

**AGENDA ITEM 7****REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET****27 NOVEMBER 2020****REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES****DEVOLUTION INVESTMENT FUND GATEWAY REVIEW – SQW GATEWAY  
REVIEW REPORT AND COMPLEMENTARY REPORT****SUMMARY**

The Tees Valley Investment Fund is a 30 year, £15 million per annum fund that was secured through the Devolution Deal that was signed with Government in October 2015. The Devolution Deal mandated that Government would undertake a Gateway Review every five years of the fund to assess progress and make future funding decisions – a payment by results model.

The first evaluation of the Tees Valley Investment Fund is due to take place in early 2021. As outlined in the Devolution Deal documents, an independent evaluation of the economic impact of the Tees Valley Investment Fund will form the basis of the Gateway Review and support the Government's decision making on future funding levels. This independent evaluation is led by the nationally appointed economics consultancy SQW Ltd.

The purpose of this report is to set out the process for the Gateway Review and to seek endorsement of both the Gateway Review Report, led and produced by SQW, provided at **Appendix 1**, and the Complementary Report, led and produced by the Combined Authority, provided at **Appendix 2**, both of which will inform the Government Gateway Review of the Tees Valley Investment Fund.

**RECOMMENDATIONS**

There is a need to submit both the SQW Gateway Review Report and the Combined Authority led Complementary Report to Government to inform the Gateway Review Process ahead of the formal Government Gateway Review of the Tees Valley Investment Fund. Although a timetable for submission and review has not yet been definitively agreed with Government, it is envisaged that submission of both reports will occur in early December with the Gateway Review occurring from January onwards. Draft versions of the reports are provided at **Appendix 1** and **Appendix 2**. It should be noted that amendments may be required to both reports following early consultation with Government.

It is therefore recommended that the Combined Authority Cabinet:

- i. Notes the detail of the Gateway Review Process;
- ii. Notes the content of the SQW Gateway Review Report and the TVCA Complementary Report;

- iii. Delegates authority to the Combined Authority Chief Executive to approve and submit final copies of both the SQW Gateway Review Report and the Complementary Report to Government in respect of the Gateway Review of the Tees Valley Investment Fund; and
- iv. Provides any feedback on the matters covered.

## **GATEWAY REVIEW PROCESS**

1. The Government has agreed to long-term investment to stimulate economic growth through the signing of Devolution Deals. The Tees Valley Investment Funds secured through the Devolution Deal signed in October 2015 are worth £15m per year over 30 years.
2. The Devolution Deal requires the Combined Authority to go through a Gateway Review every five years of the fund to assess progress with a decision on future years funding provided by Government.
3. As outlined in the Devolution Deal documents, an independent evaluation of the economic impact of the Investment Fund spend in each area will help inform the Gateway Review and support Government's decision making on future funding levels. Economics consultancy SQW Ltd have been appointed at a national level to lead on this work. Consideration will be given to the economic benefits and impact of investments supported through Devolution Investment Funds, including whether projects have been delivered on time and to budget.
4. SQW's assessment will inform the Gateway Review and help Government decide on future funding levels, their findings are concluded in a Gateway Review Report. In addition to SQW's Gateway Review Report the Combined Authority will also be required to submit a Complementary Report to Government which allows the Combined Authority to provide further local context, including a high-level strategic narrative of the approach taken towards the Tees Valley Investment Fund. The draft SQW Gateway Review Report is provided at **Appendix 1** and the draft Tees Valley Investment Fund Complementary Report is provided at **Appendix 2**.
5. A formal date for the Gateway Review has not yet been established with Government, however, this is expected to be resolved imminently with the Combined Authority liaising with Government to establish a mutually agreeable timescale. The submission of the Gateway Review Report and Complementary Report is expected to occur in early December, with the Gateway Review process to follow in January. A decision on future years funding is anticipated no later than the end of the financial year.
6. Upon submission of the SQW Gateway Review Report and the Combined Authority Complementary Report, the Gateway Review process will begin, and Governmental departments will start to draw conclusions on the progress and impact of Combined Authority Investment Fund expenditure. This will be undertaken by a 'Cross-Whitehall Review'. At the five-year stage, it is reasonable to anticipate limited or partially measurable economic impacts of interventions, therefore the review will primarily be

focused on the progress of spend by interventions supported by the Tees Valley Investment Fund.

7. Findings from the Cross-Whitehall Review will then inform a Challenge Session between Government and the Combined Authority. The Challenge Session will provide an opportunity for the Combined Authority to give further context, highlight key steps and detail progress achieved in the management of the Investment Funds. It will also present the opportunity to discuss, collaboratively, long term investment plans.
8. Following the Challenge session, recommendations will be submitted to Ministers based on the Gateway Review Report, Complementary Report, Cross-Whitehall Review and the Challenge Sessions. Ministers are expected to utilise the recommendations to provide a decision on future funding, commencing from the financial year 2021-22.

