

## Cabinet

Tuesday, 28 January 2020 at 2.00 pm

Meeting to be held: Committee Room, North Tyneside Council, Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY

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## AGENDA

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Page No

1. **Apologies for Absence**
2. **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.

**Note:** The Audit and Standards Committee has granted dispensations to Cabinet members so that they may participate in decisions which relate to the constituent authority which appointed them.
3. **Minutes of the Previous Meeting** 1 - 6
4. **Investment Fund Update and Funding Approvals** 7 - 14
  - (a) **North of Tyne Tourism - proposed investment approach** 15 - 24
  - (b) **Culture and Creative Industries - Sector Development Update** 25 - 36
  - (c) **North of Tyne Digital - sector update and proposed investment approach** 37 - 50

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|----|---|----------------|
| 5. | <b>2019/20 Q3 Financial Management Report</b> | <b>51 - 58</b> |
| 6. | <b>NTCA Budget Proposals 2020-2024</b>        | <b>59 - 80</b> |
| 7. | <b>Date and Time of the Next Meeting</b>      |                |
- Tuesday, 25 February 2020 at 2pm.

Contact Officer: Victoria Miller  
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## North of Tyne Combined Authority, Cabinet

17 December 2019

(2.00 - 2.53 pm)

Meeting held: Committee Room, Civic Centre, Newcastle upon Tyne, NE1 8QH

### Minutes

#### Present:

Chair: Mayor J Driscoll

Councillors N Forbes, C Homer, P Jackson, J McCarty and B Pickard, Mayor N Redfearn and Mr M Thompson

The Mayor welcomed everyone to the meeting.

In his opening speech, the Mayor referred to the continuing commitment to devolution, economic development and cross-party work following the outcome to the general election.

The Mayor welcomed the two new Directors, Ruth Redfern and Henry Kippin. He also thanked the two outgoing Interim Directors, Jackie Laughton and Tom Warburton, for their work for the Combined Authority.

#### The Order of the Agenda

The order of the agenda was changed to allow agenda items 7 and 8 (Audit Completion Report 2018-19 and Annual Financial Report 2018-19) to be considered earlier in the meeting.

#### 39 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor W Daley and Mr A Hodgson.

#### 40 DECLARATIONS OF INTEREST

There were no declarations of interest.

#### 41 **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting held on 22 October 2019, subject to an amendment of Minute 33 to add "*The Mayor noted that the Good Work Pledge gave the opportunity to improve procurement using social value clauses*", were approved as a correct record and signed by the Chair.

#### 42 **AUDIT COMPLETION REPORT 2018-19**

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

The Cabinet considered the report which presented the Audit Completion Report (ACR) for the Combined Authority. Members noted the reasons for the delay, as previously reported. The report was introduced by J Gillespie.

The report also included the Audit Completion Report for the North East Combined Authority (NECA), as the accountable body for the Joint Transport Committee. This set out accounting information for the split of assets and liabilities as per the Devolution Order.

It was noted that the report had been to the Audit and Standards Committee and the Committee had not submitted any comments for the Cabinet.

C Waddell of Mazars presented the External Auditor's report, referencing the work undertaken and highlighting key findings and conclusions. It was confirmed that all matters relating to audit completion were progressing well and were substantially completed. The work would be fully completed in time for sign-off on Friday 20 December. It was also noted that Mazars had sought comments from Ernst and Young LLP, the previous External Auditor for the North of Tyne Combined Authority, who had confirmed that there had been no issues arising.

The Mayor thanked the External Auditor and teams within the Combined Authority for their work.

**RESOLVED** – That the Cabinet approved the NTCA Audit Completion Report 2018-2019.

#### 43 **ANNUAL FINANCIAL REPORT 2018-19**

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

The Cabinet considered the report which presented the audited Statement of Accounts 2018-2019 and the Annual Governance Statement for 2018-2019.

J Gillespie explained the work undertaken and confirmed that the Authority would be in a position to sign the Statement of Accounts 2018-2019 and the Annual Governance Statement 2018-2019 on Friday 20 December.

**RESOLVED** – That the Cabinet:

- i. approved the audited Statement of Accounts 2018-2019 in line with the Accounts and Audit Regulations 2015;
- ii. noted the Letter of Representation to be signed by the Interim Chief Finance Officer (Interim Section 73 Officer); and
- iii. approved the Annual Governance Statement for signature by the Mayor and Interim Head of Paid Service.

44 **MAYORAL AMBASSADORS FOR BUSINESS AND THE VOLUNTARY, COMMUNITY AND SOCIAL ENTERPRISE SECTOR**

Submitted: A joint report of the Director of Policy and Performance and the Interim Monitoring Officer (previously circulated and a copy attached to the Official Minutes).

The Cabinet considered the report, which sought its approval of:

- the Mayor's nomination for the Mayoral Ambassador for the Voluntary, Community and Social Enterprise sector;
- the arrangements for the mayoral ambassador roles; and
- further consultation with the business sector.

The report was introduced by the Mayor.

With regard to paragraph 1.3.2, it was clarified that the proposed stakeholder group was expected to meet approximately every two months.

In discussion:

- It was suggested that Members of the Cabinet should be kept informed about the outcomes of meetings of the stakeholder group.
- It was also noted that work was ongoing to develop proposals for the appointment of a Mayoral Ambassador for Business, and progress was expected in the next couple of months.

**RESOLVED** – That the Cabinet:

- i. approved the appointment of Robin Fry as the Mayoral Ambassador for the Voluntary, Community and Social Enterprise (VCSE) sector;
- ii. agreed to extend the consultation with the business sector; and
- iii. agreed to amend Part 2.2 of the Constitution to give effect to the revised arrangements for these roles, as described in section 1 of the report.

## 45 INVESTMENT FUND UPDATE

Submitted: A report of the Director of Economic Growth (previously circulated and attached to the Official Minutes).

The Cabinet considered the report which provided an update on progress with the Investment Fund and invited further decisions on the allocation of funding.

Members welcomed the progress and achievements to date, which related to job creation, preparing people for work, making the region attractive for business and for residents and opportunities to help to address climate change.

**RESOLVED** – That the Cabinet:

- i. Agreed that funding for the North of Tyne Inward Investment Fund be increased by £7m to a total value of £10m, for the period up to 30th September 2022; and that targets be increased proportionately, with the jobs target increasing from 600 to 2000;
- ii. Authorised the Interim Head of Paid Service to continue to approve individual funding awards in relation to the North of Tyne Inward Investment Fund, in consultation with the Mayor and the NTCA Investment Panel;
- iii. Agreed £25,000 to support the Hexham Hydro feasibility study, subject to conditions outlined at paragraph 1.3.7 of the report;
- iv. Authorised the Interim Head of Paid Service to finalise the conditions to be attached to the above funding award and authorised the Interim Monitoring Officer to complete the necessary documentation; and
- v. Noted progress in relation to the Employability and Skills Programme and wider work to shape the pipeline for future investment, including supporting the growth of key sectors.

## 46 GOOD WORK PLEDGE

Submitted: A report of the Director of Economic Growth (previously circulated and attached to the Official Minutes).

The Cabinet considered the report which provided an update on the work to date to develop the Good Work Pledge for the North of Tyne Combined Authority.

The Mayor welcomed this work and commented on its social and economic importance.

Amongst the matters noted during the ensuing discussion were the following:

- the visionary dimension of the Pledge and the opportunity to change the work culture by achieving social justice and making people feel valued and appreciated;

- the opportunity for the Pledge to bring economic benefit as a result of the change in the work culture, increased productivity and talent retention, which all made good business sense;
- the role of small business and the intention to target organisations and companies of various types and sizes;
- the importance of adequate investment for the programme;
- the importance of being able to measure the success of the programme and the need for regular reporting on progress;
- the need to establish an appropriate timetable and audience for an effective launch of the Pledge, including engagement with the business community and the possible opportunity to link the launch with the appointment of the Mayoral Ambassador for Business as well as opportunities for early adopters.

The Cabinet noted that the process to support the programme was being developed. It was expected that the programme would be moderated rather than self-assessed, and it would be subject to an ongoing review. It was also envisaged that engagement with early adopters would help to shape the development of the programme.

Members welcomed the Pledge and its wider benefits.

**RESOLVED** – That the Cabinet:

- i. Noted the progress being made on the Good Work Pledge.
- ii. Approved the Pledge and authorised the Head of Paid Service, in consultation with the Portfolio Holder for Inclusive Economy, to take the necessary steps to finalise and implement it.

#### 47 **NTCA BUDGET PROPOSALS 2020 – 2024**

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

The Cabinet considered the report which sought approval of the draft budget for the North of Tyne Combined Authority (NTCA) for 2020-2021 and the medium-term financial plan for the period 2020-2021 to 2023-2024. It was noted that the draft budget would be subject to consultation with Overview and Scrutiny Committee. The final proposals would be brought to the Cabinet in January 2020.

**RESOLVED** – That the Cabinet:

- i. Agreed the draft Corporate budget for 2020-2021 as set out in Paragraph 1.1 of the report, which would be subject to consultation with the Overview and Scrutiny Committee.
- ii. Agreed the draft Investment Fund as set out in paragraph 1.2 of the report, which would be subject to consultation with the Overview and Scrutiny Committee.

- iii. Agreed the draft Adult Education Budget as set out in paragraph 1.3 of the report, which would be subject to consultation with the Overview and Scrutiny Committee.
- iv. Agreed the draft Treasury Management Strategy 2020-2021 as described in paragraph 1.5 of the report and attached at Appendix A, which would be subject to consultation with the Overview and Scrutiny Committee.
- v. Noted that the Transport Levies would be issued on the 15 February 2020 in line with 2019-2020 arrangements and amounts.
- vi. Agreed to hold the level of reserves set out in paragraph 1.8 of the report and noted that the Chief Finance Officer would continue to keep the level of reserves under review as the Authority developed and new information become available about the financial risks facing authority arrangements for managing those risks.

#### 48 **ORGANISATIONAL UPDATE**

Submitted: A report of the Interim Monitoring Officer (previously circulated and attached to the Official Minutes).

The Cabinet considered the report which provided an update on recent organisational changes and sought approval for the arrangements for the statutory role of Head of Paid Service.

The Mayor thanked Pat Ritchie for her work as the Interim Head of Paid Service to date and welcomed Paul Hanson into the role.

**RESOLVED** – That the Cabinet:

- i. noted the update on recruitment; and
- ii. agreed that the role of Head of Paid Service would rotate between the Chief Executives of the three constituent local authorities on an annual basis as set out in paragraphs 3.3 and 3.4 of the report.

#### 49 **DATE AND TIME OF THE NEXT MEETING**

Tuesday, 28 January 2020 at 2pm.

**Subject: Investment Fund Update and Funding Approvals**

**Report of: Director of Economic Growth**

**Portfolio: Economic Growth**

## Report Summary

The purpose of this report is twofold: First, to bring forward proposed approaches to investment within the digital, culture & creative and tourism & events sectors - as priority sectors identified in the NTCA Economic Vision and Devolution Deal. The proposals outlined in the reports are underpinned by work commissioned by Cabinet to flesh out opportunities for inclusive growth within identified priority sectors. Second, the report asks Cabinet to consider recommendations made by the NTCA Investment Panel regarding Business Case Development Fund applications.

The recommendations outlined in appendices A, B and C ask Cabinet to approve plans which would commit in principle:

- £8.5m of £33m identified in the Investment Plan until 2022/23 for Growth of Key Sectors;
- £8.25m of £8.4m identified in the Investment Plan until 2022/23 for Culture, Creative and Tourism; and
- £2.75m of £5m identified in the Investment Plan until 2022/23 for Skills for Growth

This investment will lay the foundations for future growth, support the creation of an estimated 600-800 jobs, and provide a strong signal to our digital, culture & creative and events/tourism stakeholders that the North of Tyne is ready to support a step change in delivery and market activity.

The appendices make clear the link to agreed NTCA outcomes; provide an over-arching commitment and headline financial allocation for each sector; and indicate the further work that will then be done to create the right mechanisms for delivery. They enable Cabinet to approve headline allocations for three key sectors, which will then enable the NTCA team in turn to begin working on appropriate delivery approaches for each.

The reports – and underlying approach to sector development – have significant interdependencies. The role of digital, for example, is fundamental to growth and change across the whole economy. Embedded across the whole programme is a

commitment to inclusive economy and to helping to build the skills base needed for success.

## **Recommendations**

The Cabinet is recommended to:

- i. Consider the recommendations itemised in appendix A, B and C
- ii. Agree £30,385 to support the Northumberland Energy Park Phase 3 (NEP3) Feasibility Study, subject to conditions outlined at paragraph 2.1.6.
- iii. Agree £40,000 to support the Robotics Cluster for Offshore Energy proposal subject to conditions outlined at paragraph 2.2.8.
- iv. Authorise the Head of Paid Service to finalise the conditions to be attached to the above funding award and authorise the Interim Monitoring Officer to complete the necessary documentation.

## **1. North of Tyne Key Sectors**

- 1.1 Creating innovative, long-term opportunities for growth that reflect a transforming economy is a priority for the Combined Authority. We want to create the conditions needed for our businesses to flourish, whilst ensuring residents have the opportunities to thrive with access to good employment and progression. We are already working with our employers, universities, the North East LEP and other partners to begin delivering against our vision – and the appendices in this report show how we intend to accelerate this.
- 1.2 The North of Tyne Devolution Deal package – comprising the Investment Fund, new initiatives and new powers – is aiming to add £1.1bn GVA to the economy, deliver over 10,000 new jobs, and leverage over £2.1bn in private sector investment. In April 2018 Cabinet approved a headline Investment Plan for the first 5 years of the programme, which sets out how the NTCA will use the first £100m from its investment fund to help meet its objectives. This plan identifies up to £33m for Growth of key sectors (Digital; Ageing, Health and Life Sciences; Energy, Subsea and Offshore), up to £8.4m for Culture, creative and tourism (events, facilities, sectoral development, destination marketing) and up to £5m for Skills for Growth.
- 1.3 In addition to interventions which can be funded locally through the NTCA Investment Fund, the Devolution Deal ensures a commitment from Government to review business cases brought forward for further investment in areas where the North of Tyne hosts nationally or regionally significant innovation assets and science and research strengths – including in offshore and energy; digital; culture and creative industries; and life sciences and ageing. Work will continue to develop these business case propositions, building on the sector narratives developed.
- 1.4 In February 2019, Cabinet considered what was needed to progress the objectives set out in the NTCA Vision and Devolution Deal and agreed to the commissioning of independent analysis to provide the necessary evidence base for future activity and investment. The agreed commissions included a review of the destination marketing activities and tourism development plans in the North of Tyne area, and targeted stakeholder engagement to identify investments associated with the NTCA's key sectors as identified in the Devolution Deal. The appendices to this report update Cabinet on the outcome of the reviews. They identify the indicative level of investment required over the next few years to support the type of inclusive economic growth we want to see in the North of Tyne area. Cabinet are asked to note that further key sector reports will follow in coming months - including updates on Ageing; Offshore Wind; and Green New Deal. The cross-cutting implications regarding skills (which have been identified through all the sector commissions) will also be presented as a separate report to Cabinet in the spring.
- 1.5 The evidence gathering work and reviews undertaken for Tourism, Culture and Creative and Digital sectors enable Cabinet to make more detailed programme allocations within the NTCA Investment Plan framework. These allocations will enable the Combined Authority to progress work necessary to implement the delivery mechanisms. The detailed sector narratives and associated evidence are being developed and will be made available in due course.

## 2 **Business Case Development Fund applications**

The North East's offshore energy and subsea technology cluster is nationally and globally recognised. The region stands to benefit from both new and existing global market opportunities in offshore wind and is identified as a key cluster for delivery of the offshore wind sector deal. Supporting employment, competitiveness and productivity in this sector is a strategic opportunity for the North of Tyne and the wider North East.

