

AGENDA ITEM 6**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET****REPORT OF THE CHAIR OF OVERVIEW & SCRUTINY COMMITTEE****28th OCTOBER 2022****OVERVIEW & SCRUTINY COMMITTEE: INVESTMENT PLAN REFERRAL
REPORT****INTRODUCTION**

1. The Tees Valley Combined Authority Cabinet considered a report on its refreshed ten-year Investment Plan at its meeting on 22nd July 2022. At this meeting, the TVCA Cabinet made a referral to the Overview & Scrutiny Committee.
2. The Overview & Scrutiny Committee was invited to review the decision made by the Cabinet in relation to the approval of the Investment Plan Refresh (specifically recommendation 1) and agree whether to make a report and submit any appropriate recommendations to Cabinet. The Committee also considered whether their report should be published.
3. The Overview & Scrutiny Committee met on the 10th August 2022 at a meeting chaired by Councillor John Hobson (Middlesbrough Council). The Group Chief Executive, Julie Gilhespie, and the Tees Valley Mayor, Ben Houchen, were in attendance.
4. The Group Chief Executive delivered a presentation on the detail of the changes to the Investment Plan and Members were invited to ask questions. The questions and replies are attached at Appendix 1.

SUMMARY

5. This was the first time that the Scrutiny Committee had received such a referral from Cabinet and Members recognised the importance of ensuring the issues raised by Cabinet Members were considered in detail, alongside any concerns of Scrutiny Members themselves.
6. During the question-and-answer session Scrutiny Members sought further clarity in relation to a number of areas in the revised Investment Plan including some which had also been raised by Cabinet Members. Detailed questions and answers are listed at Appendix 1, but points included:

- Seeking further information on the consultation around the changes to the Investment Plan
- Clarification on the arrangements for the proposed new Mayoral Development Corporations.
- The environmental impact of further developments at Teesside International Airport
- Seeking clarity about how the additional £20m for TIA will be spent, and whether further TVCA investment will be needed in the future
- Concern over how the Investment Plan refresh took account of the current cost of living crisis facing residents of the Tees Valley

RECOMMENDATIONS

7. The Scrutiny Committee agreed:

- That a report of the meeting should be made to the Cabinet for their consideration and review
- That the report be published

DETAIL

Detailed questions and answers are included in Appendix 1.

Appendix 1:

Investment Plan Refresh Report

1. What are the refresh arrangements for the Investment Plan and why was this referred to the Overview & Scrutiny Committee?

The Constitution requires the Investment Plan to be refreshed annually. Government required wider consultation on the UKSPF, which has taken place through existing advisory groups and the establishment of the UKSPF Local Partnership Group.

The referral was requested from Cabinet by Councillor Mary Lanigan (Redcar & Cleveland Borough Council) (seconded by Councillor Shane Moore - Hartlepool Borough Council) because procedures in her own Local Authority require changes such as those proposed to be examined by the LA Overview & Scrutiny Committee ahead of Cabinet. Although it was explained that the Combined Authority is not subject to the same processes, it was agreed for the Overview & Scrutiny Committee to consider the decision and make any recommendations.

Mayoral Development Corporations (MDC):

2. Can you clarify what was said about Billingham in the presentation?

A £10m allocation was proposed for boroughs that do not have a Development Corporation, and it was agreed that £6m be ringfenced for Billingham. Stockton Borough Council previously declined the offer of a Development Corporation for the borough.

3. Will we get chance to ask questions in more detail at a Local Authority level on the Hartlepool MDC?

The proposal for the Hartlepool MDC has been through the Local Authority's own internal processes ahead of being taken to a meeting of the Council at the end of September. The Combined Authority does not need Local Authority permission to establish Development Corporations but would like to have this approval, which TVCA has been assured is forthcoming.

4. Where will the money from those assets gained by each MDC go?

The setting up of MDCs is a relatively straightforward process and involves drawing down additional powers and the ability to transfer publicly owned land and assets to the MDC. Two processes will be running alongside each other. The Secretary of State will look at the plan and determine if publicly owned assets can be transferred. This does not mean that the MDC has to draw down these assets, nor that it will. TVCA is currently working with Middlesbrough Council to determine what land/property they own and to determine which assets have income streams to Middlesbrough Council, and which assets are costing money and thus a liability. This will then be considered with Council officers to agree the appropriate treatment on an asset-by-asset basis. In some cases, land may not be transferred at all. At Hartlepool Council there is a wish to not transfer the war memorial and to protect Hartlepool Football Club's operations. TVCA has committed that it will not transfer

any assets not agreed by the relevant councils nor put their Medium-Term Financial Plan (MTFP) at risk as a result of transfers.

