



Tees Valley Unlimited  
Tees Valley European  
Structural and Investment  
Funds Strategy

January 2014



### English

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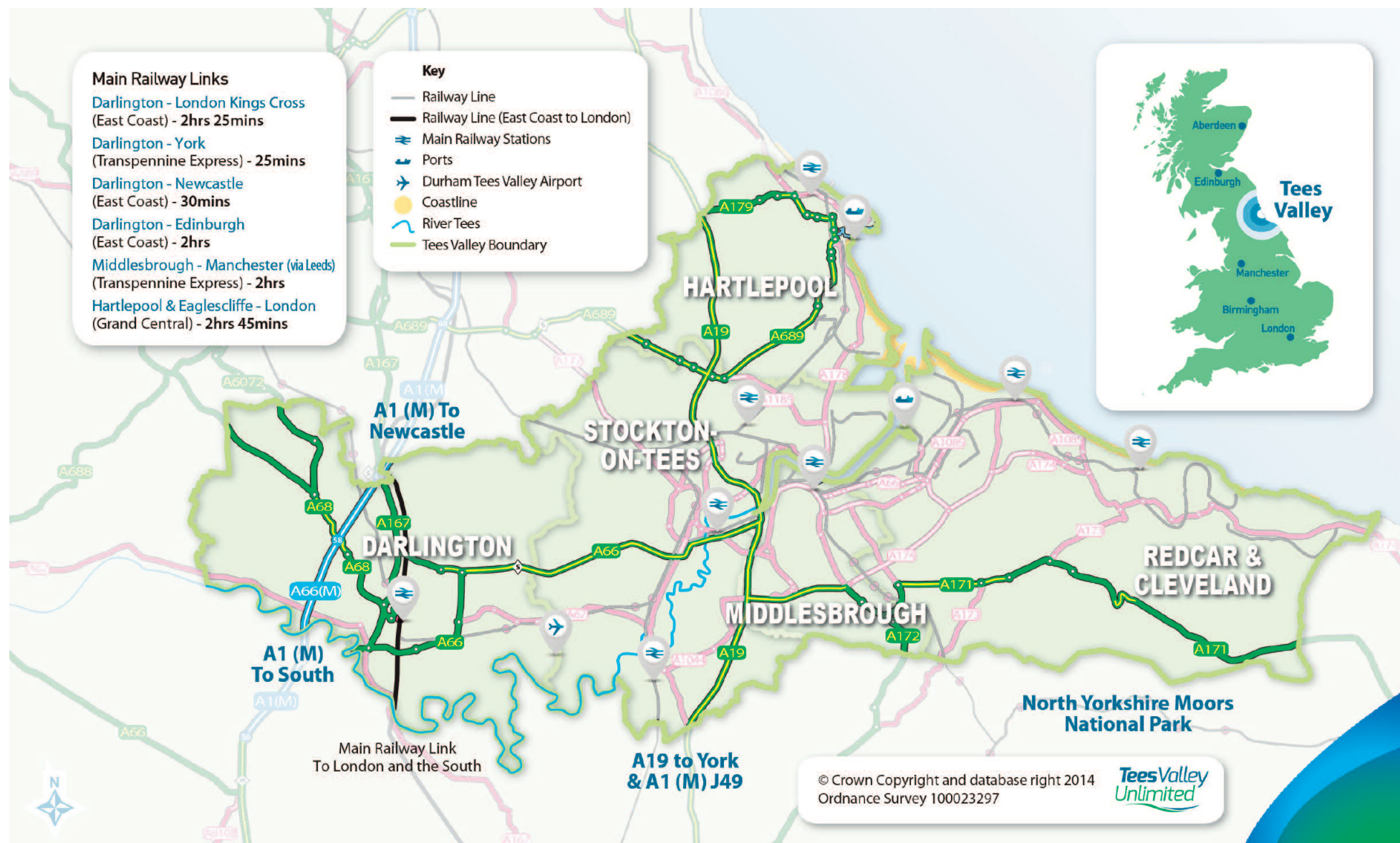
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# Tees Valley Area



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## Executive Summary

The European Structural and Investment Funds Strategy (ESIFS) for Tees Valley sets out how the area will maximise the opportunity presented by an allocation of £173m from European Regional Development Fund (ERDF) and European Social Fund (ESF), together with an additional £12.59m of Youth Employment Initiative and £1.1m from the European Agricultural Fund for Regional Development (EAFRD), to support the Tees Valley's economic growth opportunities.

**Building on existing economic strategies for the area, our strategy places SMEs, innovation and individuals at the centre of the Tees Valley's growth ambitions.**

The Tees Valley, with a population of 664,000, is an area of innovation and invention that continues to evolve. Over the past 50 years the Tees Valley economy has moved from mining, and steel making toward the process and chemical industries. Today the business base is shifting once again, with growing expertise in the advanced manufacturing, low-carbon, logistics, digital and creative industries.

The area makes a significant contribution to the UK economy (with GDP of almost £11bn) and is part of the only area in the UK with a positive balance of trade in goods. Over a fifth of this contribution is through production and Tees Valley comprises 50% of the UK's petrochemicals GDP. Although our Key Sectors face challenges of remaining competitive against global competition and the need to reduce the impact of CO<sup>2</sup>, there are significant opportunities. The advanced manufacturing heritage and expertise of Tees Valley makes us ideally placed to capitalise upon moves towards a low carbon economy, supporting our businesses to develop new technologies, export new products and access new supply chains.

The Tees Valley is at the vanguard of export led growth and has seen significant investment in sectors such as subsea, biologics, automotive, oil and gas, digital and creative. These together with transport and logistics, business ICT, finance, business services and healthcare, have real growth potential. Tees Valley's business base is critical to supplying key UK industries, particularly automotive, oil and gas and aerospace.

The Tees Valley has experienced private sector growth, with a net increase of over 8,000 jobs since 2011, and our skilled workforce, excellent connectivity and leading knowledge centres are nationally-recognised. Furthermore, we have a quality of place that attracts people to live, work and visit the Tees Valley.



## However, we do not have enough jobs in our economy and our growth potential is not being realised

The Tees Valley economy faces a number of barriers to growth. With a working age population of 421,000, but only 281,000 jobs, we have an under-representation of private sector employment opportunities. This is particularly acute with unemployment in Tees Valley at 5.5% and youth employment at 10.3%, both double the national average.

There are high numbers of people with significant barriers to work – only 25.2% of residents are qualified to NVQ level 4 compared to 34.4% nationally – while businesses that need to recruit skilled workers can struggle to recruit and grow.

Businesses, particularly our 13,500 SME base, face hurdles which keep rates of enterprise, growth and commercialisation in Tees Valley low. These include national barriers such as access to finance and cash flow, availability of skills and a culture of relying on a limited number of domestic customers. Furthermore, energy usage and CO<sup>2</sup> emissions are high with 4.8% of UK industrial CO<sup>2</sup> emissions and 5 of the top 25 single industrial emitters in Tees Valley.

Our Statement of Ambition is therefore to become:

01

**A high value, low carbon economy, and**

02

**A diversified and inclusive economy.**

To achieve this vision and grow our economy, we need to facilitate the creation of 25,000 jobs by 2025. Therefore, our main aims are to:

- Provide an attractive environment for investment in our Key Sectors including advanced manufacturing, engineering, the chemical, process and low carbon sectors;
- Provide businesses with the necessary support and incentives to enable them to start up, locate, innovate and grow in Tees Valley, export products and services across the globe and be resilient to economic shocks;
- Address skills issues to enable residents to access job opportunities and allow businesses to grow, ensuring that barriers to the labour market among the most disadvantaged are broken down.
- Ensure that growth in Tees Valley is sustainable and equitable.

Our ESIFS focuses upon growing our Key Sectors, fostering innovation, catalysing business growth in our SMEs, developing our workforce and ensuring sustainable growth and economic equity.

The ESIFS has been developed by and for the Tees Valley area with over 190 partners across the public, private and civil society invited to be involved in its development. The allocation of funds detailed below will support the delivery of the Tees Valley Strategic Economic Plan and our Statement of Ambition:

| ERDF £104.08m (60% of total structural fund allocation)   |                                     |  |                       |
|---|-------------------------------------|--|-----------------------|
| ERDF Theme  |                                     | % ERDF allocation  | Total ERDF allocation |
| 1   | Research & Development & Innovation | 24%  | £25m                  |
| 3   | SME Competitiveness                 | 61%  | £63.46m               |
| 4   | Low Carbon                          | 15%  | £15.6m                |
| ESF £69.39m (40% of total structural fund allocation)   |                                     |  |                       |
| ESF Theme   |                                     | % ESF allocation   | Total ESF allocation  |
| 8   | Employment                          | 46%  | £32.05m               |
| 10  | Skills                              | 34%  | £23.45m               |
| 9   | Social Inclusion                    | 20%  | £13.87m               |
| EAFRD £1.1m   |                                     |  |                       |
| Youth Employment Initiative £12.59m   |                                     |  |                       |
| TOTAL: £187.12m   |                                     |  |                       |
| Total Outputs   |                                     |  |                       |
| <b>ERDF (£104.08m)</b> <ul style="list-style-type: none"> <li>■ 4581 enterprises supported</li> <li>■ 500 new enterprises supported</li> <li>■ 500 businesses accessing superfast broadband</li> <li>■ 3058 jobs created</li> </ul> |                                     | <b>ESF (£81.98m)</b> <ul style="list-style-type: none"> <li>■ 42,286 people receiving support</li> </ul> <b>EAFRD (1.1m)</b> <ul style="list-style-type: none"> <li>■ 41 jobs created</li> </ul> |                       |

Tees Valley Unlimited (TVU) and its partners across the Tees Valley are more than ready to take on the responsibility of overseeing the implementation of the ESIFs to ensure that the European funds are put to good use to secure the prosperity of the Tees Valley and to contribute to both the UK and Europe's sustainable economic growth.



**Sandy Anderson**  
Chairman, Tees Valley Unlimited



## Technical Summary - Tees Valley's Strategic Objectives

| European Regional Development Fund (ERDF): £104.08m - 60% of total structural fund allocation<br>Investment to drive the transition to a high value, low carbon Tees Valley economy |  |  |   |
|---|--|--|---|
| ERDF theme and allocation   | Key Interventions  | Headline outputs & results   | Contribution to national and EU policy  |
| <b>Innovation</b><br>£25m (24%)   | <ul style="list-style-type: none"> <li>Provide direct support for innovation for enterprises</li> <li>Enhance business capacity for innovation support in enterprises</li> <li>Support for innovation collaboration, particularly across sectors</li> <li>Create new Open Access Technology Centres</li> <li>Build the market in low carbon technologies, goods and services</li> </ul>  | <ul style="list-style-type: none"> <li>992 enterprises supported</li> <li>509 enterprises introducing new to market/new to firm products</li> <li>237 new jobs created</li> </ul>                        | <ul style="list-style-type: none"> <li>Europe 2020, Entrepreneurship 2020 and EU Strategy for Research and Innovation</li> <li>UK Innovation &amp; Research Strategy for Growth, Industrial Strategy, Witty Review and TSB vision</li> </ul>                    |
|   |  | <ul style="list-style-type: none"> <li>Increase in jobs created and safeguarded</li> </ul>   |   |
| <b>SME Competitiveness</b><br>£63.46m (61%)   | <ul style="list-style-type: none"> <li>Through the Tees Valley Business Growth Hub, provide specialist business support activities for SMEs covering resource management, knowledge exchange, low-carbon, exporting, supply chain development, ICT and e-commerce and coaching</li> <li>Ensure a flexible mix of finance available for SMEs through a new JEREMIE fund and establish a Local Impact Fund</li> <li>Provide incentives for employers to take on apprentices</li> <li>Support the provision of appropriate business accommodation and infrastructure</li> <li>Develop and support entrepreneurship as a route to self-employment / social enterprise creation (wraparound support with ESF)</li> <li>Invest in roll-out of digital infrastructure</li> <li>Provide flood risk solutions to mitigate risk for businesses and protect key infrastructure</li> <li>Support routes into employment for local people and support businesses and residents to make sustainable transport choices</li> </ul> | <ul style="list-style-type: none"> <li>3589 enterprises supported</li> <li>500 new enterprises supported</li> <li>500 businesses accessing superfast broadband</li> <li>2821 new jobs created</li> </ul> | <ul style="list-style-type: none"> <li>Europe2020, Digital Agenda for Europe and Green Infrastructure Strategy</li> <li>UK Industrial Strategy, GREAT campaign, Small Business Strategy, National Infrastructure Plan and digital and export agendas</li> </ul> |
|   |  | <ul style="list-style-type: none"> <li>Increase in jobs created and safeguarded</li> </ul>   |   |
| <b>Low Carbon Economy</b><br>£15.6m (15%)   | <ul style="list-style-type: none"> <li>Development, production and efficient use of low carbon energy, resources and reduction in carbon emissions</li> <li>Retrofit of social housing to improve energy efficiency, generate jobs and incentivise efficiency measures in new house building</li> </ul>  | <ul style="list-style-type: none"> <li>500 companies supported with business resource efficiency</li> </ul>  | <ul style="list-style-type: none"> <li>Europe2020, Resource Efficient Europe, EU Biodiversity Strategy</li> <li>UK Industrial, Heat and Energy Efficiency Strategies</li> </ul>   |
|   |  | <ul style="list-style-type: none"> <li>Reduction in fuel poverty</li> </ul>  |   |



| European Social Fund (ESF): £69.39m - 40% of total structural allocation<br>Supporting Tees Valley to create a more diversified and inclusive economy |   |  |  |
|---|---|--|--|
| EU Youth Employment Initiative: £12.59m<br>Supporting Tees Valley to create a more diversified and inclusive economy                                  |   |  |  |
| ERDF theme and allocation   | Key Interventions   | Headline outputs & results   | Contribution to national and EU policy   |
| <b>Employment</b><br>£32.05m (46%)  | <ul style="list-style-type: none"> <li>Provide opportunities for individuals to access meaningful work related experience and relevant training with support for young people to move from education/training into work</li> <li>Provide incentives, skills and support to employers/individuals to create/access new jobs with training or to move into self-employment/social enterprise</li> <li>Supporting routes into employment for local people through sustainable transport measures</li> <li>Under both ESF and the Youth Employment Initiative (YEI) provide initiatives and support for young people to secure information and access to sustainable employment</li> </ul>                        | <ul style="list-style-type: none"> <li>17,968 people receiving support</li> <li>Increase in people accessing employment</li> </ul> | <ul style="list-style-type: none"> <li>Europe2020, Youth on the Move, Agenda for new skills and jobs, Youth Employment Initiative</li> <li>UK Welfare reform agenda, Work Programme, National Strategy for Social Justice and 'Building Engagement, Building Futures'</li> </ul> |
| European Social Fund (ESF): £69.39m - 40% of total structural allocation<br>Supporting Tees Valley to create a more diversified and inclusive economy |   |  |  |
| ERDF theme and allocation   | Key Interventions   | Headline outputs & results   | Contribution to national and EU policy   |
| <b>Social inclusion</b><br>£13.87m (20%)  | <ul style="list-style-type: none"> <li><b>Employability</b> - Provide tailored employability support to tackle barriers to work, such as digital literacy and mental health, for the most disadvantaged in Tees Valley, those furthest away from the labour market and to support Tees Valley's key sectors</li> <li><b>Capacity Building</b> - Build the capacity of local groups and individuals in the community and voluntary sector to help deliver key activities and develop community assets into hubs serving communities</li> <li><b>Financial Inclusion</b> - Provide money management support and advice, financial literacy programmes, low cost credit for individuals and start-ups</li> </ul> | <ul style="list-style-type: none"> <li>9,253 people receiving support</li> <li>Increase in people accessing employment</li> </ul>  | <ul style="list-style-type: none"> <li>Europe2020, Youth on the Move, Agenda for new skills and jobs, Youth Employment Initiative</li> <li>UK Welfare reform agenda, Work Programme and National Strategy for Social Justice</li> </ul>  |

**European Social Fund (ESF): £69.39m - 40% of total structural allocation  
Supporting Tees Valley to create a more diversified and inclusive economy**

| ERDF theme and allocation   | Key Interventions   | Headline outputs & results   | Contribution to national and EU policy  |
|---|---|--|---|
| <b>Skills</b><br>£23.45m (34%)  | <ul style="list-style-type: none"> <li>Activities to develop the Tees Valley Skills Hub</li> <li>Support individuals to gain new and higher level skills, increase the availability of intermediate and advanced and higher apprenticeships leading to graduate opportunities in key and supporting sectors</li> <li>Support activities to increase the number of Tees Valley enterprises engaged in workforce planning/providing training to develop new/higher level skills in their staff</li> <li>Develop activities to bring together skills initiatives and partnerships with employers/entrepreneurs stimulating employer-led skills delivery and new delivery partnerships</li> <li>Provide a coherent and consistent offer (of Skills, Employment and Enterprise information and support) to individuals, employers, providers and practitioners in Tees Valley</li> </ul> | <ul style="list-style-type: none"> <li>15,065 people receiving support</li> <li>Increase in people accessing employment</li> </ul>   | <ul style="list-style-type: none"> <li>Europe2020, Youth on the Move, Agenda for new skills and jobs, Youth Employment Initiative</li> <li>UK Richard and Halt Reviews, Rigour and Responsiveness in Skills, Skills for Sustainable Growth and 'Building Engagement, Building Futures'</li> </ul> |
| <b>Rural</b><br>£1.1m   | <ul style="list-style-type: none"> <li>Support rural businesses through tailored business support, providing a top up from the Business Growth Hub and other SME Competitiveness support</li> <li>Encourage the growth of new and existing firms in rural areas by bringing groups of SMEs together; creating a Rural Business Growth Hub, supporting the development of key rural sectors – such as creative and digital, the visitor economy, natural environment, food and equestrian – the re-use of redundant buildings and encouraging supply chain development</li> <li>Support superfast broadband connectivity in rural areas and the provision of rural transport solutions</li> </ul>  | <ul style="list-style-type: none"> <li>41 jobs created</li> <li>Increase in rural SME competitiveness</li> </ul>   | <ul style="list-style-type: none"> <li>Europe2020, Resource Efficient Europe, Digital Agenda for Europe</li> <li>DEFRA business plan to grow the rural economy through growing sectors, exports and investing in infrastructure</li> </ul>  |
| <b>Total</b>  | <b>£187.12m</b>   |  |   |
| <b>Total outputs*</b><br><small>* All outputs are notional at this stage and will be subject to change in future iterations of this strategy.</small> | <b>ERDF (£104.08m)</b> <ul style="list-style-type: none"> <li>4581 enterprises supported</li> <li>500 new enterprises supported</li> <li>500 businesses accessing superfast broadband</li> <li>3058 jobs created</li> </ul>   | <b>ESF &amp; YEI (£81.98m)</b> <ul style="list-style-type: none"> <li>42,286 people receiving support</li> </ul> <b>EAFRD (1.1m)</b> <ul style="list-style-type: none"> <li>41 jobs created</li> </ul> |   |

# Tees Valley's Vision for Growth

## Tees Valley Unlimited

Tees Valley Unlimited (TVU) is already a well-established Local Enterprise Partnership – our partners in the public and private sector have been building a consensus around our economic ambitions for over a decade. So our ESIFS is founded on a robust and mutual understanding of our evidence, our business case, our priorities and our delivery capacity.

Our ambition is strategic and focused and we are clear on our priorities. We have worked collaboratively and intensively to articulate a coherent vision and statement of ambition for the Tees Valley. In common with the rest of the UK, our immediate economic conditions remain unpredictable, but our long term economic assets are clear and the determination of our partners to deliver on our Strategy is unquestionable.

The support of European, national and local programmes will be critical to delivering our ambitions. We are clear about our potential contribution to national economic recovery and growth and our objectives are fully aligned to the Thematic Objectives of the 2014-2020 EU Programme and national government policy, particularly the Plan for Growth and the Industrial Strategy.

Our ESIFS provides synergy between our European aims, our agreed City Deal – announced by the Prime Minister on 13th December 2013 – and the funds we have at our disposal through the Tees Valley Investment Fund and local partners' investment. These are all encapsulated within our Strategic Economic Plan (currently at draft stage), of which the ESIFS forms one part.

Because the Tees Valley has a strong and clear shared sense of direction to tackle the commonly agreed barriers to economic growth, our ESIFS utilises the same shared evidence base, set of challenges and opportunities, as well as agreed priorities and actions to deliver our vision as that presented in our agreed City Deal and our draft Strategic Economic Plan.

## Our Shared Vision for Growth

### Two Clear Ambitions

The Statement of Ambition sets out our vision for the Tees Valley over the next 15 years and reflects the coherent shared ambition for the area. These will secure the future of our existing key sectors, grow our existing business base and attract new foreign direct investment and the creation of new businesses. Therefore, our ESIFS is focussed upon the following two ambitions:

#### Ambition 1:

Drive the Transition  
to the High Value  
Low Carbon  
Economy

Our first ambition is to drive the transition from a high value, high carbon economy to a high value, low carbon economy, focused on renewable energy, new technologies, biological feedstocks and the reduction of the carbon footprint of our existing industries.

#### Ambition 2:

Create a More  
Diversified and  
Inclusive Economy

Our second ambition is to create the conditions for a more diverse and inclusive economy that builds on our strengths and allows all our people to realise their potential.

## A realistic target for growth

Our headline target is to achieve a net increase of 25,000 jobs (10%) in the Tees Valley over the next 10 years, bringing with it over £1bn of GVA benefits, closing the gap with national employment rates and matching the private sector employment rate in Manchester, Birmingham and Leeds.

This target is based on a detailed analysis of our pre-recession jobs growth trajectories, market trends and the influence that our key proposed actions and activities are expected to have on new job growth – we believe our European Structural and Investment Funds Strategy, Strategic Economic Plan and agreed City Deal, alongside associated investment, will support the delivery of this headline target.

Our ability to achieve this is dependent upon the extent to which manufacturing employment can be stabilised, with low carbon and advanced manufacturing opportunities off-setting any further decline in traditional manufacturing sub-sectors. Therefore, we believe that our 25,000 jobs target will be achieved through growth in the following sectors:

| Net Job Creation - Tees Valley     |                |                |
|------------------------------------|----------------|----------------|
|                                    | 2014-2024      |                |
|                                    | Employment     | GVA            |
| Low Carbon                         | +2,500         | £147m          |
| Advanced Manufacturing             | +2,500         | £147m          |
| Other Manufacturing                | -5,000         | -£250m         |
| Construction                       | +4,000         | £231m          |
| Professional and Business Services | +8,000         | £307m          |
| Logistics                          | +2,000         | £118m          |
| Digital                            | +2,000         | £87m           |
| Higher Education                   | +1,000         | £31m           |
| Health and Social Care             | +4,000         | £116m          |
| Services                           | +4,000         | £119m          |
| <b>Total</b>                       | <b>+25,000</b> | <b>£1,052m</b> |

The associated outcomes for the local economy will be to:

- **Increase GVA per head** to 82% of the national average (currently 75.8%)
- **Increase the number of Enterprises** from 254 enterprises to 300 enterprises per 10,000 population an increase of 25% (approx 3,200 net increase)
- **Increase the Employment Rate** (64.5%) to meet the national average (71.1%)
- **Increase the number of people with Higher Level Skills** by 5% (to 30%)
- **Reduce the number of people with no qualifications** (13%) to meet the national average (10%)

The achievement of these targets will require action across a broad front. But our Strategy has a clear focus on sectors in which the Tees Valley has recognised competitive advantage. We place real emphasis on supporting business and enterprise, particularly in supply-chains to our major companies, building upon our key assets and improving our workforce. Our ESIFS is inclusive and sustainable, seeking to ensure that benefits are realised across our communities and contribute to sustainable improvement in the economic opportunities and life chances of our residents.