### 2.1 **Northumberland Energy Park Phase 3 (NEP3) Feasibility Study**

Proposal Name	Northumberland Energy Park Phase 3 (NEP3) Feasibility Study
Lead Organisation	ORE Catapult
Partners	Advance Northumberland Port of Blyth
Delivery Areas	Northumberland
Timescales	January 2020 – August 2020
Total expenditure	£123,340
NTCA Investment Fund	£30,835 (25%)

2.1.1 Northumberland Energy Park Phase 3 forms part of Energy Central, a premier deep-water East Coast UK energy base located in the North East of England which is delivered through a unique partnership between Advance Northumberland and the Port of Blyth.

2.1.2 The application relates to Business Case Development Funding (BCDF) to undertake a full technical feasibility study for an Offshore Wind 'Plug and Play', full turbine prototype test facility. The technical and design feasibility study will cover ground conditions, water resources, floor risk, heritage assessment, ecology/biodiversity, transport management plan, ecology and ornithology management plan and a construction environmental outline management plan.

2.1.3 The feasibility study will support the delivery of the 'plug and play' functionality of the site which can be achieved through the development of a testbed platform which will be used to house one full 'next generation' turbine, reaching heights of up to 300 metres. Such a platform would allow for the assembly and testing of the turbine as a whole, using data captured in real-time to inform the running of simulations and varying factors.

2.1.4 The NEP3 proposal has also been submitted to the North East Local Enterprise Partnership (North East LEP) for consideration through the Energy for Growth fund call for projects, which deliver on the vision of the North East Energy for Growth Strategy.

2.1.5 A full appraisal has been undertaken on the BCDF proposal and it identified that the proposal has a strong fit with the Combined Authority's Vision and key priorities and has clear strategic fit with wider regional and national policy. In regard to the wider

project, the benefits of a facility of this nature adjacent to the existing blade and marine testing facilities at ORE Catapult, as well as other assets in the wider North of Tyne cluster, will be significant for the offshore sector in the North of Tyne area.

2.1.6 The Investment Panel considered the proposal and recommend to Cabinet that the funding request for £30,835 of Business Case Development Funding for a technical feasibility study for an Offshore Wind ‘Plug and Play’, full turbine prototype test facility at Northumberland Energy Park Phase 3 – Blyth is approved. This funding award should not be seen as a gateway to future funding from NTCA for the wider project.

The funding approval is subject to the following conditions:

- ORE Catapult must provide evidence that all match funding is in place.
- ORE Catapult must provide a state aid position to the satisfaction of NTCA which specifically considers aid to the applicant organisation.
- ORE Catapult acknowledges that they must meet any additional costs that arise following the procurement exercise.

## 2.2 Robotics Cluster for Offshore Energy (R-CORE)

Proposal Name	Robotics Cluster for Offshore Energy (R-CORE)
Lead Organisation	Offshore and Renewable Energy Catapult
Partners	Advance Northumberland
Delivery Areas	Northumberland
Timescales	January 2020 – May 2020
Total expenditure	£80,000
NTCA Investment Fund	£40,000 (50%)

2.2.1 The R-Core proposal relates to the development of dedicated Offshore Renewables Robotics and Autonomous Systems test and validation facility off the coast of Blyth.

2.2.2 The UK’s first offshore wind farm was constructed off the coast of Blyth in 2000, and the region has since become a national centre for offshore renewable energy technology and innovation. Leading the way in terms of offshore wind innovation is the Offshore Renewable Energy Catapult (OREC), located in Blyth, which offers unique facilities for offshore renewable energy research and development. Blyth is identified as one of three sub-regional offshore wind clusters and is recognised a responsive, dynamic, and well-equipped cluster in term of offshore operations, with a specific expertise in subsea technologies and related services such as cable laying, trenching and repair. Blyth is a leader in offshore energy support, which represents its core business. Indeed, Blyth stands to benefit substantially from O&M operations following the next round of projects in Dogger Bank, thanks to its geographical proximity to the site. Blyth is also well-known for its R&D and testing capabilities thanks to the siting of ORE Catapult in the area.

- 2.2.3 A first phase feasibility study undertaken in partnership with Innovate UK evidenced the demand for a testing facility and the potential for such a facility, the first of its kind in the UK, to be established in Blyth. The report highlighted that the UK is a substantial contributor to research in robotics as well as having critical supply chains, however it has not yet exploited its full potential in the global market due to lack of coordinated engagement, test facilities and R&D investment. In order to accelerate the adoption of Robotics and Autonomous Vehicles in offshore renewables and maximise the opportunity for UK research and supply chain organisations, dedicated test and validation facilities are required.
- 2.2.4 The project seeks to build on the findings by commissioning the expert technical support to:
- Validate and confirm the final business case to inform the final design concept for the building, costs and commercial arrangements to deliver the proposed testing facility.
  - Set project objectives, including quality objectives (design and build), project outcomes and sustainability design aspirations for the facility.
  - Review in more technical detail the constraints and opportunities evolving from site location, planning, infrastructure and physical characteristics
- 2.2.5 Business Case Development Funding is requested for technical and business consultancy to conduct a thorough assessment of a sub-sea robotics site including:
- Feasibility analysis of eligible specific testing sites within the Port of Blyth vicinity
  - Test site development plan including legal and consenting requirements, costings, material and equipment requirements etc
  - Business case development
- 2.2.6 A full appraisal has been undertaken on the BCDF proposal and it identified that on a national level this project links closely with two of the four Grand Challenges of the UK Governments Industrial Strategy and the Offshore Wind Sector deal and on a regional level supports the Energy for Growth Strategy. The application sets out a strong rationale to progress to R-CORE to the next stage of technical and business planning following a first phase feasibility study. The economic opportunities to capitalise on the global expansion of offshore wind, and to further cement in UK's world-leading position in operating offshore renewable energy plant, are vast, not just for the existing offshore wind supply chain, but for businesses in other sectors too. This is where robotics and autonomous technologies can play a vital role and providing a particular opportunity for the North of Tyne.
- 2.2.8 The next stage feasibility study and business case development will ensure a full business case is developed to take advantage of imminent national funding opportunities related to the Offshore Wind Sector Deal.
- 2.2.8 **Recommendation:**
- The Investment Panel considered the proposal and recommend to Cabinet that Business Case Development Funding of £40,000 (50% of overall project costs) is approved for the Robotics Cluster for Offshore Energy.

This funding award should not be seen as a gateway to future funding from NTCA for the wider project.

The funding approval is subject to the following conditions:

- ORE Catapult to provide a detailed procurement plan
- Confirmation of all match funding
- Any additional costs that arise following the procurement exercise to be met by the applicant.
- NTCA to be represented on the steering group managing the technical and business case development commissions.

### 3. Potential Impact on Objectives

3.1 The activity and recommendations detailed in this paper directly contribute towards the Champion of Enterprise, Spark of Innovation and Pride of Place pillars of the North of Tyne Economic Vision. The vision highlights the commitment to create innovative, long-term opportunities for growth that reflect a transforming economy and emphasises the intention to invest in key sectors and support assets, including those that are world leading or have the potential for global impact. The Combined Authority will work with employers, universities, the North East LEP and other partners to increase the rate of innovation, entrepreneurialism and business growth, which are key to long-term success, increased competitiveness and higher wages.

### 4. Key Risks

4.1 Risks associated with each funding application will be considered as part of the application and appraisal process. The conditions associated with funding approvals relate to the mitigation of risks.

### 5 Financial and Other Resources Implications

5.1 Financial Implications Associated with the programme allocation and budget approvals proposed in this Report

	2019/20	2020/21	2021/22	2022/23	Total
Tourism Programme Allocation	0	TBC	TBC	TBC	£3,500,000
Culture and Creative Programme Allocation	0	TBC	TBC	TBC	£6,000,000
Digital Programme Allocation	0	TBC	TBC	TBC	£10,000,000
NEP3 BCDF	£1,485	£29,350	0	0	£30,835
R – CORE BCDF	£5,000	£35,000	0	0	£40,000
<b>Total</b>					<b>£19,570,835</b>

Resources are available in the NTCA budget to cover the proposed expenditure.

## **6. Legal Implications**

6.1 The Interim Monitoring Officer's comments have been included in this report.

## **7. Consultation/Engagement**

7.1 Stakeholders have been fully engaged in the development of funding applications and project proposals through the Culture & Creative Task & Finish Group.

## **8. Appendices**

8.1 Appendix A - North of Tyne Tourism: a proposed events strategy and recommendations for destination marketing activities across the North of Tyne area  
Appendix B – Culture and Creative Industries - Sector Update  
Appendix C - North of Tyne Digital – Sector Update

## **9. Background Papers**

9.1 NTCA Cabinet February 2019 – Item 4: Investment Fund Update  
NTCA Cabinet April 2019 – Item 6: Investment Fund Update

## **10. Contact Officers**

10.1 Henry Kippin, Director of Economic Growth, 0191 277 4710

## **11. Glossary**

BCDF – Business Case Development Funding  
LEP – Local Enterprise Partnership  
NEP3 - Northumberland Energy Park Phase 3  
NTCA – North of Tyne Combined Authority  
OREC - Offshore Renewable Energy Catapult  
R-CORE - Robotics Cluster for Offshore Energy

**Subject: North of Tyne Tourism – proposed investment approach**  
**Report of: Director of Economic Growth**

## Report Summary

Heritage, culture and events are crucial to the identity of our communities – whilst associated leisure and business tourism are a key part of our economy, providing jobs for thousands of residents. This report outlines proposals for a North of Tyne Events Programme and an approach to destination marketing that will support these activities.

Last year, Cabinet provisionally allocated £8.25m to the development of investment proposals in culture, creative and tourism sectors. Independent analysis was subsequently commissioned to suggest how NTCA could add real value in these sectors, and an officer stakeholder group (with representatives from across the region) was established. This report brings back the results of this work, providing more details on a suggested approach and a firmer recommendation of Investment Fund allocation.

As the report makes clear, the North of Tyne is not a ‘destination’ in itself, but is a core part of a wider tourism economy within the region, within which NTCA collaboration, funding and support can play a potentially catalytic role. The intention of this report is to show how we might begin to play this role.

## Recommendations

Cabinet is recommended to:

- i. Note the content of this report, consider the proposals for an events strategy and destination marketing and endorse the recommended approaches.
- ii. Agree an indicative overall Tourism Programme allocation of £15m over 10 years
- iii. Approve a budget of £3.5m for the Tourism Programme up to 2022/23 (from the Culture, Creative and Tourism allocation in the NTCA Investment Plan) and agree to consider the budget for future years following a review in 2022/23.
- iv. Authorise the Head of Paid Service, in consultation with the Investment Panel and Portfolio Holder, to consider and approve a full business case for the North of Tyne Tourism Programme.

- v. Agree to hold a stakeholder event to showcase the NTCA programme and convening role, and agree to receive further proposals for how best to facilitate ongoing business and sector engagement.

## **1. Background Information and Executive Summary**

- 1.1 Last year, Cabinet considered the work needed to progress the objectives set out in the NTCA Vision and Devolution Deal and agreed that Combined Authority should commission additional work to provide the evidence necessary to inform planned future activity and investment. One of the areas of work agreed was to review the destination marketing activities and tourism development plans in the North of Tyne area.
- 1.2 The review process considered the current events programme in the area. It asked how a more coordinated and bespoke events strategy could guide investment and support the development and delivery of events which make a substantial contribution to the NTCA's priorities. A review was also undertaken of the current arrangements and delivery of destination marketing of the area, assessing how the Combined Authority could add value to the existing work already happening in the region. Officers from the three constituent authorities have led the work and have engaged with stakeholders in the area to develop the proposals included in this report.
- 1.3 The review did not focus on creating and branding a new North of Tyne destination. It was about developing an approach whereby the Combined Authority can best use its resources and convening ability to promote and deliver its culture, heritage and tourism offers across and in partnership with the three constituent authorities.
- 1.4 The proposals in this report have been developed alongside the work of the Culture and Creative Sector Task and Finish Group, which is the subject of a separate report on this agenda. There are clear links with proposed Combined Authority plans to drive productivity within the Culture & Creative and Digital sectors. Our commitment is to support sector growth as part of a wider investment approach that prioritises inclusive economy, a stronger skills base and cross-cutting innovation across all of our sectors.
- 1.5 Heritage, culture and events are crucial to the identity of our communities – whilst associated leisure and business tourism are a key part of our economy, providing jobs for thousands of residents. The area has an established track record in staging high quality events – together with striking landscapes, coastline, city centre and waterfront and the Hadrian's Wall World Heritage site.
- 1.6 The Culture and Creative Sector narrative identifies that heritage and culture are crucial to the region's tourism offer. We have an opportunity to support the continuing growth of our tourism sector by placing culture and creative at the centre of our tourism offer, exploiting our assets to attract more leisure and business visitors to the North of Tyne from UK and international markets. This will mean investing in the development and enhancement of our cultural and heritage assets, as well as investing in high quality events and festivals, capable of attracting national and international audiences. This will underpin continuing growth in our tourism sector.
- 1.7 This report outlines proposals for a North of Tyne Events Programme and an approach for destination marketing. The underlying principle in the development of the proposals has been to identify where NTCA can add maximum value to stimulate inclusive growth within the sector. The proposals presented are based on an independent

evidence review and expert stakeholder input and included a proposed package of funding and support that could leverage considerable jobs and economic impact.<sup>1</sup>

- 1.8 The aim of the proposed north of Tyne Events Strategy is to secure benefits to the area through investment in a year-round programme of very high quality cultural and sporting events capable of achieving national and international profile, and which will attract significant number of people to the area throughout the year. The programme will include large-scale events with international status and audiences, events with a national profile and high-quality home-grown events rooted in the culture of the area. Given the importance of developing a long-term profile around events, Cabinet is asked to make an overall indicative allocation of £15m over 10 years for this programme, signing off the first £3.5m for the next three years.
- 1.9 A review has also been undertaken of the current arrangement and delivery of destination marketing of the area and assessed how the Combined Authority could add value to the work already undertaken. The report sets out the proposal for NTCA to take on a strategic coordinating role around destination marketing and events commissioning, which will complement the work currently undertaken by the existing destination management organisations. Cabinet will be asked to consider a business case in the next few months, setting out how the Combined Authority can best support this work.

## 2 **A North of Tyne Events Strategy**

- 2.1 The last two decades have seen a remarkable rise in the number of events and cultural festivals throughout the UK and Europe. There are many reasons for this. Events bring people together, energise places and enrich residents' quality of life. Events can strengthen the visitor economy too. Events provide both residents and visitors with more things to do, new cultural experiences, and the chance to interact. They give potential visitors an additional reason to visit – and to visit *now*.
- 2.2 The North of Tyne is an area with an established track record in staging high quality events. The area has a powerful identity and narrative, and great stories to tell. It has striking landscapes, coastline and expanses of open water where events can be staged. It has famous places that make great locations and backdrops such as internationally known Hadrian's Wall, Alnwick Castle (made even more famous by Harry Potter), and globally connected Newcastle with its striking waterfront. It is an area which organises and celebrates major sporting occasions, with residents who are enthusiastic participants and volunteers. The current events and festivals programme has a largely local impact which is extremely valuable, however to achieve greater economic benefits, there is a need for whole programme transformation – by developing some existing events and investing in new ones.
- 2.3 A proposed approach for the North of Tyne includes:
- A year-round, multi-layered portfolio of events to deliver distinctive experiences for visitors and residents which will also support inclusive growth. The proposal is for NTCA to invest in a mix of established successful events;

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<sup>1</sup> Independent estimates provided for this report are of sector-wide impact of around £600m, with almost 15,000 jobs supported (directly and indirectly) by 2030.

in new events which can be developed; and in attracting national/international events to the region.

- An offer which includes big-impact cultural and sporting highlights to achieve the ambition for events in the region. Regional examples include the Great North Run, the Culture 10 programme (including Tall Ships), and the hosting of events at the 2012 Olympic and Paralympic Games and Cultural Olympiad.
- Closer collaboration with the sector – engaging with a broader range of independent promoters, producers and venues. A vibrant independent events sector is vital to staging distinctive, high-quality events that people will travel for. The strategy should support resident promoters and producers, not only through funding but by helping to develop event-ready infrastructure.

