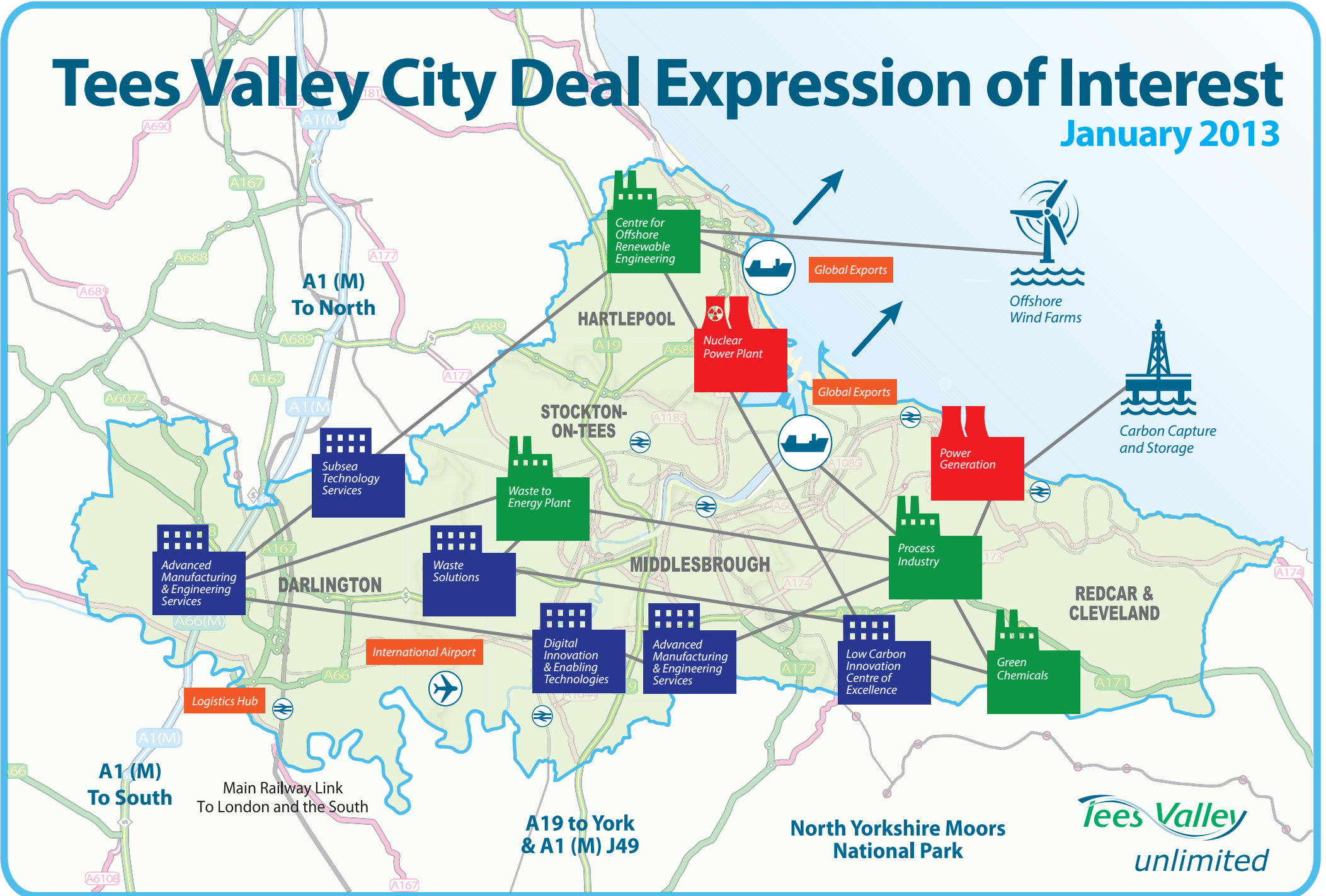


Tees Valley City Deal Expression of Interest

January 2013



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Section A: Summary Information

A1: Proposal Title

Tees Valley City Deal

A2: Key Partners involved in the proposal

The Tees Valley City Deal is put forward to Government by Tees Valley Unlimited, the Local Enterprise Partnership for Tees Valley. The proposal has the commitment of the five local authorities (Darlington, Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton), the University of Teesside and the private sector board members (including key businesses such as Sabic and PD Ports). Indeed the proposal has been developed with the specific help and input from the private sector more generally including Graham Hillier of CPI (part of the Catapult, High Value Manufacturing), Ross Smith of NECC and Martin McTague of FSB amongst others. As a result the proposal has the full support and endorsement of the local business community including the business representative organisations (NECC, CBI, IOD, EEF, CIPD and FSB).