### OUR VISION

Tees Valley economy is high value,  
low carbon, diverse, sustainable  
and inclusive and which  
creates 25,000 new  
jobs over the next  
decade

## Alignment with Government policy

Our ESIFS aligns with national and EU policy:

- **Key Sectors** - Our priority investments and activities in our Key Sectors – advanced manufacturing, engineering, process industries, the low-carbon economy and the digital/creative industries – align directly to a number of Government and EU policies. Firstly, it fits with the SME Competitiveness Thematic Objective of the 2014-2020 European programme, by enabling growth in local businesses that supply our Key Sectors. It complements the national Industrial Strategy, particularly where Tees Valley has clear strengths, such as automotive, nuclear, oil and gas, offshore wind and life sciences. It also fits the ambition of government to double the stock of foreign direct investment by 2020 with 40% of UK exports of manufacturing goods coming from UK based foreign owned firms.
- **Innovation** - Our priorities under innovation, growing our stock of innovative businesses and building on our nationally-significant innovation assets, align directly to the Innovation Thematic Objective of the 2014-2020 European programme and the Tees Valley Innovation Strategy is built upon the principles of smart specialisation. Furthermore, it complements the national 'Plan for Growth,' which aims to make the UK the best place in Europe to start, finance and grow a business. Enterprise, R&D and commercialisation are key parts of our ESIFS. It also ties to the Government's Innovation and Research Strategy for Growth which aims for the UK to become a world-leader in innovation and the findings of the Witty Review in building upon university expertise and key innovation assets; assets such as Teesside and Durham Universities, TWI and the Centre for Process Innovation are central to our Strategy.
- **Business growth** - Our priorities to support our SMEs and larger firms to grow, new businesses to start and supply chains to develop, align directly to the SME Competitiveness Thematic Objective of the 2014-2020 European programme. This will help our businesses to export, innovate, become more productive and access finance and e-commerce opportunities. Our priorities will help to deliver the national 'Plan for Growth,' which aims to make the UK the best place in Europe to start, finance and grow a business. Enterprise, exports and access to finance are key parts of our ESIFS. On the latter, our plans are aligned to the Government's Business Bank proposals. Our priorities also match the Industrial Strategy, including on the Information Economy (tied to our proposals on business accommodation for the digital sectors and supporting SMEs to use e-commerce) and Business and Professional Services. The government's policy on Enterprise Zones is also a key priority of ours, with reducing barriers to entry and securing investment into our EZ sites essential to our future growth.
- **Workforce** - Our priorities to up-skill our workforce, work with employers to meet their skills needs and provide a responsive system align directly to the Rigour and Responsiveness in Skills Strategy. This is because our Tees Valley Skills Strategy places employers at its heart. Our priorities are also aligned to the outcome of the Richard Review of Apprenticeships and the recent Apprenticeship Implementation Plan. Our ESIFS sets out the need for provision to be flexible, but robust. We have a focus upon youth unemployment, which ties to the 'Building Engagement, Building Futures' strategy, and our priorities reflect those in the EU's Agenda for new skills and jobs, Youth Employment Initiative and Youth on the Move.
- **Sustainable growth and economic equity** – Our priorities, to ensure an inclusive, sustainable economy that works for our residents and businesses, aligns to the Government's welfare reform agenda through mechanisms such as the Work Programme, Youth Contract and supporting people with drug and alcohol dependency. Furthermore, our ESIFS will help deliver the national strategy for social justice, with its presumption for early intervention to help people to access employment opportunities and tackle in and out of work poverty. Our Strategy reflects DEFRA's sustainable development principles of living within environmental limits, ensuring a strong, healthy and just society and a sustainable economy. TVU commissioned an independent sustainability audit, which has reviewed our Strategy and we have acted upon its recommendations to ensure the robustness of the ESIFS in regard to sustainable growth.

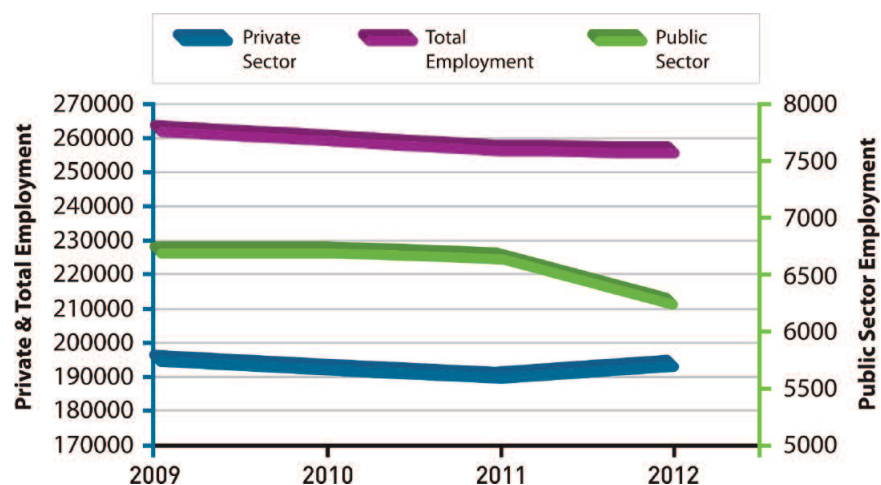
## Our Economy Today

Over the past 50 years, our economic focus has moved away from mining, and steel making towards the process and chemical industries. Today our business base is shifting once again, with growing expertise in advanced manufacturing, low carbon, logistics and digital and creative industries.

For many years our labour market was dominated by a small number of large employers; ICI and British Steel collectively employed over 80,000 staff in the late 60s/70s. In line with national trends, technological advances and international competition have reduced the need for large workforces in such industries, which for decades had provided the bulk of our employment - they became more capital intensive, rather than labour intensive. By the 1980s, employment in chemicals had fallen to just over 20,000 and employment in steel manufacturing had fallen to just below 19,000 and this trend has continued <sup>1</sup>.

Although we have retained our strengths in production, between 1971 and 2004 over 93,000 manufacturing jobs were lost in the Tees Valley and we continue to feel the effects of this economic restructuring <sup>2</sup>. Manufacturing job contraction has, in part, been off-set by growth in our service sectors, but we have not witnessed the same levels of service sector growth experienced elsewhere, and have been over-reliant on employment growth in the public sector. Whilst private sector employment has risen over the past two years, there is still a long way to go to build up economic resilience.

This economic restructuring has fundamentally changed the profile of our labour market, leading to an imbalanced economy, a productivity deficit and an increasing socio-economic challenge. In fact, our economy now supports just 281,000 jobs, serving a working age population of 421,000. Furthermore,<sup>3</sup> our employment rate is 6.6% below the national average, meaning that to close this gap and achieve national levels of employment we would need an additional 28,000 jobs <sup>4,5</sup>.



- 1 Tees Valley Statement of Ambition, 2012
- 2 Tees Valley Economic Assessment, 2013
- 3 ONS Jobs Density figures, 2011
- 4 ONS, Annual Population Survey, 2013
- 5 ONS, BRES, 2011

## Tees Valley – Key Statistics

|                                  | Economic output   | Employment  | Enterprise  | Skills  |
|----------------------------------|---|---|---|---|
| Current situation/trend          | Tees Valley contributed £10.7billion of GVA to the national economy in 2012.  | Tees Valley has a population of 664,000 people and a working age population of 421,000, but only 281,000 jobs.      | The enterprise rate is lower than the national average, but increased in both 2012 and 2013.  | Number of residents in Tees Valley with NVQ Level 3 (48%) still trails the national average (55%), although it has increased in the last year.  |
| Comparison with national average | GVA per head in Tees Valley is 75.8% of the national average.   | 64.5% employment rate in Tees Valley compared to 71.1% nationally. Need 28,000 additional jobs to close the gap.    | 254 enterprises per 10,000 population in Tees Valley, 61% of the GB average. Total of 13,000 SMEs in Tees Valley.                           | 25% of residents are qualified to NVQ level 4 compared to 34% nationally.   |
| Recent progress                  | GVA per head index falling slightly in Tees Valley over the past decade.  | Employment rate up 0.8% year on year, showing signs of recovery after reaching a low point in Sept 2011.            | Number of enterprises up 665 in last two years and one year survival rates now above the national average.                                  | A larger rise in advanced apprenticeships in Tees Valley than the national average in the last year.  |
| Major challenges                 | Ensuring Tees Valley captures the GVA benefits from its industrial assets.  | Youth unemployment at 10.3%, double the national of 4.9%. Overall unemployment at 5.5% compared to 2.9% nationally. | Low enterprise rates and rates of commercialisation (North East has lowest number of patents filed and granted in the UK).                  | Low skills rates compared to national average (13% of people have no qualifications, compared to 10% nationally).   |
| Opportunities                    | Build upon industrial assets which contribute significantly to GVA and £4bn p.a. regionally to UK exports (North East is the only region with a positive trade in goods balance). | Recent signs of private sector employment growth with FDI investment of £1.5bn over last 3 years.                   | Enterprising and innovative firms being developed in Tees Valley in growth sectors such as digital, new energy, subsea and green chemicals. | Excellent FE and HE infrastructure across Tees Valley with significant expertise in our colleges and universities (84% of employers found new Tees Valley graduates prepared for work). |

# Tees Valley – SWOT Analysis

## Our Strengths

- **Critical mass of process activity** – We have a well-developed cluster of process manufacturing that has for decades underpinned our contribution to growth across the UK. We have concentrated industries in steel production and processing, chemicals, polymers, pharmaceuticals, industrial bio-technology and energy from waste (with Air Products investing £350m in Tees Valley in one of the world's largest advanced gasification facilities). These industries have benefited from reduced capital and operating costs due to our locational strengths as a place with a favourable planning and regulation environment, available land, established infrastructure, access to bulk sea movement and access to technology support and feedstocks.
- **Critical mass of advanced manufacturing and engineering** – We have substantial capabilities in process engineering, engineering design, offshore engineering (particularly subsea), energy (including renewables and nuclear), and automotive.
- **Emerging and growing sectors** – We have a diverse mix of digital and creative businesses trading across our sectors – the digital sector has grown in size, even during recession. We also have a large health and social care sector, with innovating businesses in pharmaceuticals, biologics and medical technology, and the presence of major logistics operators.
- **Physical and virtual infrastructure** – We have good physical internal and external connectivity via rail and roads links and good access to international markets through Teesport and local airports. We also have good virtual connectivity with above average superfast broadband connectivity and robust water, gas and electricity infrastructure.
- **Proximity to offshore developments** – The Tees Estuary has provided the platform for a strong and growing sector of offshore activity, for oil and gas and potential for Round 3 offshore wind energy, particularly for the Firth of Forth, Hornsea and Dogger Bank zones.
- **Presence of innovation support** – We have a strong supporting infrastructure with the presence of the Centre for Process Innovation (CPI), Teesside and

Durham Universities and TWI in Tees Valley and within close proximity of the eight northern research intensive universities and Catapult Centres such as NAREC at Blyth. These have developed strong research and development support for our large-scale process and non-process industry sectors and therefore provide a valuable role in supporting growth. Further development of our innovation assets continues, including the location of the National Biologics Manufacturing Centre in Tees Valley.

- **Land supply, including an Enterprise Zone** – We have a strong and varied land offer including the Tees Valley Enterprise Zone (EZ). Our EZ comprises 424 hectares of development land across 12 sites. The EZ will drive the transition to a high value low carbon economy and diversify the Tees Valley business base.
- **Built and natural offer** – We have rolling hills, market towns, coastal settings, urban areas and expanses of countryside. This diverse mix of assets, which is supported by well-developed internal infrastructure, offers something for everyone.

## Our Weaknesses

- **Low levels of private sector jobs** – We have a working age population of 421,000, but only 281,000 jobs. This significant shortfall reflects our low rate of enterprise which is 61% of the national average, our high rates of unemployment (particularly youth unemployment, the highest of all LEPs at 10.3%) and the fact that 18% of our areas are among the 5% most deprived nationally (employment rates in ten wards in Tees Valley are below 50%). This leaves us vulnerable to cuts in the public sector which comprises 24% of Tees Valley jobs, compared to 19% nationally and 25% of Tees Valley GVA, compared to 20% nationally.
- **Low enterprise rates** – The Tees Valley and wider North East has low rates of enterprise, with fewer patent applications filed and granted than other regions and our enterprise birth rate is 70% of the UK average. As innovation activity is a key driver for growth, lower enterprise rates represent a significant weakness in our economy.



- **Reliance on large employers** – We remain reliant on a small number of large-scale employers with bases outside of the UK – over 50% of Tees Valley workers work for a company employing more than 1,000 workers. Most of these are not local companies as some 70% of large companies are foreign owned and 30% of these are based outside of the EU<sup>6</sup>. We therefore have to compete for investment across the globe.
- **Low rates of exporting** – Tees Valley businesses are reliant upon a client base heavily dependent upon domestic market demand. In fact, only 6.5% of SMEs in Tees Valley are currently exporting, according to a Tees Valley business survey, a significant untapped resource.
- **Connectivity** – There is poor public transport connectivity to key employment locations and slow connectivity to Northern cities, along with poor quality rail rolling stock. Furthermore, there is increased demand on the existing road infrastructure to cope with increased traffic growth from new housing developments.
- **Skills shortages** – A substantial skills gap in higher level qualifications has significant ramifications for both recruitment into managerial positions and for innovation potential. We also have a shortfall in terms of basic skills with 13.1% of people having no qualifications, compared to 8% nationally. We have significant shortages in the process and offshore sectors, resulting in a dependency on imported skills and a significantly constrained skills pool in the digital sector.
- **Business accommodation** – There is a market failure in business accommodation in Tees Valley with rents achievable unable to provide a commercial return on the investment costs of development (particularly for incubator space and small business units). Tees Valley also has an oversupply of lower grade office accommodation and out of date industrial premises.
- **Housing stock** – Tees Valley suffers from issues of affordability, outdated stock and spatial over-dominance of tenure types which can result in unbalanced communities and a polarisation of the housing offer.
- **Maturity of much of our process sector** – Although well maintained and updated, much of our process industry faces the challenge of both an ageing

workforce and continued investment to ensure that future operating costs remain competitive. Some of our most valued assets have changed ownership, been mothballed or moved elsewhere.

- **Energy intensive activities and the cost of energy** – Tees Valley has 18 major users of energy in its process sector, accounting for 4.8% of UK industrial emissions. Such firms have for a number of years been at the centre of cluster development activity, but these companies are now vulnerable to requirements to reduce emissions. The high cost of energy in the UK is a major weakness, particularly in comparison with other countries, such as the USA, with cheaper energy sources that make their industries more competitive.
- **Reductions in process integration** – Changes to business ownership have resulted in significant reductions in process integration within Tees Valley (such as heat and feedstocks) – the result of this has been a long term erosion of developed supply chains and a loss of supply chain efficiency.
- **Access to finance** – We have seen market failure in our investment capital market in recent years and despite efforts to address this, through schemes such as JEREMIE (which operates a portfolio of funds at different levels and stages of development), access to finance continues to be a significant weakness in our economy and is a barrier to growth.

<sup>6</sup> TVU, 2013

## Our Opportunities for Growth

- **A growing demand for advanced manufacturing products and services** – There is growth potential for advanced manufacturing products and services, particularly in the BRIC group of countries and we have potential to exploit the restructuring of the domestic energy and environmental markets to drive future overseas growth.
- **A buoyant European Oil and Gas sector** – Oil and Gas (O&G) activity is driven by European concerns over energy security and availability of upstream assets, particularly from Asia – this apparent buoyancy means there is still significant demand for North Sea O&G and innovation will drive further activity in the sector. Furthermore, due to the lifecycle of O&G infrastructure, there will be opportunities for Tees Valley to support the needed investment in replacing and decommissioning North Sea rigs and installations.
- **Onshore and Offshore Low Carbon opportunities** – Growth in UK renewable technologies, high energy emitters and the location of Tees Valley combine to offer a significant opportunity, both to lead the way on industrial CCS and the exploitation of heat, hydrogen, syngas and low carbon industries – this is particularly true in the offshore wind, subsea and engineering design markets.
- **Integrating the process cluster** – Tees Valley is the largest integrated heavy industrial area in the UK. The continued development of our global position in the process industries needs to be sustained, maximising our petrochemical, energy and biotechnology plants of a world scale and supporting and growing our export economy. Moves towards further integration, using waste heat, steam, power or other products to act as feedstocks, alongside the potential to exploit the opportunities provided to our industries from shale gas, can increase the competitive advantage that Tees Valley has and ensure it remains at the centre of export-led advanced manufacturing.
- **Container traffic** - With the growth of container traffic through Teesport, the fifth largest port in the UK, there needs to be further support to capitalise on this asset of national importance, offering Tees Valley global reach.
- **The digital media market** – With a rapidly evolving and globalised digital media market, Tees Valley has the opportunity to develop its digital offer for businesses, capture global supply chains and build upon smart specialisation to embed digital technology across sectors and increase competitiveness.
- **Creative industries** – Opportunities to build upon our cluster of 4,000 creative businesses, including firms in advertising, marketing, architecture, crafts, design, software, publishing and visual arts. Such businesses, combined with our leading museums, galleries, libraries and other cultural and heritage assets, supply key businesses and our creative economy produces significant economic impact in attracting investment, people and visitors to Tees Valley.
- **Demographic trends driving opportunities in health provision** – With an ageing population and the increasingly complex needs of patients, particularly with long-term conditions, there are opportunities for Tees Valley to build upon the expertise of its highly regarded NHS Trusts, the presence of major social care home operators and the recently announced location of the new CPI National Biologics Manufacturing Centre in Darlington to grow its SME base, foster innovation and attract new investment.
- **Financial/Business Professional Services** – Opportunities for Tees Valley to build upon its successful base of both high value activities, including legal and financial services, and a growing reputation for excellence in shared services and business process outsourcing, as moves to outsource traditional public sector and other activities continues.
- **EU2020 targets and other international treaties** – Regulation of energy production continues to drive investment in renewable and clean power generation markets. We have substantial opportunities to capitalise on the offshore wind and clean coal markets. We also have significant opportunities to develop commercially viable waste to energy, bio-refining and recycling activities, driven by regulations for waste management, and as witnessed by current investments from Air Products, SITA and SembCorp.

## Our Threats to Growth

- **Continued slow growth in domestic, European and World markets** – Although the world economy is transitioning to a less volatile situation, Europe remains the slowest growing economic area and this trend is not projected to radically change in the medium term. This macro-economic outlook has significant ramifications for exports from Tees Valley and our overall potential for growth.
- **Exposure to commodity markets for processed goods** – Low cost competition and doubts over the sustainability of certain process activities represents a significant threat to growth. Uncertainty may lead to lower levels of investment, particularly in our steel and process industries, which have for many years provided a substantial contribution to GVA and jobs in Tees Valley.
- **Overcapacity of process industries** – Production in Europe in 2012 was some 8.4% below 2008 levels and we have seen continued depressed demand in vital sectors in our economy. This presents a threat to the competitiveness of Tees Valley as a location for process industries.
- **Emissions permits and carbon taxes** – The EU Emissions Trading Scheme sets an annual cap on the emissions of energy intensive industries and port generators. This represents a significant threat to growth in our large-scale process industries, with potential for financial penalties for those businesses which cannot effectively address their emissions profile.
- **Nationalisation of innovation infrastructure** – Whilst we may capitalise on our proximity to the CPI, the consolidation of fragmented innovation and research infrastructure over the past 5 years into a national network has meant that other thematic centres are more distant from Tees Valley. We need to ensure effective access to sources of knowledge, particularly in the High Value Manufacturing Catapult.
- **Workforce supply** – We have seen a substantial rise in youth unemployment, which is double the national average, and are expecting a significant loss in skilled workers in our core sectors over the coming decade. There is a threat that such skill sets will be lost if we do not upskill our existing and replacement workforce.
- **Broadband coverage** – although rates of broadband availability and coverage are high in Tees Valley, and being further developed through the Broadband Delivery UK (BDUK) program, there is the threat that the area is left behind as other areas of the UK and abroad invest in even faster speeds and networks.
- **Climate change** – potential threat to existing infrastructure, including flood defences, gas and electricity networks, from any increase in adverse weather driven by climate change.

## The Tees Valley Priority Themes

We believe that the Tees Valley's economic strengths and competitive advantages will enable us to achieve our ambition of moving to a high-value, low-carbon, diverse, inclusive and sustainable economy with 25,000 net new jobs created over the next decade. However, despite our potential, we know that there are significant barriers to economic growth, which our ESIFS can help to overcome.

**The following five priority themes are key to all of the EU Thematic Objectives of the 2014-2020 programme.**

- **Key Sectors** – our significant expertise in our advanced manufacturing, engineering, process industries, low-carbon economy and digital/creative sectors, in which we have significant critical mass and leading assets and companies, needs to be strengthened with our major firms retained, further foreign direct investment and SME growth encouraged and carbon emissions reduced.
- **Innovation** – our innovative businesses and nationally-significant innovation assets, such as our universities and the Centre for Process Innovation, need to be utilised further to benefit businesses, particularly SMEs, across Tees Valley and increase our low rates of enterprise and commercialisation.
- **Business growth** – our SMEs and larger firms across growing and supporting sectors supply key OEMs and supply chains around the globe, but rates of exporting and enterprise need to increase and access to finance, flood risk, access to employment sites and broadband connectivity remain barriers to growth.
- **Workforce** – our skilled workforce supports our business base and benefits from the expertise of our colleges, universities and training providers. However, we have an ageing workforce and comparatively low rates of basic and higher levels skills.
- **Sustainable Growth and economic equity** – growth in our economy must be sustainable, both in terms of the impact it has upon our natural environment and quality of place, but also sustainable in making a real long-lasting difference and improving the lives of future generations. Our economy must provide opportunities for residents and businesses across Tees Valley, regardless of location, background, gender, religion, ethnicity or sexuality. A particular focus must be placed upon supporting those furthest from the labour market and those in disadvantaged and deprived communities.

| Tees Valley<br>Priority<br>Themes                            | Rationale for, and focus of, our ESIFS  | EU Thematic Objectives 2014-2020 |          |                           |                          |                                   |                               |                                    |                            |                        |            |           |
|--|---|----------------------------------|----------|---------------------------|--------------------------|-----------------------------------|-------------------------------|------------------------------------|----------------------------|------------------------|------------|-----------|
|  |   | 1. Innovation                    | 2. ICT * | 3. SME<br>Competitiveness | 4. Low Carbon<br>Economy | 5. Climate Change<br>Adaptation * | 6. Sustainable<br>Transport * | 7. Protecting the<br>environment * | 8. Employment<br>(inc YEI) | 9. Social<br>Inclusion | 10. Skills | 11. EAFRD |
| <b>1. Key<br/>Sectors</b>                                    | Our significant expertise in advanced manufacturing, engineering, process industries and the low-carbon economy needs to be strengthened with our major firms retained, further investment encouraged and carbon emissions reduced. Our Strategy focuses upon businesses starting-up, growing, innovating, exporting, accessing opportunities through the low-carbon economy and enhancing our competitiveness.   | X                                |          | X                         | X                        |                                   |                               |                                    |                            |                        |            |           |
| <b>2. Innovation</b>   | Our innovative businesses and nationally-significant innovation assets need to be utilised further to benefit businesses across Tees Valley and increase our low rates of enterprise and commercialisation. Innovation can increase SME competitiveness and our Strategy has a particular focus upon supporting our advanced manufacturing, process, digital, healthcare and low carbon sectors to innovate.  | X                                | X        | X                         | X                        | X                                 |                               |                                    |                            |                        |            |           |
| <b>3. Business<br/>Growth</b>                                | Our SMEs and larger firms across growing and supporting sectors supply key OEMs and supply chains around the globe, but rates of exporting and enterprise need to increase and access to finance remains a barrier to growth. Our Strategy supports businesses (both urban and rural) to innovate, use ICT and low carbon technologies, improve flood risk and broadband infrastructure, and places key importance upon enterprise (including social enterprises) and entrepreneurialism. | X                                | X        | X                         | X                        | X                                 | X                             | X                                  |                            | X                      |            | X         |
| <b>4. Workforce</b>  | A skilled workforce, meeting the needs of current and future businesses, is essential to facilitating 25,000 net new jobs over the next decade and ensuring a vibrant, diverse economy that is inclusive for all. Our Strategy focuses upon the needs of our employers and key sectors, upskilling our workforce, increasing higher level skills and breaking down barriers to employment and social inclusion, such as health and transport.   |                                  | X        | X                         | X                        |                                   | X                             |                                    | X                          | X                      | X          |           |
| <b>5. Sustainable<br/>Growth and<br/>Economic<br/>Equity</b> | Our economy must be inclusive and sustainable, by providing employment and enterprise opportunities to all of our residents. Our strategy is to support those furthest away from the labour market, focussing on communities of the greatest need and recognising the importance of our environmental assets, rural economy and quality of place.   | X                                | X        | X                         | X                        | X                                 | X                             | X                                  | X                          | X                      | X          | X         |

We have left in for illustrative purposes the links that our key themes within the Strategy have to Thematic Objectives 2 (ICT), 5 (Climate Change Adaptation), 6 (Protecting the Environment) and 7 (Sustainable Transport). Although we have not allocated funding to these specific objectives, our strategy ensures that the key issues within these themes are reflected in the Thematic Objectives prioritised within our ESIFS. For example, ICT and the need for improved broadband coverage is covered under SME Competitiveness, as is the need to ensure our businesses can adapt to climate change (including through flood risk infrastructure), protect the environment (particularly through resource efficiency) and offer sustainable transport options to Tees Valley residents. Furthermore, our Low Carbon Economy objective focuses upon developing low carbon technology to ensure businesses adapt to climate change and our Social Inclusion and EAFRD objectives explain the role that ICT, sustainable transport and the environment can play in combating social exclusion.