2.4 The events strategy envisages an annual calendar of Signature and Anchor Events and Festivals, with something happening each season. These will be stand-alone events of national and international status – mostly home-grown but some bought in – or collections of events under umbrella themes. This annual programme will be augmented by a high-profile international major sporting or cultural event presented at least every three years.

2.5 The three types of events are:

- Major Events – large-scale one-off or peripatetic events with international status, attract large-scale international audiences and extensive media coverage; take place at least every 3 years. The proposed approach includes establishing close collaboration with national cultural agencies and with UK Sport; supporting bids through a dedicated budget; and investing in capacity building and ensuring that we prioritise a legacy for communities beyond the event.
- Signature Events - events which make a substantial contribution to national profile and attract staying visitors from across the UK; either unique to the area or with a strong sense of place; likely to be four or five each year. The North of Tyne approach includes establishing four or five big impact cultural and sporting highlights; Investing in existing high-quality events with substantial growth potential; attracting peripatetic national sports championships; and commissioning new events.
- Anchor Events – distinctive, high-quality home-grown events rooted in the culture of the area, attract reasonable numbers of visitors; likely to be six or seven such events each year. The North of Tyne approach includes growing existing events rooted in landscape, history and culture of the region which have high levels of quality and ambition; investing in new and better programming; investing in achieving greater public profile and visitors; and exploiting niches and filling gaps in annual calendar.

### **Investment in Events**

2.6 A clear and transparent investment model is needed to achieve the Strategy's aspiration of a year-round, multi-layered portfolio of events. The NTCA's investment in events will focus on growing demonstrable impacts; it will not be about helping struggling events to become financially viable. This is about 'added-value investment'

and an important element will be creating and nurturing home-grown events, which will help to build a strong and sustainable events industry in North of Tyne.

- 2.7 It is proposed that each Major Event will be funded as a single one-off investment and that Signature and Anchor Events will enter multi-annual funding arrangements for multiple years with event expected to improve income generation (from ticket sales, sponsorship and other activities). With the right support, and the benefit of multi-year funding, Anchor Events may become Signature Events in time.
- 2.8 Outdoor event spaces in the area are rarely equipped for medium to large-scale events. To ensure that events venues and spaces are able to stage and host key events a Physical Infrastructure Fund will be established, initially for the first three years of the ten-year Strategy to support infrastructure improvements. Specific details on how this would be deployed would be identified on a case-by-case basis.
- 2.9 It is proposed that a staged incremental investment approach will be taken over the first few years of the programme. It is likely that in Years 1 and 2 funding will be mostly limited to investing in existing events to secure their status as Signature and Anchor Events. Cabinet are asked to approve an indicative allocation over 10 years with a firm budget approval for 3 years, to be followed by a review in 2022/23 regarding investment to 2030.

### **Economic impact**

- 2.10 We would naturally want to be confident as to the potential economic impact and return on investment of our approach. Whilst it is difficult to give firm predictions at this stage, Blue Sail (the consultants commissioned to conduct this work) have made estimates as follows: In Year 1 of the Strategy the new programme will primarily consist of existing, but augmented Signature or Anchor Events. On this basis an estimated 1.5m attendees will provide around £143.9m in economic impact. By year 2022, an estimated total audience of 3.3m will have an impact of around £306.4m. By 2025, this will increase to just over 4.4m attendees and £398.7m impact. And by 2030, if the programme meets its estimated visitor profile, over 6m attendees could be expected giving an impact of £590m.
- 2.11 The same analysis suggests that the proposed events strategy could contribute to wider sector growth supporting an estimated 14,797 jobs (directly and indirectly – and contributing to both jobs growth and retention). Return on investment has been estimated by looking at how much additional economic impact (that is over and above the baseline level) is generated for a given amount of investment each year. On this basis, return on investment (again, looking at the wider sector) could potentially grow over 200% over the ten-year period in question.

### **3. Destination Marketing**

- 3.1 A review of the current arrangements and delivery of destination marketing of the area was commissioned in 2019, with a view to establishing the potential role for the NTCA. An overriding principle has been that any intervention should add value to the activity of local authorities and contribute to the six pillars of the Combined Authority's Economic Vision. The review included:

- A review of policies, strategies and priorities at local, regional and national level
- A review of the promotional landscape to establish how the area is currently presented in the marketplace
- Identification of strong assets and themes that comprise the area's tourism offer and noted target markets and segments
- Consultation with key organisations and businesses
- Analysis of information and development of scenarios
- A workshop for key players to explore and obtain feedback on the two preferred scenarios and the Combined Authority's potential future role.

3.2 The stand-out *place brands* in the North of Tyne area with significant recognition nationally and internationally are Newcastle city and Hadrian's Wall. There are also *strong hooks* with recognition in key markets. The *thematic strengths* which cut across the North of Tyne are:

- **History** – Roman and Christian in particular
- **Landscape, Seascape, Cityscape** – special landscapes, dramatic and iconic locations and structures
- **Sport & Adventure** – big sporting events, activities on land and water
- **Local Culture** – food & drink, the people, way of life
- **Arts** – performing arts, music, literature and reading, venues, events

'North of Tyne' is not in itself a destination brand and there is little merit in trying to develop it as one. It would take long-term investment of substantial amounts of money to build a place brand from scratch – with no guarantee of success. Developing and supporting existing brands and new thematic experiences is much more likely to deliver return on investment. It is important to note that review was about identifying the best approach to destination marketing for the Combined Authority. The regional geography is already complex. So, whilst we must focus on North of Tyne, we also want to maintain and manage an open and pragmatic approach to working with partners over both smaller and wider geographies.

3.3 A clear outcome of the review was that independent of the delivery model, priority should be given to the following four stand out 'winners' which will benefit the *whole* North of Tyne area:

- **City, Coast & Countryside** - a product development initiative using the concept of 'City +', 'Coast +' and 'Countryside +' and designed to appeal to the best-prospect market types.
- **Events** – investment in an outstanding annual programme of events capable of achieving significant profile to drive visits and showcase the area.
- **Hadrian's Wall** – investment in high-quality experiences (such as better interpretation, access, tours, events) which bring the Wall to life as well as marketing this iconic brand nationally and internationally.
- **Transport** – ensuring that transport connections – from the points of entry (such as airport, ferry and train) to the 'final mile' - are addressed to facilitate movement around North of Tyne for visitors, linking places and attractions, with a particular focus on sustainable/green transport options.

- 3.4 In terms of a preferred delivery approach, the review concluded that future arrangements need to look beyond marketing communications and embrace market-facing product development. Getting the visitor experience right is crucial to success in tourism so a vital role of the NTCA should be facilitating and coordinating major initiatives and infrastructure projects. The NTCA is already taking on this role to some extent which can be taken forward in a more structured way.
- 3.5 The preferred approach would be for the NTCA to take on a strategic coordination role for the North of Tyne which adds value and supports the local authorities and existing destination management organisations. The strategic coordination role is viewed as extremely important, but currently missing and ensures that the Combined Authority builds on what exists rather than embark on a major restructuring of current infrastructure and partnerships. This scenario would have the added benefit of allowing the Combined Authority to focus single-mindedly on a small number of transformational projects without the 'distraction' of operational activity. This scenario would not provide a single approach to destination development, management and marketing; this activity would remain the responsibility of existing destination marketing and delivery arrangements in the three local authority areas.

#### 4 **Conclusions and Next Steps**

- The Combined Authority can play a key role in supporting the culture, heritage and tourism offer within this region. This would make a big difference to residents and help attract more visitors to the area – with attendant economic and social/wellbeing benefits.
- In terms of investment and return (with the associated maturity of an events offer and following) it is clear that it can only be through a long-term approach that the maximum benefits can be realised.
- Proposals have been developed for an events strategy underpinned by a thorough investment strategy and an assessment of economic impact. The Cabinet are not asked to agree individual events at this stage, but rather agree whether this approach (developing a programme of major, signature and anchor events) is one that North of Tyne should take.
- Delivering the events strategy will provide significant content to promote locations across the North of Tyne area. In terms of the proposed delivery arrangements therefore, the local authority officers leading the review believe the best solution is to combine the management and delivery of the events strategy and the strategic coordination role for destination management activity in one function alongside capacity to support the wider Culture and Creative sector.
- Cabinet are asked to make an indicative ten-year tourism programme allocation of £15m, with an initial agreed budget of £3.5m for the next three years. A review should be undertaken in 2022/23 before a budget is agreed for the following years of the programme. Individual allocations within this envelope will be subject to business case approval.
- Careful consideration will be given to how we maximise collaboration and work with the investors, organisations and stakeholders already within the sector. Strong links will need to be made to regional strategies for skills and transport;

and NTCA is committed to ensuring that legacy for communities is embedded 'by design' in our approach.

## **5. Potential Impact on Objectives**

- 5.1 The North of Tyne Economic Vision highlights the Combined Authority's commitment to expand the visitor economy and also raise the area's profile nationally and internationally. The NTCA recognises that tourism can contribute to the vision and strategic pillars set out in its Economic Vision. In particular, tourism has an important role to play in the Pride of Place, Spark of Innovation and Hotbed of Talent pillars.

We are committed as a Combined Authority to supporting inclusive growth across all of our programmes and will work to ensure that commitments around good work, skills and inequalities of access are embedded within our work and within our programme design and commissioning approach.

## **6. Key Risks**

- 6.1 Risks associated with events strategy will be considered as part of the application and appraisal process. The conditions associated with funding approvals relate to the mitigation of risks.

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

- 7.1 Financial Implications Associated with the programme allocation and budget approvals proposed in this Report are £3.5m for the events programme. In addition, a future Cabinet Report will set out proposals for a Strategic Commissioning and Resources are available in the NTCA budget to cover the proposed expenditure.

## **7. Legal Implications**

- 7.1 The Interim Monitoring Officer's comments have been included in this report.

## **8. Consultation/Engagement**

- 8.1 A wide range of stakeholders have been fully engaged in the review via an officer working group and independent consultancy work.

## **9. Appendices**

NA

## **10. Background Papers**

NA

## **11. Contact Officers**

- 11.1 Tony Durcan, Newcastle City Council  
Janice Rose, Northumberland County Council  
Henry Kippin, North of Tyne Combined Authority

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**Subject: Culture and Creative Industries - Sector Development Update**

**Report of: Director of Economic Growth**

## Report Summary

This report sets out our proposed approach to support the growth of Culture and Creative Industries in the North of Tyne region. It draws on an independent evidence base and stakeholder engagement to propose a NTCA programme which will invest in:

- Developing a supportive and attractive environment for creative and cultural businesses and people – supporting them to locate, start-up, grow, and flourish
- Connecting people to opportunities by providing an ecosystem for the development of creative and cultural skills and careers
- Collaborating with partners (and with existing initiatives to support the sector), to ensure that NTCA investment adds real value

The report proposes that Cabinet set a headline funding allocation of £6m (up to 2023) for this programme, within which specific mechanisms for programme delivery – including calls for proposals and the development of place-based approaches – will subsequently be developed. Individual investments will be subject to specific approval processes as outlined in the report below.

## Recommendations

The Cabinet is recommended to:

- i. Note the evidence base summarised in this report, and endorse the sector narrative which sets out a vision for growing the productivity of the Culture & Creative sector;
- ii. Agree the initial phases of activity within each of the three proposed Investment Programmes to begin delivery against the vision for the Culture and Creative Sector;
- iii. Agree an overall investment fund allocation of £6m (up to 2023) for a Culture and Creative Programme (£4.75m from the Culture, Creative and Tourism allocation and £1.25m from the Skills for Growth allocation in the NTCA Investment Plan);

- iv. Agree (within the overall envelope above) a budget of £2.5m for a Culture and Creative Enterprises programme which will include establishing three Culture and Creative Zones pilots (one in each Local Authority Area).
- v. Agree (within the overall envelope above) a budget of £2.25m for Culture and Creative Content programme which will include £0.5m for business case development fund applications relating to a Film, TV and Media Growth Programme and an Innovation & Growth in Literature and Publishing Programme.
- vi. Agree to consider the Skills for Growth elements of the programme at a later date in conjunction with proposals emerging from the other key sector development proposals.
- vii. Authorise the Head of Paid Service, in consultation with the Investment Panel and Portfolio Holder, to consider and approve relevant call documentation, business case applications and strategic commissioning frameworks relating to delivery of the Culture and Creative Programme.
- viii. Agree to hold a stakeholder event to showcase the NTCA programme and convening role; to seek further ideas on next steps and future priorities; and agree to receive further proposals for how best to facilitate ongoing business and sector engagement.

## 1. Background Information and Executive Summary

- 1.1 Last year, the NTCA Cabinet agreed a work programme for the next six to nine months that included better understanding the state of and the productivity potential of the key sectors defined in the NTCA vision.
- 1.2 For each sector, the task was, within the context of the Industrial Strategy and any relevant Sector Deals, to:
- compile an evidence base as to the current state of the sector at the “new” North of Tyne geography, whilst identifying any intelligence gaps
  - develop a compelling narrative based on the North of Tyne’s unique capabilities and assets that demonstrated the economic value and productivity growth potential of the sector
  - identify a suite of potential areas of future investment that would support the realisation of that productivity growth
  - define how the businesses within the sector could champion and take a leading role in defining tangible investable propositions to facilitate growth
- 1.3 The Culture and Creative sector is defined as covering: Architecture; Crafts; Design (product, graphic & fashion); Film, TV, video, radio and photo; IT, software & computer services; Museums, galleries & libraries; Music, performing & visual arts; Publishing; and Advertising & marketing. This is a diverse and important sector. It creates jobs directly, but it also supports jobs and productivity in other sectors such as tourism, digital and the wide range of economic activities that rely on creativity and design.
- 1.4 This paper draws on work undertaken over the past few months by a dedicated Task and Finish Group (T&FG) with regard to Culture and Creative Industries. The T&FG was led by Andrew Wathey (Vice Chancellor of Northumbria University) and consisted of cross-section of representatives from within the sector, the two Universities and the LEP together with officers from each of the constituent local authorities. The work undertaken represents a valuable opportunity to set a long-term vision for the sector and an opportunity to secure investment to grow and transform the sector. It recognises that strategic, long-term investment is needed to build momentum and achieve transformational change.
- 1.5 The T&FG commissioned an evidence analysis which informed the development of the sector narrative. The analysis illustrates the contribution of the sector to the North of Tyne economy and outlines the potential for growth. The sector narrative sets out why a thriving culture and creative sector is essential for the future prosperity of the North of Tyne area; the vision and the characteristics of what the sector will look like in 2030; and the scope to make that vision a reality by building on our place-based strengths and assets and maximising the potential to grow the sector. The national focus through the Creative Industries Sector Deal and the opportunity arising from the North of Tyne Devolution Deal means that the time is right to consider a coordinated approach to investing in the culture and creative industries to deliver growth and productivity gains. The proposal outlined in this report is for Cabinet to allocate £6m till 2022/23 to support three programmes of activity: Culture & Creative Enterprise, Creative People and Creative Content.

1.6 The T&FG have fully recognised the considerable overlap and synergy with both the digital sector and the tourism sector. As such, there are clear links to the complementary activity of the Combined Authority with regard to driving the productivity of the digital sector, the review of the current destination marketing arrangements and the development of an events programme

## 2. Sector Commission

### 2.1 Evidence Analysis

2.1.1 A comprehensive research process as to the current state of the sector was undertaken to inform the development of the approach for the sector. This involved a combination of data analysis, desk research to review existing published reports and documents, and a consultation programme with key stakeholders across the sector. The subsequent evidence report is therefore based on a mixture of quantitative and qualitative evidence.