A3: Local Point of Contact

The local point of contact for leadership matters is:

Sandy Anderson

c/o Tees Valley Unlimited

For day to day detail the local contact is:

Linda Edworthy

Director of Policy and Strategy

Tees Valley Unlimited

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Stockton –on-Tees

Tees Valley

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B1.1 The fundamental challenge facing Tees Valley

Tees Valley's industrial journey:

- Tees Valley – based on innovation and reinvention; is a main contributor to the economic performance of the UK over the last 50 years - moving from mining, steel making and ship building to processing and chemical industries - now changing again to include advanced manufacturing and ICT.
- Historically, based on a small number of large employers, (e.g. ICI and British Steel both with 40,000 employees in the late 60s/70s). By the 1980s, employment in the manufacturing of chemicals had fallen to just over 20,000 with employment in steel just over 19,000. Between 1971- 2004 over 93,000 manufacturing jobs were lost from the area principally due to the rationalisation of the steel industry in the UK. In the early 90s ICI started to sell off elements of its integrated processing complex to foreign owned companies and by early 2000 all elements had been sold resulting in some of these being closed in favour of production plants in their parent country e.g. Dow (ethylene glycol / oxide) and BASF (high density polyethelene). The loss of key plants from up and down stream processes resulted in the need to import more raw materials, making UK manufacturing less competitive.
- Despite the reduction in employment, productivity rose hugely and the volume and value of products produced now exceeds that of the 1970s through the growth in distribution, logistics, services and IT industries.

Tees Valley today:

- Not enough jobs - with 259,500(BRES 2011) jobs and 424,000 working age population (ONS MYE 2011).
- Not enough private sector jobs and a reliance on the public sector :
 - reduction in total private sector jobs in the Tees Valley economy from 203,400 (September 2007) to 186,800 (September 2012);
 - 26% (67,000 out of 259,000) in Sept 2012 were in the public sector c.f. 21% nationally.
- High levels of unemployment, particularly amongst young people: 13.2% unemployment rate c.f. 8.2% nationally in Sept 12 (the highest of all LEP areas); only 63% of the working population in employment c.f. 70% nationally; 13.8% youth unemployment (Sept 12) c.f. 7.4% nationally; and 28,859 on JSA benefits (Oct 12), 41,200 looking for work (APS June 12).

- Sectors that are fundamentally important to UK manufacturing but are high CO2 emitters (5% of UK emissions) and therefore vulnerable to requirements to reduce emissions.
- Significant large companies exporting but untapped potential for SME exporting - only 6.5% of SMEs currently exporting (TVU Business Survey 2012).

B1.2 The inherent opportunity in Tees Valley:

- The inherent opportunity lies in the scale and make up of the industrial activity becoming even more competitive whilst reducing CO2 emissions.
- Our opportunity is to accelerate the pace of change for deploying green technology producing cleaner energy and other products. Integrating activities and supply chains across companies and sectors will produce a critical mass of sectors that will be globally competitive and deliver more jobs, and greater investment and exports.
- Tees Valley is one of the only locations (as evidenced in the area being shortlisted for the CCS pilot and the AMEC report of 2010) where the UK's major CO2 emitters could enable CO2 to be captured and used to extend the life of the North Sea oilfields and provide power for business activities.
- Tees Valley produces 3.4GW of the UK's electricity with a further 2.6GW proposed. Its processing and advanced manufacturing industry consumes significant amounts of electricity, heat / steam, being the country's, most significant, scientific-based and export led concentration of sectors and national centres of excellence in these technologies.
- Companies are already making commercial realities out of innovative opportunities (e.g. Air Products location on our Enterprise Zone (EZ) with investment of £350m cap. ex. in waste to energy). The problem of rising energy and carbon costs can become opportunities to boost competitiveness and viability as global companies look for new markets and feed stocks.
- Many of the jobs losses (ref B1.1) in advanced manufacturing and the process sectors have already occurred, in part due to companies improving the efficiency of their processes. Companies are now developing sustainable growth strategies (RGF rounds 1, 2 and 3 successes).
- Tees Valley's engineering companies are supporting the transformation to a greener economy with Cummins developing the world's most efficient diesel engine and Nifco supplying parts to Nissan for their electric cars.