## Key Sectors

Our significant expertise in advanced manufacturing, engineering, process industries, the digital/creative sector and the low-carbon economy needs to be strengthened with our major firms retained, further investment encouraged and carbon emissions reduced.

### Key Sectors' SWOT analysis

| Strengths  | Weaknesses   |
|--|--|
| <ul style="list-style-type: none"> <li>■ Critical mass of integrated process and advanced manufacturing sectors</li> <li>■ Growing low carbon industry, with Tees Valley designated a CORE (Centre for Offshore Renewable Engineering) area for offshore wind and attracting significant energy investment, particularly in energy from waste</li> <li>■ Engineering design specialism</li> <li>■ Significant cultural &amp; heritage assets</li> <li>■ Proximity to offshore developments</li> <li>■ Digital &amp; creative expertise and knowledge (Teesside University/Digital City)</li> </ul> | <ul style="list-style-type: none"> <li>■ Reductions in process integrations</li> <li>■ Energy intensive activities</li> <li>■ Maturity of process sector assets</li> <li>■ Ageing workforce</li> </ul>   |
| Opportunities  | Threats  |
| <ul style="list-style-type: none"> <li>■ Opportunities to further integrate process and advanced manufacturing cluster</li> <li>■ Growing demand for advanced manufacturing products and services</li> <li>■ Onshore and offshore low carbon opportunities</li> <li>■ Buoyant European oil and gas sector</li> <li>■ Opportunities for the rural economy in the low-carbon economy</li> <li>■ To grow digital and creative sectors</li> <li>■ Rapidly evolving digital market</li> </ul>   | <ul style="list-style-type: none"> <li>■ Slow growth in world markets</li> <li>■ Exposure to commodity markets for processed goods from low-cost competition and cheap gas from the USA</li> <li>■ Investment in integrated activities in other parts of the world, such as Rotterdam</li> </ul> |

<sup>7</sup> ONS, Annual Business Inquiry, via NOMIS

<sup>8</sup> ONS, Sub national GVA estimates, 2013

<sup>9</sup> NEPIC, 2012

### Context

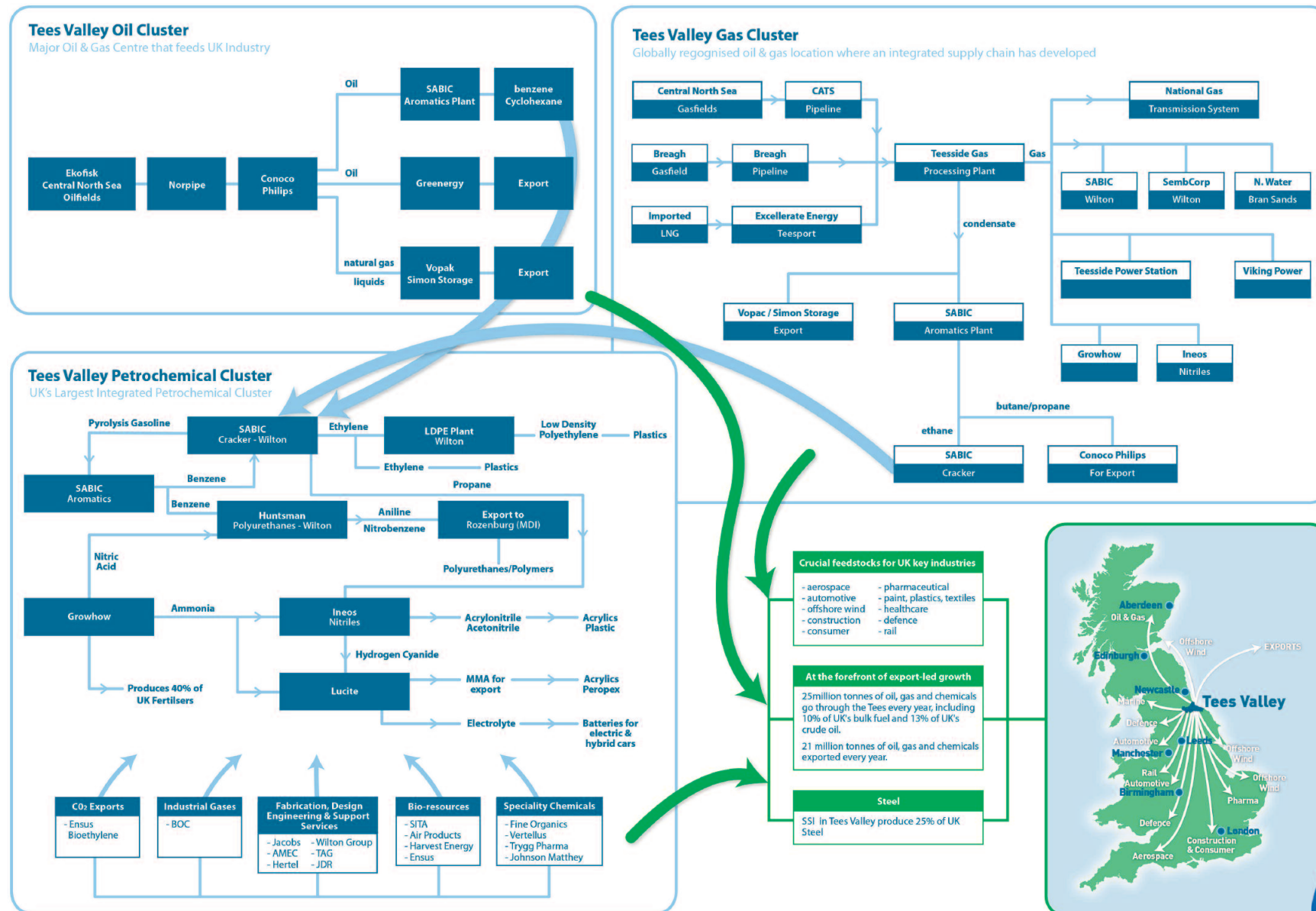
Despite job losses, the Tees Valley continues to be a major UK hub for advanced manufacturing and large-scale production - this continues to characterise our economic profile and define our industrial base. Today, around 750 advanced manufacturing businesses operate within the Tees Valley, many of which are operating in global markets, and at the leading edge of technological development. This sector provides jobs for 29,500 people in Tees Valley, 11% of total employment <sup>7</sup>. Furthermore, we are well placed to take advantage of a number of favourable market developments into the medium term, with particular demand from environmental markets, oil and gas and automotive.

Productivity in our manufacturing sector has risen substantially as the volume and value of products now exceeds that of the 1970's - in 2011 we contributed £10.7bn to UK PLC and around a quarter of our annual contribution to the economy is through production - £2.4bn in 2010<sup>8</sup>. The wider process sector in the Tees Valley, however, employs many more and has a much wider reach, with over 1,400 firms in the supply chain. Generating sales in excess of £26bn per annum, £12bn of exports and, comprising 50% of the UK's petrochemicals GDP, the process sector is an essential driver of the national economy.<sup>9</sup>

The Tees Valley is therefore critical to the UK's national growth ambitions in delivering the UK industrial strategy for key sectors, such as aerospace, automotive and life sciences, through the provision of raw materials and advanced manufacturing products and services to this sector. If the raw materials and services were not manufactured and provided in the UK, such vitally important industries would have to import them and therefore would not be as competitive.

This is recognised by our competitor industrial locations such as Rotterdam, Qatar and China, and reiterates the need to develop low carbon integrated complexes where Carbon Capture and Storage networks, integrated heat networks, and low carbon feedstock are available to investing companies. Tees Valley aims to become one of the five or six most significant global locations for production and processing activities by emulating and overtaking examples such as Jurong Island in Singapore. In the latter, over 95 major companies with £6bn of assets and 8000 jobs exploit greater integration of feedstocks, use of energy and processes across different sectors to aid their competitive advantage.

The diagram below sets out Tees Valley's integrated process cluster and how it directly supports UK industries both home and abroad:



## Advanced manufacturing

Tees Valley has recognised strengths in advanced manufacturing, with a cluster of multinational corporations and innovative SMEs developing high level expertise in manufacturing, design and research and development. The markets for our advanced manufacturing sector include energy, oil and gas, process, defence, aerospace and automotive, both across the UK and beyond. The Tees Valley is in the vanguard of the UK's drive for export-led growth and advanced manufacturing, with key strengths and opportunities as follows:

- **Process engineering** – Tees Valley firms, including innovative SMEs, currently supply OEMs like Airbus, Boeing, Honda and Jaguar Land Rover. We have a leading engineering industry supplying key industries, such as oil and gas, including Darchem-Esterline, Jacobs Engineering, Heerema, Tata Tubes, Hertel and Wilton Engineering Group;
- **Offshore / subsea engineering** – Our proximity to North Sea infrastructure has enabled us to develop a significant subsea engineering cluster at Hartlepool, Teesport and Darlington. This has real growth potential linked to the development of offshore wind farms and oil and gas projects, both off the coast of the UK and across the globe, and includes DeepOcean, JDR Cables, Modus, Reef Subsea, Global Marine Energy and a fast-developing cluster of small businesses. Our cluster of key firms in oil and gas and offshore wind is reflected within the findings of the Witty Review; and,
- **Automotive and rail** – There is a growing supply chain of SMEs and larger businesses supplying major Tier 1 and Tier 2 automotive manufacturers, including Cummins designing the next generation of diesel engines at Darlington, Mitsubishi Chemical Corporation producing chemicals for electric vehicle batteries, Caterpillar working on cranes and trucks and Nifco, ElringKlinger, TMD Friction and others supplying parts to OEMs, such as Nissan and Jaguar Land Rover. Furthermore, Tees Valley's rail legacy means that there are a number of firms, such as Henry Williams, which supply the rail industry. There are significant potential supply chain opportunities arising from the Hitachi intercity train facility, to be operational in neighbouring Newton Aycliffe, which borders Tees Valley, in 2015.

<sup>10</sup> TVU, 2013

## Digital and Creative

Digital/creative is a growing Key Sector within Tees Valley, with over 9,000 people employed. The area has many competitive advantages, providing significant opportunities to build upon our cluster of creative businesses, including leading firms in advertising, marketing, architecture, crafts, design, digital, software, publishing and visual arts. Significant growth has occurred in our digital and engineering design industries in Tees Valley. Such businesses, combined with our leading museums, galleries, libraries and other cultural and heritage assets, supply key businesses across the area, providing training and volunteering opportunities, boosting employability and reducing social exclusion. In this way, our creative economy produces significant economic impact in attracting investment, people and visitors to Tees Valley.

- **Digital** – Growth has been driven by DigitalCity, a major partnership initiative across the Tees Valley, creating a vibrant cluster based on digital technologies. The Institute of Digital Innovation at Teesside University has a global reputation for its work on 3d animation, is one of the top 20 places in the world for studying animation and holds the annual Animex festival, attended by major blue-chip firms across the globe. The digital sector has grown across Tees Valley, with over 200 innovative digital firms created in recent years, supplying services to the likes of Nickelodeon, Pearson, Superdry, Google and Sony Playstation. The Tees Valley digital sector is not just focussed on gaming and animation as, due to our industrial base, we have a number of growing firms, such as Cleveland Process Designs, which provide innovative technology solutions to our Key Sectors, from shutdown, maintenance and plant simulation software for the oil and gas and process industries to financial modelling for the energy sectors.
- **Engineering design and technical services** – We have over 5,000<sup>10</sup> people employed in engineering design and architecture, particularly focused upon the advanced manufacturing, process and low-carbon industries. This expertise means that Tees Valley has some of the highest level of knowledge-intensive business services in the area, including major firms such as Cleveland Bridge, AMEC, Aker Solutions, Samsung GTL, Phusion, Foster Wheeler and Siemens VAI. There are a host of SMEs in engineering design and technical services, who win work across the world, such as K Home International. A number of our leading Business and Professional Services firms (see more under 'Business Growth') operate in the marketing, publishing and advertising markets.



- **Culture, arts and heritage** – Tees Valley has a growing cultural, arts and heritage sector employing over 4,000 people<sup>11</sup>, with firms ranging from established creative businesses to sole traders. Key assets include the Palace Hub in Redcar, the Green Dragon Yard in Stockton and the Forum in Darlington and they are supported by key training providers, such as Teesside University and Cleveland College of Art and Design. Key assets in Tees Valley include the Head of Steam railway museum and Civic Theatre in Darlington; Hartlepool Maritime Experience and Historic Headland; the Middlesbrough Institute of Modern Art (mima) and Temenos, Cleveland Ironstone Mining Museum and Kirkleatham Museum in Redcar and Cleveland; and Preston Hall Museum and the ARC in Stockton.
- **Visitor Economy** – Tees Valley attracts visitors from across the country and abroad to its cultural and heritage assets, from visitor attractions such as theatres, museums, art galleries, collections and sporting venues. Currently, visitor numbers are dominated by day visitors (64%), but the number of overnight stays is increasing (from 20% in 2008 to 36% in 2010)<sup>12</sup> and there are opportunities to create an offer that is more attractive to overnight visitors. This would encourage, for example, overseas students studying in the area and business visitors to Tees Valley to return for visits with their families. The Tees Valley hosts international arts and creative events, such as the Stockton International Riverside Festival, Middlesbrough Mela and Folklore Festivals.

## Process industries

Tees Valley has a critical mass of process and chemical firms, contributing significantly to the North East Process Industries Cluster (NEPIC). NEPIC membership data shows that over 9,000 people<sup>13</sup> are directly involved in major process and chemical firms in Tees Valley centred upon our three major industrial complexes at Wilton International, North Tees and Billingham, comprising 2,600 hectares of industrial land. Many thousands more are employed in the sector through its supply chains:

- **Petrochemicals** – Wilton International is the largest integrated chemicals cluster in the UK, and the second largest in Western Europe. 60% of the UK's chemical exports are produced in Tees Valley and we boast large-scale processing facilities by global industry leaders including Huntsman, Mitsubishi Chemical Corporation, SABIC, BP, BOC and INEOS and our SME supply chain

into this industry is significant. Recent investment includes expansion and new plants at Tracerco, SNF Oil and Gas, SembCorp and GrowHow.

- **Polymers** – First manufactured at Wilton International, polymers are a key part of the chemical sector in the area. Tees Valley is home to SABIC's Low Density Polyethylene (LDPE) plant, the largest of its type in the world, as well as the world's biggest producers of methyl-methacrylate (MMA), Lucite International, and key R&D facilities at Dupont Tejin Films and the Centre for Process Innovation (CPI). Downstream users include the likes of Nifco, who produce parts for major car manufacturers across the globe;
- **Energy, including nuclear** – Tees Valley is home to the Hartlepool nuclear power station (whose life has been extended until 2024) and major energy and power plants, such as the Wilton 10 biomass power station, along with significant oil and gas infrastructure, including the BP CATS pipeline. Energy production has for a long time been a feature of our industrial mix and we produce 3.4GW of electricity for the grid, with a further 2.6GW proposed<sup>14</sup>.
- **Pharmaceuticals and Industrial Biotechnology** – Tees Valley is home to a cluster of firms centred around the operations of Johnson Matthey – producers of catalysts and fine chemicals – and Fujifilm Diosynth Biotechnologies, a leading contract biologics manufacturer, and key SMEs in the sector include Fine Organics, Cambridge Research Biochemicals and Hart Biologicals<sup>15</sup>. Darlington will soon be home to the Centre for Process Innovation's National Biologics Manufacturing Centre, offering major opportunities to grow a cluster of leading biologics firms in Tees Valley.
- **Steel primary production and secondary processing** – the reopening of the TCP plant by SSI in 2012 ensured Tees Valley's continued expertise in steel making, with the blast furnace at Redcar producing 25% of total UK steel. In addition, Tata Steel has a major presence in Tees Valley, including the Thermal Technologies research centre, and the supply chain supporting this sector is large.

<sup>11</sup> TVU, 2013

<sup>12</sup> ONE, Tees Valley Visitor Survey, 2010

<sup>13</sup> NEPIC membership data 2013

<sup>14</sup> Tees Valley, City Deal Expression of Interest, 2013

<sup>15</sup> Tees Valley Health Care Sector Action Plan, 2012

## Low carbon economy

The Tees Valley sits at the centre of the UK's move towards a high value, low carbon economy having attracted significant investment over recent years and developed a reputation for greening excellence:

- **Waste processing** – EU Regulations for waste management have driven increased interest in this sector and the Tees Valley is leading the way on bioindustries and energy from waste, with projects underway from major global companies including Air Products (currently building one of the world's largest energy from waste plants using advanced gasification), Ineos Bio, SembCorp and SITA.
- **Renewable Energy** – Tees Valley is increasingly being seen as a destination for green investment for bioindustries, offshore wind and other forms of renewable energy. This is particularly so having been recognised as a Centre of Offshore Renewable Engineering (CORE) as we host industry leaders including Heerema, TAG Energy Solutions and JDR Cables and a growing cluster of leading SMEs.
- **Hydrogen** – Tees Valley produces around 50% of the UK's hydrogen and already has an established hydrogen pipe network. With the application of Carbon Capture and Storage, investments such as Air Products, and the potential extraction of hydrogen from industrial sources, there is a significant opportunity to produce green hydrogen in Tees Valley which is capable of supplying the increasing demand for hydrogen fuel cells. Specific opportunities include:
  - Taking hydrogen from the existing hydrogen network, cleaning it, and developing a hydrogen filling station for fuel cell buses, trucks and cars;
  - Clean up hydrogen from waste gasification investments to produce high quality hydrogen transport fuel;
  - Extract hydrogen from industrial operations such as the blast furnace, and use this to produce high quality transport fuel;
  - Demonstrate hydrogen fuel cell vehicles including buses, trucks, cars, vans, and forklift trucks;
  - Use the electricity produced from the Dogger Bank offshore wind farm to produce hydrogen, both as a transport fuel, and as a mechanism to store energy.

## Barriers to growth and opportunities

On top of our current energy mix, there is a further £4bn of private sector investment programmed in the next 5 years in energy, biofuels and petrochemicals, including two large biomass plants, the potential for a new nuclear power station at Hartlepool and wind turbine construction at Hartlepool and South Tees. Investors are attracted by our established pool of highly skilled labour in large-scale production, a strong logistics sector, including pipeline and storage infrastructure, our proximity to European markets and our supporting infrastructure capacity via Teesport and Durham Tees Valley Airport.

However, the process sector is subject to competitive pressures, rising energy and carbon costs, and faces significant challenges in terms of re-investment and low-carbon transformation (our industries continue to be the source of high levels of carbon emissions, at 59%, or 4 million tonnes, of our total emissions, comprising 4.8% of UK industrial emissions)<sup>16</sup>.

Whilst this presents challenges, it also presents opportunities, in particular the opportunity to exploit innovation and investment in new feedstock produced from biological sources to replace oil, efficient uses for waste heat, and large scale industrial Carbon Capture and Storage (where CO<sub>2</sub> could be captured and used to extend the life of the North Sea oilfields and provide power and raw materials for business activities) as set out on the next page.

These technologies open up new markets for our existing process, advanced manufacturing and digital/creative industries and Tees Valley must remain competitive by developing, commercialising and integrating these into our existing asset base. Investment in innovation can help to address the energy intensity of the process industry, develop more efficient and novel processes, including turning waste into chemicals. Our ambition for growth in the renewable energy sector is consequently clear because we are ideally placed to build upon our existing integrated cluster.

**This is why our primary ambition is to drive the transition from a high-value, high carbon economy to a high value-low carbon economy.**

<sup>16</sup> DECC, Climate Change Statistics, 2007.

Tees Valley Integrated Cluster



## Innovation

Our innovative businesses and nationally-significant innovation assets need to be utilised further to benefit businesses across Tees Valley and increase our low rates of enterprise and commercialisation.

### *Innovation SWOT analysis*

| Strengths   | Weaknesses   |
|---|--|
| <ul style="list-style-type: none"> <li>■ Critical mass of process and advanced manufacturing sectors</li> <li>■ Growing digital and low carbon industries</li> <li>■ Established healthcare sector</li> <li>■ Presence of innovation support, such as Teesside University and Centre for Process Innovation</li> </ul>  | <ul style="list-style-type: none"> <li>■ Lowest rates of commercialisation in UK</li> <li>■ Low rates of enterprise and business creation</li> <li>■ Lack of incubator and pilot space</li> <li>■ Maturity of process industry</li> <li>■ High levels of carbon emissions from process and advanced manufacturing</li> </ul> |
| Opportunities   | Threats  |
| <ul style="list-style-type: none"> <li>■ Growing demand for renewable energy technology</li> <li>■ Growing demand for advanced manufacturing services and products</li> <li>■ Growing demand for innovation in health and social care as life expectancy and long term conditions increase</li> <li>■ Rapidly evolving digital market place</li> <li>■ Reputation of Teesside and Durham Universities, CPI and TWI on innovation</li> </ul> | <ul style="list-style-type: none"> <li>■ Globalisation of supply chains</li> <li>■ Slow growth could lead to lack of investment in R&amp;D</li> <li>■ Lack of visibility of innovation support available, particularly for SMEs</li> <li>■ Nationalisation of innovation infrastructure</li> </ul>                           |

### *Context*

Innovation is crucial to our economy because only through being innovative and exploiting the commercial opportunities that flow from invention can the Tees Valley economy gain competitive advantage, evolve and grow.

Tees Valley is a classic example of continual reinvention having been a major contributor to the economic performance of the UK over the last 50 years – moving from ironstone mining and steel making to chemicals and oil and gas – and now further structural changes are taking place as it evolves into a hub for advanced manufacturing, renewable energy (particularly offshore wind and waste to energy) and the digital and creative economy. This is an area which invented the safety match, produced one of the first major public steam railways in the world, developed products from Perspex and ammonia to polyethylene and nylon and is now home to the UK's largest hydrogen plant, the UK's first biomass power station and will shortly be home to one of the world's largest advanced gasification facilities. However, there are a number of barriers and issues in the Tees Valley which we need to overcome.

Ongoing innovation in our advanced manufacturing, process and key sectors is supported in the Tees Valley by a range of world leading assets, notably the Centre for Process Innovation (CPI), TWI and Teesside University. Such support helps to ensure that our critical industries and leading SMEs maintain a pioneering position in global markets. Our agreed City Deal will see the creation of a new Open Access Technology Centre building on the success of existing commercialisation assets to provide facilities with specialist technical and business support to enable research to be turned into commercially viable products, processes and services.

In this regard, we also strongly support the recent announcement by Government of a TSB Launchpad for the process industries in the North East of England and will work with the TSB to ensure its success. We also support the intention to establish University Enterprise Zones to support entrepreneurship and innovation.

By taking advantage of the business and innovation opportunities arising from the transition to a low carbon, diverse economy, Tees Valley can host one of the most resource efficient and integrated industrial sites in Europe. This will enable us to compete globally, maximising new industries, and growing developing sectors across the whole area, particularly in advanced manufacturing, process, digital and healthcare.