5. Why is the Northern School of Art included in the red line boundary?

Land in the red line boundary does not necessarily mean the land/asset will transfer or that anything will happen to it. The detail needs to be refined as there are various processes that could be adopted (e.g. an asset could be transferred and the income paid to the Council) and changes do not need to be implemented immediately. The need to protect Council finances and their MTFP is to be considered first.

6. If assets are transferred and you need to sell an asset to get rid of a liability, can they be transferred into another MDC?

Mayoral Development Corporations are standalone organisations. The MDC can buy, sell, leverage and borrow money in the same way as any corporate body, however each MDC will only have a finite set of financial resources. They may be able to leverage additional funding but cannot take on and manage all liabilities. If an asset has a liability it would go through the usual processes and assets would not be transferred between MDCs.

7. With the MDCs, what guarantee can you give that the transfer of land will be transparent?

The MDCs will not be of a size to warrant private investor partners. Teesworks was agreed at the Combined Authority Cabinet, with further oversight from external Auditors, the Treasury and the Department for Business, Energy and Industrial Strategy as it needed to be assured and transparent. Arm's length bodies examined this and found compliance, but it is a good practice example of how to work with private sector partners.

8. Could you provide a written response on responses received on the MDC proposals?

TVCA has received almost unanimous support for each of the MDC locations and the powers proposed. There have been some nuances, with some organisations asking to be included in the red-line boundary and TVCA has already shared those responses with Local Authorities to determine next steps.

Teesside International Airport:

9. If there is a long-term strategy to develop a carrier of goods, how can you do this without affecting the environment?

This is being progressed internally. Through the Net Zero Agenda, TVCA was able to decarbonise Wilton and bring new jobs to the area. Tees Valley is leading the UK in the low carbon sector, but aviation is a carbon intensive area and the Airport needs to be a part of our low carbon ambitions.

Decarbonising the Terminal has been relatively simple with projects including hydrogen vehicle trials and solar farms. TVCA wants to play a key role in national airport decarbonisation. Renewables companies are increasingly basing themselves

in the region, with research and development of Sustainable Aviation Fuel (SAF) taking place here. Though not completely carbon neutral, SAF reduces emissions by 85% so this may be an important temporary solution.

10. Are you confident that, by 2050, there is not going to be more pollution being created locally than the government wants?

Yes.

11. Is there detail of what the £20m that has been invested in the Airport is being spent on?

Money is allocated to the Airport from TVCA by topping up its debt facility finance. This was earlier than expected due to the pandemic. £11m went to pandemic losses last year, with no redundancies, and staff salaries were topped up to 100% during furlough. The airport also moves through category levels as it becomes more successful and, as a result, fire safety costs increase, higher specification is required for security and air traffic control regulations are of a different standard. Additional funding was required for future investment as Willis Lease Finance Corporation looks to create its new aviation maintenance facility. Hangars for Willis and Draken and a regulated facility will drive the Airport forward and they also make up part of the £20m. The latest business plan sees a move towards increasing commercial revenue especially given the development of the Freeport and whilst this will underpin the long-term viability of the airport, it requires investment to establish the facilities. There was an estimated £3 to £3.5m of additional costs associated with higher specifications related to the airport becoming more successful.

12. If the plans for the Airport were to expand why wouldn't the associated costs have been accounted for?

When TVCA first brought Teesside Airport into public control, the Airport initially focused on securing routes and carriers rather than the commercial aspect, which was to come later. A Freeport has also since come into operation since TVCA bought it.

13. How confident are you that the Airport will be in profit by 2025?

The Business Case has been updated and as long as the Airport hits its numbers, and there is not another pandemic or other mitigating factors, it will. The projections are considered prudent and achievable.

14. Can you guarantee there will not be a need to invest in the Airport again before 2025?

TVCA cannot guarantee this, as unforeseen factors such as a pandemic could impact the airport's finances. However, if the Airport hits its numbers, TVCA can "reasonably" say it will not require any further investment of this kind.