B1.3 The Vision for Tees Valley

The future vision sees the area with a thriving and more balanced economy with integrated supply chains that are resilient to economic shocks. A range of skilled job opportunities will be available to local residents and commuters into Tees Valley and training providers will meet the skills needs of employers in a proactive and responsive way. The area will be home to:

- a critical mass of sustainable super sectors in petrochemicals, advanced manufacturing, and new renewable energy with integrated SME supply chains using digital enablement;
- integrated activities between companies leading to the development of new business opportunities, and secure carbon reductions in those industries;
- research and development that will be commercialised into new products and processes, including the test bed for new and emerging green technologies creating wealth within the UK;
- large waste to energy plants turning waste into low carbon products that fuel cars, create energy and produce chemicals that are the building blocks of everyday products such as plastics, paint and textiles;
- low carbon investments as the location of choice where efficiencies are exploited, manufactured and exported;
- new and complementary activities including subsea and other forms of advanced manufacturing; and
- rapid growth in the industrial sectors to drive diversification in the rest of the economy and deliver the 2nd Ambition as set out in our Statement of Ambition.

B2 Why the Vision will not be achieved by the private sector or through existing policy tools?

- Tees Valley currently lacks the tools to achieve the scale of company collaboration, investment and appropriate skills provision to drive a successful integrated low carbon asset that is competitive at the international level.
- Existing policy tools focus too much on individual companies - RGF and the EZ are helping individual companies to grow but the outcomes are limited to those companies becoming more efficient. They are not the catalysts which will catapult their sectors or the area to become globally competitive particularly in the emerging green economy. The current means of attracting inward investment are much too slow to bring about the catalytic change required.
- A more joined up approach between Government departments and strategies (energy, environment and industrial) would provide a positive stimulus for change as companies sometimes struggle to do business with several departments (DECC, BIS, DEFRA) working to different timescales and policies. Targeted resources and incentives to secure more foreign companies and the integration of their activities would assist in achieving our vision more quickly.
- Significant resources are committed to research and innovation via TSB. However, support to commercialise products and processes is inadequate and many real commercial opportunities are being lost from UK to other parts of Europe or beyond. In the last 5 years at least 4 of the companies that CPI has worked with to scale-up their manufacturing processes have moved outside the UK because they could not find suitable mechanisms to locate and grow their businesses in the UK. These companies have all received significant public sector funding from the UK prior to their working with CPI. Companies are also being attracted to work with CPI or have been anchored into the UK (at least 8 companies in the last 3 years.) through a combination of collaborative part-public investment (including RGF and TSB) and access to facilities at CPI. Terraverde has relocated from outside the UK to access CPI's skills base with the support of RGF. Both Plaxica (a spin-out from Imperial College) and Polyphotonix have also been retained in the UK for scale-up through a range of public-private funding mechanisms. These companies will require further investment in the coming years and could still be lost to the UK if investment is not available.
- Without strategic sector co-ordination nationally and locally there will continue to be lack of integration, an erosion of competitiveness, and a reduction in supply chains.

C1 Barriers and solutions to achieving our Vision for Tees Valley

- We currently lack some of the tools to enable strategic investment to be fleet of foot, and address barriers to economic growth and maximise opportunities locally.

Local tools for investment

- TVU has already established the Tees Valley Investment Fund (TVIF) Model with EZ income as a fundamental source. This model has significant potential for further development and the attraction of private sector funds, particularly through use of a single pot approach. TVU is primed to trial the Single Capital pot as envisaged in the Heseltine Review and the Autumn Statement. This will provide the area with a mechanism to better align industrial, energy and environmental investment locally; develop and trial a new model of CCS; support supply chain and export opportunities; improve the transition from R&D to commercialisation; and enable new financial instruments to be developed to encourage greater levels of private sector investment.
- TVU's success in RGF (more than £150m awarded leveraging in over £1bn private sector investment) shows that we have the track record to deliver through TVIF.
- A single appraisal process with common local assessment criteria (based on GVA and jobs created) for all devolved funds (including the Tees Valley allocation of ERDF and ESF) and income going into the TVIF is currently well advanced. Further support from the Government to deliver our Vision is required through:

Green energy and the utilisation of carbon emissions

- The location of the CCS demonstration project in Tees Valley is a key building block of the development of an integrated green super sector. This together with other incentives such as: an invest to save approach to carbon reduction with a carbon tax holiday to encourage investment in low carbon infrastructure; an allowance for building construction costs for low carbon activities on EZ ECA sites; using the CORE model to designate Tees Valley as a favoured location for key sectors for Government and inward investment; and the classification of industrial gases to produce energy and materials as a low carbon investment.