## Tees Valley Innovation Strategy

### Innovation sits at the core of everything we do in Tees Valley and thus is vital to our ESIFs.

The development of an Innovation Strategy is a fundamental element of our plans to contribute to smart, sustainable and inclusive growth in the UK and Europe. Tees Valley Unlimited, along with partners, has developed an Innovation Strategy for Tees Valley based upon the principles of Smart Specialisation and the European Commission's guidance<sup>17</sup> on developing Regional Innovation Strategies (RIS3).

The Smart Specialisation concept is concerned with identifying the competitive advantage of a particular geography, whether at national or sub-national level. The principles of Smart Specialisation advocate the concentration of investment for innovation in areas where areas possess:

- critical mass;
- comparative advantage;
- potential for sustainable growth; and
- potential to develop trade flow, value chain and investment connections with other relevant places.

The strategy will contribute to the delivery of the aims of the RIS3 guidance and the EU focus upon Smart Specialisation as part of Innovation Union, Europe 2020, Entrepreneurship 2020 and EU International Strategy for Research & Innovation. The Tees Valley is also a member of the S3 Platform, set up by the European Commission to assist regions in developing strategies, and is keen to explore any opportunities for sharing best practice across Europe and the potential for transnational activity.

Our Strategy helps deliver the Government's Innovation and Research Strategy for Growth, particularly the aim to accelerate the commercialisation of emerging technologies (with those identified by the UK government relating to advanced materials, nano-technology and energy storage having particular relevance for Tees Valley). Furthermore, our Strategy will contribute to national policy, particularly the GREAT campaign and the Industrial Strategy (particularly those on Automotive, Aerospace, Life Sciences and the Information Economy).

Our Strategy also fits directly into the goals of the Technology Strategy Board to drive and stimulate innovation, as well as reflecting the priorities of the Witty Review.

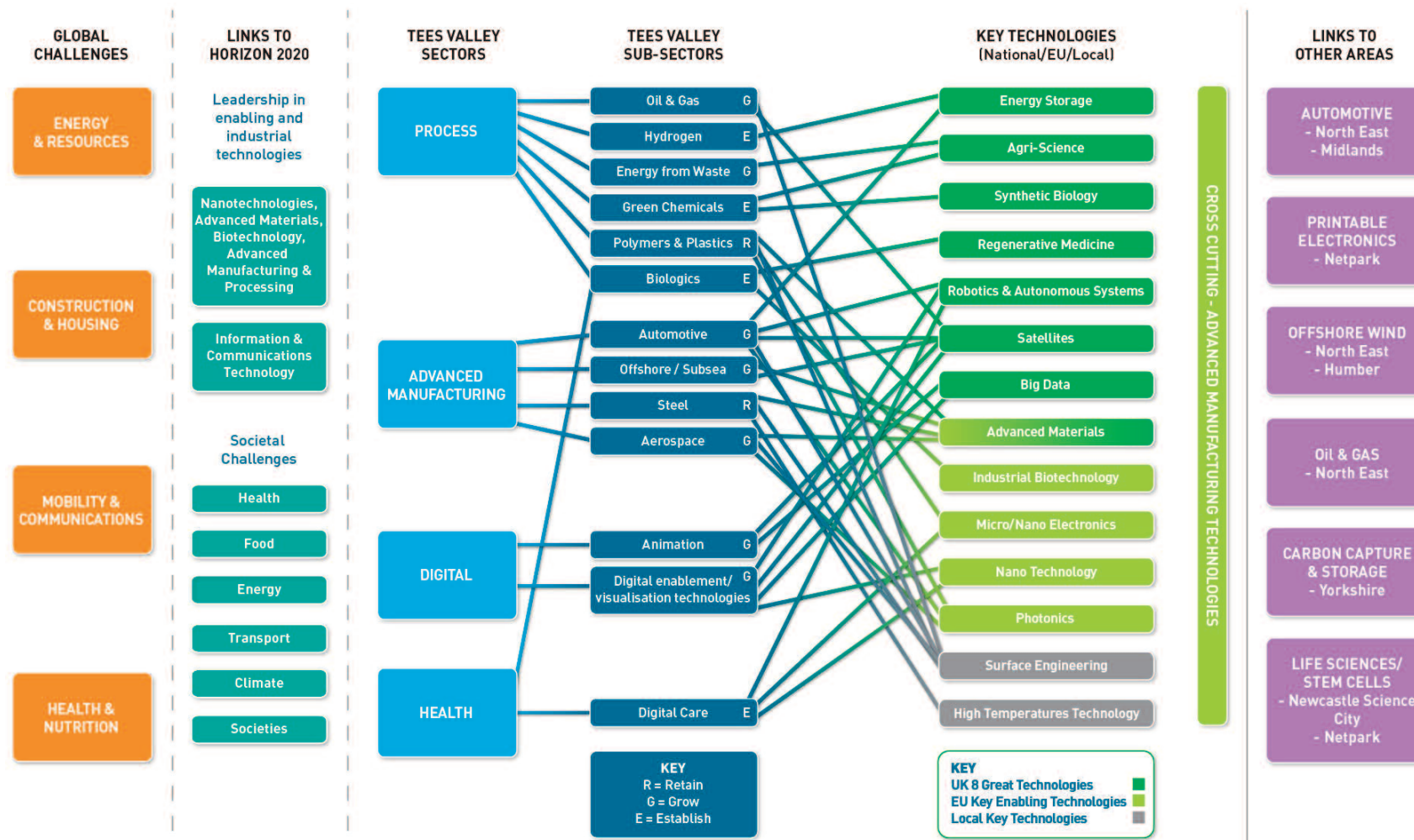
The Strategy takes account of the Key Enabling Technologies (KETs) identified by the European Commission under Horizon 2020. The KETs have a clear fit with the sectors which have been identified as having growth potential in the Tees Valley, particularly cross-cutting advanced manufacturing technologies.

Development of our Innovation Strategy has been driven by a private sector led Stakeholder Group and is based upon an in depth evidence base, which has been developed over a number of months. This includes a robust SWOT analysis of our key sectors to identify areas of opportunity and establish the key priorities of the strategy going forward. The Strategy has identified strengths on which to build, including major opportunities in our Key Sectors. The key priorities of the strategy include investing in pure research related to our Key Sectors, direct support to businesses and collaborative projects.

The development of our Strategy has now progressed to the prioritisation stage. We are currently working to identify the areas of opportunity for Tees Valley based upon our expertise, key growth areas, innovation assets and how these meet global and European challenges. The diagram below sets out our thinking and further work is underway to prioritise further, ensuring that Tees Valley's Innovation Strategy embodies the concept of smart specialisation in focussing resources upon the areas that can make the biggest economic impact.

<sup>17</sup> European Commission, 2012: Guide to Research and Innovation Strategies for Smart Specialisations

### Tees Valley Innovation Strategy



**TEES VALLEY CHALLENGES**

- Energy intensive activities and cost of energy
- Low enterprise rates
- Lowest rates of commercialisation in UK
- Reductions in process integration
- Low rates of exporting
- Maturity of process sector assets
- Low levels of private sector jobs

**TEES VALLEY ASSETS**

- Teesside University
- TWI
- Enterprise Zones
- Tees Valley Investment Fund
- Durham University
- Wilton Centre
- NEPIC
- Green Investment Bank
- CPI
- Digital City
- NEA2F
- Assisted Areas

The governance of the strategy is currently being developed to ensure that we create the most effective partnership to drive forward innovation in the Tees Valley. We have recently appointed a private sector Innovation Champion for the Tees Valley, Nigel J Perry, Chief Executive Officer of the Centre for Process Innovation (CPI), to provide strong leadership. Furthermore, part of our Business Growth Hub activity (see more below) includes an Innovation Advisor for Tees Valley, who will work with businesses to enable them to access knowledge assets and services from the most relevant organisation at any time across any sector.

We will drive the delivery of the Tees Valley Innovation Strategy to ensure stimulation, cooperation, cross-sectoral collaboration and social innovation. This will be achieved by setting up a robust governance model to lead and drive the strategy, through an Innovation Leadership Group.

## Nationally-significant innovation assets

Central to our strategy are a number of nationally significant innovation, R&D and training assets that support smart specialisation in our key sectors and are proactively engaged with our SMEs. These include:

- **The Centre for Process Innovation (CPI)** – helps to stimulate and drive innovation in the process industries – CPI has assisted over 130 companies, helped to create more than 2,700 jobs and has leveraged £500m of investment since its formation in 2004. <sup>18</sup> CPI is a High Value Manufacturing Catapult, with expertise across a range of areas and hosts nationally-significant assets including:
  - **The Thermal Technologies Centre** – a collaboration between CPI and Tata Steel providing an open access expertise centre for industries and developers who are involved with using thermal processes. It offers services to support customers develop new processes, revitalise products and improve existing processes.
  - **The National Industrial Biotechnology Facilities** – assists companies of all sizes to develop bioprocesses, including feedstock treatment and process optimisation through 'Sustainable Processing.' Part of CPI, it has access to over £24m of bioprocess assets, including pilot and demonstrator facilities.

- **National Biologics Manufacturing Centre** – the new centre, to be based in Darlington, is part of CPI and will help companies of all sizes in the biologics market to develop, prove, demonstrate, scale up and ultimately commercialise new biologics process technologies.
- **Universities** – Teesside University has five leading research institutes in Digital Futures, Design, Culture and the Arts, Health and Social Care, Social Futures and Technology Futures. In 2010, the University won the Times Higher Educational Supplement "University of the Year" award and the award for Outstanding Employer Engagement. Durham University's Queen's Campus in Stockton hosts 3,000 undergraduate and post graduate students, with expertise in GP training, public health, management and accountancy.
- **The Wilton Centre** – the largest process industrial research centre in Western Europe, which accommodates and supports start-ups and existing businesses;
- **Teesside Manufacturing Centre (TMC)** – offers a total enterprise integration service in design, manufacturing and business process improvement at Teesside University; and
- **The Welding Institute (TWI)** – recognised global leader in engineering research with a long history of innovation and knowledge transfer. Its Middlesbrough facility delivers world class services in joining materials, engineering and allied technologies for sectors from oil and gas to aerospace and automotive.

However, we recognise that Tees Valley businesses access innovation assets across the UK, drawing upon the research strengths, for example, of the N8 group of universities, the National Renewable Energy Centre in Blyth, NetPark in County Durham, the Institute for Manufacturing at Cambridge University, Newcastle Science City and the Advanced Manufacturing Park in Sheffield. We believe that innovation spans boundaries and that partnership working across areas is vital to deliver for businesses in the Tees Valley and across the country.

**Due to our industrial expertise and knowledge assets, innovation is a key driver of future economic growth in Tees Valley.**

<sup>18</sup> CPI, 2013 (national data)

## Business Growth

Our SMEs and larger firms across growing and supporting sectors supply key OEMs and supply chains around the globe, but rates of exporting and enterprise need to increase and access to finance remains a barrier to growth.

### Business Growth SWOT analysis

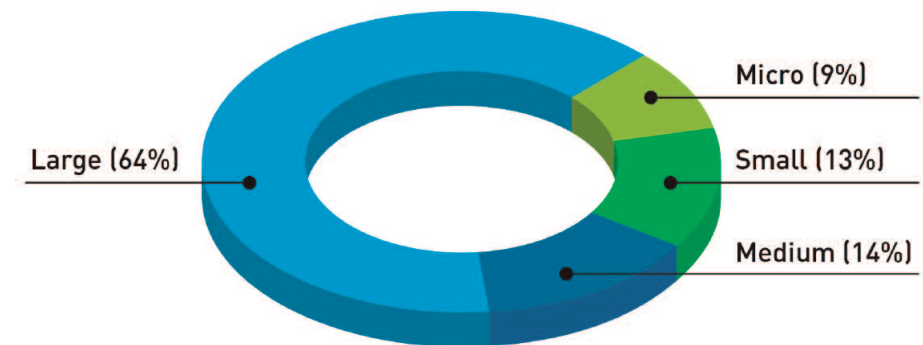
| Strengths  | Weaknesses  |
|--|---|
| <ul style="list-style-type: none"> <li>■ Vibrant supply chains supplying key industries, such as chemical, automotive, oil and gas and subsea</li> <li>■ Growing supply chains in low-carbon</li> <li>■ Large business and professional services and healthcare sectors</li> <li>■ Good supply of land, including Enterprise Zones</li> <li>■ Good basic broadband coverage</li> <li>■ Significant cultural and heritage assets</li> </ul> | <ul style="list-style-type: none"> <li>■ Not enough private sector jobs</li> <li>■ Low rates of enterprise and start-ups</li> <li>■ Over reliance upon the large employers</li> <li>■ Small amount of exporting activity</li> <li>■ Difficulties of SMEs securing finance</li> <li>■ Obstacles preventing SMEs accessing supply chain opportunities</li> <li>■ Skills shortages</li> <li>■ Lack of visibility of available business support</li> <li>■ Suitable new business accommodation</li> <li>■ Lack of OEMs in Tees Valley</li> <li>■ Areas of tidal and fluvial flood risk</li> </ul> |
| Opportunities  | Threats   |
| <ul style="list-style-type: none"> <li>■ Build on innovative investment models, such as JEREMIE, community and social finance</li> <li>■ Emerging biologics sector</li> <li>■ Expertise of business support assets, such as universities, knowledge centres and business support providers</li> <li>■ Buoyant European oil and gas sector</li> <li>■ Onshore and offshore low carbon opportunities</li> </ul>                              | <ul style="list-style-type: none"> <li>■ Slow growth in domestic and world markets</li> <li>■ Potential loss of future skilled workforce with current high levels of NEETs</li> <li>■ Lack of penetration of SMEs into major OEMs and supply chain due to low cost competition from abroad</li> <li>■ Threat from climate change leading to increased tidal and fluvial flood risk</li> <li>■ Changing nature of the retail market</li> <li>■ Continued difficulty of SMEs accessing finance</li> </ul>   |

### Tees Valley business base

While the growth, development and retention of our Key Sectors are vital to the competitiveness of Tees Valley, our future economic growth will be driven in large part by our existing and future business base and its ability to start up, innovate, diversify and access supply chain opportunities.

Our existing 13,500 SMEs<sup>19</sup> are spread across a wide range of sectors, including the creative and digital industries, professional and business services, transport and logistics, advanced manufacturing, automotive, oil and gas, subsea and the process industries. Most Tees Valley-based businesses are small, with 86% of all our companies employing less than 10 people<sup>20</sup>. Whilst most companies are small, a large proportion of Tees Valley workers work in larger workplaces and for big businesses. Nearly two thirds of Tees Valley jobs are in firms employing more than 250 staff in total, and 52% work in very large companies employing over 1,000 staff.<sup>21</sup>

### Distribution of Tees Valley Workers by Company Size 2012



<sup>19</sup> ONS, BRES, 2012

<sup>20</sup> ONS, BRES, 2012

<sup>21</sup> ONS, BRES, 2012



This distribution – a large number of small and micro businesses – presents a major opportunity to support these firms to grow and expand. Tees Valley offers many advantages for businesses to thrive, including the competitive, productive labour force, access to expert training providers, affordable and available premises and excellent transport and logistics infrastructure. In addition, there are increasing links between small businesses and leading knowledge centres, such as Teesside University, Durham University's Stockton campus, the Welding Institute (TWI) and the Centre for Process Innovation (CPI). Our Strategy therefore focuses upon supporting growth through our SME business base across a number of sectors.

- **Advanced Manufacturing, Process, Digital/Creative & Low Carbon Economy** – These major sectors, where a significant proportion of our business base and SMEs reside, are included above under Key Sectors.
- **Business ICT** – We have a number of leading ICT firms based in Tees Valley, such as Onyx, and data centres, including the world's greenest data centre at Wynyard run by HP. Such businesses provide solutions to a global network of clients, while Tees Valley's engineering design cluster – including the likes of Phusion, AMEC and Foster Wheeler – depend heavily upon reliable ICT solutions to develop and grow their businesses.

Alongside enhancing and retaining our Key Sectors and growing our business base, support for existing sectors is critical to diversification, improving economic resilience and providing the range of jobs we need to ensure that growth is widespread and inclusive. Therefore, there are a number of enabling industries, influenced by our key growth sectors and wealth-creating industries, which provide 72% (203,400) jobs in Tees Valley.<sup>22</sup> We plan to encourage growth in all sectors of the economy, but have a particular interest in the following enabling industries where Tees Valley holds competitive advantages:

- **Business Services** - 49,500 people (17% of total employment) are employed, at all levels, across the professional, business, financial and legal services sectors in Tees Valley<sup>23</sup> and over 7,500 people have jobs in contact centre and business process outsourcing activities. The latter include a range of blue-chip firms such as Santander, EE and Virgin Media. These jobs play a key role in providing entry level employment opportunities, helping to combat social exclusion,<sup>24</sup> and also support a number of specialist job roles. Tees Valley therefore has a growing reputation for excellence in shared services and business process outsourcing. We also have a cluster of major legal, business and financial services, including the likes of RPMI, Bond Dickinson and Lattimer Hinks.

- **Transport and Logistics** - Due to Tees Valley's transport and logistics infrastructure and company base, which includes SMEs and larger firms, Tees Valley businesses are able to win work across the globe. For example, in the oil and gas market, Wilton Engineering Group, TAG Energy Solutions, Francis Brown and Phusion supply services to projects in Norway, Australia, Brazil and Mexico. The ability of our logistics sector to enable such activity relies on innovation, which is embedded in the equipment that the industry in Tees Valley currently uses.

The changing face of retail has also led to further development of the logistics market, with Tees Valley now home to major distribution centres of Asda and Tesco, based around Teesport, Aldi at Darlington and Clipper/George at Asda based at Wynyard. There is further potential for more development in this area, particularly around Teesport's port-centric model which offers the choice for distributors to go straight from A to B rather than goods being transported to the logistics' golden triangle' in the Midlands for onward distribution.<sup>25</sup>

- **Retail and Leisure** - Wholesale, retail and related service industries continue to be a key source of employment in the Tees Valley, employing some 53,100 people<sup>26</sup>. The recession has had a marked impact on our high streets and many branded stores and local outlets have ceased trading, with around 3,000 jobs lost between 2010 and 2012. Growth in online shopping and out of town retail parks has also impacted on high street performance. Nevertheless, traditional shopping patterns continue to provide a significant number of jobs and the regeneration of our town centres are reflecting changes in shopping habits, with a larger focus upon cultural and leisure activities. A number of our town centres have experienced, or are undergoing considerable investment to improve the leisure, shopping and cultural experience.

The retail and leisure offer in Tees Valley is vital to making the area an attractive location for residents and businesses. However, growth in these sectors is dependent upon the economic wealth being created in the area.

<sup>23</sup> ONS Business Register and Employment Survey 2012 SIC sections J-N

<sup>24</sup> Tees Valley Economic Assessment, 2013

<sup>25</sup> PD Ports, Port Centric, 2013

<sup>26</sup> ONS, Business Register and Employment Survey, 2012 SIC Sections G,I

- **Health and Social Care** - The health and social care sector in the Tees Valley employs 31,300 people, or 11% of the workforce<sup>27</sup>, and employment has increased by 33% since 2009<sup>28</sup>. 90% of jobs are currently in the public sector but there are over 350 private sector businesses forming part of the sector<sup>29</sup>, and we are home to the headquarters of a number of social care operators, including HC One and Four Seasons, four nationally recognised NHS Trusts and a number of bio-medical start-ups, including Hart Biologicals in Hartlepool<sup>30</sup>.

The areas identified as having potential for collective investment in innovation through our Innovation Strategy include digital care and medical technology, which is seen as having potential to reduce admissions as well as produce better health outcomes for recipients with long term health conditions. There is also potential for investment in innovation to complement the Government initiative for commercialising IP within the NHS, linked spin-out opportunities with incubation services and investment funds, as well as innovation support to the medical technology industry. With this in mind, the Centre for Process Innovation (CPI) has announced that the new National Biologics Manufacturing Centre will be located in Darlington, providing major opportunities in this area for Tees Valley.

Taking these enabling and supporting sectors together, our ESIFS promotes continued diversification and rebalancing of our economy. These supporting sectors are critical to our overall ambitions and jobs target.

**To meet our vision of a growing, diverse economy, there are major opportunities and growth sectors which we must build on, which the diagram on page 34.**

<sup>27</sup> ONS, Annual Employment Survey, via Tees Valley Health Care Action Plan

<sup>28</sup> ONS, Business Register and Employment Survey,

<sup>29</sup> TBR Observatory, 2012

<sup>30</sup> ONS, Business Register and Employment Survey 2012

<sup>31</sup> House of Commons Public Accounts Committee, 'Improving Access to finance for SMEs,' Dec 2013

<sup>32</sup> Ekos, North East Access to Finance – Fund Evaluation Research, June 2013

<sup>33</sup> Ekos, North East Access to Finance – Fund Evaluation Research, June 2013

## Obstacles to business growth and economic opportunities

- **Access to finance** - There are a number of obstacles preventing the growth of existing SMEs and the generation of new businesses in Tees Valley, including the availability of skills and access to finance. On the latter, a 2012 business survey of Tees Valley 400 companies found that this was hindering private sector growth, with 41% of firms whose access to finance was not met in full subsequently having to scale back expansion plans. This is an issue not just in Tees Valley, but across the country, with a recent Select Committee report finding that SMEs are struggling to find funding and that more should be done to raise awareness and availability of alternative funding options<sup>31</sup>

Improving the availability and affordability of finance is essential to the growth of the Tees Valley economy, be this through grant, loan or equity provision. Over the last decade, equity and loan provision in the North East through the Finance for Business North East fund of funds – including technology, proof of concept and angel funds – have invested over £145m in 1,400 businesses, resulting in the creation or safeguarding of 12,000 jobs, further leverage of over £220m and additional SME turnover of over £400m. An independent report suggested that “in the absence of these funds, it is unlikely that much of this economic activity would have occurred as there is no evidence to suggest the private sector would have stepped in and filled any void.”<sup>32</sup>

Such funds are needed to overcome market failure in the availability of funding for SMEs in Tees Valley, a constraint to economic growth. This is particularly so for early stage and small businesses, who struggle to afford commercial borrowing, are not eligible for larger grant support and have been impacted by the decline and narrow sector focus of venture capital investment.

The report found overwhelming evidence for the need for better information and advice for SMEs to get them ‘investor ready’ and enable them to access finance<sup>33</sup>. Such finance can help to support businesses which lack collateral or track record, have new innovative products or who are struggling to access national and international funding.

In addition, community finance and social capital are of particular importance for start-ups, social enterprises and voluntary and community organisations and we place much importance upon them. We welcome the recent announcement of a £11.5m social investment fund from the Northern Rock Foundation and Big Society Capital (BSC), the first regional fund with support from the BSC.

- **Exports** - A further barrier to SME growth in Tees Valley is the reliance upon a small client base heavily dependent upon domestic market demand. Only 6.5% of SMEs in Tees Valley are currently exporting outside of the UK according to a recent survey of businesses, with over 50% not trading outside of the Tees Valley.<sup>34</sup> Recent surveys have reinforced this, with just one in five North East SMEs willing to expand overseas, in contrast to 44% of London SMEs who are already internationally active<sup>35</sup>.

This provides a significant opportunity for our SME base to promote and sell their products and services to customers across the UK and to penetrate markets in Europe and beyond. Therefore, enhancing the ability of Tees Valley SMEs in our super sectors and growing industries to be able to export their products and services across the globe is a key thrust of our Plan.

- **Enterprise** - Tees Valley's enterprise and commercialisation rates are comparatively low, with our enterprise rate at just 61% of the national average and the lowest rates of patents filed and granted in the UK. However, the Tees Valley enterprise rate has increased in both 2012 and 2013, with the number of firms up 665 and one year survival rates now above the national average.

Particular growth has been experienced in innovative firms in sectors such as digital, energy, subsea and green chemicals, encouraged by our universities, knowledge centres and increasing number of incubation facilities.