2.1.2 The focus on culture and creative is supported by a body of evidence related to the scale of economic and social opportunity that the sector presents, both directly and also through the value it adds to other sectors such as digital and tourism. The UN report on the Creative Industries summarises this as follows:

*“The creative economy is not only one of the most rapidly growing sectors of the world economy, but also a highly transformative one in terms of income-generation, job creation and export earnings...when the creative sector becomes part of an overall development and growth strategy, it can contribute to the revitalization of the national economy where hybrid and dynamic economic and cultural exchanges occur and innovation is nurtured. But that is not all. Investing in culture and the creative sector as a driver of social development can also lead to results that contribute to the overall wellbeing of communities, individual self-esteem and quality of life, dialogue and cohesion”.*

2.1.3 The North of Tyne is home to 1,200 cultural and creative businesses, plus a further 3,800 freelancers. The sector currently employs over 9,300 people and added around £409m GVA to the North of Tyne economy in 2017, with each job generating an average of £44,000 in GVA each year. Although the sector is comparatively small, accounting for 4% of all firms and 2.5% of jobs in the North of Tyne economy, there is huge potential for growth. This is because the creative and cultural industries are growing rapidly nationally, with UK employment growing by 28% and GVA growing by 53% since 2010. The sector is huge business, contributing £32bn to the UK economy in 2017.

2.1.4 The analysis undertaken indicates that the culture and creative sector already makes important contributions to the business stock, employment and GVA output in the local economy, but there are major growth opportunities for the sector to mirror national levels of growth (albeit from a small base). If the conditions of growth are created, the sector’s significance could increase, bringing a range of additional benefits to the North of Tyne area.

2.1.5 Considering the scope and potential for growth in regards to jobs numbers and GVA and the much wider impact of the sector in regards to impact on other sectors, improving quality of place, attracting people and businesses, and the contribution to education, skills and wellbeing, there is a clear rationale for investment by the

Combined Authority with the sector narrative undertaken setting out an initial framework of investment in the sector.

- 2.1.6 This is the first time that such an analysis has been pulled together for the “new” North of Tyne geography. Although the evidence is very strong as it stands, there is a need to progressively strengthen the evidence base, particularly in better understanding the size and make-up of the sub-sectors and further quantifying the economic and quality of life impacts of the sector.

## 2.2 Proposed Sector Narrative

The following paragraphs outline a proposed narrative for the sector, which is drawn from the evidence base noted above:

- 2.2.1 The North of Tyne and the wider North East are trailblazers in culture-led regeneration. Over the last 20 years the area and key partners have showcased how investment in cultural infrastructure and people transforms cities and places. From the Great North Museum to Hadrian’s Wall and Holy Island, there is a cultural offer to rival any part of the UK, and is a location of choice for world class international sporting and cultural events. The area is also a pool of creative talent and ideas from design, architecture, and film & TV, to music and the performing & visual arts. Designer of the iPhone Sir Jonathan Ive, and musician Sam Fender, illustrate the breadth of creative and artistic talent learning their craft in our area.

- 2.2.2 The North of Tyne hosts a vibrant cultural and creative sector with huge growth potential and the cultural offer is one of the main reasons the area is known as a great place to live, work, study and visit. Our cultural and creative organisations play a leading role in education and learning, equipping our people with the creative skills that will drive new ideas, future innovation, productivity and growth across all sectors of our economy and our cultural and creative businesses provide rewarding careers for our people, from highly specialist creative roles, through to entry-level jobs for people embarking on a new career. Importantly our cultural and creative sector also plays a very important role in improving physical and mental health and wellbeing, and in strengthening community cohesion.

- 2.2.3 We have some great assets and strengths to build on which include:

- **A burgeoning design specialism** with a growing cluster of multi-disciplinary creative design businesses working at the forefront of the industry and leading the sector in the UK. They are fusing design, content development, digital technology, psychology, and marketing disciplines to design new solutions to the challenges facing global corporate customers.
- **Excellence in literature, writing and publishing** with universities boasting undoubted research excellence, internationally recognised writing and literary organisations and a healthy publishing industry with growth potential.
- **Thriving arts, cultural and music scene in the towns and the City** including clusters of successful arts, cultural and music organisations and also world class cultural venues which bring international collaborators to the region, act as thought leaders in national industry debates, and provide outstanding visitor satisfaction whilst reaching out to our most deprived communities.

- **Home of creative and cultural talent** which produces outstanding creative content and underpins the culture and creative sector in the North of Tyne. Building on our strong heritage of creativity and innovation, the North of Tyne is an engine of creative talent, producing writers, performers, creatives, and innovators building great organisations at home, and exporting creative ideas across the UK and globally. Newcastle and Northumbria Universities are UK leaders in creative education, generating a huge pool of talent and many new start-up businesses in the sector
- **Outward looking, globally connected** - our cultural and creative sector is very well connected nationally and internationally, trading and exchanging ideas, talent and experiences with colleagues, customers and visitors across the globe.
- **Renowned heritage and natural assets** - We are home to some of the UK's most treasured heritage assets, including Hadrian's Wall UNESCO World Heritage site, the castles of Northumberland, and Christian heritage personified by the Holy Island of Lindisfarne. We also offer some of the Country's most appealing natural assets, including the North Tyneside and Northumberland coastline, the stunning countryside of Northumberland National Park and the North Pennines AONB, and a rich variety of urban and country parks.
- **International sport, events and festivals** - The North of Tyne has earned a reputation as a first-choice host city for world class international sporting and cultural events.
- **A leading UK visitor destination** - Our 'City-Coast-Countryside' offer means visitors to the North of Tyne can enjoy the highest quality cultural activities expected in any leading European City, then make the short hop to experience our stunning coastline, and pristine countryside

2.2.4 The proposed vision is: *"For the Culture and Creative Sector is for the North of Tyne to be renowned across the UK and globally as an exemplar place for culture and creative-led inclusive growth. Culture and creative industries will be at the heart of driving North East economic growth and productivity and enhancing quality of life, wellbeing and opportunity for people and communities."*

This means:

- Culture and creative will be a **vibrant and growing sector**, with expanding businesses attracting and retaining creative people in exciting new career opportunities, drawing new cultural and creative businesses and investment into the region, generating wealth, and boosting North East productivity.
- Our culture and creative sector will be **at the forefront of our identity as an appealing and competitive place**, offering an unparalleled quality of life, business environment, and visitor experience.
- We will be a **UK leader in creative and cultural education**, equipping our people with the creative skills that will drive future innovation, productivity and economic growth.
- Culture and creative will be **at the heart of our inclusive economy and society**, creating job opportunities and boosting the skills of people from diverse backgrounds, improving health and wellbeing in our communities, and preparing our young people to thrive in the future.

- We will pursue our growth ambitions with **confidence**, building on the unique strengths and assets of our area, our sector, and our people. We will be a **connected** and **collaborative** sector, reaching out and grasping opportunities across the UK and globally, and sharing skills, ideas and opportunities across all parts of our sector and all areas of the North of Tyne community.

2.2.5 The Culture and Creative sector can help build a more inclusive economy. Businesses provide rewarding careers for our people, from highly specialist creative roles, through to entry-level jobs for people embarking on a new career. In the future, we can do even more to invest in the skills of our workforce, and to open up job opportunities to people from diverse backgrounds, including young people and adults from disadvantaged communities.

We will actively seek to maximise opportunities for cross-over with NTCA's inclusive economy portfolio, and with the substantial work already being done by local authorities, the LEP, the voluntary sector, education providers and others to support people into these opportunities. This is a sector with significant numbers of self-employed and freelance workers, so particular attention will be paid to how we can create mechanisms to support this cohort.

2.2.6 The combination of the North of Tyne Devolution Deal, coupled with the signing of the Government's Creative Industries Sector Deal, gives us an opportunity to refresh our approach. At the UK level, the culture and creative industries are both highly significant as creators of jobs and economic output, whilst also being a key part of national competitiveness and international success. Growth rates have been significantly higher than the average for the whole of the UK economy and key policies such as the Sector Deal are now in place to continue and indeed enhance the growth prospects of the sector.

2.2.7 Cabinet are asked to agree an initial Culture and Creative Programme allocation of £6m, consisting of £4.75m from the Culture, Creative and Tourism allocation and £1.25m from the Skills for Growth allocation in the NTCA Investment Plan. This level of investment is supported by the potential contribution toward the NTCA targets set out in the devolution deal, and by the evidence base, the views of stakeholders and the type of interventions being proposed. The initial proposed programme allocation and the proposals set out in this report will indicate a clear support for the sector and animate the sector to develop proposals for a longer-term investment programme.

## 2.3 **Emerging Investment Propositions**

2.3.1 To start realising the ambitious vision summarised above, three potential programmes of investment have been identified as providing the foundations for ongoing sector development. These, together with an initial phase of activity, are outlined below.

### 2.3.2 **Programme 1: Culture and Creative Enterprise**

#### *Our Ambition*

We will establish the North of Tyne as the UK's first 'Culture and Creative Enterprise Area' outside London, putting in place one of the most supportive and attractive

environments in the country for creative and cultural businesses and people to locate, start-up, grow, and flourish. This will position the North of Tyne as a national trailblazer, a beacon of innovation in the cultural and creative industries, and a source of best practice to be shared across the UK and internationally.

#### *Initial phase of activity*

We will develop further proposals on how best to support the development of the sector. The type of support could include: permanent, affordable workspace where businesses will co-locate and collaborate within a creative community; targeted financial incentives to support growth; superfast broadband; and hubs for the delivery of business growth, innovation, and skills support. There will be a focus on stimulating co-location and collaboration with digital technology businesses, generating new opportunities through the fusion of cultural, creative and digital disciplines.

This work will be based upon the development and piloting of up to three Culture and Creative Zones (CCZs) in different geographical settings to test and showcase a range of incentives targeted at supporting the growth of culture and creative businesses. We will learn from London, which has developed up similar proposals, and seek to collaborate with the Department of Culture, Media and Sport (DCMS) to investigate this proposal further. Any learning from the pilots will be used to inform an area wide approach across the entire North of Tyne.

### **2.3.3 Programme 2: Creative People**

#### *Our Ambition*

Using a range of powers and resources, the NTCA and partner organisations are seeking to create a best-in-class environment for the development of creative and cultural skills and career.

Our aspiration is that people of all ages (from early years to adults) and backgrounds will be supported to develop skills for jobs in the creative and cultural sector, and offered structured career pathways into the sector, including new technical qualifications, Creative Apprenticeships, sector routeways.

#### *Initial phase of activity*

Key priorities for the NTCA include:

- First, looking at opportunities through the devolved Adult Education Budget and to explore opportunities with Government for increasing the provision of apprenticeships in this area.
- Second, looking at additional opportunities to support skills development, working in partnership with businesses and education institutions, to utilise our key assets (e.g. networks of creative and cultural organisations and expertise around literacy skills) – as part of our ‘skills for growth programme’.

### **2.3.4 Programme 3: Creative Content**

#### *Our ambition*

We want to build on our strong heritage of creativity and innovation and ensure that the North of Tyne is a nationally-recognised engine of creative talent, producing

writers, performers, creatives, and innovators building great organisations at home, and exporting creative ideas across the UK and globally.

#### *Initial phase of activity*

We believe there is a key opportunity for the North of Tyne to support the development of detailed proposals which will then support the future attraction of private and/or national Government funding.

As an initial phase, we propose issuing tailored calls for business case development applications that support the two sub-sectors identified, from the intelligence gathered to date, as having growth potential:

- *Film, TV and Media* - This is one of the largest sub-sectors in the North of Tyne's creative industries business base, supporting a total of 800 jobs in 220 firms. There is potential to grow the sector locally by capitalising on the rapid expansion of the industry at UK level, while the re-location of Channel 4 to Leeds could open up new opportunities for North of Tyne-based companies in a nearby region. Meanwhile, publicly funded broadcasters are demonstrating a commitment to invest more in the regions, a recent example is the announcement by the BBC of their intention to create a tech hub in Newcastle. The growing interaction between film, TV & screen, and gaming & VR is also opening up new opportunities for our businesses.
- *Literature and Publishing* - There is an opportunity to position the North of Tyne as internationally-leading in innovation in literature and publishing, by building on our acknowledged strengths in creative writing and education, and our growing digital sector. The North of Tyne is home to a healthy publishing sector with a strong reputation, but it is relatively small and fragmented geographically. By co-locating key organisations, drawing on the research power of the universities, and enabling cross-sector exchange through a targeted programme to catalyse innovation, the sector will be able to scale-up efficiently at a pace impossible without co-location or investment.

#### **Ongoing sector development**

- 2.3.5 The work undertaken by the Combined Authority over the past six months has started to bring the culture and creative sector together and as such has created a level of momentum and enthusiasm that should now be maintained and further strengthened.
- 2.3.6 The T&FG suggested that, in order to progress the initial phase of activity and drive forward the delivery of the sector's vision, the Combined Authority should consider establishing formal collaborative arrangement for the North of Tyne Cultural and Creative Sector and Tourism Sector with a resource to drive forward the vision and investment propositions. Ongoing engagement could take the form of a Board, or a sector-led partnership, which would provide highly visible leadership, implementing the vision, driving the growth and development of the sector, reaching out to the network of creative and cultural organisations by building on the sector engagement and momentum generated so far.

### 3 **Next steps**

#### 3.1 Immediate next steps would include:

- a) Demonstrating our ambition and intent to the sector through a “whole sector” event at the earliest opportunity that will outline our vision and invite the sector to work with us on ambitious and creative proposals for investment.
- b) An initial tailored call for business case development fund applications related to Film, TV and Media Growth and Innovation & Growth in Literature and Publishing.
- c) Strategic commissioning of three Culture and Creative Zone pilots
- d) Development of proposals for ongoing stakeholder engagement

These specific proposals would be considered in due course according to the delegations outlined in the Recommendations above.

### 4. **Potential Impact on Objectives**

4.1 The key sectors work which the NTCA has commissioned directly contributes towards the Champion of Enterprise, Spark of Innovation and Pride of Place pillars of the North of Tyne Economic Vision. The vision highlights the commitment to create innovative, long-term opportunities for growth that reflect a transforming economy and emphasises the intention to invest in key sectors and support assets, including those that are world leading or have the potential for global impact. The Combined Authority will work with employers, universities, the North East LEP and other partners to increase the rate of innovation, entrepreneurialism and business growth, which are key to long-term success, increased competitiveness and higher wages. There is also commitment to expand the visitor economy and also raise the area’s profile nationally and internationally.

### 5. **Key Risks**

5.1 Risks associated with each funding application will be considered as part of the application and appraisal process. The conditions associated with funding approvals relate to the mitigation of risks.

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

6.1 Financial Implications Associated with the programme allocation and budget approvals proposed in this Report are for a budget allocation of £6m for this theme.

Resources are available in the NTCA budget to cover the proposed expenditure.

It is important to be clear that this a new NTCA approach to supporting the Culture & Creative sector- and as such is distinct from existing funding streams. We will seek to maximise collaboration with other funders and agencies supporting the sector wherever possible.

### 7. **Legal Implications**

7.1 The Interim Monitoring Officer’s comments have been included in this report.

**8. Consultation/Engagement**

8.1 Stakeholders have been fully engaged in the development of funding applications and project proposals through the Culture & Creative Task & Finish Group.

