMP project and £5m for the Gateshead Quays project. These projects are complex and detailed business cases have been submitted which are currently being evaluated. The IAMP project also involves the approval of financing of substantial infrastructure works to be funded by borrowing to be paid back with Enterprise Zone retained business rate income. The results of the business case evaluations are expected to be completed in time to be reported to the LEP Board on 30<sup>th</sup> November.
- 1.2 Both projects are time critical and it is important for the Leadership Board to consider the grant approvals in December in order to expedite the implementation of the decisions to be taken by the LEP Board.

### **2 Proposals**

- 2.1 It is recommended that a special meeting be arranged for 12<sup>th</sup> December to consider any urgent project approvals and funding decisions made by the LEP Board at its meeting on 30<sup>th</sup> November.

### **3 Reasons for the Proposals**

- 3.1 The North East LEP is responsible for the management of the Local Growth Fund (LGF) Programme, including decisions about the approval of LGF grants. The LEP is also responsible for approving infrastructure to be financed by retained Enterprise Zone business rate income. NECA, as the accountable body for the North East LEP, has the important role of considering and approval the release of grant, subject to satisfactory legal and financial issues relating to the approvals.
- 3.2 The prompt consideration of grant approvals at a special meeting will help to implement the decisions of the North East LEP in a timely fashion, in advance of the next scheduled meeting of the Leadership Board on 16<sup>th</sup> January 2018.

### **4 Alternatives**

- 4.1 There are two options: -

Option 1 – The Leadership Board may accept the recommendation set out in this report and agree to a special meeting on 12<sup>th</sup> December; or

Option 2 – The Leadership Board may not accept the recommendation and consider the project approvals at its meeting on 16<sup>th</sup> January.

Option 1 is the recommended option.

## **Leadership Board**

### **5 Next Steps and Timetable for Implementation**

- 5.1 The projects will be subject to a report to the LEP Board on 30<sup>th</sup> November and any decisions of the LEP Board will be reflected in the report to the special meeting of the Leadership Board.

### **6 Potential Impact on Objectives**

- 6.1 The timely delivery of projects will positively contribute to the delivery of the economic development objectives in the regional Strategic Economic Plan for the North East.

### **7 Finance and Other Resources Implications**

- 7.1 The financial implications will be set out in the next report to the Leadership Board.

### **8 Legal**

- 8.1 NECA, as Accountable Body for the NELEP enters into funding agreements with the recipients of Local Growth Funding and Enterprise Zone Funding. Further will be set out in the next report to the Leadership Board

### **9 Key Risks**

- 9.1 Risks associated with project delivery will be considered through the development of individual project business cases.

### **10 Equalities and Diversity**

- 10.1 Equality matters will be considered within the consultation, design and business case development of each individual project.

### **11 Crime and Disorder**

- 11.1 There are no specific crime and disorder considerations arising from the contents and recommendations of this report. They will be considered further as part of the business case development for each project.

### **12 Consultation/Community Engagement**

- 12.1 Individual projects will be subject to community/consultation arrangements appropriate to the scale and nature of the projects. As an example, the IAMP

## **Leadership Board**

project has been the subject to public community consultation and is currently subject to a formal planning enquiry.

### **13 Other Implications**

- 13.1 Environmental and sustainability considerations will be addressed on an individual project basis through the development of each project's business case, and where necessary, in project-specific Environmental Impact Assessment.

### **14 Appendices**

None

### **15 Background Papers**

None

### **16 Contact Officers**

- 16.1 Paul Woods, Chief Finance Officer, [paul.woods@northeastca.gov.uk](mailto:paul.woods@northeastca.gov.uk) Tel: 07446936840

### **17 Sign off**

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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