There is a critical need, as identified above, for available and affordable finance to enable the birth of new businesses and Tees Valley is keen to encourage a mix of loans (be this venture capital, angel finance or through Local Impact Funds), grants, bonds and vouchers for business support. This can ensure relevant solutions are provided to address the particular issues faced by both existing firms and new starts and forms a major part of our Business Growth Hub proposals (see section 2). Enterprise is a key focus of Tees Valley's plan and will be a major contributor to our goal of facilitating 25,000 net new jobs over the next decade.

- **Broadband** - There is good basic broadband coverage (minimum of a 2 Mbps service) across the Tees Valley<sup>36</sup> and availability of superfast broadband reaching an average of 87% across the Tees Valley. Data from 2012 collated by Ofcom ranked Tees Valley as a 1 in terms of overall fixed broadband performance, including available, speed and take-up, the highest ranking<sup>37</sup>. The availability of superfast broadband in Tees Valley is also good, but broadband take up is low - Tees Valley Ofcom's broadband up-take ranking is 3, meaning uptake is less than 70%<sup>38</sup>.

Although Tees Valley has faster average broadband speeds than Leeds, Manchester and Milton Keynes, with higher rates of superfast broadband availability than London, Birmingham, Manchester, Sheffield, Edinburgh and Glasgow, there are significant pockets of poor coverage. These include rural areas, town centres and significant business parks, Enterprise Zone sites and housing estates.

The Tees Valley is working with Broadband Delivery UK (BDUK) and the Rural Community Broadband Fund (RCBF) to improve broadband connectivity in these key locations. However, this work will only bring Tees Valley to just over 90% coverage of superfast broadband and to retain and enhance competitiveness, we need to keep up with the competition, particularly those areas approaching 100% coverage via the Super-Connected Cities programme and competitor locations across the EU and beyond.

<sup>34</sup> TVU, Business Survey, 2012

<sup>35</sup> Baker Tilly, 2014

<sup>36</sup> Ofcom, Broadband Statistics, 2011

<sup>37</sup> Ofcom, Broadband Statistics, 2011

<sup>38</sup> Ofcom, Broadband Statistics, 2011

- **Business Accommodation** - There are opportunities across Tees Valley to enhance and expand the business accommodation available, in our Enterprise Zone (EZ) sites, industrial estates, business parks and town centres. There is a particular need for intervention given the market failure in business accommodation in Tees Valley; in the majority of cases, rents achievable are unable to provide a commercial return on the investment costs of development, particularly for incubator space and small business units. Tees Valley also has a number of out of date industrial premises and an oversupply of lower grade office accommodation. This is why supporting the provision of appropriate business accommodation and infrastructure, particularly on EZ sites, town centres and key strategic sites is so important. This includes site remediation work, access improvements and public realm enhancements.

In Middlesbrough, there is the opportunity to develop the high level specialist retail services the Tees Valley needs and also to attract office development around the success of Boho, Middlehaven and Teesside University. Darlington's town centre serves the western area of the Tees Valley and because of its locational advantages and its market town ambiance, there is the opportunity for office development with minimum public subsidy and a strong retail offer.

Stockton similarly has the potential to grow its specialist retail offer, boost the office market, and increase its expanding arts and cultural offer. In Redcar & Cleveland there is the potential for the visitor economy to be exploited in coastal and rural areas. Hartlepool also offers further visitor economy potential around the Marina and to create an innovation and skills quarter around the new Hartlepool College and Queens Meadow Enterprise Zone site.

Tees Valley's Enterprise Zone was among the first Enterprise Zones to be approved by the Government and is already making an impact. Since its launch in April 2012 the Enterprise Zone has successfully attracted 8 projects creating 177 new jobs, including US energy company Air Products who aim to have a new energy to waste facility operational this year. There are a further 8 potential companies in the pipeline which would create a further 129 new jobs.

The Zone is made up of 12 individual sites with a total area of 423.8 Hectares. The Tees Valley Enterprise Zone encompasses a wide range of sites including a number with existing units (11 office and 6 industrial units currently available, plus 12,500 square feet of smaller office and workshop units). The sites include both

new and established business and enterprise parks, plus large cleared industrial sites with access to utilities, port services and logistics. On each site businesses are able to benefit from tax relief and simplified planning regimes. Companies in our key sectors - advanced manufacturing and engineering, chemical, renewable energy and digital - are able to take advantage of the incentives on offer.

A key barrier to growth in Tees Valley is the lack of suitable business accommodation and the significant amount of outdated accommodation in the area. This includes a large amount of vacant office space in our town centres and empty space in business park, such as Teesdale Business Park in Stockton.

Furthermore lenders are reluctant to provide finance for the conversion and reuse of the large number of empty offices in Tees Valley's town centres. Therefore alternative mechanisms need to be considered to bring these buildings back into use and encourage investment. New investment is happening in our town centre office market, such as that occurring via the Department for Education and a new cinema complex in Darlington town centre. Such moves boost town centre footfall and benefit the local economy.

**Work is currently underway on assessing the gaps in accommodation for businesses that are needed for Tees Valley to meet its targets to create 25,000 net new jobs over the next decade.**

- **Flood risk and climate change adaptation** - Our defences against tidal flood risk are currently in a fair to good condition although their remaining life span is varied, with some key infrastructure improvements needed to allow for investment in existing and planned business sites. The Tees Valley's main industrial and manufacturing area is centred on the Tees estuary, in areas subject to tidal flood risk. With this risk increased through climate change, there is a need to ensure strategic employment and critical infrastructure, such as the road and rail network, are not subject to avoidable flood risk through lack of resilience measures. Tees Valley has recently experienced significant flooding in East Cleveland, Port Clarence and Middlesbrough, impacting upon businesses, residents and infrastructure.

Existing defenses against fluvial flood risk are generally robust, but some major employment areas, strategic housing development sites and critical infrastructure, including gas and electricity assets, rail routes and highways, could potentially be adversely impacted.

Without the necessary investment in key infrastructure, the Tees Valley will not be able to achieve its economic potential. The vision for the Tees Valley is for an infrastructure system which helps to support and underpin the Key Sectors in the Tees Valley economy and diversify the economy through other key sector growth across the area, with capacity to ensure future growth will not be constrained.

Flood risk prevention and environmental protection is a key part of this to ensure the necessary infrastructure is in place and can maintain and open up employment and residential sites. Flood risk mitigation and adaptation can reduce the risk of flooding and the impact of flooding upon the built and natural environment. **The Tees Valley Strategic Infrastructure Plan** sets out the major schemes that will make the biggest impact for Tees Valley on jobs and growth.

- **Sustainable Transport** - Effective transport connectivity is crucial to the future development of the Tees Valley as it will stimulate, support and be a driver for economic growth. Overcoming barriers to get businesses and people moving, trading, working, learning and exporting is therefore essential to achieving the economic aims for the Tees Valley. This highlights two key issues; maintaining and enhancing business connectivity to markets; and maintaining and enhancing connections to enable residents to access jobs and training.

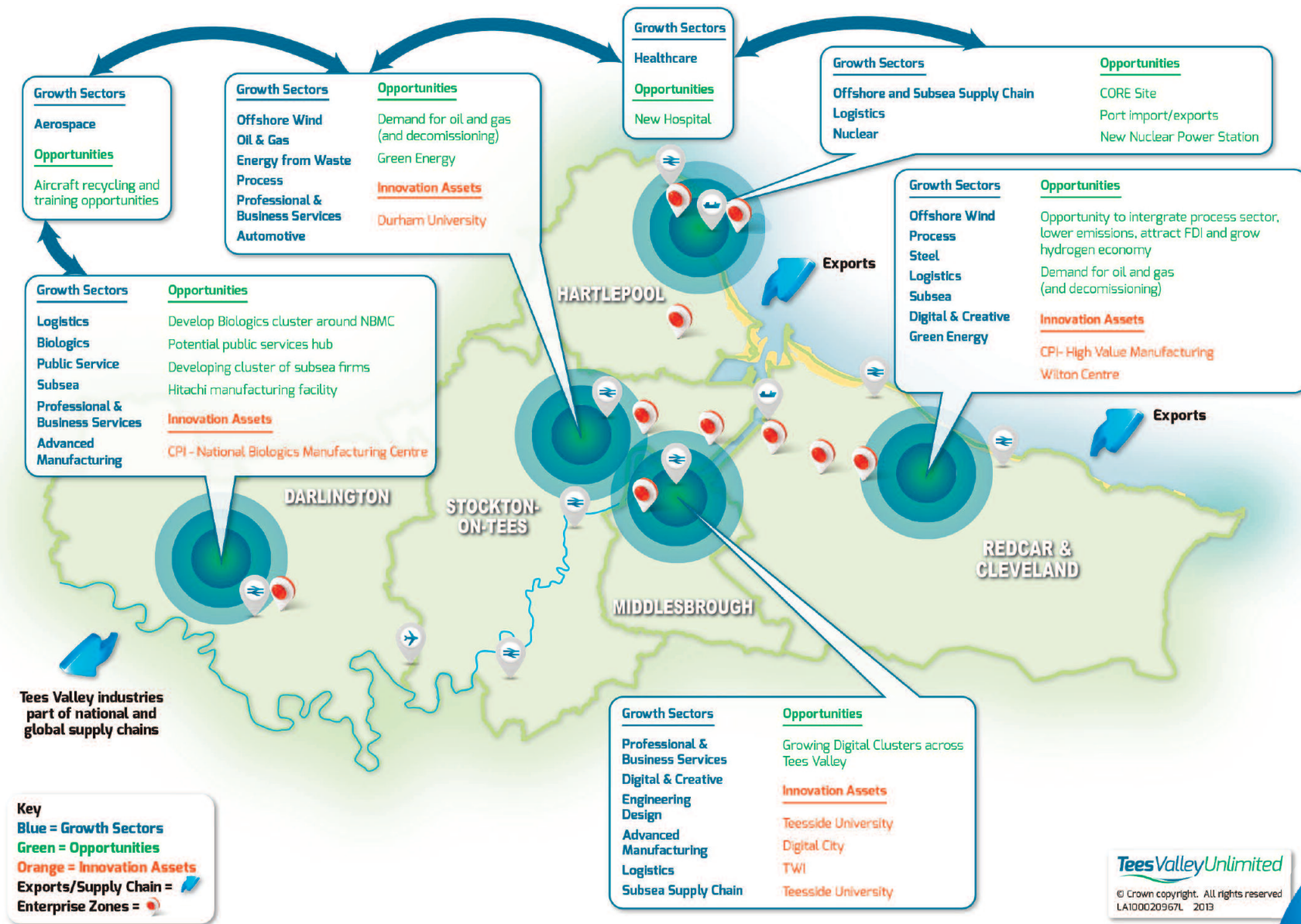
Internally, our polycentric spatial pattern means we have many centres of economic activity to connect in a relatively small area, leading to complex travel demands across the Tees Valley and into neighbouring employment areas such as South Durham. Our detailed modelling and analysis shows that forecast employment and housing growth will add to this complexity meaning that effective intra-connectivity and inter-connectivity with neighbouring areas is more important than ever.

This presents challenges in maintaining the reliability of the transport network, sustaining viable public transport networks and reducing private car dependency. Local travel networks comprising of walking, cycling, local bus and rails services, car sharing and community transport add to the complexity of travel options.

The lack of a single dominant centre has made it more difficult in the Tees Valley than elsewhere to create and sustain viable bus networks and our network is not particularly well coordinated. Due to their relative location on the periphery of Tees Valley, Darlington and Hartlepool in particular have relatively poor public transport connectivity to other labour markets within the area. Evidence shows that some of the priority locations in the North-South Tees Area have exceptionally poor accessibility by public transport from the Tees Valley as a whole <sup>39</sup>. Furthermore, there are a number of rural areas in Tees Valley, particularly in rural East Cleveland, which lack public transport services, leading to social exclusion.

Therefore for many people seeking training or employment opportunities a lack of awareness and understanding about their travel options is a major barrier. With poor literacy levels, a lack of knowledge amongst advisors and employers about travel options, low incomes and some gaps in transport provision for instance in rural areas, there is a need to coordinate information and provide advice and support.

<sup>39</sup> Collated in the Tees Valley City Region Connectivity and Accessibility Study, JMP Consultants and Genecon for TVU and the Highways Agency, May 2010



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# Workforce

**A skilled workforce, meeting the needs of current and future businesses, is essential to facilitating 25,000 net new jobs over the next decade and ensuring a vibrant, diverse economy that is inclusive for all.**

## Business Growth SWOT analysis

| Strengths  | Weaknesses   |
|--|--|
| <ul style="list-style-type: none"> <li>Recognised skilled workforce, particularly in process, advanced manufacturing, logistics, digital and professional services</li> <li>Excellent Higher Education and Further Education provision through two universities, six major FE colleges and expert training providers</li> <li>Good relationships between training providers and employers</li> </ul> | <ul style="list-style-type: none"> <li>Persistently high levels of unemployment and youth unemployment</li> <li>High levels of benefit dependency</li> <li>High numbers of people with significant barriers to work</li> <li>Some of the highest levels of deprivation in the UK</li> <li>High numbers of people without basic skills</li> <li>Poor quality labour market information and careers advice</li> <li>Low rates of people with higher level skills</li> <li>Market failure in post graduate provision (financial barriers to entry)</li> </ul> |
| Opportunities  | Threats  |
| <ul style="list-style-type: none"> <li>Exploit opportunities presented by the growth of new sectors, including digital, low-carbon economy and energy from waste</li> <li>Build on employer involvement in skills system, including Employer Ownership of Skills pilots in Tees Valley</li> </ul>  | <ul style="list-style-type: none"> <li>Ageing workforce, particularly in advanced manufacturing and process sectors</li> <li>Potential loss of future skilled workforce with current high levels of NEETs</li> <li>Number of young people entering the workforce declining over the next decade</li> <li>Large replacement demand required over the next decade</li> <li>Loss of competitiveness if higher skilled job roles cannot be filled</li> </ul>   |

## Current workforce

The structure of the Tees Valley workforce is reflective of a high proportion of low paid jobs; for example, we would need 21,000 more people employed in managerial and professional occupations to reach the national average<sup>40</sup> and this is reflected in our

earnings. The average full-time employee in Tees Valley earned nearly £50 less per week than the average worker in England in 2012, equating to a deficit of some £2,550 per year<sup>41</sup>. This clearly has implications for the spending power of Tees Valley workers.

Therefore, up-skilling our existing workforce and preparing new entrants into the workforce will play an important role in driving improved social mobility – there may be as many as 120,000 people currently in jobs who will need to be replaced in Tees Valley between 2010 and 2020, as they get promoted, leave the sector or area or retire from the workforce.<sup>42</sup>

Yet the Tees Valley is making great strides in terms of educational achievement and quality, even though the former remains below the national average. We currently have provision for over 32,670 students across our FE Colleges, including work-based apprenticeships and full-time and part time provision. We are proud to say that between 2011/12, 9,870 of our young people started apprenticeships<sup>43</sup> delivered through public and private sector collaboration across sectors, but we acknowledge the fact that we face a substantial challenge to narrow our current skills deficits.

Tees Valley is behind the national average for both basic and higher level skills. The percentage of Tees Valley residents with no qualifications is 13.1% compared to 9.7% nationally, while those with NVQ levels 1 and 2 are below the national average.<sup>44</sup> We also have a significant shortfall in high level skills – with just 25% of residents having NVQ4+ (Degree equivalent) in 2012. This was around 9% below the national average (34.4%), equating to a shortfall of 39,000 people in Tees Valley without a degree level qualification<sup>45</sup>. This shortfall needs to be addressed if Tees Valley is to grow innovation capacity in its priority sectors, and especially in the new industries that present real economic opportunity for the area.

**However, it is critical that we understand the skills and business needs of our companies which differ to other areas of the country due to the nature of our economy.**

<sup>40</sup> ONS, Annual Population Survey, 2013 Managerial, Professional and Associate Professional Occupations

<sup>41</sup> ONS, Annual Survey of Hours and Earnings, 2012

<sup>42</sup> UKCES, 'Working Futures 2010-2020'

<sup>43</sup> BIS – The Data Service, via TVU Skills Intelligence, March 2013

<sup>44</sup> ONS, Annual Population Survey, 2012

<sup>45</sup> ONS, Annual Population Survey, 2012

## Skills Barriers

There are a number of key issues to respond to within our local employment and labour market. Whilst there has been progress in many areas, our area still faces considerable challenges:

- **Demographic changes** - the increasing proportion of over 65's and the fall in the number of young people

The most significant change is the rise in the number of people over the age of 65 over the next ten years, and the corresponding rise in those aged 55 to 64. This is the group that is most likely to leave our workforce during the lifetime of our strategy, taking their skills, expertise and experience with them. The demand for services, particularly health and social care, and new products and services will increase to suit their needs.

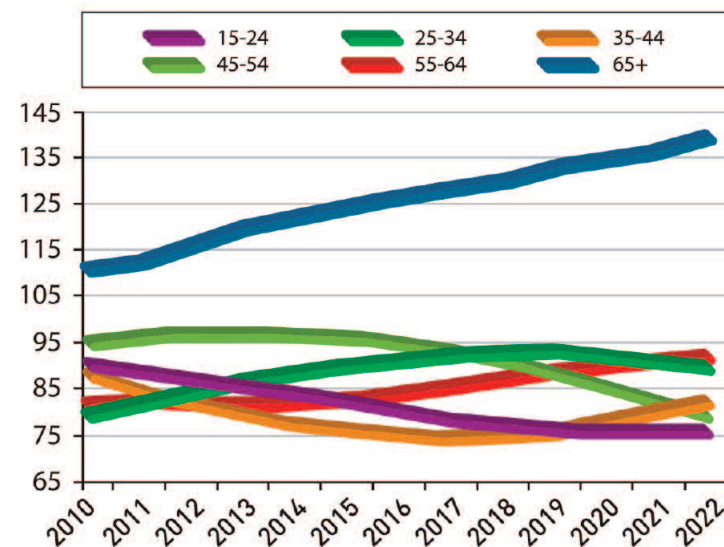
At the same time, the number of young people aged 15-24 is predicted to decline, which means that the number of new entrants to our workforce is likely to diminish. Our cohort size of Year 11 will shrink over the coming years, and by 2017 there will be 900 less students in this group than in 2013.<sup>46</sup> Thus there will be a huge shift in the profile of our workforce over the next ten years.

<sup>46</sup> Data from TVU provided by the Local Authorities in Tees Valley

<sup>47</sup> ONS Claimant Count, Dec 2013

<sup>48</sup> Department for Education May 2013

## Predicted population change in Tees Valley 2010-2022 ('000s)



We can anticipate that a large number of people in the 55 to 64 year old age group will leave our workforce whose jobs will need to be filled. This is particularly the case in the process and advanced manufacturing industries. We must therefore ensure that people aged between 25 and 45 who are already in the workforce or available for work are sufficiently skilled to move into the jobs that are vacated by those who retire. We must also work with major employers to tackle succession planning, workforce retention and apprenticeship provision.

- Addressing the high level of youth unemployment and of young people who are not in education, employment or training (NEET)

Youth unemployment amongst 16-24 year olds stands at 10.3%, the most for a generation, and highest of all LEPs, compared to 4.9% nationally.<sup>47</sup> The numbers of young people not engaged in education or training are also high with around 9.2% of 16-18 year olds identified as NEET across Tees Valley, slightly higher than the average of 8.2% for England.<sup>48</sup>



- The need to maintain our improvement in Level 2 and improve on our relatively low levels of Level 3 and Level 4 attainment

Our track record in GCSE and Level 2 attainment has improved in recent years and Tees Valley's results are almost at the national average. However, we still have a significant shortfall in high level skills, and in order to be on a par with the national average by 2020 we need: 18,900 more 19-64 year olds achieving a level 2 qualification or equivalent; 29,200 more 19-64 year olds achieving a level 3 qualification; 37,500 more 19-64 year olds achieving a level 4 qualification.<sup>49</sup>

This is a matter of concern as many of our skills shortages and much of our predicted job growth are concentrated in the higher skills occupations, with the hardest to fill vacancies in the professional, technical and skilled trades. In fact our current estimates suggest that, for instance, over the next ten years: 22,000 people in Professional Occupations and 10,000 Managers and Directors, who are most likely to be educated to Level 4, will leave the workforce, along with: 13,000 people in Associate Professional and Technical roles, who likely to be Level 3 educated, and 16,000 people in Skilled Trades.<sup>50</sup>

- Developing the skills of those both in work and wanting to work so that they can replace those leaving the workforce.

We know that Tees Valley employers are looking for highly skilled employees. In fact 49% of jobs advertised in March 2013 were for Professional and Associate Professional jobs.<sup>51</sup> We therefore face considerable challenges to significantly raise our attainment levels to support and grow our economy. Again, it is critical that higher level skills provision and higher level apprenticeships are supported in order to meet the current and future skills needs of our employers, with a particular emphasis upon Science, Technology, Engineering and Maths.

- Rebalancing the local jobs economy with a move from public to private sector employment.

We know from our robust analysis of our labour market and consultations with employers and key stakeholders that our strategy must ensure that we develop enough skilled people to replace almost 120,000 experienced workers who will leave our workforce in the next ten years and to take up the 25,000 additional new jobs that will be created.

## Skills opportunities

In order to develop the skilled people to meet our ambitions and overcome the barriers outlined above, the **Tees Valley Employment and Skills Strategy** is designed to meet the needs of the Tees Valley economy for the next ten years. We need to address our employers' immediate and shorter term skills shortages in our priority and supporting sectors in order to sustain and grow their businesses whilst putting in place effective mechanisms for the medium and long term, in order to increase the supply of highly skilled and trained new entrants for the workforce of tomorrow and increase employer participation in skill development for Tees Valley.