**9. Appendices**

NA

**10. Background Papers**

NA

**11. Contact Officers**

11.1 Janice Rose, Interim Head of Rural Growth

Henry Kippin, Director of Economic Growth

**12. Glossary**

CCZs – Culture and Creative Zones

DCMS – Department of Culture, Media and Sport

NTCA – North of Tyne Combined Authority

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**Subject: North of Tyne Digital – sector update and proposed investment approach**

**Report of: Director of Economic Growth**

## Report Summary

1. This report sets out a proposed approach to driving growth, skills and connectivity within the North of Tyne's Digital economy. It:
  - Summarises work commissioned by Cabinet to develop an independent evidence base with stakeholder input, in order to develop a clear investment portfolio in support of growth in this sector;
  - Uses this evidence base to suggest where NTCA can add most value in terms of jobs, growth and opportunities for citizens – asking how we might use our existing assets, our potential for leading-edge innovation, and help build the 'digital readiness' of our business base and employees;
  - Recommends a headline investment programme allocation, and a set of next steps to develop an underlying programme of work to further develop this. This would enable us to make a clear statement of intent to the sector and open the door to innovative proposals which would be considered by Investment Panel and Cabinet at the appropriate times.
2. The key outcome of the report is to propose that the Combined Authority launch a NTCA Digital Growth and Innovation Programme which is targeted at:
  - Developing our emerging assets in data and ageing related innovation – using this as a lever to improve the productivity of our small and medium-sized enterprises (SME's) and the readiness of our businesses to innovate using big data;
  - Connecting people to opportunities through programmes supporting digital skills, co-invested by the private sector – especially where we can make a real connection to productivity improvement and the creation of new and better jobs within

the sector;

- Building urban-rural connectivity through supporting infrastructure provision, space for incubation/acceleration of business and innovation, and opportunities for industries across the area to benefit from digital adoption;
  - Future proofing and innovation – recognising that our whole economy is on a pathway to digital, low-carbon ways of working, and that as a region we will need to put in place the infrastructure and underlying conditions for our current and future businesses to thrive.
3. Finally, the report is clear that the role of the Combined Authority in this space is to convene – to enable collaboration, unlock collective potential and invest in areas where we can realise whole-region benefits in a way that adds real value. We are proposing a headline funding allocation of £10m (up to 2023) for this programme, with individual investments subject to specific approval processes as outlined in the report below.

## **Recommendations**

The Cabinet is recommended to:

- i. Note the content of this report and endorse the sector narrative which sets digital as a golden thread that connects the North of Tyne Combined Authority's wider ambitions, and as a rapidly growing and highly productive sector in its own right;
- ii. Agree the priorities and initial phase of activity outlined in section 4 of the report, specifically the funding and next steps set out in section 5 – noting the further work that will be done to develop them;
- iii. Agree an overall funding allocation from the Investment Fund of £10m up to March 2023, which would enable the delivery of the emerging North of Tyne Digital programme and development of a shared Digital Sector Narrative;
- iv. Approve a budget of £1.5m (within the envelope above), for an initial targeted call for projects to support digital adoption within Small to Medium Enterprises (SMEs) based in the NTCA area;
- v. Work closely with the National Innovation Centre for Data to understand and bring forward a proposal on how it could apply its unique data expertise and capacity to unlock innovation and growth and amplify its local economic impact, in particular with SMEs, groups of SMEs, value chains or supply chains;
- vi. Authorise the Head of Paid Service, in consultation with the Investment Panel and Portfolio Holder, to finalise and publish any relevant call documentation and assessment criteria associated with the Digital Adoption Call and to approve subsequent offer(s) of funding to successful applicant(s);

- vii. Receive a future report setting out the practical steps to implement the Digital Growth and Innovation programme; including proposals for communication and ongoing sector engagement; and
- viii. Agree to hold a stakeholder event to showcase the NTCA programme and convening role; to seek further ideas on next steps and future priorities; and agree to receive further proposals for how best to facilitate ongoing business and sector engagement.

## **1. Background Information**

1.1 In April 2019, the NTCA Cabinet agreed a work programme that included analysis and stakeholder engagement, to better understand the state of the key sectors defined in the NTCA vision, including their current and future productivity potential.

1.2 For each sector, this analysis was framed within the context of the Industrial Strategy and any relevant Sector Deals, and set out to:

- compile an evidence base as to the current state of the sector at the North of Tyne geography, whilst identifying any intelligence gaps;
- develop a compelling narrative based on the North of Tyne's unique capabilities and assets that demonstrated the economic value and productivity growth potential of the sector;
- identify a suite of potential areas of future investment that would support the realisation of that economic and productivity growth;
- define how the businesses within the sector could champion and take a leading role in defining tangible investable propositions to facilitate growth.

1.3 This paper outlines the result of work undertaken over the past few months, including a business discussion chaired by Cllr Forbes, a Task and Finish Group of external stakeholders led by Professor Steven Kyffin and by research conducted by Arup Group Ltd.

## **2. Context - the Digital Sector in Newcastle, North Tyneside and Northumberland**

2.1 The pace and scale of digital change is transforming our economy and how services are delivered. The digital sector itself has grown rapidly, accounting for much of the jobs growth witnessed in recent years. Much of this growth has been within SMEs – adaptable and fleet-of-foot, but sometimes facing barriers to unlocking their potential.

2.2 The boundaries between digital firms and the wider economy are becoming more and more blurred: digitisation, big-data capability and wider technological change are defining growth in industries that span from hi-tech manufacturing to healthcare. Meanwhile, services relevant to people across their life-course increasingly include a strong digital element – from educational resources through to services helping older people live independently for longer. Looking forward, new technologies – including Artificial Intelligence (AI) and Cloud Computing – have the potential to change society and the economy in ways which are only partially understood today.

2.3 Across Newcastle, North Tyneside and Northumberland there is evidence of a strong, diverse and inter-connected digital sector that is leading the way in developing and applying new technologies and data analytics capability that is driving up standards of customer service and enabling people focussed solutions. The pace of growth of the sector is a key success story, as is the number and breadth of businesses and the range of their expertise.

2.4 The 2018 Tech Nation report highlighted that Newcastle is the seventh fastest growing tech hub in the UK, while the sector grew at a rate of over 8% across the combined authority area. This was partly driven by a particularly strong core of fast-growing SMEs,

including those clustering in newly provided flexible and modern business space; there remains potential for strong future employment growth, including at Newcastle Helix and other major office developments.

2.5 North Tyneside is home to several large digital firms, including IBM and Perfect Image, and major delivery centres at Accenture and DXC. Northumberland is home to several hi-tech manufacturing companies with a strong digital presence, including Avid and Tharsus and the presence of the Offshore Renewable Energy Catapult provides opportunities for pioneering innovative uses of data and robotics within the offshore and renewables sector. The Digital Catapult plays an active role supporting digital growth and adoption and we have a vibrant network of ecosystem partners supporting growth including Ignite, Digital Catapult, Digital Union, Dynamo and Urban Observatory - coupled with expertise driven from both Newcastle and Northumbria University.

### **3. An Emerging Narrative and Vision for the Digital Sector in Newcastle, North Tyneside and Northumberland**

3.1 Steady growth of the sector in the NTCA area means it now represents over five percent of all jobs here; analysis<sup>1</sup> highlights that Newcastle, North Tyneside and Northumberland collectively are home to over half of all digital sector jobs in the wider north east region and 70 percent of all digital jobs in the NE Local Enterprise Partnership (NELEP) area. Overall, the sector output £2.4bn of Gross Value Added in 2016, representing ten percent of the total economy in the North of Tyne.

3.2 'Digital' is a golden thread which connects the Combined Authority's wider ambitions, including that of a more inclusive economy – this is demonstrated by our emerging vision, that:

*Newcastle, North Tyneside and Northumberland will be recognised as places where people are at the forefront of the digital revolution, with an economy that is providing national and international leadership in data science and analytics; ageing-services; and digitally-provided professional services.*

3.3 A strength of the sector across Newcastle, North Tyneside and Northumberland is its diversity. With world-leading expertise in areas including gaming, age-tech, fin-tech, consultancy, immersive technologies and software. This diversity provides opportunities for growth and for ideas to be shared across sub-sectors and through supply chains and value chains, leading to valuable spill over effects on the entire economy of the North of Tyne area. A strength recognised by the BBC in its recent announcement that it will be locating a new tech hub in Newcastle.

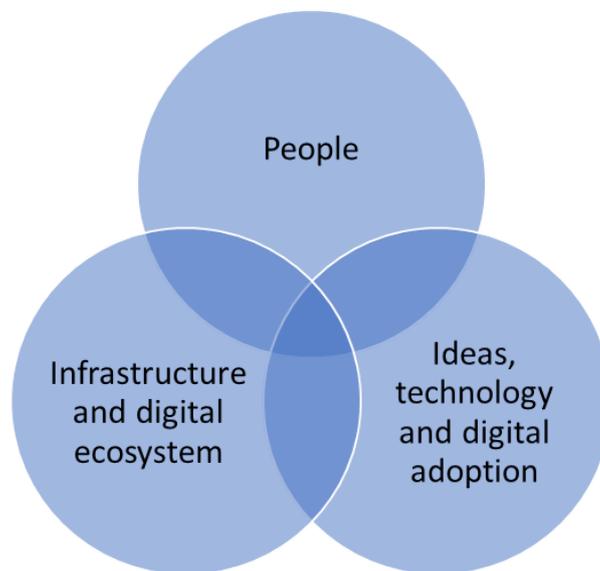
3.4 Significant, and ongoing, investment in broadband infrastructure in the area includes new fibre installations connecting increasing numbers of residential and commercial customers to high-speed broadband, together with a new North-sea cable which will increase speed and resilience of international communications. Improved infrastructure in rural communities, including through the Local Full Fibre Network programme, offers

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<sup>1</sup> Using Department for Culture, Media and Sport (DCMS) definitions of the digital sector

the potential to connect more people and businesses directly to the world-class assets and opportunities within the region and to local, national and international markets.

- 3.5 The North of Tyne area has a strong skill base – together with nationally and internationally important companies, assets and the infrastructure required to underpin this our vision and drive growth over at least the next decade. This includes Sage - the leading UK software company - and other pioneering technological innovators operating at the cutting edge of client support, including Accenture and Zerolight. Innovation assets – such as the National Innovation Centre for Data – have the potential to put the area at the forefront of research, adoption and skills development.
- 3.6 A recurring theme within this report is to start with people: to promote digital inclusion, strengthen digital skills amongst the workforce and grow, retain and attract specialist skills. Digitisation has the potential to democratise society and make it more inclusive – but only if all our residents are provided with the opportunities to embrace new opportunities. People, coupled with world-class infrastructure, an enhanced business support ecosystem, cutting edge innovation and ideas and widespread digital adoption form the foundation of our Digital Growth and Innovation Programme.



*1: The NTCAs Digital Priorities*

- 3.7 In developing the digital sector narrative and proposals, stakeholders emphasised the importance of telling our story more effectively and the need to connect more of our young people to opportunities within the sector; to break down the barriers to digital adoption across business and to attract and retaining world leading talent, businesses and investment.
- 3.8 Because digital capability is central to driving transformation of the business base, it will be at the heart of the Combined Authority's industrial strategy. Digital capability, and a focus on improving digital adoption by citizens and across the economy, provides significant opportunity to:

- underpin growth across the wider SME sector;
- nurture and unlock economic potential in other areas of sectoral expertise – including the ageing economy, health and life sciences and the offshore sector;
- transform house building and construction – whilst the North of Tyne’s expertise in Building Information Management also provides the opportunity to improve building efficiency;
- support the transition to a greener society and economy, transforming transport and enabling energy to be used more efficiently; and,
- accelerate the transition of the North of Tyne towards a more inclusive and socially just region.

3.9 Where our digital capability interacts with other areas of subject expertise, distinctive opportunities to provide national and international leadership are created, which include potential for the North of Tyne to:

- be a global force in the application of data science and data analytics, creating new businesses and selling products and processes nationally and globally – based around expertise at the National Innovation Centre for Data (NICD) - leading the way in making big data sets available for a range of purposes, whilst respecting privacy;
- exploit our expertise in Building Information Modelling (BIM), developing global leadership in Connected Construction – based on an existing business cluster and expertise at Northumbria University;
- apply our digital expertise and technology to meet the opportunities of increasing longevity, both inside and outside the workplace and lead the deployment of ageing-well technologies nationally and globally – including within the area of Adult Social Care;
- develop a national role in the digital transformation of professional services, building on the experience of our firms in applying technology in the legal, financial, accountancy and management consulting sectors;
- build on existing expertise in the deployment, monitoring and use of sensors – including within the Urban Observatory: utilising this expertise to be recognised as a leader in the deployment of Smart Streets, in the context of a smart-enabled region;
- grow a cluster of firms actively developing and exporting smart solutions in response to the challenges of demographic and environmental change within a mixed urban/rural setting. This will include finding new ways to decarbonise transport.

## 4. **Developing the Digital Growth and Innovation Programme**

4.0.1 The Combined Authority’s programme for the digital sector will build on the collective strengths of Newcastle, North Tyneside and Northumberland. It begins to tell our story and focusses on the strengths and assets that we can help cultivate and invest in. It is focussed on three key themes:

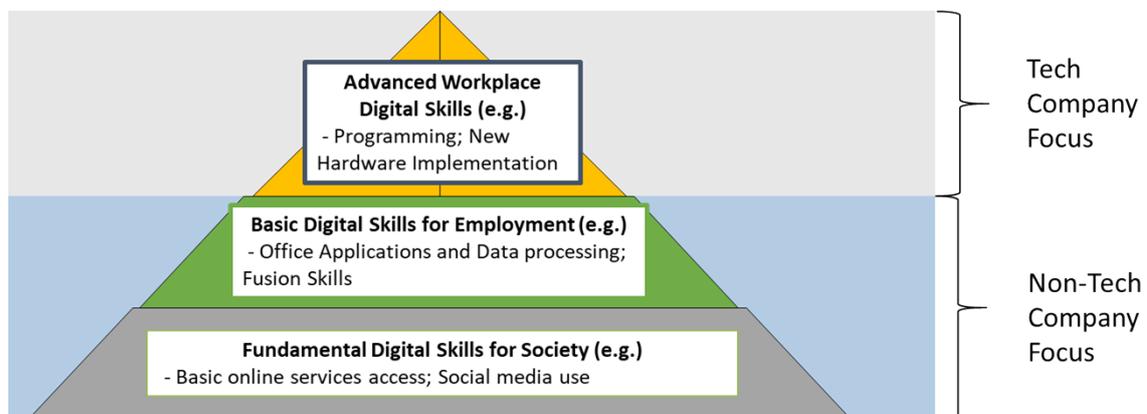
1. People and Digital Readiness
2. Ideas, Technology and Digital Adoption; and,
3. Digital Infrastructure and Eco-system

#### 4.1 **People and Digital Readiness**

4.1.1 People are at the heart of the NTCA vision and our approach to fostering digital sector growth and digitally enabled innovation. In the face of technological change and the increasing digitisation of work, all places and economies face the challenge of equipping the current workforce and thinking about the resilience of their workforce for the future.

4.1.2 We will ensure that our workforce can access the skills they need to succeed in the labour market and that companies can access the skills they require to grow and create good quality employment.

4.1.3 Digital skills are critical to the performance of the whole economy, though there is a clear distinction between the most technical skills needed by technology or digital-driven companies, and the skills needs of non-digital companies and wider society:



2. Illustration of the spectrum of digital skills required to support inclusive economic growth

4.1.4 In investing in skills, the North of Tyne is fortunate in having several strong educational assets across different elements of this pyramid, including two National Innovation Centres and some of the leading colleges in the country, together with more niche providers, who will provide some of the fundamental skills required as part of the devolved Adult Education Budget. Both universities provide strong cohorts of graduates and post-graduates with more advanced workplace digital skills and the Business Schools have the potential to play a major role around wider digital adoption. The combined authority is keen to explore opportunities for co-investment with the private sector to increase the quantity and relevance of workplace digital skills development.

4.1.5 To ensure we respond to the whole spectrum technical and soft skills required by our future workforce **our immediate priorities will be to:**

- Continue to inform and enthuse young people about careers in science, technology, engineering, arts and maths related career paths, including through our STEM and Digital Skills Programme;
- Ensure our devolved Adult Education Budget funding supports the digital inclusion of our residents;
- Seek to secure additional investment from Government to re-skill and upskill our workforce and mitigate the potential of digitisation and automation to displace jobs;
- Seek ideas from the private sector about opportunities for co-investment in digital skills improvement, including improving digital skills within the SME workforce and the skills necessary to deliver our digital infrastructure needs;
- Continue to work with our Universities, which are at the forefront of providing digital expertise and leadership;
- Explore the potential of a digital leadership Academy to foster the higher-level management and leadership skills the digital economy requires.