Tees Valley also need Government to work with TVU to make the UK the best place for businesses to invest through aligning strategies and departmental work on industry, energy and environment to proactively support FDI, including those foreign owned business already located in Tees Valley. This could include a single contact in Government for key businesses / sectors who know and understand the businesses (and their location) to work with the other departments to ensure private sector investment is secured. The Tees Valley is ideally placed to pilot this with TVU's support.

Effectiveness of research and development through to commercialisation

- To prevent the investment made by the UK on research and development being lost there is a need to extend significantly the existing investment and identify appropriate commercialisation delivery models for the UK to ensure that leading-edge research in chemical and biofuels and associated technologies can be turned into commercially viable products/processes creating jobs and wealth in the UK. TVU is leading the way on the development of a Smart Specialisation strategy for Tees Valley to ensure that future European funding opportunities can be maximised to support innovation and growth in the area. TVU, with partners such as CPI, is well placed to pilot a new model for investment in commercialisation.

The Core Package Available to Wave 2 City Deals

Elements of the Core Package such as skills, infrastructure and private sector growth and investment will be invaluable in delivering the Tees Valley Vision. Our bespoke package has focussed on the unique opportunity that exists in Tees Valley to create integrated, innovative companies that enable UK manufacturing to be globally competitive and through integrated activities substantially reduce the carbon footprint of the area. However, for the area to become really successful, the spread of wealth generation needs to be underpinned by a broader, successful SME base across a more diverse range of sectors (Ambition 2). Therefore, TVU will wish to ensure that the Core Package includes:

- devolved local decision making on skills budgets with real flexibility to ensure the system meets the needs of employers.
- skills for developing company supply chains in the area's key sectors together with advanced manufacturing and engineering, logistics, healthcare and digital to ensure that companies can become more competitive and for SMEs to export more and ensure that they access major business supply chains.
- proactive national and local inward investment activity and mechanisms to support private investment.

C2 Achieving more with less

- the City Deal will be delivered through more efficient and effective use of existing, not additional, Government resources during the current spending period.
- the measures detailed above will achieve greater results in terms of attracting inward investment, growing existing global companies and their supply chain, increasing exports, translating R+D into commercialisation opportunities, delivering wealth and jobs outcomes (detailed in section D).
- the use of a single capital allocation with ring fenced ERDF and ESF for Tees Valley within the Tees Valley Investment Fund model will result in activity being delivered significantly quicker, with reduced bureaucracy and significantly increased levels of private sector investment. For example the use of a single appraisal process against common assessment criteria for projects will significantly speed up the decision making process and reduce the burden on applicants resulting in greater private sector involvement. Retaining public accountability and demonstrating value for money against the desired outcomes does not require the levels of bureaucracy that currently exist.
- granting carbon tax holidays on an invest to save basis will make companies more competitive, ensure longer term revenue income to the Exchequer and support the achievement of carbon emissions reduction.

C3 The Tees Valley Contribution

- Tees Valley authorities have agreed to pool business rates uplift and EZ income for investment via TVIF.
- TVU will use the TVIF as a catalyst for companies to invest in CCS schemes, plant and machinery and other low carbon processes and utilise their technical and economic expertise to identify where further integration could lead to increased competitiveness and reduced carbon emissions.
- the TVIF will encourage more co-investment from businesses and will provide the vehicle through which private sector match can be invested (whilst unsuccessful for RGF3, TVU had the commitment from a key bank to invest £10m in business growth in the area). Based on discussions with the financial institutions we believe that TVIF can lever in at least £7 for each £1 of public sector investment.
- Tees Valley authorities will consider borrowing against the projected income in the TVIF, this will include the identification of an appropriate strategic capital project for submission to the Public Works Loan Board as detailed in the Autumn Statement and will consider other pooling of business rates.
- TVU will use its investment plan to target biomass and waste logistics, to allow for minimum distance transport of these critical resources.
- Tees Valley authorities will procure long term waste contracts to supply large scale green technology within Tees Valley and beyond, as well as providing the flexibility to foster new small scale technologies using waste in novel ways.
- Tees Valley authorities will consider investing in schemes that utilise locally produced heat to improve industry competitiveness.
- TVU with CPI will identify products and processes that through commercialisation offer the greatest prospect of delivering exports, jobs and substantial prosperity and through TVIF provide appropriate accommodation needs for these businesses and direct investments in new business formation and business growth plans.
- TVU and the relevant agencies will adopt a 'hand holding' approach for these businesses, assisting them to find markets, buyers and suppliers.
- TVU will commit resources to support UKTI and overseas ambassadors to provide the material required to persuade targeted foreign companies to locate operations in the Tees Valley.