Through our research, engagement with employers and partnership working we have identified our key aims and objectives and related activities that will assist us in delivering a strong and growing economy. We believe that our strategy will provide a coherent framework to match or exceed the national achievement levels and for skills, jobs and growth by:

- Upskilling the existing workforce to replace those who will be leaving so that they can take up the jobs requiring skills and experience in our priority and supporting sectors. Increasing higher level skills will create the necessary 'pull-through' effect for new entrants to join our workforce and give employers the confidence to invest in an area with a highly-skilled workforce
- Increasing the supply of post graduate skills for research and innovation, particularly in the new industries.
- Ensuring that young people and other new entrants have a range of progression routes through learning into work, underpinned by quality careers education and information, advice and guidance (IAG), that give them the relevant knowledge, skills and employability attributes, attitudes and behaviours
- Enabling as many people as possible who are unemployed to enter and re-enter the labour market through targeted interventions, and quality IAG, to equip them with the right skills for the priority and supporting sectors

<sup>49</sup> [www.teesvalleyunlimited.gov.uk/InstantAtlas](http://www.teesvalleyunlimited.gov.uk/InstantAtlas)

<sup>50</sup> UKCES Working Futures 2010-2020, 2012

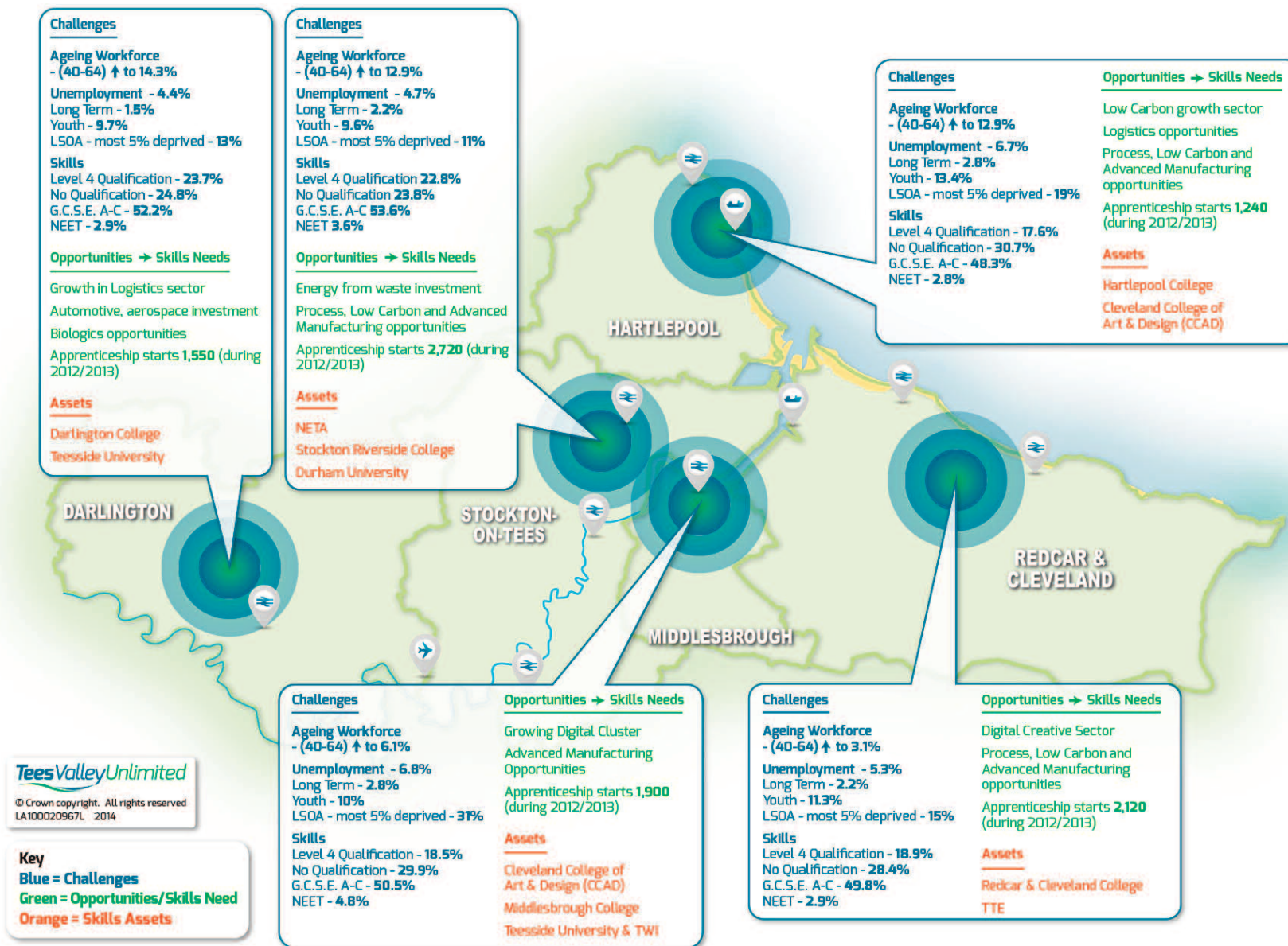
<sup>51</sup> TVU Labour Insights 2013

- Improving the capability of employers to develop skills/workforce planning strategies to underpin their own business plans and aspirations and those of the sectors to which they belong
- Increasing the demand for, and investment in, skills by employers and individuals
- Securing a responsive skills infrastructure which improves attainment at all levels, to level 4 and beyond, and delivers the anticipated volume and range of skill needs for the priority and supporting sectors in Tees Valley.
- Providing mainstream and bespoke educational establishments to provide the physical infrastructure needed to deliver skills and education in Tees Valley and ensure this is maintained and fit for purpose.
- Ensure an emphasis upon Science, Technology, Engineering and Maths (STEM) in order to meet the needs of our Key Sectors and growing industries (although we recognise that more work is needed to understand this requirement).

We have set a series of bold step change aspirations for our Strategy:

- Tees Valley matches and, where possible exceeds national employment and key attainment levels within the lifetime of this strategy;
- 120,000 existing jobs are safeguarded through the effective replacement of those leaving the workforce;
- 25,000 new jobs created in our economy are filled by skilled and job-ready people from Tees Valley
- The foundations of our Strategy will support the shift to a higher skilled economy as our businesses invest in new technologies and processes and increasingly compete in global markets.

**The diagram on the next page shows the challenges we must overcome to grow our economy, but also highlights opportunities for Tees Valley.**



## Sustainable Growth and Economic Equity

Our economy must be inclusive, and our ESIFS aims to be sustainable, by providing jobs, employment and enterprise opportunities to all of our residents, providing the support and infrastructure to help those furthest away from the labour market, a focus upon communities of the greatest need and a recognition of our environmental assets and quality of place.

Our economy must provide opportunities and hope for residents and businesses across Tees Valley, regardless of location, background, gender, religion, ethnicity or sexuality. We will particularly focus upon supporting those furthest from the labour market and those in disadvantaged and deprived communities.

### *Sustainable Growth and Economic Equity SWOT analysis*

| Strengths  | Weaknesses   |
|--|--|
| <ul style="list-style-type: none"> <li>■ Vibrant civic society and voluntary and community sector</li> <li>■ Strong rural community with a network of villages</li> <li>■ Strong BME network</li> <li>■ Sense of community spirit across Tees Valley and in individual communities</li> <li>■ Strong rural business base</li> <li>■ Nationally significant natural assets and visitor attractions</li> <li>■ Major investment in Tees Valley town centres</li> </ul> | <ul style="list-style-type: none"> <li>■ Some of the highest levels of deprivation in the UK</li> <li>■ Persistently high levels of unemployment and youth unemployment</li> <li>■ High levels of benefit dependency</li> <li>■ High numbers of people with significant barriers to work, including mental health, drugs and alcohol</li> <li>■ High numbers of people without basic skills</li> <li>■ High levels of fuel poverty</li> <li>■ Pockets of poor broadband coverage in rural areas</li> <li>■ Areas of tidal and fluvial flood risk</li> <li>■ Poor rural transport connectivity</li> </ul> |

| Opportunities  | Threats  |
|--|--|
| <ul style="list-style-type: none"> <li>■ Broadband investment and commercial roll-out</li> <li>■ Access new employment opportunities in growing sectors</li> <li>■ Build on strong partnerships established by the voluntary and community sector</li> <li>■ Join up projects under ERDF and ESF</li> <li>■ Opportunities for the rural economy in the low-carbon economy and other sectors</li> </ul> | <ul style="list-style-type: none"> <li>■ Slow growth in the economy leading to continued squeeze on household budgets</li> <li>■ Rise in deprivation from persistently high rates of unemployment</li> <li>■ Falling funding to community networks for those most in need</li> <li>■ Move to digital public services excluding older people and rural communities</li> <li>■ Threats to rural businesses as our economy adapts</li> <li>■ Changing nature of the retail environment</li> </ul> |

### *Population*

663,600 people reside in Tees Valley, with the area having witnessed two decades of a net fall in population, followed by net population growth since the millennium<sup>52</sup>. This has been driven by natural change and net inward international migration, predominantly from EU Accession and Southern Asian countries, which has offset a net outward migration trend among residents to other parts of the UK.<sup>53</sup> Tees Valley is thus home to a small, but vibrant BME community<sup>54</sup>.

<sup>52</sup> ONS, mid-year population estimates, 2012

<sup>53</sup> Demographic Update and Key Migration indicators for the Tees Valley, 2012

<sup>54</sup> ONS, Census, 2011

| Location           | % White     | % Mixed    | % Asian    | % Black    | % Other    |
|--------------------|-------------|------------|------------|------------|------------|
| Darlington         | 96.2        | 1.1        | 1.8        | 0.3        | 0.6        |
| Hartlepool         | 97.6        | 0.6        | 1.2        | 0.2        | 0.4        |
| Middlesbrough      | 88.2        | 1.7        | 7.1        | 1.3        | 1.7        |
| Redcar & Cleveland | 98.6        | 0.6        | 0.5        | 0.1        | 0.2        |
| Stockton-on-Tees   | 94.7        | 1.0        | 3.0        | 0.6        | 0.7        |
| <b>Tees Valley</b> | <b>94.8</b> | <b>1.0</b> | <b>2.9</b> | <b>0.5</b> | <b>0.8</b> |
| England            | 85.9        | 2.2        | 6.8        | 3.4        | 1.7        |

Whilst overall conditions have improved across the Tees Valley, the last quarter of the 20th Century has led to a more polarised society between the richer and the poorer and between the older, inner areas of our towns and cities and the more affluent suburbs. A quarter of our Lower Super Output Areas (LSOAs) are within the most deprived 10% in England and only 5% are in the national 10% least deprived, indicating the existence of high levels of severe deprivation and economic need<sup>55</sup>. There are clear links between deprivation and access to employment, which in turn are closely linked to levels of public health, poorer neighbourhoods and shorter life expectancy.

Tackling unemployment requires action across a broad front in terms of employability measures, skills and training initiatives, access to work programmes and employer interfaces. Particular attention should be paid to improving access to work and learning for disadvantaged groups, including lone parents (the Tees Valley has a higher proportion than nationally<sup>56</sup>), households without a car (30.5% in Tees Valley compared to 25.6% nationally<sup>57</sup>), people with disabilities and ex-offenders.

Recent evidence in the Tees Valley suggests that, with growth, the overall levels of deprivation dropped, but the gap between the most affluent areas and the poorest areas increased, suggesting that the benefits of an improving economy were not spread equally.<sup>58</sup> Tees Valley has a number of challenging issues, with the number of looked after children<sup>59</sup> and households with no one working higher than the national average.<sup>60</sup> In addition, over 2,000 families are being worked with as part of the government's Troubled Families Programme.<sup>61</sup>

We believe that our programmes on employability, skills, neighbourhood renewal and our interventions to encourage the physical development of older areas have begun to tackle this problem. We will continue with this investment, helped by national and regional agencies, and work to reduce the barriers preventing social inclusion. Vital to doing so, the Tees Valley has a strong and vibrant voluntary, community and social enterprise sector (VCS), which comprises around 2,000 organisations with a combined turnover of over £100m, over 3,000 staff and over 30,000 volunteers<sup>62</sup>. The VCS sector has a key role working with the discreet communities of the Tees Valley to support enterprise creation and social inclusion and to empower people and communities.

The Tees Valley wants to move towards a more inclusive and balanced economy and society, reducing levels of deprivation, benefit dependency and poverty and giving a boost to employment levels, social mobility, social coherence and economic competitiveness. No-one should be excluded from the opportunities that the Tees Valley will offer in the future.

Key elements to deliver this vision include raising digital and financial inclusion, addressing mental health, alcohol and other barriers to work, using arts, environmental, leisure and culture opportunities to foster social inclusion and concentrating on key areas, such as our most deprived communities, our rural areas, our BME network and assisting in the effort to encourage women to access opportunities in traditionally male-dominated jobs. The vision is of a Tees Valley as a place where communities are vibrant; using their local assets to their full potential, engaging local people and providing an infrastructure of support and facilities.

<sup>55</sup> Index of Multiple Deprivation, 2010

<sup>56</sup> ONS, Census, 2011

<sup>57</sup> ONS, Census, 2011

<sup>58</sup> Tees Valley Economic Assessment, 2013

<sup>59</sup> DfE, 2012

<sup>60</sup> HM Treasury 2010

<sup>61</sup> DCLG, 2013

<sup>62</sup> Tees Valley LDAs, 2013

Urban and Rural Areas



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 LA100020967L 2014

| Key   | LSOAs |
|---|-------|
| Rural town and fringe                           | (30)  |
| Rural village and dispersed urban city and town | (11)  |
|   | (375) |

Source: ONS Rural/Urban Classification (LSOAs) - 2011 Census

The vast majority of our population are based in urban areas, but the Tees Valley land mass is predominately rural, with large numbers of rural villages and rural fringe. 65,700 people (9.9% of our total population<sup>63</sup>) live in rural areas (rural town and fringe and rural villages) in Tees Valley and nearly half of the land area is classified as 'Rural' or 'Rural Fringe' by ONS, principally within Redcar & Cleveland and Darlington boroughs.<sup>64</sup>

|                             | % Pop | % of Area |
|-----------------------------|-------|-----------|
| Urban City & Town           | 90.1% | 51.2%     |
| Rural town and fringe       | 7.2%  | 16.1%     |
| Rural village and dispersed | 2.7%  | 32.7%     |

The rural economy is a key part of our growth ambitions and is a key cross-cutting theme throughout our ESIFS. Our vision is of a successful and flourishing Tees Valley rural economy, with thriving, sustainable, communities, well prepared and able to meet challenges and changes ahead, well integrated with adjacent urban areas and with much improved access to jobs and services. The vision for business is of a more diversified rural business base, improved supply chains making use of the capacity of rural areas to produce for the large market within the Tees Valley and surrounding areas, adding value, creating new enterprises and associated jobs and contributing to increased GDP.

A successful rural economy will contribute much more than simple economic and employment outputs, as a part of the Tees Valley economy, but will support the visitor economy, protecting the environment and providing an attractive and scenic living space with cultural, community activities and traditional sporting events and activities helping to draw business and people to the Tees Valley.

Rural communities continue to play an immensely important role in both the economy and way of life in Tees Valley. We will promote our coastal and rural assets, protecting and making the most of what we already have in the Tees Valley and actively encouraging nature-based and outdoor activities and innovations in green infrastructure and heritage-led development. However, our rural areas face a range of often interconnected problems, challenges and opportunities; some specifically rural, such as ability to access to services (barriers include broadband availability, public transport and access to business support) and increased costs associated with service delivery,<sup>65</sup> whilst others are more general.

For example, the level of VAT-registered businesses per head is higher in rural areas in Tees Valley than urban areas, with 669 businesses per 10,000 working age population, compared with 449 in urban areas. Indeed, 13% of our businesses are located in rural areas. However, our rural areas have a lower proportion of business per head than the national average for rural areas (669 per 10,000 working age population compared to 999 nationally)<sup>66</sup>, suggesting that there are significant opportunities for growth in our rural economy if we can overcome the barriers.

**The Tees Valley Rural Economic Strategy (2013)** identifies a number of key growth opportunities in the Tees Valley rural economy, including; SME creation and expansion in sectors such as creative and digital, the natural environment, food, equestrian and the visitor economy; redevelopment of redundant rural buildings; farming for a better climate to support carbon reduction; land based renewable energy production systems; local food production and added value processing; and the development of heritage, wildlife and environment.

We believe that rural businesses and individuals should have the same access to the projects and programmes of support, be this employment and skills, connectivity or business support, as their urban neighbours. Therefore, **our Strategy places sustainable development and the rural economy as a cross cutting theme that informs and supports all other parts of our ESIFS.**

Given the scale of the rural area in relation to the urban area and the interrelationship between them, we do not propose to establish a separate rural programme within the ESIF. We will utilise ERDF, ESF and YEI across both urban and rural and will supplement these with EAFRD to address particular issues of rurality within the delivery of all activities.

<sup>63</sup> Tees Valley Rural Community Council, 2011

<sup>64</sup> ONS, Census 2011

<sup>65</sup> <http://www.jrf.org.uk/sites/files/jrf/minimum-income-standards-rural-summary.pdf>

<sup>66</sup> Rural Economic Strategy for the Tees Valley, August 2013

## Town centres

For the Tees Valley, in addition to the industrial base in the North and South Tees area, the economic 'pull' of the area remains our urban centres. 597,000 (90.1%) of the Tees Valley population live in urban areas<sup>67</sup> and our main town centres are key drivers of our economic distinctiveness and identity. They serve a number of functions, from leisure and culture to retailing and professional services.

Darlington, Hartlepool, Middlesbrough, Redcar and Stockton-on-Tees are our five main centres. These are surrounded by a variety of smaller market towns and villages, connected by major and trunk roads and internal rail infrastructure. This polycentric development pattern adds to the diversity of our economy and residential options. This creates opportunities to promote distinctiveness but relies on an effective transport system to connect our people to economic opportunity and promote local supply chains, particularly when we have comparatively low car ownership and 80% of travel to work is within Tees Valley.<sup>68</sup> Significant investment has been made in recent years across all our town centres, through flagship schemes such as the Pedestrian Heart in Darlington, mima in Middlesbrough, Hartlepool Marina, Redcar Seafront Improvements and the current Stockton town centre regeneration.

However, there are major challenges to be overcome to the traditional model of town centres that provide retail, commercial, civic, service and leisure functions. Most acutely the growth of online shopping and out of town retail parks has led to a rise in the number of empty units on our high streets and a sea change in the way town centres and their shopping malls are perceived. This provides opportunities to build upon growing clusters of independent retailers – such as in Darlington, Middlesbrough and Stockton – and to present a different offer to consumers built around leisure, culture and the night-time economy.

## Housing

We currently have 283,100 households<sup>69</sup> of all types and our housing market today is guided both by our industrial history and the current economic climate. Our current housing market reflects Tees Valley's history as an industrial powerhouse, with large areas of terraced housing and council housing built in and around town centres and industrial areas, with prosperous suburban developments predominately on the outskirts of the main centres. This has resulted in large swathes of terraced housing, some areas of vacant and sometimes contaminated brownfield land and large private housing estates situated around the fringes of the main settlements, providing modern and desirable accommodation for those with an economic choice in the housing market.

Our vision for Tees Valley is of an area which provides sustainable employment opportunities to its residents, retains its Key Sectors and their competitiveness, grows its SME base and upskills its people to take the jobs on offer. Underpinning and enabling this growth will be a high quality housing offer that serves the needs of our residents and is attractive to an aspirational and developing population, enabling Tees Valley to attract and retain entrepreneurs, investors and large multinationals. Our housing and quality of place must be suitable to meet their requirements.

However, there are significant barriers. We recognise that within the Tees Valley there are issues of affordability, low demand and outdated stock, spatial over dominance of tenure types and a lack of quality housing. This can result in unbalanced communities, a polarisation of the housing offer, a lack of social mobility and poor perceptions of the Tees Valley for those looking to invest, live, work and study here. Our vision is to work in partnership between the public and private sectors to facilitate economic growth, reduce the barriers to housing-led growth as set out above and create a Tees Valley market and quality of place which serves the needs of our current and future population, increasing availability and affordability.

<sup>67</sup> Tees Valley Rural Community Council, 2011

<sup>68</sup> ONS, Census, 2001

<sup>69</sup> Census, 2011



One of the key challenges is fuel poverty. In 2011, 53,900 households in Tees Valley (18.7%) were experiencing fuel poverty compared to 14.6% in England.<sup>70</sup> Since then steeply rising fuel prices and constraints on incomes are likely to mean that this situation has worsened considerably. However, there is the potential to develop district heating systems and to improve thermal efficiency, particularly in older stock in both the social-rented and private-rented markets, through schemes such as Warm Up North and the government's Green Deal, as well as to incentivise house builders to include energy efficiency measures without making housing unaffordable. This is why Tees Valley is exploring opting in to the Financial Engineering Instrument (FEI) for the retrofitting of social housing (see more in Section 2).

## Natural Assets

Our natural assets are impressive. They offer great potential to add value to our economic profile and growth ambitions, particularly through the visitor economy. To the east, the Tees Valley is bounded by a coastline that supports a diverse mix of coastal settlements, port activities, recreational pursuits and natural habitats. Between our main towns, we have expanses of rural countryside, incorporating the northern edge of the North York Moors National Park. Much of the countryside is developed for agricultural use, with growing interest in feedstocks for biofuels. The range of rural and coastal assets adds to our quality of place and is a significant contributor to our quality of life and residential appeal.

Protecting our environment is important to sustaining our offer, and to supporting our faunal, floral and geological features of interest. There are a number of statutory protected areas, onshore and marine, which form the backbone of Tees Valley's natural environment. As some of our most valued environmental assets are also those most sensitive to development, we must ensure that we do not negatively impact on the species and features of our protected areas in our pursuit of growth. The areas of the Tees Valley which are currently afforded some level of environmental protection<sup>71</sup> include part of the North Yorkshire Moors falls within Redcar and Cleveland. As a National Park, this predominantly upland area is dominated by open heather moorland, intersected by long valleys largely orientated north-west to south-east, which contain valley mires, pastures and fringing deciduous or conifer woodlands.

In addition, the Teesmouth and Cleveland Coast Special Protected Area (SPA), which has marine components, is afforded protection under the Ramsar Designation and is a Natura 2000 site. The SPA comprises pockets of protected land focussed on the estuary, protecting a range of habitats, but also the length of the Cleveland coast has been given a level of protection against development for habitats that provide feeding and roosting grounds for important species of waterbirds in winter and during passage periods. Furthermore, Tees Valley is home to Saltholme Reserve and Teesmouth National Nature Reserve (NNR), 30 Local Nature Reserves (LNRs) and 22 Sites of Special Scientific interest (SSSI).

There is likely to be an increased risk of flooding particularly from the River Tees and around the Tees Estuary, exacerbated by the predicted effects of climate change (as highlighted in the Business Growth section above). While there are existing defences in place and plans have been prepared to renew or replace these defences,<sup>72</sup> more work and investment is needed to protect existing and potential housing and employment sites around the Estuary.

<sup>70</sup> 2006 based estimates, DECC

<sup>71</sup> Source from Natural England, Defra and JNCC databases

<sup>72</sup> Tees Valley Strategic Infrastructure Plan, Jan 2014

## Using European funds to achieve our Growth Priorities

In developing our ESIFS we have taken full account of a comprehensive analysis of our economic evidence base, as set out in Section 1.

The messages from our evidence review have been consistent and in response our Strategy seeks to balance high ambition with economic realities – our focus is on growth delivery – to deliver our twin ambitions and become a high value, low carbon, diverse and inclusive economy.

Our Strategy provides synergy between our Statement of Ambition, Strategic Economic Plan and our agreed City Deal using a common evidence base, shared set of challenges and agreed steps to overcome these.

Therefore, we have identified, under each Thematic Objective of the 2014-2020 programme;

- Headline evidence identifying the need and market failures to be addressed (linked to the evidence base in Section 1);
- The funding for each Thematic Objective
- The targeted activities we need to undertake and how the ESIFS will help us implement these, with £104m allocated to ERDF, £69m to ESF, £12.59 to YEI and £1.1m to EAFRD;
- The notional outputs and results that we expect to achieve through the activities, including any additional outputs and results that we would like to measure locally;
- Government opt-ins that we are interested in accessing;
- The potential delivery mechanisms for our activities; and
- How our programme contributes to meeting EU and national government policy.

## ERDF Thematic Objectives 1 & 2



### Rationale

The development of a Tees Valley Innovation Strategy has helped to shape and determine the activities identified under this theme. Our innovative businesses and nationally significant innovation assets need to be utilised further to benefit businesses across Tees Valley and increase our low rates of enterprise and commercialisation, enabling us to move to a high-value, low carbon and diverse economy. The table below summarises the needs and market failures in Tees Valley and our activities to address them where ERDF can add value.

| Evidence and Need   | Market Failures  | Activities (ERDF)  |
|---|--|--|
| <ul style="list-style-type: none"> <li>■ Low rates of enterprise (61% of the national average)</li> <li>■ Low rates of start ups. (70% of the national average)</li> <li>■ Lowest rates of commercialisation in UK</li> <li>■ Lack of incubator and pilot space</li> <li>■ Maturity of process sector assets</li> </ul> | <ul style="list-style-type: none"> <li>■ Reliance on large industry/maturity of process industry</li> <li>■ Changing practice of large industry, which no longer trains large numbers of managers</li> <li>■ Reduced opportunity for supply chain work in the area</li> <li>■ Not enough Research and Development</li> <li>■ Lack of understanding of the commercialisation process</li> </ul> | <p>Delivering activities in the Tees Valley Innovation Strategy:</p> <ul style="list-style-type: none"> <li>■ Provide direct support for innovation in businesses</li> <li>■ Enhance business capacity for innovation support in enterprises</li> <li>■ Support innovative and collaborative projects, particularly across sectors</li> <li>■ Create new Open Access Technology Centres</li> <li>■ Support SMEs to accelerate technology development in the low carbon sector</li> </ul> |

### Funding

| Innovation<br>(24% of ERDF allocation)                       | ERDF        | Match<br>(40%) | Total<br>Investment |
|--|-------------|----------------|---------------------|
| Delivering activities in the Tees Valley Innovation Strategy | £25m        | £16.6m         |                     |
| Match Funding split:   |             |                |                     |
| Private  |             | £15.8m**       |                     |
| National public sector (excl. opt in)                        |             | £0.8m**        |                     |
| <b>TOTAL</b>   | <b>£25m</b> | <b>£16.6m</b>  | <b>£41.6m</b>       |

\*Sources and amounts are subject to change as we further develop the activities and programme.