## 4.2 *Ideas, Technology and Digital Adoption*

4.2.1 The development of new technologies and the adoption at scale of digital solutions are central to remaining competitive with a vibrant, high-skills economy which delivers good pay.

4.2.2 Technological change is currently driving the digitalisation of services and processes. The development of artificial intelligence and use of data analytics at scale will be transformational for economies across the globe, including in its potential to address the long tail of low-productivity through wide-spread digital adoption.

4.2.3 While some sectors of our economy are open to disruption from new technology, the growth of data, digitalisation and technology also offers opportunities for diversification and growth: new markets are continually developing for innovative products and services developed using emerging technologies such as Augmented Reality and Virtual Reality, wearable tech and through exploiting new connectivity solutions such as Internet of Things and 5G. Technology will be essential to address some of society's forthcoming challenges – including the need to decarbonise transport and the development of new models of adult social care.

4.2.4 As more businesses generate new data about their services, customers, and supply chains, and adopt digital practices, the more they seek to innovate. We must ensure that we are ready to capitalise on these opportunities using our assets and expertise.

4.2.5 To ensure we are positioned for opportunities both in the digital sector itself and those arising from the wider application of digital to other sectors ***our immediate priorities will be to:***

- Work closely with the National Innovation Centre for Data to understand and bring forward a proposal on how it could apply its unique data expertise and capacity

to unlock innovation and growth and amplify its local economic impact on SMEs, groups of SMEs, value chains and supply chains;

- Develop and launch a funding call targeted at increasing in the pace of digital adoption within the business community, especially within SMEs;
- Support the development of relevant digital innovation and research assets – and how digital can be used to solve some of our grand challenges e.g. clean growth and ageing. This will include working with partners seeking to secure national Government funding for projects of national significance, including Northumbria University’s industry collaboration around Building Information Management (BIM) and connected construction, and digital/robotics opportunities associated with the Offshore Renewable Energy Catapult;
- Explore opportunities to use digital and data to deliver innovate tech-enabled solutions to ‘social and environmental challenges’ – e.g. around tech for good or to drive community wealth building or entrepreneurship. This will include exploring opportunities for tech co-operatives.

### **4.3 *Infrastructure and Digital Eco-system***

4.3.1 A strong infrastructure is central to ensuring that all our residents and businesses – from those in sparsely populated rural areas to the urban centre – can maximise digital opportunities.

4.3.2 The North of Tyne is currently benefitting from significant investment in its digital infrastructure and capabilities, including:

- Northumberland’s successful bid for Local Full Fibre Network funding;
- the opening of the North Atlantic Loop (which provides a direct fibre connection between the North of Tyne and Europe which is quicker and more resilient in connectivity terms than routing internet traffic through the South East of England);
- the Stellium Data centre, providing advanced large-scale infrastructure and low-latency connectivity to underpin cloud computing, e-commerce and other applications; and,
- private sector investment in increased full fibre connectivity to more of our commercial and residential properties.

4.3.3 A World-class digital infrastructure is critical to ensuring we can accommodate the changing nature of work, including the growing trend of outsourcing via digital means and virtual delivery. Key to capitalising on these trends is a skilled, digitally capable and resilient workforce, supported by strong digital infrastructure and connectivity.

4.3.4 Our continued success will also be dependent on maintaining a coherent and vibrant ecosystem of business support that is focussed on impact and the creation and commercialisation of innovation, including spinouts from knowledge intensive institutions, effective business start-up and scaleup support and promoting innovation led growth in highly export focused firms.

4.3.5 Overall, our digital specific and wider eco-systems must:

- drive digital adoption;
- ensure that high quality business acceleration, incubation and grow on space is available – addressing current market failures where there is clear demand and untapped potential – providing resources and facilities which are competitive with other national clusters;
- support businesses with high growth potential to scale, innovate and access the finance they need to invest and grow.

4.3.6 To ensure we maintain an effective eco-system that can deliver our vision for the sector, **our immediate priorities will be to:**

- maximise economic and social impact from the Local Full Fibre Network Programme in Northumberland, ensuring that the benefits of a stronger fibre infrastructure extend to all residents and businesses;
- work with the private sector, to ensure ongoing upgrades to the fibre infrastructure; and with DCMS and partners to explore the opportunities of 5G;
- increase growth of the digital sector through focussed business start-up and business acceleration programmes, linked robustly to our key sectors and innovation activity including export of smart region and Age-tech solutions;
- increase growth of the digital sector, by providing opportunities for co-location and/or business incubation and start up space – where there is evidence that the current offer is constraining growth.

## 5. Funding and next steps

5.1 As a first phase, it is recommended that Cabinet sets aside £10m from the Investment Fund to support development and delivery of the emerging North of Tyne Digital Growth and Innovation Programme and the related proposals included in this paper, for the period up until March 2023.

5.2 The proposed £10m of funding would include £8.5m from the ‘Sectors’ theme within the Investment Programme allocations and £1.5m from the ‘Skills for Growth’ allocation. This would sit alongside investment from the Adult Education Budget to support Digital Literacy; Industrial Strategy Funding from Government for major innovation opportunities at Newcastle University, Northumbria University and the Offshore Renewable Catapult; and future Shared Prosperity Funding.

5.3 Our expectation is that the Combined Authority’s investment will support up to 500 jobs and secure £25m of additional private sector investment. Further work will quantify the outcomes which can be expected around digital skills and literacy (and the specific focus on NTCA value-add in these areas), together with improved broadband infrastructure.

#### 5.4 Next steps include:

- hold a stakeholder event to showcase the NTCA programme and convening role; to seek further ideas on next steps and future priorities; and agree to receive further proposals for how best to facilitate ongoing business and sector engagement.
- continue to deliver projects already underway, and ensure their success;
- continue to develop, with partners, new projects within the themes of People; Ideas, Technology and Digital Adoption; and Infrastructure and Digital Ecosystem, in line with their respective priorities as set out in section four of this report;
- shape the plan outlined above into a blueprint for growth, and to seek other opportunities to articulate and communicate our digital story;
- through further development of the North of Tyne Digital Growth and Innovation Programme, explore a 'Digital Office' within the Combined Authority to spearhead this work and bring together the offer for businesses, whilst also seeking the ongoing support of senior partners within the business community.

### 6. Potential Impact on Objectives

6.1 The activity and recommendations detailed in this paper directly contribute towards the Champion of Enterprise, Spark of Innovation and Pride of Place pillars of the North of Tyne Economic Vision.

6.2 The vision highlights the commitment to create innovative, long-term opportunities for growth that reflect a transforming economy and emphasises the intention to invest in key sectors and support assets, including those that are world leading or have the potential for global impact. The Combined Authority will work with employers, universities, the North East LEP and other partners to increase the rate of innovation, entrepreneurialism and business growth, which are key to long-term success, increased competitiveness and higher wages.

### 7. Key Risks

7.1 Risks associated with each funding application will be considered as part of the application and appraisal process. The conditions associated with funding approvals relate to the mitigation of risks.

### 8. Financial and Other Resources Implications

8.1 This report includes proposals allocate an overall budget of £10m until March 2023, and from this make initial commitments of £1,500,000 to launch a SME Digital Adoption Call as set out in the recommendations of this report. Resources are available in the NTCA budget to cover the proposed expenditure.

**9. Legal Implications**

9.1 The Interim Monitoring Officer's comments have been included in this report.

**10. Consultation/Engagement**

10.1 Proposals set out in this report are consistent with the Economic Vision and Investment Plan previously set out by the combined authority following considerable consultation and engagement.

10.2 Sector Stakeholders have been fully engaged in the development of the vision and priorities through the Digital Sector Task & Finish Group.

**11. Appendices**

11.1 None

**12. Background Papers**

12.1 None.

**13. Contact Officers**

13.1 Henry Kippin, Director of Economic Growth  
Rob Hamilton, Principal Economic Advisor

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**Subject: 2019/20 Q3 Financial Management Report**

**Report of: Janice Gillespie, Interim Chief Financial Officer**

### **Report Summary**

This report is the third quarter monitoring report to Cabinet on the 2019/20 financial position. The report brings together the forecast financial position for both the Corporate and Investment Fund budget and provides an indication of the potential position of the Combined Authority at 31<sup>st</sup> March 2020. It also sets out the potential position on reserves at the year end.

The Combined Authority is still in the relatively early stages of set up, but as we have moved into the second half of the year, the appointment of permanent staff is almost complete. In terms of the Investment Fund, Cabinet have approved 25 projects to date committing £20.9m of the Investment Fund with a further £67m projects in the pipeline anticipating in the region of 2,571 jobs being created.

### **Recommendations**

The Cabinet is recommended to note the forecast budget monitoring position for the Combined Authority as set out in paragraphs 1.2, 1.3 and 1.4.

## 1. Background Information, Proposals and Timetable for Implementation

### 1.1 Summary

Cabinet approved the 2019/20 budget on 12<sup>th</sup> March 2019. Included in that budget was estimated expenditure across the year for both the Corporate Budget and the Investment Fund.

The budgets were set at an early stage in the development of the Combined Authority and were based on a range of estimates in terms of the establishment of the Combined Authority's staffing structure, and the systems required to support the delivery and monitoring of projects and programmes aligned with its vision.

### 1.2 Q3 Financial Management Corporate Budget

The Corporate Budget for 2019/20 set a zero-net income/expenditure position, continuing set up activities, the election of a new Mayor, and remaining recruitment of capacity to deliver the authority's vision.

Table 1 below sets out the forecast outturn position across the key income and expenditure heads as approved by Cabinet. In total there is a forecast net surplus of (£0.232m) at the year end. As we move through the financial year any forecast surplus will be adjusted against the contribution from the Investment Fund, currently an estimated £2.400m. For the purposes of transparency this has not been amended for this report to Cabinet.

**Table 1: Q3 Budget Monitoring 2019/20 Corporate Budget**

	Budget	Forecast	Variance Over/(Under)
<b>Expenditure</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Staffing	1,603	1,548	(55)
Mayor's Office	170	217	47
Miscellaneous (includes election spend)	1,405	1,576	171
Advisors (External)	305	200	(105)
Sundry Grant Expenditure	0	91	91
SLA's	197	197	0
Transfer to Reserves	0	182	182
JTC Levy	27,074	27,074	0
<b>Total Expenditure</b>	<b>30,754</b>	<b>31,085</b>	<b>331</b>
<b>Income</b>			
Contributions from the constituent Authorities	(150)	(150)	0

Mayoral Capacity Fund	(1,000)	(1,000)	0
Investment Fund	(2,400)	(2,400)	0
AEB Income	(130)	(231)	(101)
Interest Receivable	0	(190)	(190)
Use of Reserves	0	(90)	(90)
Grant Received- Brexit preparations	0	(182)	(182)
JTC Levy	(27,074)	(27,074)	0
<b>Total Income</b>	<b>(30,754)</b>	<b>(31,317)</b>	<b>(563)</b>
<b>Net (Income)/Expenditure</b>	<b>0</b>	<b>(232)</b>	<b>(232)</b>

## Corporate Expenditure Variances

### Staffing

Progress on recruitment has been made in line with the agreed financial plan. There are 30 staff now directly employed, with recruitment in progress for a further 3 posts, some of which are currently being filled by seconded staff (7).

Due to recruitment phasing, overall staff costs including the Mayor's Office remain in line with the annual budget, currently projecting an overall under-commitment of £0.007m. The budget will be realigned to reflect the current establishment. The staffing budget also includes costs for recruitment including the one-off expenditure associated with the appointment of two new Director posts, Director of Economic Growth and Director of Policy and Performance.

### Advisors

Specialist advice has been commissioned in relation to the Adult Education Budget (AEB) and in other key areas such as low carbon initiatives, and the Community Bank. The forecast remains as per Q2 reflecting the lag in early corporate activity and the requirement for more specific consultancy to be procured in relation to the Investment Fund budget.

### Miscellaneous expenditure including election

This category contains both positive and negative variances with a predicted net over-commitment of £0.171m. Although there has been an underspend in relation to election costs of £0.055m, there are predicted overspends, primarily in relation to accommodation costs of £0.065m relating to higher than anticipated rental and service charges, plus costs in relation to ICT for staff (£0.047m) and furniture for the boardroom of £0.009m. In addition to this, the forecast includes estimated costs in

relation to the procurement of a new Management Information System to aid the monitoring of the Investment Fund and AEB.

### **Sundry Grant Expenditure**

Cabinet are aware that late in 2018/19 the Combined Authority was awarded a £0.091m grant to support the preparations for the exit from the European Union and further to this Cabinet agreed a proposed approach to BREXIT agreed at its meeting on 5<sup>th</sup> February 2019 with the recommended approach based on:

- continuing to work with the North East Local Enterprise Partnership (NELEP) and other colleagues in the North East, to ensure a ‘no wrong door’ approach to responding to businesses;
- using the funding provided by Government to Mayoral Combined Authorities to respond to adverse outcomes and where possible take advantage of opportunities;
- exploring practical ways in which we can support businesses;
- ensuring that the North of Tyne is attractive to international investors;
- engaging directly with Government; and
- working with other Mayoral Combined Authorities to make the case for the devolution of any future additional funding – to replace the European Structural and Investment (ESIF) funding that the area will lose, to take advantage of new Brexit opportunities and to counter any negative economic impacts.

Officers have worked with the LEP and are proposing to contribute £0.090m to support additional capacity over the next 2 years to support the delivery of a Brexit work programme over the North of Tyne and North East Combined Authority area.

An additional £0.182m grant has been awarded in 2019/20 in respect of preparations for the exit from the European Union, no commitments have been identified against this award and therefore the monies have been transferred into reserves.

### **Service Level Agreements**

The Service Level Agreements (SLAs) cover IT, insurance, communications, payroll, governance, audit and HR. Whilst some of these are still being updated for 2019/20, there is no material change expected to the overall financial envelope for these costs.

### **Joint Transport Committee levies**

These will remain as per budget.

### **Other Income Variances**

## AEB Income

Following the budget being set the Combined Authority secured approval for the AEB implementation grant to support additional capacity.

## Interest Receivable

The Combined Authority has now received £40m of the devolved funding to date current treasury management activity is securing interest, albeit at a relatively low rate. The forecast for interest receivable has been increased by £0.070m, from £0.120m to £0.190m since Q2.

### 1.3 Investment Fund Q3 Monitoring

Defrayal of expenditure has now started to commence with claims being submitted in relation to Kielder Observatory and the Tour of Britain Cycle Race (£0.248m) with further claims scheduled to continue increasing from Q4 onwards. Cabinet approval has also been given during Q3 to support projects such as Northumberland Hexham Hydro, Energy Central Learning Hub and transforming NTCA Transport proposal.

Table 2 and 3, below summarize approvals by Cabinet to date (not including any approvals presented to Cabinet at this meeting), and how these are currently profiled over future years. These committed work streams total £1.364m during this financial year.

**Table 2: Investment Fund Commitments**

Investment Fund Thematic Areas	Total Project Cost	Investment Fund Commitment Approved
	£'000s	£'000s
Business	16,602	5,616
People	19,293	6,841
Place	42,311	1,915
Business Case Development Fund	1,479	979
<b>Total</b>	<b>79,685</b>	<b>15,351</b>

**Table 3: Forecast Investment Fund Spend Profile**

Investment Fund Thematic Areas	Financial year				
	2019/20	2020/21	2021/22	2022/23	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Business	17	846	1,666	3,087	5,616
People	360	3,359	1,995	1,127	6,841
Place	435	230	380	870	1,915
Business Case Development Fund	552	355	72	0	979
<b>Total</b>	<b>1,364</b>	<b>4,790</b>	<b>4,113</b>	<b>5,084</b>	<b>15,351</b>

Table 2 above, shows there is a significant level of leverage anticipated to be secured through the investment decisions made to date.

In terms of projecting the overall forecast outturn for the Investment fund for 2019/20 at this stage in the year the assumption has been made that all lines of the budget will be as planned. This is illustrated in Table 4 below.