Section D – The impact of the City Deal

The proposal would make a serious start on reversing the trend from 2007 of a reducing number and percentage of private sector jobs in the Tees Valley economy. By 2017 we estimate that the acceleration towards a globally significant low carbon cross sector cluster would create /safeguard some 5000 jobs. To this figure we would anticipate a further 7,500 jobs being created or safeguarded in other sectors such as logistics or service.

As the impact grows and starts to attract further inward investment and expanded activity we would anticipate creating / safeguarding a further 15,000 jobs by 2022 (see table below).

	Baseline	By 2015	By 2017	By 2022
Industrial Sectors including low carbon (private sector)	29,000 ⁱ	TBC	5000 safeguarded/ created	5000 safeguarded/ created
Other sectors (private sector jobs)	145,000 ⁱⁱ	TBC	7,500 safeguarded/ created	10,000 created/safeguarded
GVA per head	£15,645 ⁱⁱⁱ	£16,300	£16,500	£17,000
Carbon emissions reductions (m tonnes CO2)	17.03 ^{iv}	13	12	11
Private company investment per annum	£140m ^v	£200m	£275m	£350m
Commericalisation: - new businesses created - jobs in new / existing businesses	TBC	TBC	TBC	TBC
Increase in exports (North East)	£4.6bn ^{vi}	£6bn	£7.5bn	£9bn
Increase in inward investment enquiries	11 ^{vii}	15	18	22
Apprenticeships per annum	4,620 ^{viii}	6,500	8,000	9,500

ⁱ 11% of 260,000 jobs

ⁱⁱ 56% of 260,000 jobs

ⁱⁱⁱ GVA per head for 2009 (issued Dec 12)

^{iv} 2006 Teesside University survey

^v Annual average for period 2004 – 12 (TVU)

^{vi} BIS – assumes TV provides 1/3rd of total

^{vii} Annual average for period 2004 – 12 (TVU)

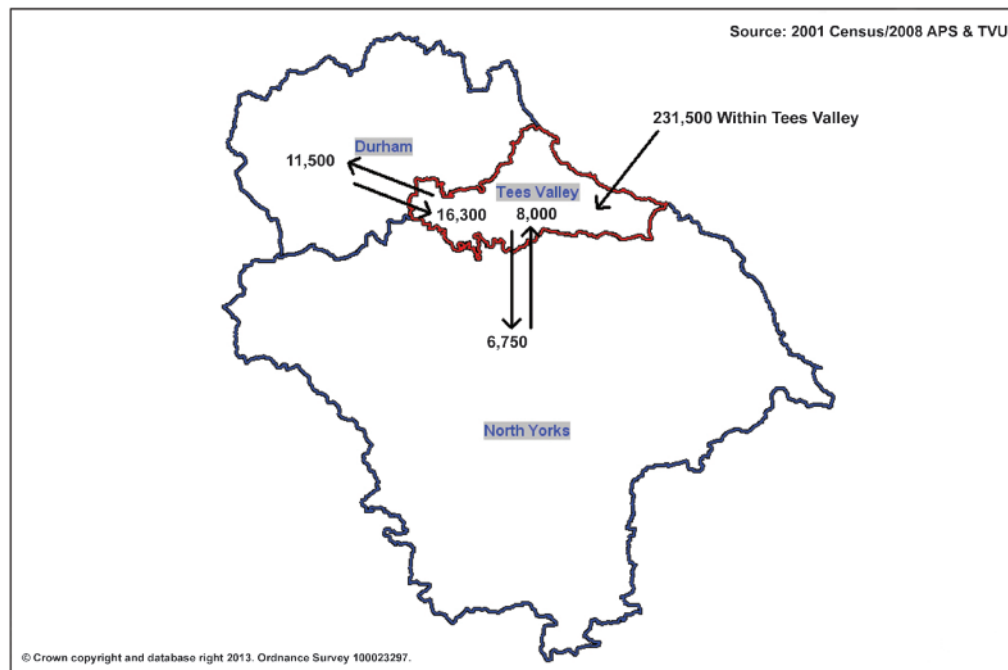
^{viii} Apprenticeship starts 2009/10 (SFA)