\*\* As part of outputs we have indicated £15.8m private investment matching public support to enterprises

### Activities

Delivering activities in the Tees Valley Innovation Strategy:

- **Provide direct support for innovation in enterprises** - support pure research related to key Tees Valley sectors, particularly the process sector, advanced manufacturing, digital and health (**Horizon 2020**) and provide direct support for innovation in businesses and encourage the commercialisation of new products, and address financial market and public policy failures that inhibit companies from innovation (**ERDF**)
- **Enhance business capacity for innovation support in enterprises** - including enhancing physical infrastructure, to ensure the continuing relevance of support to businesses and key sector needs (**ERDF**)
- **Support innovative and collaborative projects, particularly across sectors** - underpinning key sector competitiveness, particularly in process, advanced manufacturing, digital and health, involving key knowledge institutions and universities (**ERDF**)

- **Create new Open Access Technology Centres** - building on the success of existing commercialisation assets (such as the Wilton Centre, CPI, TWI, Digital City and the new National Biologics Manufacturing Centre), provide facilities with specialist technical and business support to enable research to be turned into commercially viable products/processes and services (ERDF)
- **Support SMEs to accelerate the development, innovation, adoption, deployment and cost reduction of low carbon technologies, goods and services**, working with local firms to develop integrated supply chains (ERDF)

## Outputs and Results

| Outputs   | Total |
|---|-------|
| Number of enterprises receiving support   | 992   |
| Number of enterprises cooperating with research entities                                    | 992   |
| Number of enterprises supported to introduce new to the market products                     | 117   |
| Number of enterprises supported to introduce new to firm products                           | 392   |
| Private investment matching public support to enterprises                                   | 15.8m |
| Employment increase in supported enterprises  | 237   |
| Local Output  |       |
| Business Premises Developed (sqm)   | 5104  |
| Results   |       |
| Increased number of businesses that are actively innovating to bring new products to market |       |
| Jobs safeguarded  |       |

NOTE: All outputs are notional at this stage and will be subject to change in future iterations of the Strategy.

## Delivery

The Tees Valley Innovation Leadership Group, proposed as part of the governance of the Tees Valley Innovation Strategy, will oversee investments under this theme. This structure is currently being developed with the Innovation Strategy Stakeholder Group and will be part of and complement our wider governance structure detailed in Section 1.

Through consultation with partners on delivery mechanisms it was considered that a mix of 'Open' and 'Limited' calls (based on the approaches used in the 2007-13 ERDF programme) may be appropriate, to maximise opportunities for innovative interventions, while building on existing partnership work.

## Contribution to EU and National Policy

Through our ESIFs investment, we will contribute to the delivery of the aims of the RIS3 guidance and the EU focus upon smart specialisation as part of Innovation Union, Entrepreneurship 2020, Europe 2020 and EU International Strategy for Research & Innovation.

Our Strategy helps deliver the Government's Innovation and Research Strategy for Growth, particularly the aim to accelerate the commercialisation of emerging technologies. Furthermore, our Strategy will contribute to national policy, particularly the Industrial Strategy (including those on Automotive, Aerospace, Life Sciences and the Information Economy) and the Small Business Strategy. Our Strategy also fits directly into the goals of the Technology Strategy Board to drive and stimulate innovation, as well as reflecting the priorities of the Witty Review.



An allocation of ERDF has not been earmarked separately under the ICT Theme. The activity identified under this theme to further roll-out high speed digital networks to businesses and communities in areas of market failure, particularly rural locations, will be delivered through the SME Competitiveness Theme, with an allocation of £3m ERDF ring-fenced within the SME Competitiveness allocation.

## ERDF Thematic Objective 3

ERDF  
Thematic  
Objective 3

Enhancing the  
Competitiveness of Small  
and Medium Enterprises

£63.46m  
(52% of  
ERDF)

### Rationale

Growing existing SMEs and developing new start-up and spin-out businesses is critical to the competitiveness of large firms to ensure they have integrated, high performing supply chains and the ability to create more substantial private sector job opportunities. It is vital for the Tees Valley to improve our rates of enterprise and productivity and, ultimately, increase the numbers of jobs available for our residents.

By targeting ESIFS funds, we will provide relevant support to grow existing businesses and develop new start-up and spin out businesses, including social enterprises, develop sustainable supply chains, increase exports and overcome access to finance issues.

A further barrier to growth is infrastructure and accommodation, with Tees Valley suffering from the lack of suitable business accommodation for enterprises. Our priorities will look to address this need and improve our ICT infrastructure to enable Tees Valley businesses to compete in a global market, address digital exclusion and allow our flourishing digital industries to grow further. Resilient infrastructure is crucial to businesses, so flood risk prevention is a key part of our Strategy. This will open up key employment sites and mitigate the impact of climate change for our businesses.

Ensuring that businesses can improve competitiveness by recruiting skilled labour is essential for future economic growth. Therefore, it is vital that sustainable transport options are promoted in Tees Valley to improve access to employment sites. The table below summarises our market failures and the activities needed to move to a diverse, low-carbon, high-value economy where ERDF can add value.

### Funding

| Evidence and Need   | Market Failures  | Activities (ERDF)  |
|---|--|--|
| <ul style="list-style-type: none"> <li>Low rates of enterprises and start-ups (61% and 70% of national average)</li> <li>Small amount of SME exporting activity (only 6.5% of Tees Valley SMEs export)</li> <li>Ongoing barriers to growth including supply chain penetration and access to finance</li> <li>Low levels of private sector jobs and reliance on public sector</li> <li>Lack of suitable new business accommodation, particularly for digital sector</li> <li>Skills shortages</li> <li>Identified areas of poor connectivity, particularly rurally (less than 90% superfast coverage across Tees Valley)</li> <li>At risk of being left behind by 'Super-Connected Cities' and other parts of EU and beyond</li> <li>Potential for flood risk at key employment sites</li> <li>Some land unsuitable for development due to risk of flooding</li> </ul> | <ul style="list-style-type: none"> <li>Over reliance on public sector and large employers</li> <li>Saturated market in some areas</li> <li>Lack of visibility of available business support</li> <li>Difficulties of financing suitable new business accommodation due to the gap in build costs and market rent achievable</li> <li>Lack of OEMs in Tees Valley</li> <li>Limited capacity in the area to ensure that superfast broadband is taken up</li> <li>Many older industrial estates are not digitally connected to superfast broadband opportunities</li> <li>High technology companies lack the speed and reliable connectivity necessary for them to compete from the Tees Valley</li> <li>There are areas of high digital exclusion across the Tees Valley (some areas not commercially viable)</li> </ul> | <ul style="list-style-type: none"> <li>Access to Finance Financial Engineering Instrument – successor to JEREMIE fund</li> <li>Local Impact Fund</li> <li>Tees Valley Business Growth Hub activities</li> <li>Targeted business support</li> <li>Business Accommodation and Infrastructure</li> <li>Entrepreneurship as a route to self-employment/ social enterprise creation (ESF wrap around activity)</li> <li>Provide incentives for employers to take on apprentices</li> <li>Roll out of high speed digital networks to businesses and communities in areas of market failure.</li> <li>Invest in key flood risk mitigation and prevention infrastructure work to unlock key</li> </ul> |

| Evidence and Need  | Market Failures   | Activities (ERDF)  |
|--|---|--|
| <ul style="list-style-type: none"> <li>Transport costs and public transport provision are major barriers to work amongst the lowest paid (30.5% of people in Tees Valley do not have a car, compared to 25.6% nationally)</li> </ul> | <ul style="list-style-type: none"> <li>Impact of other land users/developments upon flood risk areas</li> <li>Previous flood schemes have not adequately solved problems</li> </ul> | <ul style="list-style-type: none"> <li>Supporting routes into employment for local people through sustainable transport measures</li> <li>Supporting businesses and residents to make sustainable transport choices</li> </ul> |

| SME Competitiveness<br>(61% of ERDF allocation)  | ERDF          | Match  | Total Investment |
|--|---------------|--------|------------------|
| <b>Activities from the Tees Valley Business Growth Hub, Business Support, Enterprise, Business Accommodation and Infrastructure, Broadband, Flood Risk Infrastructure and Sustainable Transport measures</b> | £43.4m        |        |                  |
| Match Funding split:   |               |        |                  |
| Opt In MAS   |               | £0.9m  |                  |
| Opt In GA  |               | £2.73m |                  |
| Opt In UKTI  |               | £1.62m |                  |
| Private  |               | £42m*  |                  |
| Public national excl. opt ins  |               | £4.1m  |                  |
| Public local   |               | £9.3m  |                  |
| <b>JEREMIE 2 (FEI)</b>   | <b>£19.5m</b> |        |                  |
| Match Funding split:   |               |        |                  |
| Legacy Funds (public local)  |               | £8m    |                  |
| EIB (private)  |               | £20m   |                  |
| Private Leverage   |               | £34m   |                  |

| SME Competitiveness<br>(61% of ERDF allocation) | ERDF           | Match          | Total Investment |
|---|----------------|----------------|------------------|
| <b>Local Impact Fund (FEI)</b>                  | <b>£0.56m</b>  |                |                  |
| Match Funding split:                            |                |                |                  |
| Private (EIB)                                   |                | £0.56m         |                  |
| <b>TOTAL</b>                                    | <b>£63.46m</b> | <b>£123.2m</b> | <b>£186.66m</b>  |

\*Sources and amounts are subject to change as we further develop the activities and programme.

\*\* As part of outputs we have indicated £42m private investment matching public support to enterprises

## Activities

- Ensure a flexible mix of finance** - available for SMEs from different sectors and at stages of readiness. This could include a Tees Valley grant fund, a successor to the JEREMIE access to finance scheme (further detail below), funds to provide access to low cost credit for business start-ups and social enterprises in disadvantaged areas and a Local Impact Fund to support charities, communities and social enterprises **(ERDF, ERDF – FEI & ESF)**
- Through the Tees Valley Business Growth Hub and other business assistance activities** - provide specialist business support activities for existing and new businesses (including social enterprises) covering, for example, resource management, knowledge exchange, low-carbon, exporting, supply chain development, ICT, e-commerce, and business coaching **(ERDF)**
- Provide incentives for employers to take on apprentices** - linked to the Tees Valley Skills Hub **(ERDF & ESF)**
- Support the provision of appropriate business accommodation and infrastructure** - particularly on Enterprise Zones and key strategic sites to increase the availability of industrial premises and incubation facilities to support SMEs and new enterprises **(ERDF)**
- Develop and support enterprise entrepreneurship** - as a route to self-employment and social enterprise creation through activities such as investment readiness and wrap around support activity **(ERDF & ESF – wrap around activity)**

- **Further roll-out of high speed digital networks** - to businesses and communities in areas of market failure, particularly rural locations (ERDF & EAFRD)
- **Invest in key flood risk mitigation, adaptation and prevention infrastructure** - work to unlock key employment sites and protect businesses and key infrastructure, such as the road and rail network, against the risk of flooding (ERDF)
- **Support routes into employment** - for local people through sustainable transport measures (ERDF & ESF)
- **Support businesses and residents to make sustainable transport choices** - (ERDF)

## Opt In Arrangements

As detailed in the table above we intend to 'opt-in' in principle to the offers being made by Growth Accelerator, MAS and UKTI, subject to:

- further detailed discussions on delivery arrangements
- the national contract arrangements; and
- any other opt-ins that may become available.

The opt in allocations are notional and are based on a £1:£1 match with ERDF. We have concerns particularly over the MAS, UKTI and GrowthAccelerator opt-ins not being available until mid 2015 and would like further clarity on how this will work in practice.

In regard to MAS we are particularly interested in the offer of supply chain specialists, more intensive consultancy support for businesses and assistance for start-ups and those new to manufacturing.

## Outputs and Results

| <b>Activities from the Tees Valley Business Growth Hub, Business Support, Enterprise, Business Accommodation and Infrastructure, Broadband, Flood Risk Infrastructure and Sustainable Transport measures (which, with JEREMIE 2, comprise SME Competitiveness)</b> |              |
|--|--------------|
| <b>Outputs</b>   | <b>Total</b> |
| Number of enterprises receiving support  | 3214         |
| Number of new enterprises supported (subset of above)  | 500          |
| Private investment matching public support to enterprises  | £42m         |
| Employment increase in supported enterprises   | 1278         |
| Infrastructure site development, including green infrastructure (ha)   | 1.5          |
| Additional enterprises accessing ICT products and services, including Superfast Broadband  | 500          |
| <b>Local Output</b>  |              |
| Business Premises Developed (sqm)  | 8240         |
| Number of businesses engaged with  | 3000         |
| Number of SMEs receiving grants (subset of number of enterprises receiving support)  | 210          |
| Number of SMEs protected against risk of flooding  | TBC          |
| <b>Results</b>   |              |
| Increase in SME productivity   |              |
| Increase in SME jobs created   |              |
| Increase in business start-ups   |              |
| Support enterprises in their development of ICT products and services, including Superfast Broadband   |              |
| Improving the economic viability of areas through infrastructure investments, including green infrastructure   |              |
| <b>Local Results</b>   |              |
| Jobs safeguarded   |              |

| Local Impact Fund                            |       |
|--|-------|
| Outputs                                      | Total |
| Number of enterprises receiving support      | 75    |
| Employment increase in supported enterprises | 43    |
| Local Output                                 |       |
| Increase in SME productivity                 |       |
| Increase in SME jobs created                 |       |

## JEREMIE 2: Access to Finance Financial Engineering Instrument (FEI)

The below summarises our approach to the Access to Finance Financial Engineering Instrument (FEI). Full details are available in Annex 1.

Access to Finance is an essential requirement in the Tees Valley and aligns with both European and UK policy. We also recognise the long-term value in moving towards a greater use of financial instruments. We plan to build on the success of the existing JEREMIE model in the North East, to set up a JEREMIE 2, in line with the Supplementary Guidance to Local Enterprise Partnerships and the general belief that this is best practice. The current JEREMIE will cease to invest in December 2015 and a continuum of finance provision is required to prevent distorting the access to finance for SMEs.

We can now confirm our joint intention with the North East LEP, to collaborate and set up a JEREMIE 2 fund, as was set out in the initial response to the Government guidance. This collaboration will deliver greater economies of scale and complements existing structures for the region.

Having balanced the region's need, with a bottom up analysis of demand and investment capacity to date from North East Finance, the JEREMIE Holding Fund manager, we propose to establish a £160m fund that will invest over a 5 year period. The Tees Valley share of this will be 25%, as per the table below.

|                        | Total funds committed | Investment into area SMEs |
|------------------------|-----------------------|---------------------------|
| <b>Tees Valley LEP</b> | <b>£19.5m</b>         | <b>£40m (25%)</b>         |
| North East LEP         | £58.5m                | £120m (75%)               |
| Legacy                 | £32m                  | -                         |
| EIB (loan)             | £80m                  | -                         |

The fund will draw on £19.5m of ERDF investment in the Tees Valley and call on a large proportion of the Region's Legacy funding – the returns for public investment funds from 1999 to 2010. This redeployment into the North East region's access to finance sector is in line with all historical grant conditions. This capital would then all be matched by a new European Investment Bank facility, as is the case for the current JEREMIE, and early discussions are positive. The outputs and results would be as follows.

| SME Stimulation Package - Access to Finance (JEREMIE) |       |
|---|-------|
| Outputs   | Total |
| Number of enterprises receiving support               | 300   |
| Results   |       |
| Increase in SME jobs created                          | 1500  |
| SME Jobs safeguarded                                  | 850   |
| Private sector leverage                               | £34m  |

An indicative project plan is set out below and work is currently ongoing to take this forward. The plan assumes the National Operational Plan development and negotiations with the European Commission will remain on track. The aim is to have fund managers identified, in place and generating deal flow during Q4'2015 to enable a smooth continuation of provision of finance.

Note: All outputs are notional at this stage and will be subject to change in future iterations of the Strategy.



|  | Q1'14 | Q2'14 | Q3'14 | Q4'14 | Q1'15 | Q2'15 | Q3'15 | Q4'15 | Q1'16 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Project Team and Project board set-up          |       |       |       |       |       |       |       |       |       |
| Fund design and ex ante evaluation             |       |       |       |       |       |       |       |       |       |
| Holding Fund set up including approvals        |       |       |       |       |       |       |       |       |       |
| Negotiations with EIB                          |       |       |       |       |       |       |       |       |       |
| Fund Manager procurement including preparation |       |       |       |       |       |       |       |       |       |
| ERDF application and technical appraisal       |       |       |       |       |       |       |       |       |       |
| Legals and completion                          |       |       |       |       |       |       |       |       |       |
| First Investment                               |       |       |       |       |       |       |       |       |       |

## Delivery

Following consultation with partners it is considered that a mix of delivery mechanisms will be appropriate to deliver activities under this theme, based on the approaches used in the current 2007- 13 ERDF Programme of Open and Limited Calls. Partners did however consider that specialist business advice may be best delivered through procurement by creating a framework of providers perhaps via a tender process.

Based on the allocations outlined above, Tees Valley is considering establishing a potential JESSICA fund as a delivery mechanism for business accommodation and infrastructure. In order to maximise impact, this could involve the use of ERDF, HCA stewardship funding and local funds (through the Tees Valley Investment Fund) in order to attract EIB investment. Further work is ongoing.

## Contribution to EU and National Policy

Through our ESIFs investment, we will contribute to the delivery of the Horizon 2020, Entrepreneurship 2020 and Europe 2020 agendas for smart, sustainable and inclusive growth, particularly the Digital Agenda for Europe, Resource Efficient Europe and industrial policy for a global era.

We will help deliver Government's policies to make it easy to set up and grow a business in the UK, to build growth capability amongst SMEs and to foster a more entrepreneurial society. Our Strategy will therefore assist in promoting and delivering the GREAT campaign, the Industrial Strategy, the Small Business Strategy, Business Growth Hubs and the Business Support Integration Programme. We will also contribute to the delivery of the Government's Information Economy and Business and Professional Services industrial strategies, as well as the Broadband Delivery UK ambitions to stimulate growth via broadband infrastructure in both urban and rural areas (as set out in 'Investing in Britain's Future').

Our transport proposals will contribute to the delivery of national policy on local transport as set out in the 2011 White Paper 'Creating Growth, Cutting Carbon', which underpins the Local Sustainable Transport Funding, mainstreaming sustainable transport into transport planning and implementation. It builds on the Department for Transport's Door to Door Strategy, promoting a sustainable transport system to help ease congestion whilst cutting carbon and creating growth. By doing this we will contribute to the Europe 2020 agenda on sustainable transport.

## ERDF Thematic Objectives 4, 5, 6 & 7

ERDF  
Thematic  
Objective 4

Supporting the Shift  
towards a Low Carbon  
Economy in All Sectors

£15.6m  
(15% of  
ERDF)

### Rationale

The Tees Valley sits at the centre of the UK's move towards a high value, low carbon economy having attracted significant investment over recent years, particularly in offshore wind, subsea, energy from waste, district heating and bio-industries. However, the process and advanced manufacturing sectors are subject to competitive pressures, rising energy and carbon costs, and faces significant challenges in terms of re-investment and low-carbon transformation. Whilst this presents challenges it also presents opportunities for our SMEs to exploit innovation and investments, develop new technologies and enter new markets.

It is particularly important that we support our SMEs in the Low Carbon sector to accelerate the development, innovation, adoption, deployment and cost reduction of low carbon technologies, goods and services and therefore develop more integrated supply chains and more efficient use of resources. Developing, producing and efficiently using low carbon energy and resources is vital to grow our economy and reduce our currently high levels of carbon emissions. Furthermore, we are exploring investment in the retrofitting of existing social housing stock (more detail below) in order to further reduce emissions and reduce fuel poverty. Therefore this theme is particularly important for Tees Valley to move towards a low-carbon, high-value economy which is diverse and inclusive for all. The table opposite summarises our evidence and need, our activities to address them where ERDF can add value.

| Evidence and Need   | Market Failures   | Activities (ERDF)  |
|---|---|--|
| <ul style="list-style-type: none"> <li>■ Energy intensive area, with high level of carbon emissions (4.8% of UK industrial emissions)</li> <li>■ Lack of economic resilience due to process sector dominated by overseas firms (70% of major firms foreign based) making Tees Valley more vulnerable to global market pressures</li> <li>■ Reduction in process integration and low take-up and innovation of recycled and bio-resources as alternative feedstocks</li> <li>■ Maturity of process industry assets which benchmark poorly on energy efficiency</li> <li>■ Exposure of Tees Valley to low cost competition</li> <li>■ High number of energy inefficient homes and businesses</li> <li>■ High levels of fuel poverty</li> <li>■ Rising energy costs</li> </ul> | <ul style="list-style-type: none"> <li>■ Lack of understanding and visibility of innovation support and opportunities</li> <li>■ Perception that the area is not attractive making it difficult to recruit high skilled people</li> <li>■ Lack of visibility of the sector</li> <li>■ Lack of resource efficiency knowledge and support</li> <li>■ Rising energy costs, regulation and lack of competitiveness globally</li> <li>■ Lack of take up of energy efficient measures</li> <li>■ Reduction in funds available to increase energy efficiency of homes</li> <li>■ Policies driving energy efficiency and production of low carbon energy change regularly</li> <li>■ Slow take up of low carbon vehicles</li> </ul> | <ul style="list-style-type: none"> <li>■ Development, production and efficient use of low carbon energy, resources and reduction in carbon emissions, including low emission vehicles, industrial heat and energy efficiency measures</li> <li>■ Invest in the retrofitting of social housing</li> </ul> |

## Funding

| Low Carbon<br>(15% of ERDF allocation)   | ERDF          | Match<br>(40%) | Total<br>Investment |
|--|---------------|----------------|---------------------|
| Development, production and efficient use of low carbon energy, resources and reduction in carbon emissions] | £5.6m         |                |                     |
| Match Funding split:   |               |                |                     |
| Private  |               | £3.73m         |                     |
| <b>Social Housing FEI</b>  | <b>£10m</b>   |                |                     |
| Match Funding split:   |               |                |                     |
| Private EIB  |               | £10m**         |                     |
| <b>TOTAL</b>   | <b>£15.6m</b> | <b>£13.73m</b> | <b>£29.33m</b>      |

\*Sources and amounts are subject to change as we further develop the activities and programme.

\*\*50% match

## Activities

- **Development, production and efficient use of low carbon energy, resources and reduction in carbon emissions (ERDF)**, which includes:
  - Low emission vehicle infrastructure, low emission vehicle fuel and take up of low emission vehicles
  - Production and increased use of industrial heat production
  - Installation of low carbon energy
  - Increased use of natural, recycled and reused resources
  - Take up of energy efficiency measures
- **Invest in the retrofitting of social housing to improve Tees Valley housing stock** - create jobs for local residents and incentives for house builders to provide energy efficient measures in new build properties **(ERDF - FEI)**

## Outputs and Results

| Development, production and efficient use of low carbon energy, resources and reduction in carbon emissions |       |
|---|-------|
| Outputs   | Total |
| Number of companies supported with business resource efficiency   | 500   |
| Results   |       |
| Increase in the number of companies deploying low carbon practices, processes, services or products         |       |
| Increase in energy efficiency of companies, buildings and transport   |       |

Note: All outputs are notional at this stage and will be subject to change in future iterations of the Strategy.

\*Further work exploring the FEI on retrofitting is underway (see more below)

## Delivery

Following consultation with partners it is considered that a mix of delivery mechanisms will be appropriate to deliver activities under this theme, based on the approaches used in the current 2007- 13 ERDF Programme of Open and Limited Calls.

## Contribution to EU and National Policy

By investing in this theme, we will contribute to the delivery of Europe 2020 for smart, sustainable and inclusive growth, particularly the Resource Efficient Europe agenda and an industrial policy for the globalisation era. We will contribute to the delivery of the Government industrial strategy, particularly those sectors that our low carbon economy contribute to, such as automotive, construction, offshore wind and oil and gas, and help build on the success of the Centre for Offshore Renewable Engineering programme. Furthermore, our Strategy will play its part in helping government to meet its twin objectives of generating 15% of the UK's energy demand from renewable sources by 2020 and maintaining UK energy security. With key priorities around heat, renewable energy and energy efficiency, we will help deliver the goals of the Climate Change Act, Heat Strategy and Energy Efficiency Strategy and the Community Energy Strategy.