**Table 4: Budget Monitoring Investment Fund Q3**

Investment Fund	Actual to Q3	Budget 2019/20	Forecast 2019/20	Variance
	Actual	Budget	Forecast	Variance
<b>Expenditure</b>	£'000	£'000	£'000	£'000
Supporting Business Case development	11	750	750	0
Work streams	264	975	975	0
Technical Support	83	250	250	0
Contribution to Corporate Costs	2,400	2,400	2,400	0
<b>Total Expenditure</b>	<b>2,758</b>	<b>4,375</b>	<b>4,375</b>	<b>0</b>
<b>Income</b>				
Investment fund	(20,000)	(20,000)	(20,000)	0
<b>Total Income</b>	<b>(20,000)</b>	<b>(20,000)</b>	<b>(20,000)</b>	<b>0</b>
<b>Net (Income)/Expenditure</b>	<b>(17,242)</b>	<b>(15,625)</b>	<b>(15,625)</b>	<b>0</b>
<b>Investment Reserve brought forward</b>	(19,012)	(19,012)	(19,550)	(538)
<b>Net Investment Fund Reserve carried forward</b>	(36,254)	(34,637)	(35,175)	(538)

## 1.4 Movement in Reserves as at Q3

Based on the current assumed forecast outturns set out above in paragraphs 1.2 and 1.3 an update on the reserves position is shown in Table 4 below.

**Table 4: Movement in Reserves as at Q3**

<b>Opening Balance 1 April 2019</b>	<b>Transfer In/(Out)during 2019/20</b>	<b>Closing Balance 31 March 2020</b>	<b>Reserve</b>
<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
91	0	91	Homeless Veteran Grant
91	91	182	Preparing to Exit EU Grant
200	0	200	Strategic Reserve
19,551	15,625	35,175	Investment Fund Reserve
<b>19,933</b>	<b>15,716</b>	<b>35,648</b>	

Officers are continuing to work with the three constituent North of Tyne Authorities to determine the appropriate use of the Homeless Veteran Grant with a report being brought back to February Cabinet on the proposed use.

## 2. Potential Impact on Objectives

- 2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Combined Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The Treasury Management Strategy will support and enable the budget process so that the Combined Authority can properly discharge its functions and assist in delivering the Combined Authority's vision, policies and priorities.

## 3. Key Risks

- 3.1 There are no key risks identified at this time.

## 4. Financial and Other Resources Implications

- 4.1 This is a financial report with any financial or resource implications set out in the report.

## 5. Legal Implications

5.1 The Combined Authority has a legal obligation under the Local Government Act 2003 to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice; the Chartered Institute of Public Finance and Accountancy's Prudential Code: Capital Finance in Local Authorities and the Ministry of Housing, Communities and Local Government (MHCLG) Statutory Guidance on Local Government Investments.

## **6. Consultation/Engagement**

6.1 The Treasury Management Policy and Strategy was included with the 2019/20 Budget which was subject to consultation with NCTA constituent authorities, NTCA Cabinet in addition to key officer groups. The 2019/20 Budget is based on the devolution deal and the Parliamentary Order which created the Combined Authority and the Combined Authority's Vision which has been agreed by Cabinet and is being shared with stakeholders in a range of events.

## **7. Appendices**

7.1 None

## **8. Background Papers**

8.1 12<sup>th</sup> March Report to Cabinet 2019-2022 Financial Plan and Budget  
5<sup>th</sup> February Report to Cabinet 2019 Financial Plan and Budget Appendix B

## **9. Contact Officers**

9.1 Janice Gillespie, Chief Finance Officer, [janice.gillespie@northoftyne-ca.org.uk](mailto:janice.gillespie@northoftyne-ca.org.uk)

## **10. Glossary**

10.1 AEB - Adult Education Budget  
MHCLG - Ministry of Housing, Communities and Local Government  
NTCA – North of Tyne Combined Authority  
SLA – Service Level Agreement

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**Subject: NTCA Budget Proposals 2020-2024**

**Report of: Janice Gillespie, Chief Finance Officer**

## **Report Summary**

The purpose of this report is to approve the budget for the North of Tyne Combined Authority (NTCA) for 2020-21, and the medium-term financial plan for the period 2020-2021 to 2023-24. Cabinet is recommended to approve the budget, taking into account comments made by Overview and Scrutiny Committee.

In developing the budget proposals, the Mayor and Cabinet have been clear that NTCA should be a lean, agile, outward-facing organisation, working closely with stakeholders to achieve its goals. The Combined Authority will continue to draw on the expertise of its three constituent authorities to maximise opportunities for efficiency, including the use of Service Level Agreements for key corporate functions. The Combined Authority will also look to maximise funding available through use of the £20m per annum Investment Fund to leverage in additional investment. In addition, delivery of the devolved Adult Education Budget (AEB) commences during 2020-21. There continues to be no additional cost to local taxpayers or local authorities in the current budget proposals.

## **Recommendations**

The Cabinet is recommended to:

1. Agree the Corporate Budget for 2020-21 as set out in Paragraph 1.1, taking into account comments made by the Overview and Scrutiny Committee.
2. Agree the Investment Fund as set out in paragraph 1.2, taking into account comments made by the Overview and Scrutiny Committee.

3. Agree the Adult Education Budget as set out in paragraph 1.3, taking into account comments made by the Overview and Scrutiny Committee.
4. Agree the Treasury Management Strategy 2020-21 as described in paragraph 1.5 and attached at Appendix A, taking into account comments made by the Overview and Scrutiny Committee.
5. Note that the Transport Levies will be issued on 15<sup>th</sup> February in line with 2019-20 arrangements and amounts.
6. Agree to hold the level of reserves set out in paragraph 1.8 and to note that the Chief Finance Officer continues to keep the level of reserves under review as the Combined Authority develops and new information becomes available about the financial risks facing Combined Authority arrangements for managing those risks.

## 1. Background Information, Proposals and Timetable for Implementation

### 1.1 Corporate Budget

On 12<sup>th</sup> March 2019, the Combined Authority set a Corporate budget for 2019-20 which established an initial baseline position for the first full financial year of the Combined Authority.

Since that time officers have continued to consider the ongoing requirements of the new Combined Authority and Table 1 below identifies the proposed core budget that is required to operate the Mayoral Combined Authority and how it is to be funded.

**Table 1: 2020-21 Budget and 2020-24 Financial Plan**

	<b>4 Year Corporate Budget - Summary</b>				
	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>					
Staffing	2,132	2,171	2,173	2,183	8,659
Mayor's Office	268	273	277	281	1,099
Consultants	70	40	40	45	195
Other Costs	540	469	456	459	1,924
Transport Levy	27,074	27,073	27,074	27,073	108,294
SLAs	403	411	419	427	1,660
<b>Total Expenditure</b>	<b>30,487</b>	<b>30,437</b>	<b>30,439</b>	<b>30,468</b>	<b>121,831</b>
<b>Income</b>					
Grant Income	(3,413)	(3,364)	(3,365)	(3,395)	(13,537)
Transport Levy	(27,074)	(27,073)	(27,074)	(27,073)	(108,294)
<b>Total Income</b>	<b>(30,487)</b>	<b>(30,437)</b>	<b>(30,439)</b>	<b>(30,468)</b>	<b>(121,831)</b>
<b>Net Position (Inc)/Exp</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

In developing these budget proposals, the Mayor and Cabinet have been clear in their approach to ensuring the North of Tyne Combined Authority is a lean organisation. The budget proposals include the anticipated capacity required to deliver the ambition of the Combined Authority and will be regularly reviewed as the delivery of key priorities and actions progress. The bulk of expenditure is funded through devolved funding secured through the devolution deal, and contributions from constituent authorities of £37,000 each.

The Mayor and Cabinet will continue to work with officers to maximise the opportunities of the three constituent authorities working together efficiently and effectively with the North of Tyne Combined Authority. Much of this is now in place through the development of the Service level Agreements for support services such

as Human Resources, Legal Services, Treasury Management Support, Procurement Support, Internal Audit, Data Protection and ICT Capacity. New project and grant management systems are currently under consideration.

## 1.2 Investment Fund Budget

The Investment fund sets out costs associated with the development, management and delivery of projects to be funded through the Investment fund. To date 25 projects have been agreed committing £20.9m of the Investment Fund across the themes listed below; with a further £67m identified projects in the pipeline identified through recent sector commissioning work. Agreed projects to date include:

- Business (£10.5m)
- People (£7.2m)
- Place (£2.2m)
- Business Case Development Fund (£1.0m)

The investment to date has secured over £99.9m of additional funding into the NTCA area including the Inward Investment Fund (£57m) through the provision of match funding, and the expectation that in the region of 2,571 jobs will be created through the projects approved to date. Based on the Mayor and Cabinet's plans to ensure delivery of the Vision of the Combined Authority the Investment Fund budget is set out in Table 2 below.

**Table 2: NTCA Investment Fund Budget 2020-21 – 2023-24**

	Previous Years 2018-2020	4 Year Investment Fund Budget				
		2020-21	2021-22	2022-23	2023-24	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Expenditure</b>						
Business Case Development Fund	750	1,023	1,000	1,000	763	4,536
Investment Projects	970	12,750	20,000	25,000	28,000	86,720
Technical Support	250	250	250	250	250	1,250
Corporate Contribution	2,360	1,400	2,188	2,206	2,203	10,357
<b>Total Expenditure</b>	<b>4,330</b>	<b>15,423</b>	<b>23,438</b>	<b>28,456</b>	<b>31,216</b>	<b>102,863</b>
<b>Income</b>						
Total Funding	(40,000)	(20,000)	(20,000)	(20,000)	(20,000)	(120,000)
<b>Total Income</b>	<b>(40,000)</b>	<b>(20,000)</b>	<b>(20,000)</b>	<b>(20,000)</b>	<b>(20,000)</b>	<b>(120,000)</b>
<b>Net Position (Inc)/Exp</b>	<b>(35,670)</b>	<b>(4,577)</b>	<b>3,438</b>	<b>8,456</b>	<b>11,216</b>	<b>(17,137)</b>
<b>Cumulative Position</b>	<b>(35,670)</b>	<b>(40,247)</b>	<b>(36,809)</b>	<b>(28,353)</b>	<b>(17,137)</b>	

Included in the budget is provision for Technical Support, this is a requirement of the Assurance Framework that Investment Fund proposals are subject to external independent testing. Any unspent Investment Fund will be held and transferred to a specific reserve at the year end to support the delivery of the programme of work in future years.

### 1.3 Adult Education budget (AEB)

As part of the devolution deal the Combined Authority is progressing the devolution of the Adult Education budget. The devolution of AEB will give the Combined Authority significant new powers and responsibilities in delivering both their mayoral priorities and the national skills agenda and priorities. The statutory order to devolve the AEB to NTCA has been made and the AEB will be transferred to NTCA for the academic year 2020-21 onwards.

AEB costs are collected within the Corporate budget with a contribution of 3% of overall AEB income made towards Corporate support costs.

Table 3 below reflects a high-level balanced Budget with all funding to be awarded to grant providers and other procured deliveries. The expected split between grant and procured service is also detailed, based on historic delivery.

**Table 3: Adult Education Budget 2020-21 – 2023-2024**

	<b>4 Year Adult Education Budget Summary</b>				
	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>					
Grant Awards	8,965	15,369	15,369	15,369	55,072
Procured Services	3,884	6,659	6,659	6,659	23,861
Corporate Contribution	396	678	678	678	2,430
<b>Total Expenditure</b>	<b>13,245</b>	<b>22,706</b>	<b>22,706</b>	<b>22,706</b>	<b>81,363</b>
<b>Income</b>					
<b>Funding Sources and Total Income</b>	<b>(13,245)</b>	<b>(22,706)</b>	<b>(22,706)</b>	<b>(22,706)</b>	<b>(81,363)</b>
<b>Net Position (Inc)/Exp</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### 1.4 Mayoral Precept

No provisions have been included in the Financial Plan for a Mayoral Precept.

## 1.5 Treasury Management Strategy

The Combined Authority is required to approve a Treasury Management Strategy each year, this is attached at Appendix A for approval. A Service Level Agreement is now in place with North Tyneside Council for support in this area. Additional work will progress during 2020-21 to identify potential synergies from alignment of the Treasury Management Strategy of this Combined Authority with those of the constituent authorities, and the outcome of this work will be brought back to Cabinet for their consideration in due course.

## 1.6 Prudential Indicators and Minimum Revenue Provision (MRP) Policy

The new arrangements set out in the NECA (North East Combined Authority) and NTCA Orders require decisions about the Transport Revenue budget and Levies and the Transport Capital Programme to be determined by the Joint Transport Committee (JTC). The transport functions and assets still rest with each Combined Authority but can only be exercised or deployed through the decisions of the Joint Transport Committee.

As previously outlined to Cabinet a proportion of the outstanding balance of the loans and investments (based on the share of Tyne and Wear population in each Combined Authority areas) will be shown in the balance sheets of the two Combined Authorities. It may be necessary for the individual loan agreements with lenders to be amended to reflect the new arrangement for the share of liabilities between the two Combined Authorities. The Mayor and Cabinet are required to be aware of the associated prudential indicators and MRP policy associated with the loans and Investments which are included in the budget report for the NECA as the relevant accountable body. There is no change to the details of these as in the report to Cabinet on 5<sup>th</sup> February. A summary of the Loans outstanding at the date of the change in governance is set out in Table 4 below.

**Table 4: Transport (Tyne and Wear) Outstanding Debt, and Capital Financing Requirement at 2<sup>nd</sup> November 2018**

	<b>Principal</b>	<b>Interest Due</b>	<b>Total</b>	<b>NECA Share</b>	<b>NTCA Share</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Capital Financing Requirement</b>	193,665		193,665	107,883	85,782
<b>Actual External Debt</b>	167,333	2,274	169,607	94,482	75,125

The Prudential Indicators and MRP policy for the Transport Asset and liabilities and NECA budget remain unchanged from the report to Cabinet on 5<sup>th</sup> February 2019.

1.7 At this early stage of the North of Tyne Combined Authority there is no borrowing requirement associated with the delivery of the Vision and priorities, therefore the Combined Authority does not yet require its own Prudential Indicators or an MRP policy. These will be developed when necessary and brought back to Cabinet as part of the budget and Financial Planning process in future years.

### **Transport Levy**

1.8 Cabinet are aware that the North of Tyne and the North East Combined Authorities are required under the Transport Levying Bodies regulations to set the Revenue budget and associated Transport Levies before 15<sup>th</sup> February 2020, in order to enable their constituent councils to take the levies and other contributions into account in setting their own budgets. It is anticipated that the Transport Levy for 2020/21 will be frozen at current year levels.

### **Reserves**

1.9 As set out in the budget report to Cabinet on 4<sup>th</sup> December 2018, a Corporate reserve of £200k was created. The level of reserve will remain under review as the Combined Authority develops and new information becomes available about the financial risks facing NTCA and the arrangements in place for managing those risks.

### **Pooling of Business Rates and 75% Business Rates Retention Pilot**

In the Final Local Government Finance Settlement for 2019-20, it was confirmed that the North of the Tyne's expression of interest to become a 75% Business Rate Retention Pilot was successful for 2019-20. The three constituent authorities are currently part of a pooling arrangement for the North of the Tyne. A key feature of becoming a 75% business rates pilot is that Business Rate income above the current 49%/50% retention arrangements will be pooled across the pilot. The value of this additional income will be confirmed when the final NNDR3 (National Non-Domestic Rates Outturn position) return is completed for the pool during May 2020.

1.10 The Spending Review announced in September 2019 determined that the 2019-20 75% Business Rates Retention pilots would not continue beyond 2019-20.

## **The LEP Accountable Body Arrangements**

When the North of Tyne Combined Authority was established the 7 North East authorities agreed that the former NECA's accountable body responsibilities should be shared between the new NECA and NTCA. The intention is that the NTCA will take on the accountable body function for the North East LEP, while NECA will act as accountable body for the Joint Transport Committee. The budget will need to reflect decisions about the level of government grant available to support North East LEP costs as well as the guidance and resource requirements needed to meet grant conditions. Cabinet will be kept updated regarding progress on this matter.