## **SQW GATEWAY REVIEW REPORT**

9. The purpose of the SQW Gateway Review Report is to evaluate the impact of locally-appraised interventions on economic growth to inform the Gateway Review and Ministerial decision-making on future funding. This is specifically focused on the devolved £15m per year Investment Fund. The focus of the report will be on the impact of activities supported by the Investment Fund, or the progress in delivery where it is too early for impact to be established.
10. Seventeen interventions had been in receipt of Investment Fund grant by December 2019. However, it was agreed with SQW that it would not be proportionate to evaluate all 17 interventions in detail. As such, eleven interventions were selected to be subject to detailed evaluation (impact, progress or progress plus) with six subject to 'expenditure only' analysis by the evaluators. The projects and programmes selected for intervention are noted in the table below:

<b>Intervention</b>	<b>Evaluation Level</b>
BoHo 'The Digital City'	Progress
Collaborative Networks	Progress
Liberty Steel	Progress
TeesAMP	Impact
Broadband	Expenditure
Indigenous Growth Fund	Progress
STDC Site Investigations	Expenditure
Education and Careers Programme	Progress
Employment and Skills Programme	Progress
Hartlepool Centre of Excellence	Expenditure

Hartlepool ISQ 2	Progress
Northern School of Art	Progress
YEI Extension	Expenditure
Demand Responsive Transport	Expenditure
Middlesbrough Rail Station	Progress
Culture and Tourism Programme	Expenditure
Teesside Airport Purchase	Progress Plus

11. Definitions of the evaluation categories are provided below:

- **The impact evaluation** of TeesAMP takes into account additionality to provide evidence on the gross and net impacts of the intervention. It will also include the progress evaluation evidence noted below.
- **Progress evaluations** provide evidence on expenditure against budget, whether delivery milestones have been met, whether anticipated outputs and intermediate outcomes have been delivered, and whether the project has delivered, or remains on course to deliver, against its original objectives.
- **The 'Progress plus' evaluation** of the Teesside Airport intervention includes all of the above plus consultations with representatives from wider partner and stakeholder organisations related to the specific intervention. The emphasis of these consultations will be on evidencing early impacts and anticipated effects of the intervention.
- Expenditure only analysis provides evidence on expenditure against budget.

12. The Gateway Review Report summarises four Evidence Reports, which provide more detailed findings from the evaluation. These Reports are:

- **Evidence Report 1:** Capacity Development and Partnership Working, which provides evidence on how the Investment Fund has contributed to local economic development capacity and partnership working;
- **Evidence Report 2:** Progress Evaluation, which sets out the findings on progress of the Investment Fund against intended spend, activity and output profiles;
- **Evidence Report 3:** TeesAMP Impact Evaluation, which presents findings on the early effects of TeesAMP;
- **Evidence Report 4:** Teesside Airport Progress Plus Evaluation, which presents findings on the progress and emerging effects of the Teesside International Airport Purchase and Development Programme.

13. The research for the evaluation reports draws on: in-depth consultations with, and an e-survey of, key local economic development stakeholders; a review of monitoring data provided by the Combined Authority; consultations with project managers of the Investment Fund supported interventions; and consultations with those involved in the delivery of/benefiting from the TeesAMP and Teesside International Airport interventions.
14. A draft SQW Gateway Review Report is provided at **Appendix 1**. Key findings from the draft report include:
  - Capacity development and partnership working has improved since the Devolution Deal was signed, and the Tees Valley Investment Fund has contributed positively towards this. 93% of e-survey respondents reported that the fund delivered a positive effect.
  - Although spend on the seventeen interventions sponsored by the Investment Fund which were selected for evaluation in 2018 (at the beginning of SQW's work) were generally behind forecast spend (largely because of Covid 19 impacts), with 83% of expenditure incurred to date, additional interventions supported by the Investment Fund, which have been accelerated, have resulted in total Investment Fund expenditure equalling 130% of what was forecast in 2018.
  - The two major schemes supported by the Investment Fund and subject to an enhanced evaluation by SQW, (Tees Advanced Manufacturing Park ("TeesAMP") and the Airport) have both seen positive progress:
    - TeesAMP – the outputs presented in the business case have been delivered, and there are early positive signs of the impact of the investment on the image and profile of both Middlesbrough and Tees Valley.
    - Airport – progress has been made on securing new routes, and there has been a positive response witnessed at the airport in a challenging climate given the Covid-19 pandemic. Work to enable infrastructure spend is taking place with regard to the significant opportunity Southside represents; however given the uncertainty surrounding the ongoing pandemic there will need to be an ongoing focus on the ten-year targets outlined in the Airport business case.