Section E : Governance

E1 The Tees Valley geography

The Tees Valley covers the five Tees Valley local authority areas of Darlington, Hartlepool, Middlesbrough, Redcar & Cleveland and Stockton with a population of around 650,000. The area is recognised in several strategies as an economic functioning geography. The area has a great deal of self containment with relatively few commuters crossing the Tees Valley boundary; most people work within their district of residence, with significant proportions travelling between the Tees Valley districts. This is illustrated in the diagram below.

TRAVEL TO WORK FLOWS FROM NEIGHBOURING COUNTIES



As illustrated in Section B the area experiences a number of similar issues and opportunities which do not respect individual local authority boundaries. The geography of these issues and opportunities, makes city region partnership activity an appropriate, and accepted way of working.

E2 The governance structures that ensure effective, binding and strategic decision-making across the relevant economic area

Tees Valley has a long track record of public and private working across the Tees Valley to address strategic economic development, transport and housing matters. This dates back to 1996 with the formation of the Tees Valley Joint Strategy Unit (JSU). This collaborative, cross boundary approach includes:

- area wide strategy and vision development - Tees Valley Vision, Tees Valley City Region Business Case, Tees Valley City Region Transport Strategy, and most recently the Tees Valley Statement of Ambition.
- pooling of strategic economic functions – currently covering business engagement, economic strategy and intelligence, inward investment, marketing and promotions, strategic transport, and investment planning (previously through the JSU and the Tees Valley Regeneration Company) and since 2010 through TVU - with a permanent staff of 31 and an annual core revenue budget of £2.1m funded by the 5 local authorities.
- cross-boundary prioritisation and decision making on spending – Tees Valley City Region Investment Plan, Single Programme Delivery Plan, Housing Market Renewal Business Plan, and most recently Enterprise Zone development and the Growing Places Fund.
- pooling of budgets – the 5 local authorities through TVU have agreed to pool the business rates uplift and the EZ income from the 8 Government Funded Enterprise Zone sites with the first priority for the use of the income to support 4 locally funded EZ sites. The TVIF model with agreed criteria for investment will determine the use of the project EZ income and other funds that are attracted and secured.
- more effectively and efficient ways of working and achieving more with less – despite the loss of RDA funding for TVU activities and core funding, TVU has worked with 31 businesses to access over £101m of Regional Growth Funds, £85m more than was accessed by Tees Valley businesses through the previous three years of GBI and other grants available through the RDA. TVU is committed to removing bureaucracies and working more effectively and believes that real local accountability and decision making can help to achieve this.

TVU currently operates as a voluntary public / private partnership with an Accountable Body (Stockton Borough Council) and a legal agreement binding the local authorities into the development and delivery of the Tees Valley Statement of Ambition and detailing the modus operandi for the partnership.

In its commitment to continue to achieve greater effectiveness and efficiencies TVU has been considering alternative governance arrangements that could be fit for future purposes, particularly in light of the City Deal discussions. This ranges from incorporated body status (which poses VAT issues) through to a Combined Authority. The five local authorities in TVU are committed to ensuring that future governance arrangements secure growth and meet the local and the national requirements. This proposal is in line with the Government's commitment for areas taking greater local ownership of economic activities and is made in the full knowledge that the area through TVU is committing itself to deliver.

E3 Generating momentum in developing a workable city deal proposal

Senior staff will lead on the development of the City Deal and the negotiations with Government, involving both private sector and local public sector partners as appropriate. The Leadership Board members already play a key role in leading TVU activities. For example Paul Booth of Sabic has been working with TVU and other key businesses in the development of the industrial symbiosis concept for the area. Board members will be particularly important in the development and negotiations of elements of the Deal. In submitting this EOI each Board member is committed to playing their role within its development. Effective communications within the partnership and the broader city region will be critical to ensuring that the Deal can be delivered locally as will the political leadership across the Tees Valley – TVU has a strong track record of both. We would expect to develop an Implementation Plan during the course of the detailed negotiations with Government to ensure early delivery of the City Deal.