### **2. Potential Impact on Objectives**

- 2.1 The North of Tyne Combined Authority Vision document sets out the strategic objectives of the Combined Authority, detailing the key priorities and the first steps in the journey around the six key pillars. The budget will enable the Combined Authority to properly discharge its functions and assist in delivering the Combined Authority's vision, policies and priorities.

### **3. Key Risks**

- 3.1 There are no key risks identified at this time.

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

- 4.1 The report sets out finance and other resource considerations in detail.

### **5. Legal Implications**

- 5.1 The Combined Authority is required to agree a balanced budget annually and to monitor that budget throughout the year. The Combined Authority must also make provision for an adequate level of un-earmarked reserves. It is also required to ensure that good financial governance arrangements are in place.

### **6. Consultation/Engagement**

- 6.1 The creation of the North of Tyne Combined Authority has been subject to significant regional and national engagement. The 2020/21 budget is based on the devolution deal and the statutory order which created the Combined Authority, and the Combined Authority's Vision which has been agreed by Cabinet and is being shared with stakeholders in a range of events including Voluntary, Community and Social Enterprise (VCSE) Sector engagement.

The Mayor and Cabinet will be updated and respond to the recommendations from the Overview and Scrutiny Committee at the meeting on 28<sup>th</sup> January 2020.

## **7. Appendices**

7.1 Appendix A Treasury Management Strategy.

## **8. Background Papers**

8.1 8<sup>th</sup> November Cabinet Report: North Tyneside Combined Authority Vision and Emerging Priorities of Early Investment.

The Combined Authorities (Finance) Order 2017.

Statutory Instrument No 1133 (2018) The Newcastle Upon Tyne, North Tyneside and Northumberland Combined Authority (Establishment and Functions) Order 2018.

8<sup>th</sup> November Cabinet 2018-19 Budget Report

5<sup>th</sup> February Cabinet 2019-20 Budget Report

26<sup>th</sup> September Cabinet NTCA Financial Planning and Budget Process

## **9. Contact Officers**

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## **10. Glossary**

10.1 AEB – Adult Education Budget

JTC – Joint Transport Committee

MRP – Minimum Revenue Provision

NECA – North East Combined Authority

NNDR3 – National Non-Domestic Rates Outturn position

NTCA – North of Tyne Combined Authority

VCSE – Voluntary, Community and Social Enterprise

**North of Tyne Combined Authority****Treasury Management Policy Statement & Strategy 2020-21****Background**

The Combined Authority is required to operate a balanced budget, which means that cash raised during the year will meet cash expenditure. A key part of the Combined Authority's treasury management function is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Combined Authority's low risk policy, providing adequate security and liquidity before considering investment return.

Another key element of the treasury management function is the management of the funding associated with the Combined Authority's capital investment plans. These capital plans provide a guide to any borrowing needs of the Combined Authority, essentially the longer-term cash flow planning to ensure that the Combined Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. Although the Combined Authority has not identified any imminent borrowing plans other than in respect of the relevant share of the Joint Transport Committee liabilities, it is starting to engage in discussions with Government to obtain borrowing powers so that these are in place when borrowing is required.

The contribution the treasury management function makes to the Combined Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or on larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security and liquidity of the sums invested.

**Statutory Requirements**

The Combined Authority has a legal obligation under the Local Government Act 2003 to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice; the Chartered Institute of Public Finance and Accountancy's Prudential Code: Capital Finance in Local Authorities and the Ministry of Housing, Communities and Local Government (MHCLG) Statutory Guidance on Local Government Investments.

The CIPFA Treasury Management Code requires the Combined Authority to approve a treasury management strategy before the start of each financial year.

In addition, the MHCLG guidance requires the Combined Authority to approve an investment strategy before the start of each financial year.

The CIPFA Treasury Management Code and the Prudential Code are closely linked. The Combined Authority is required to have regard to the Prudential Code when setting limits to the level of its affordable borrowing. The 2017 update to the Prudential Code drew together

the reporting requirements of the Prudential Code and the Treasury Management Code resulting in the requirement for the Combined Authority to produce a capital strategy that includes specific requirements in respect of debt and borrowing and treasury management. An investment strategy will be produced when the Combined Authority has determined potential borrowing limits through dialogue with the Treasury.

### **Effective Treasury Management**

The Combined Authority will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of treasury management activities
- Suitable Treasury Management Practices (TMPs), setting out the manner in which the Combined Authority will seek to achieve its policies and objectives and detail how it will manage and control treasury management activities.

### **Reporting**

The following reports will be issued during the financial year for approval by Cabinet:

- An annual report on the Combined Authority's treasury management strategy and plan to be pursued in the coming year. This will include an investment strategy and will be considered by Cabinet as part of the budget approval process.
- A mid-year review report. This will update members on the progress of the capital position, show amended prudential indicators where required and performance against the strategy.
- An annual report, after year end closure on the performance of the treasury management function, on the effects of decisions taken and the transactions executed in the past year, and any circumstances of non-compliance with the treasury management strategy and TMPs.

### **Responsibilities**

The Combined Authority delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Audit and Standards Committee, and for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the Combined Authority's policy statement and TMPs and if that officer is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. Cabinet has responsibility to ensure the implementation and regular monitoring of its treasury management policies delegates the responsibility for the execution and administration of treasury management decisions to the Chief Finance Officer, who will act in accordance with the organisation's policy statement and TMPs.

Responsibility for ensuring effective scrutiny of the treasury management strategy and policies is delegated to Overview and Scrutiny Committee.

The Combined Authority's treasury management function is proposed to be managed under a service level agreement with North Tyneside Council.

The Treasury Management functions of the Joint Transport Committee are approved as part of the North East Combined Authority budget setting process in their role as Accountable Body. A review of the NECA Treasury Management Strategy has been undertaken and is in line with that of the Combined Authority.

## **Training**

The CIPFA Treasury Management Code requires the responsible officer to ensure those members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

## **Treasury Management Policy Statement 2020-21**

The Combined Authority defines its treasury management activities as:

“The management of the Combined Authority's investments and cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

## **Risk Management**

The Combined Authority regards the successful identification, monitoring and control of risk to the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage those risks.

## **Value for Money**

The Combined Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

## **Borrowing Policy**

At this current time the Combined Authority does not have the powers to borrow other than for Transport responsibilities, the borrowing that will be reflected in this Combined Authority's statement of accounts relates to historic Tyne and Wear Transport activities and the financing and borrowing costs are met by the Tyne and Wear Levy. Details of which are included the Treasury Management Strategy and Prudential Indicators of the North East Combined Authority as the appointed accountable body.

## **Investment policy**

The Combined Authority's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of the Combined Authority's services is an important, but secondary, objective.

The Combined Authority will have regard to the MHCLG Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.

## **Treasury Management Strategy for 2020-21**

The proposed strategy for 2020-21 in respect of the following aspects of the treasury management function is based upon the treasury management officers' view on interest rates, supplemented with market forecasts provided by to North Tyneside Council's treasury advisor, Link Asset Services. This strategy covers:

- Treasury management consultants
- The current treasury portfolio position;
- Prospects for interest rates;
- The borrowing strategy;
- Sources of borrowing
- Policy on borrowing in advance of need;
- The investment strategy;
- Financial investments;
- Creditworthiness;
- Liquidity management;
- Non-financial investments; and
- Policy on the use of financial derivatives

### **Treasury Management Consultants**

Through a service level agreement with North Tyneside Council, the Combined Authority proposed to appoint its own external treasury management advisors.

Whilst the Combined Authority has the intention to appoint external treasury management advisors it recognises that responsibility for treasury management decisions remains with the Combined Authority at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, that from any appointed treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Combined Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

### **Current Treasury Portfolio Position**

The Combined Authority's Investment position as at December 2019 is set out in Table 1 below:

**Table 1: Current Treasury Portfolio as at 31<sup>st</sup> December 2019**

<b>Investments</b>	<b>Average level of Investment</b>	<b>Average Rate Interest earned</b>
	<b>£m</b>	<b>%</b>
Investments DMO*	38	0.59
<b>Total</b>	<b>38</b>	

\*Debt Management Office

The Combined Authority has now received £40m of the devolved funding to date in relation to the Investment Fund, £20m in relation to 2018/19 and then a further £20m in relation to 2019/20.

There is currently £38m invested in the UK Central Government (Debt Management Office) this being considered a low risk counterparty/instrument commensurate with the Combined Authority's low risk policy, providing adequate security and liquidity before considering investment return.

### **Prospects for Interest Rates**

The Combined Authority through its service level agreement with North Tyneside Council for treasury management services currently has access to Link Asset Services as its external treasury advisor and part of their service is to assist the Combined Authority to formulate a view on interest rates. The table below sets out Link Asset Services professional view of interest rates.

**Table 2: Link Asset Services forecast interest rates – (December 2019)**

	<b>Bank Rate</b>	<b>5 year PWLB</b>	<b>10 year PWLB</b>	<b>25 year PWLB</b>	<b>50 year PWLB</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Dec-19	0.75	2.30	2.60	3.20	3.10
Mar-20	0.75	2.40	2.70	3.30	3.20
Jun-20	0.75	2.40	2.70	3.40	3.30
Sep-20	0.75	2.50	2.70	3.40	3.30
Dec-20	0.75	2.50	2.80	3.50	3.40
Mar-21	1.00	2.60	2.90	3.60	3.50
Jun-21	1.00	2.70	3.00	3.70	3.60
Sep-21	1.00	2.80	3.10	3.70	3.60
Dec-21	1.00	2.90	3.20	3.80	3.70
Mar-22	1.00	2.90	3.20	3.90	3.80
Jun-22	1.25	3.00	3.30	4.00	3.90

From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and

sharp changes in investor sentiment. Such volatility could occur at any time during the forecast period.

Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, and MPC decisions, will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geographical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be dependent on economic and political developments.

## **Investment and Borrowing Rates**

Investment returns are likely to remain low during 2020-21 but to be on a gently rising trend over the next few years;

Borrowing interest rates have been volatile so far in 2019/20 and have increased modestly since the summer. This increase is expected to continue over the next few years (see table 2 above).

## **Borrowing Strategy**

At this current time the Combined Authority does not have the powers to borrow other than for Transport responsibilities, the borrowing that will be reflected in this Combined Authority's statement of accounts relates to historic Tyne and Wear Transport activities and the financing and borrowing costs are met by the Tyne and Wear Levy. Details of which are included the Treasury Management Strategy and Prudential Indicators of the North East Combined Authority as the appointed accountable body.

## **Annual Investment Strategy**

### **Investment policy**

The Combined Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

The Combined Authority's investment strategy will give consideration to core balances and cash flow requirements and the outlook for short-term interest rates. Where cash flow identifies cash sums that could be invested for longer periods (potentially obtaining a greater return), the value to be obtained from longer term investments will be carefully assessed.

If it is thought that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable. Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Both the CIPFA Treasury Management Code and MHCLG guidance require the Combined Authority to invest any funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield.

The above Code and guidance also emphasises the importance of the management of risk within treasury management functions. This Combined Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- Credit ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. Any assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Combined Authority will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.
- Other information sources used will include the financial press, share prices and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- The Combined Authority has defined a list of types of investment instruments that the treasury management function is authorised to use. There are two lists in under the categories of 'specified' and 'non-specified' investments.

## **Financial Investments**

The CIPFA Treasury Management Code and the MHCLG guidance has now extended the meaning of 'financial investments' to include the following:

- Specified investments;
- Loans; and
- Non-specified investments.

## **Specified Investments**

Specified investments are: denominated in sterling; repayable within 12 months (either because of an expiry date or through a non-conditional option); not defined as capital expenditure by legislation; and invested with a body or in an investment scheme described as high quality or invested with one of: the UK Government; a Local Authority; or a Parish Council or Community Council.

## **Loans**

Loans could be to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth. In some cases, these loans may not be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

To allow such loans to be made whilst continuing to have regard to the MHCLG guidance Local Authorities must be able to demonstrate in their strategy that:

- Total financial exposure to these types of loans is proportionate;
- That an allowed “expected credit loss” model for loans and receivables as set out in IFRS 9 Financial Instruments has been adopted to measure the credit risk of a portfolio;
- That appropriate credit control arrangements to recover overdue repayments is in place; and
- The Combined Authority has formally agreed the total level of loans by type that it is willing to make, and their total loan book is within their self-assessed limit.

### Non-specified Financial Investments

Non-specified investments are any investment not meeting the definition of a specified investment (less high credit quality, may be for periods in excess of 12 months, and are more complex instruments which require greater consideration by members and officers before being authorised for use).

The following table provides a list of specified investment instruments that are authorised to be used by the Combined Authority, subject to cash limits and time limits indicated:

**Table 3: Specified Investment Instruments**

	<b>Credit Criteria</b>	<b>Maximum Deposit</b>	<b>Maximum Period</b>
Debt Management Agency Deposit Facility	UK Government backed	£50m	Unlimited
UK Local Authorities	N/A	£10m each	1 year
UK Government Treasury Bills	UK Sovereign Rating	£10m	1 year
Term deposits with banks and building societies	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Certificate of Deposits with banks and building societies	Blue /Orange Red Green No Colour	£5m each	12 months 6 months 100 days Not for use
Money Market Funds	AAA	£5m each	Liquid

Local Authority Controlled companies in the NTCA area		£5m	5 years
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The following table provides a list of non-specified investment instruments that are authorised to be used by the Combined Authority, subject to the cash limits and time limits indicated:

**Table 4: Non-specified Investment Instruments**

	Credit Criteria	Maximum Deposit	Maximum Period
UK Local Authorities	N/A	£5m each	3 years

The Combined Authority has determined that it will limit the maximum total exposure to non-specified investments as being 25%.

Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

All investments will be denominated in sterling.

The Combined Authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

### **Creditworthiness Policy**

The minimum credit ratings criteria the Combined Authority use will be a Short-Term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings, but they may still be used. In these instances, consideration will be given to the whole range of ratings available or other market information, to support their use.

The Combined Authority also applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody's and Standard & Poor's. Link Asset Services supplement the credit ratings of counterparties with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to provide early warning of likely changes in credit ratings
- Sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness

of counterparties and are used by the Authority to determine the suggested duration of investments.

This service uses a wider array of information other than just primary ratings and by using a risk weighted scoring system it does not give undue preponderance to one agency's ratings.

The Combined Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

If a downgrade results in the counterparty no longer meeting the Combined Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings the Combined Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website. Extreme market movements may result in downgrade of an institution or removal from the Combined Authority's lending list. Sole reliance will not be placed on the use of this external service. In addition, this Combined Authority will also use market data and market information on any external support for banks to help support its decision-making process.

As a result, in the change in accounting standards for 2018-19 under IFRS 9, the Combined Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year.

## **Liquidity Management**

Officers providing treasury management services to the Combined Authority use purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk to the authority of being forced to borrow on unfavourable terms to meet its financial commitments.

## **UK Banks – Ring Fencing**

The largest UK banks are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1<sup>st</sup> January 2019. This is known as ring-fencing. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and small and medium-sized enterprise (SME) deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day to day core transactions, whilst more complex and riskier activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Combined Authority will continue to assess the new formed entities in the same way that it does others and those with sufficiently high ratings, will be considered for investment purposes.

### **Non-Financial Investments**

The MHCLG guidance defines an investment as all of the financial assets of a Local Authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations. The definition of an investment also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party.

The Combined Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Combined Authority will ensure that all the organisation's investments are covered in the investment strategy and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The Combined Authority will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

### **Policy on the use of Financial Derivatives**

Local Authorities generally have made use of financial derivatives embedded into loans and investments both to reduce interest rate risk and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over Local Authorities powers to use standalone financial derivatives such as swaps, forwards, futures and options. However, the Combined Authority's policy is not to currently use these instruments.

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