TVCA's investment in the Airport is a loan and in 2019 it was agreed that when the Airport comes back into profit it will repay the loan to TVCA. If the Airport does not succeed, TVCA can take charge of the land to generate finances to repay the loan. Even in the worst-case scenario, TVCA always would be protected as it would get the loan back. There is no fixed repayment facility, it is a debt facility with an interest charge.

(MR left the meeting at 2:05pm.)

15. How much more could be put into the Airport to still have a positive benefit-to-cost ratio (BCR)?

The future economic growth and success of Tees Valley is linked to inward investment, and connectivity via a local international airport is essential. The benefit-to-cost ratio is calculated in line with the Government Green Book – the Government standardised assessment. With the level of BCR in the middle scenario, very significant additional investment could be made without turning the BCR negative. However, at this time no further investment is expected.

16. Where might that money that has been invested have gone otherwise?

Area in the earlier presentation, however those areas will not give the same economic impact as the Airport.

17. Is the 2025 return to profitability target optimistic?

In 2019 the Airport launched its ten-year turnaround plan with a target to achieve profitability by 2026. If the impact of the pandemic was discounted, the airport is still on plan to achieve the projected turnaround. The investment that has been made, particularly in commercial and cargo operations, gives the airport confidence that it can reach profitability within the timescale set out in the business plan.

18. How do we get the message across to the public that the Airport is not just about flights abroad and they don't generate the revenue to fund it?

The jobs that are being generated at the Airport due to Draken and Willis' aircraft maintenance facilities need to be highlighted alongside the holiday flights. It is also vital the airport's importance in being able to undertake other projects is highlighted. For example, the bid that has been submitted to Eurovision for Teesside and Darlington to host the contest next year, a condition is to have an airport within ten minutes of the venue. Not having the Airport means other things can't happen, so TVCA needs to continue talking about the positives.

(BH left the meeting at 3pm.)

The Chair noted the time as the meeting had exceeded its allocated timeframe and informed the Committee if any further members left, the meeting would cease to be quorate so Members were asked to close their questions but advised that questions could be submitted in writing.

19. Is the road at the South Side of the Airport costing £23.6m on target and are four new buildings going to happen?

The road is currently under way and on schedule as are the utilities. The cost of the road has been massively reduced because of our partners. The cost was expected to be £20m but the saving is being used to fund the sheds. Planning applications have been submitted for these as tenants have specific requirements for the buildings. These tenants will also take advantage of the Freeport benefits of the site

and take a lease so the revenue will then come back to the Airport.

20. How and when do we see freight handling facility coming online and generating any significant profit?

The Airport is in discussions with two freight handlers. The Airport will use existing infrastructure and appoint a new Cargo Manager with a proven track record in significant freight handling. The Airport received HMRC clearance last week, training is ongoing and the target date for opening the facility is 5th September.

Short-term Issues Facing Residents:

21. How do we alleviate the short-term issues of the people in the Tees Valley?

There is not enough being done for the disadvantaged locally and nationally but the Government interventions that have been put in place are managed by the Local Authorities, with the funding awarded directly to them, not TVCA. In retrofitting homes to help them reduce energy consumption, TVCA assists Officers at almost every Local Authority in the North East and Yorkshire, including distributing grants to all of the Tees Valley Local Authorities. The Tees Valley Local Authorities have not always wanted support on retrofitting as they do it themselves. TVCA runs the net zero hub for the North.

The impact of the cost-of-living crisis, irrespective of what TVCA does in the short term, is so huge that TVCA unfortunately do not have the funds to alleviate it but if TVCA can do something to help, it will. Teesside has always been disadvantaged, but big things need to be done, and things done differently, to shake up the economy. TVCA is not set up to deal with those things.

Multiply:

22. Will the education and courses be collaborated upon with a further education college to ensure the courses are in the areas where those people live?

TVCA won't be funding Further Education colleges through this project as it needs to be at a more local level. TVCA wants a consortium approach that deals with the Department for Education to see what provision is already provided and what can be enhanced.

23. Will there be a level of scrutiny, such as DfE and Ofsted?

Yes, TVCA is looking at an umbrella organisation that is Ofsted regulated to work on a consortium level with those providers. This will reduce paperwork for small voluntary agencies as there will be one organisation co-ordinating the paperwork and regulations. The balance of quality is also needed.