## **COMBINED AUTHORITY COMPLEMENTARY REPORT**

15. A draft of the Combined Authority led Complementary Report is provided at **Appendix 2**. The purpose of this document is to set out a broader narrative of the last five years and to draw attention to any relevant issues that will not be included in the independent Gateway Review Report - it is intended to support the Gateway Review Report and is therefore to be submitted at the same time.
16. Both the Gateway Review Report and the Complementary Report will form the basis of the Government's review into the impact and management of the Combined Authority Investment Fund. The Complementary Report is of particular value as it

provides the opportunity to present information to Government in a way which is tailored to the local context of the Investment Funds.

17. The Complementary Report also provides localities with the opportunity to highlight local challenges and the progress made in working towards overcoming them. It is a means of providing a high-level strategic narrative on the approach adopted to managing Investment Funds. The report therefore contains information that should be considered in the Gateway Review, but which does not fall within the remit of the Gateway Review Report. Key messages from the draft Complementary Report (**Appendix 2**) include:

- The long term security of The Tees Valley Investment Fund and the Devolution Deal powers have allowed the Combined Authority to leverage our resources to borrow against future funds, enabling the Combined Authority to deliver transformational activity sooner rather than delivering smaller scale and less impactful activities based on a smaller annual allocation.
- The Combined Authority does not distinguish between different sources of funding for the purpose of Investment Planning, other than recognising that some sources of funding are restricted in what they can be used for. The Tees Valley Investment Plan therefore covers all funding sources and income currently available to the Combined Authority, not just the funds provided through the Devolution Deal.
- The Investment Plan identifies the ten-year investment priorities against all Combined Authority sources of income and applies our Assurance Framework consistently across all funds within the Investment Plan. The Assurance Framework clearly identifies the processes for securing funds from the Combined Authority and the requirements placed on delivery partners once their projects have been approved. This means that any organisation seeking funding from the Combined Authority does not need to concern itself with the source of the funding and differing processes – highlighting our flexible approach towards funding.
- Our approach to investment will see the Combined Authority deliver significant benefits to Tees Valley. The total impact of delivering the Investment Plan will be in the order of 16,475 direct jobs and £1.48billion of additional cumulative annual output (GVA), over its lifetime.

## **NEXT STEPS**

18. Payment of next tranche of Investment Funds will be dependent on a successful outcome of the Gateway Review. Government is committed to continuing to work with the Tees Valley Combined Authority on the evaluation of its Investment Funds agreed as part of the Devolution Deal, the next key step will be to set out date for the formal Gateway Review, the submission of the SQW Gateway Review Report and the Tees Valley Complementary Report, the Cross-Whitehall Review and the Challenge Session. It is anticipated that there will be a final Ministerial decision on the next tranche of Investment Funds prior to the start of the financial year 2021-22.

## **FINANCIAL IMPLICATIONS**

19. The major financial implication relating to the Gateway Review will be the Ministerial decision, informed by the Gateway Review, on future years of Devolution Investment

Funds. A successful Gateway Review will unlock the next five years of Devolution Funds which paid out at £15m per annum would equate to £75m.

20. SQW have been appointed at the national level to undertake locality evaluation – therefore there was not a need for the Combined Authority to procure this service. However, the total fee for SQW's work is £238,873. To date £145,342 has been claimed by SQW and paid by the Combined Authority, this leaves two remaining invoices of £46,766 each to pay. One will follow agreement of the draft SQW Gateway Review Report and the final invoice will be paid following the end of SQW's involvement in the Gateway Review process.

## **LEGAL IMPLICATIONS**

21. None related to this report.

## **RISK ASSESSMENT**

22. The overall risk associated with the Gateway Review is that the Combined Authority does not pass the Government Gateway process to unlock further years of devolution deal funding. Steps have been undertaken to ensure that the Gateway Review is positive, and the Combined Authority will continue to work with Government to ensure appropriate measures are taken. Upon submission of the SQW Gateway Review Report and The Combined Authority Complementary Report the Combined Authority will have the opportunity to respond to any emerging queries Government may have and rectify any outstanding issues. Close monitoring will be undertaken, and an update report will be provided to Cabinet outlining progress through the Gateway Review and the steps taken to respond to any queries which arise.

## **CONSULTATION & COMMUNICATION**

23. Detailed consultation has been undertaken in respect of the production of the SQW Gateway Review Report, this has included in-depth consultations with, and an e-survey of, key local economic development stakeholders, consultations with project managers of the Investment Fund supported interventions, and consultations with those involved in the delivery of interventions subject to detailed evaluations.
24. This report has been subject to consultation with the following in advance of Cabinet: Tees Valley Management Group and Tees Valley Chief Executives. The report is also to be presented at the January 2021 Overview and Scrutiny meeting.

## **EQUALITY & DIVERSITY**

25. None related to this report.

## **LOCAL ENTERPRISE PARTNERSHIP**

26. This item has been considered at the LEP meeting held on the 9<sup>th</sup> November, in advance of it coming forward to Cabinet.

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