## RETROFITTING OF SOCIAL HOUSING: Financial Engineering Instrument (FEI)

We are currently considering the potential to establish a Financial Engineering Instrument to support the retrofit of the existing social housing stock in Tees Valley. This would reduce CO2 emissions, help tackle fuel poverty, assist the Tees Valley to reduce its environmental footprint, incentivise house builders to provide energy efficiency measures in new homes not currently commercially viable due to current house prices and market demand, and provide training opportunities.

TVU has had dialogue with the National Housing Federation (NHF), the European Investment Bank (EIB), DCLG and Tees Valley Registered Providers (RPs) since October, with NHF collating information regarding potential housing numbers eligible for the scheme and DCLG providing more detail. Interest has been expressed by the RPs.

Initial discussions suggest that there is sufficient need and demand for a £20m programme of activity in Tees Valley. To work up the project further, TVU are engaging with the RPs on how this would work, determining the likely numbers of units, technologies to be invested in, costs, locations, opportunities to link into ESF training projects and the funding model.

If there is insufficient evidence for such a scheme, the £10m will be reallocated. Further detailed discussions and modelling work is taking place with Tees Valley RPs to determine the way forward.

## Outputs and Results

The likely levels of outputs and results to be achieved as part of the activity will be determined once further detailed discussions have taken place, as outlined above.

| Social Housing Retrofit  |       |
|--|-------|
| Outputs  | Total |
| Number of Social rented and Affordable Homes benefitting from retrofitting | TBC*  |
| Results  |       |
| Reduction in fuel poverty  |       |

\*As described above, further work is ongoing to explore the impact that an FEI on retrofitting could have in Tees Valley

ERDF  
Thematic  
Objective 5

Promoting Climate Change  
Adaptation, Risk Prevention  
and Management

none

An allocation of ERDF has not been earmarked separately under the Climate Change Theme. The activity identified under this theme to invest in key flood risk mitigation, adaptation and prevention infrastructure work to unlock key employment sites and protect businesses and key infrastructure will be delivered through the SME Competitiveness Theme, with an allocation of £2m ERDF ring-fenced within the SME Competitiveness allocation.

ERDF  
Thematic  
Objective 6

Protecting the Environment  
and Promoting Resource  
Efficiency

none

An allocation of ERDF has not been earmarked separately under the Protecting the Environment and Promoting Resource Efficiency theme. However, resource efficiency will be covered by some energy efficiency and waste elements under the low carbon theme and SME opportunities may exist in the 'green sector' for innovative technologies that help address environmental protection or promote ecosystem services.

ERDF  
Thematic  
Objective 7

Promoting Sustainable  
Transport and Removing  
Bottlenecks in Key Networks

none

An allocation of ERDF has not been earmarked separately under the Sustainable Transport theme. The activities identified under this theme to support routes into employment for local people through sustainable transport measures will be delivered through the SME Competitiveness and Employment Themes, with an allocation of £1m ERDF ring-fenced within the SME Competitiveness allocation.

## ESF Thematic Objective 8



### Rationale

To realise our growth ambitions, the Tees Valley needs to move towards a labour market that works for young people (raising aspiration and achievement levels, helping to provide pathways to sustainable employment within the area) and employers (by sourcing qualified ready-for-work staff who bring new ideas and innovation, increasing business productivity). This system will be underpinned by a wide range of expert training provision geared towards the Key Sectors and growth industries that the Tees Valley economy is currently built upon and is aiming to further develop. Targeting EU resources will help us to address the high rates of youth unemployment and low rates of employment, low achievement rates and skill levels, an ageing workforce in key sectors and the difficulty faced by some employers to recruit and retain skilled labour. The table below explains Tees Valley's needs, market failures and how ESF can add value:

| Evidence and Need  | Market Failures   | Activities (ESF)  |
|--|---|---|
| <ul style="list-style-type: none"> <li>■ Persistently high rates of youth unemployment (10.3% in Tees Valley, compared to 4.9% nationally)</li> <li>■ Low rates of employment (64% in Tees Valley compared to 70.5% nationally)</li> <li>■ Ageing workforce in key sectors, particularly process and advanced manufacturing</li> </ul> | <ul style="list-style-type: none"> <li>■ Long term failure to plan/invest in skills/recruitment</li> <li>■ Vacant posts hard to fill but even harder to fill with local people.</li> <li>■ Impact of sustained low wage economy</li> <li>■ Reliance on large industry with traditional skills.</li> </ul> | <ul style="list-style-type: none"> <li>■ Provide relevant work related experience and training and support young people with the move from education / training into work</li> <li>■ Incentivise employers to create jobs and provide appropriate training</li> </ul> |

| Evidence and Need  | Market Failures   | Activities (ESF)   |
|--|---|--|
| <ul style="list-style-type: none"> <li>■ Poor quality of Labour Market Information and careers advice given to young people</li> <li>■ Key opportunities through new and growing industries (400 new jobs created in the past 5 years in the digital sector)</li> <li>■ High percentage of NEETs</li> <li>■ Low NVQ rates</li> </ul> | <ul style="list-style-type: none"> <li>■ Industries and the skills they need are misunderstood and perceived as unattractive by some young people</li> <li>■ Previous interventions unsuccessful</li> <li>■ Careers guidance failing to address industry needs (I.T. and engineering)</li> <li>■ Low apprenticeship take-up</li> <li>■ Increased competition – JSA claimant v In-work applicants</li> <li>■ Poor quality LMI advice</li> <li>■ Low aspirations and lack of role models</li> <li>■ Traditional industries have reduced entrepreneurship</li> </ul> | <ul style="list-style-type: none"> <li>■ Reduce the number of 15-24 year olds Not in Education, Employment or Training (or at risk of becoming NEET) through focused careers information, advice and guidance linked to local job opportunities; and access to sustainable employment through appropriate support</li> <li>■ Support routes into employment for local people through sustainable transport measures</li> </ul> |

## Funding

| Employment<br>(46% of ESF allocation)  | ESF            | YEI            | Match<br>(40%)<br>SFA<br>Opt In** | Total<br>Investment |
|--|----------------|----------------|-----------------------------------|---------------------|
| Invest in promoting employment and supporting labour market mobility through developing the workforce of the Tees Valley, removing barriers to appropriate training/ work for individuals and improving access to sustainable employment | £19.46         |                | £12.97                            | £32.43m             |
| Youth Employment Initiative  | £12.59m        | £12.59m        | £8.39m                            | £33.57m             |
| <b>TOTAL</b>   | <b>£32.05m</b> | <b>£12.59m</b> | <b>£21.36m</b>                    | <b>£66m</b>         |

\*Sources and amounts are subject to change as we further develop the activities and programme.

\*\*We are proposing to Opt In to the SFA for all activities under this theme. Further detail below.

## Activities

Based upon the considerable evidence base we have built up to support the Tees Valley Employment and Skills Strategy, we will invest in promoting employment and supporting labour market mobility through activity which:

- Develops the workforce of the Tees Valley to meet the current and future needs of employers in our priority and supporting sectors;
- Removes barriers to appropriate training/work for individuals, particularly young people; and,
- Improves access to sustainable employment for current and future generations.

We will do this by focusing on the priorities set out below:

- **Provide opportunities for individuals to access meaningful work related experience and relevant training** with support for young people to move from education/training into work (ESF)
- **Develop and support enterprise entrepreneurship** as a route to self-employment and social enterprise creation through activities such as investment readiness and wrap around support activity (ERDF & ESF – wrap around activity);
- **Provide incentives, skills and support to employers/individuals to create/access new jobs** with training or to move into self-employment/social enterprise (ESF & ERDF)
- **Support routes into employment for local people through sustainable transport measures** (ESF & ERDF)
- **Under both ESF and the Youth Employment Initiative (YEI)**, provide initiatives and support for young people to secure information and access to sustainable employment:
  - To include careers information, mentoring, work related experience and proactive/reactive measures to reduce numbers not in education, employment or training).
  - Under the YEI, we will provide support to engage and assist young people (particularly those aged 15-24) to access the range of mainstream/local provision already on offer, and to supplement that offer with additional/wrap around support where appropriate. This will particularly target and help young people in Tees Valley who are NEET or at risk of becoming NEET and will support them to move back into mainstream provision where appropriate or to access more tailored education and training facilities which will help individuals to achieve their full potential both in study and ultimately in employment.
- **Our aim will be to work alongside existing provision (SFA/DWP mainstream and supplementary – e.g. Big Lottery Talent Match) to provide additional services that are not already available.**

This could provide the extra/transitional support which many of our young people (particularly those from disadvantaged backgrounds) miss out on, and to guide and nurture their self-belief and longer term ambitions.

- Examples of programmes we are already thinking about:
  - **Innovation funding – we would revisit the IF project which narrowly missed out on DWP Funding last year** - this was for disadvantaged 14-15 year olds and predominately involved transitional mentors and a small flexible fund to meet specific individual needs. The scheme could easily be scaled up to meet a wider age group or specific priority groups.
  - **Specialised training for those outside mainstream education.** An example could include smaller class sizes of around 10 from a range of backgrounds /ages (but based on ability) working together to study mainstream qualifications, using a virtual teaching group /video conferencing facilities and qualified teachers to study mainstream qualifications on a remote basis. This model has already been trialled in Stockton with good results.

## Opt In

We will 'opt-in' in principle to the offer being made by the SFA, subject to:

- further detailed discussions on delivery arrangements
- the national contract arrangements
- any other opt-ins that may become available.

Having had sight of the draft Memorandum of Understanding for both the SFA and DWP Opt In arrangements we would prefer to jointly commission provision under the Employment Theme through the SFA Opt In. We believe it offers a more localist and flexible approach and ensures the widest possible provision. This is subject to further dialogue with SFA and DWP over the coming weeks.

## Outputs and Results

| <b>Invest in promoting employment and supporting labour market mobility through developing the workforce of the Tees Valley, removing barriers to appropriate training/ work for individuals and improving access to sustainable employment</b> |              |
|---|--------------|
| <b>Outputs</b>  | <b>Total</b> |
| Number of participants receiving support (a + b + c)  | 10,976       |
| a) Number of unemployed (inc. long term unemployed) participants  | 7,732        |
| b) Number of inactive participants  | 549          |
| c) Number of employed (including self employed)   | 2,696        |
| Number of participants aged 15-24   | 4,183        |
| <b>Local Outputs</b>  | <b>Total</b> |
| Potential entrepreneurs assisted to be enterprise ready   | 61           |
| <b>Results</b>  |              |
| Number of inactive participants newly engaged in job searching upon leaving   |              |
| Number of participants in education / training upon leaving   |              |
| Number of participants gaining a qualification upon leaving   |              |
| Number of participants employed upon leaving  |              |
| Number of participants engaging in positive activities that address barriers to work or widen participation in training (for example improving basic skills or life skills, volunteering in the community, undertaking work experience)         |              |
| <b>Local Results</b>  |              |
| Participants in self-employment 6 months after leaving  |              |
| Number of projects fully or partially implemented by social partners or NGOs  |              |
| Number of Apprenticeships Starts (based on 15-24 participants)  |              |
| Number of Apprenticeships completed   |              |

| Youth Employment Initiative   |       |
|---|-------|
| Outputs   | Total |
| Number of participants receiving support (a + b + c)  | 6,992 |
| a) Number of unemployed (inc. long term unemployed) participants  | 1748  |
| b) Number of inactive participants  | 1049  |
| c) Number of employed (including self employed)   | 699   |
| Number of participants aged 15-24   | 4,195 |
| Results   |       |
| Number of inactive participants newly engaged in job searching upon leaving   |       |
| Number of participants in education / training upon leaving   |       |
| Number of participants gaining a qualification upon leaving   |       |
| Number of participants employed upon leaving  |       |
| Number of participants engaging in positive activities that address barriers to work or widen participation in training (for example improving basic skills or life skills, volunteering in the community, undertaking work experience) |       |
| Local Results   |       |
| Number of Apprenticeships Starts (based on 15-24 participants)  |       |
| Number of Apprenticeships completed   |       |

NOTE: All outputs are notional at this stage and will be subject to change in future iterations of the Strategy. The above are estimates based upon experience from existing/previous provision as delivered under the current EU Programme, provided by a range of informed partners at national and local level, e.g. DWP, SFA, local authorities etc. We have used this in association with our plans for intended high level activities under the new provision to calculate our expected outputs and results for the new Programme.

## Delivery

Through consultation with partners on delivery mechanisms, elements of this theme will be commissioned by SFA, with other elements considered by partners to be best delivered through an 'Open' call (based on the approaches used in the 2007-13 ERDF programme) allowing for innovation and giving the voluntary and community sector the opportunity to bid to deliver projects.

## Contribution to EU and National Policy

By investing in this theme, we will contribute to the delivery of the Europe 2020 agenda for smart, sustainable and inclusive growth, particularly the agenda for new skills and jobs and Youth on the Move. Tees Valley is benefiting from the Youth Employment Initiative and, therefore, aims to use this position to help deal with high levels of youth unemployment and NEETs through measures set out by the European Council, such as youth guarantee schemes.

We will contribute to the delivery of the Government's welfare reform agenda through measures such as the Work Programme and Youth Contract. Furthermore, our Strategy will help deliver the national strategy for social justice, with its presumption for early intervention to help people to access employment opportunities and tackle in and out of work poverty.



## ESF Thematic Objective 9



### Rationale

The Tees Valley vision is to move towards a more inclusive and balanced economy and society, reducing levels of deprivation, benefit dependency and poverty and boosting employment levels, social mobility, social coherence and, consequently, economic competitiveness. New opportunities should be accessible to all in an equitable manner, with a buoyant labour market providing jobs across all sectors, clear pathways to employment for young people and adults, including those with significant barriers to employment.

| Evidence and Need   | Market Failures   | Activities (ESF)   |
|---|---|--|
| <ul style="list-style-type: none"> <li>High levels of unemployment and benefit dependency (unemployment at 5.5% compared to 2.9% nationally)</li> <li>High numbers of people with significant barriers to work including transport, childcare, mental health and alcohol dependency issues</li> <li>Some of the highest levels of deprivation in the UK: TV accounts for 18% of the 5% most deprived areas in England and a quarter of our population live in the 10% most deprived wards in the country</li> </ul> | <ul style="list-style-type: none"> <li>High levels of public sector employment at a time of public sector cuts</li> <li>Inconsistent/ poor quality careers advice, particularly for younger people with limited relevance to local labour market</li> <li>Higher skilled taking up lower skilled jobs</li> <li>Entrenched third generation unemployment leads to low aspirations and negative impact on self-efficacy and confidence</li> <li>Lack of appropriate role models and examples of inspiration – reaching the young</li> </ul> | <ul style="list-style-type: none"> <li>Provide holistic and bespoke support for individuals and communities who are disadvantaged/furthest away from the labour market to improve their prospects for employment and encourage positive engagement with local communities by focussing on:               <ul style="list-style-type: none"> <li>Employability;</li> <li>Capacity Building; and</li> <li>Financial Inclusion</li> </ul> </li> </ul> |

| Evidence and Need | Market Failures  | Activities (ESF) |
|-------------------|--|------------------|
|                   | <ul style="list-style-type: none"> <li>Transport and childcare barriers.</li> <li>Rapid development, social change and decline.</li> <li>Inspiration and incentives.</li> <li>Need to understand nature of deprivation.</li> <li>Under employment and part time jobs.</li> </ul> |                  |

### Funding

| Social Inclusion<br>(20% of ESF allocation)   | ESF            | Match**<br>(40%) | Total<br>Investment |
|---|----------------|------------------|---------------------|
| <b>Provide holistic and bespoke support for individuals and communities who are disadvantaged /furthest away from the labour market to improve their prospects for employment and encourage positive engagement with local communities by focussing on: Employability; Capacity Building; and Financial Inclusion</b> | £11.1m*        |                  |                     |
| Split of match funding:   |                |                  |                     |
| BIG Lottery Opt In  |                | £7.4m            |                     |
| <b>Other Social Inclusion Activities</b>  | <b>£2.77m</b>  |                  |                     |
| Split of match funding:   |                |                  |                     |
| Civil Society   |                | £1.84m           |                     |
| <b>TOTAL</b>  | <b>£13.87m</b> | <b>£9.2m</b>     | <b>£23m</b>         |

\* Opt in shown at 80% ESF investment over the programme period

\*\*Sources and amounts are subject to change as we further develop the activities and programme.

## Activities

- Provide holistic and bespoke support for individuals and communities who are disadvantaged/furthest away from the labour market to improve their prospects for employment and encourage positive engagement with local communities. This will be achieved through three themes:

### *Employability (70% of ESF BIG Lottery allocation - £7.77m)*

- Provide tailored employability support to tackle barriers to work for the most disadvantaged in Tees Valley and those furthest away from the labour market and to support Tees Valley's key sectors e.g.
  - Addressing complex mental health needs and those linked to alcohol and drug misuse to support employability
  - Pre-engagement activities targeted at people in geographical communities and communities of interest, such as BME
  - Engagement into employability programmes at a local level, delivered through activities such as arts and culture, sport and the natural environment
  - Volunteering programmes with a key route into employment
  - Providing digital and internet literacy courses to aid job searching and access to benefits (linked to skills theme)

### *Capacity Building (20% of ESF BIG Lottery allocation - £2.22m)*

- Building the capacity of local groups and individuals in the community and voluntary sector to help deliver the activities outlined above and develop community assets into hubs serving a geographical community or community of interest
- Enhance the capacity of social entrepreneurs to address the needs of their local communities

- Support for social enterprises or voluntary and community organisations that need to become more socially enterprising, including volunteering programmes (linked to SME Competitiveness Theme)

### *Financial Inclusion (10% of ESF BIG Lottery allocation - £1.11m)*

- Providing money management support and advice and financial literacy programmes

### *Other Social Inclusion Activities*

The Tees Valley is proposing to allocate 20% of the ESF Social Inclusion allocation to other areas of activity which, at this time, are unlikely to be funded through the BIG Lottery. For example, this would include areas such as providing access to low cost credit for individuals which would fall under the Financial Inclusion area.

## Outputs & Results

| <b>Provide holistic and bespoke support for individuals and communities who are disadvantaged/furthest away from the labour market to improve their prospects for employment and encourage positive engagement with local communities</b> |              |
|---|--------------|
| <b>Outputs</b>  | <b>Total</b> |
| Number of participants receiving support (a + b + c)  | 9,253        |
| a) Number of unemployed (inc. long term unemployed) participants  | 6,940        |
| b) Number of inactive participants  | 463          |
| c) Number of employed (including self employed)   | 1388         |
| Number of participants aged 15-24   | 3,331        |
| <b>Local Outputs</b>  |              |
| Number of individuals in communities receiving support  | TBC*         |
| <b>Results</b>  |              |
| Number of inactive participants newly engaged in job searching upon leaving   |              |
| Number of participants in education / training upon leaving   |              |
| Number of participants gaining a qualification upon leaving   |              |
| Number of participants employed upon leaving  |              |
| Number of participants engaging in positive activities that address barriers to work or widen participation in training (for example improving basic skills or life skills, volunteering in the community, undertaking work experience)   |              |
| <b>Local Results</b>  |              |
| Number of Apprenticeships Starts (based on 15-24 participants)  |              |
| Number of Apprenticeships completed   |              |

\*Further work is ongoing to identify the communities to target

NOTE: All outputs are notional at this stage and will be subject to change in future iterations of the Strategy.

## Opt-in and Community Led Approach

The Tees Valley is proposing to route 80% of the ESF Social Inclusion allocation through the BIG Lottery subject to:

- further detailed discussions on delivery arrangements
- the national contract arrangements
- any other opt-ins that may become available.

The Tees Valley recognises the importance of the 'bottom up' community led approach and ensuring that there is opportunity for community led development of projects to engage local communities and grass roots organisations. This has been discussed in detail with local partners and BIG Lottery colleagues, and it has been agreed that this approach will be pursued through the BIG Lottery Opt In arrangement. Therefore we are not intending to pursue any formal EU Community Led Local Development areas. However, we are currently in discussions with key partners on the development of the LEADER approach in Tees Valley's rural areas.

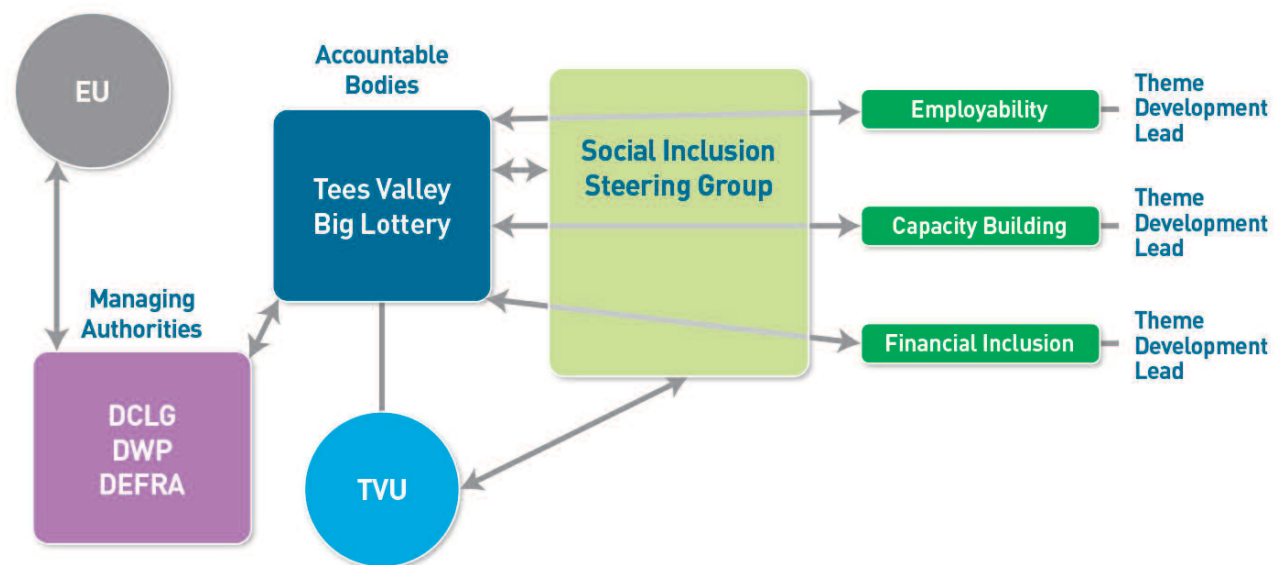
## Delivery

The development of the Social Inclusion theme has been led by the Tees Valley Social Inclusion Task & Finish Group, which is made up of partners from the voluntary and community sector, local authorities and our local representative from BIG Lottery.

Delivery has been discussed in detail and the Group has produced a model which sets out the process by which the key themes identified under Social Inclusion will be developed in further detail prior to defining the process for actual delivery of the funds (see diagram below). Theme Development Leads will be appointed and will be tasked with further defining the activities under employability, capacity building and financial inclusion, in consultation with the Social Inclusion Task & Finish Group, TVU and BIG Lottery.

The activities and funding that are not currently proposed to be routed through the BIG Lottery Opt In will also be developed further. Although the themes are to be developed in more detail prior to defining the processes for actual delivery, the Task & Finish Group has recognised the importance of considering a mix of delivery approaches. This would build on partnership working and allow for innovation, giving the voluntary and community sector the opportunity to bid to deliver projects.

### Theme Development Diagram (Social Inclusion)



## Contribution to EU and National Policy

Through our investment, we will contribute to the delivery of the Europe 2020 agenda for smart, sustainable and inclusive growth, particularly the agenda for new skills and jobs and Youth on the Move. By doing this, we will contribute to the delivery of the Government's welfare reform agenda through mechanisms such as the Work Programme, Youth Contract and supporting people with drug and alcohol dependency. Furthermore, our Strategy will help deliver the national strategy for social justice, with its presumption for early intervention to help people to access employment opportunities and tackle in and out of work poverty.

## ESF Thematic Objective 10



### Rationale

To realise our growth ambitions, the Tees Valley needs to move towards a skills system that works for young people (raising aspiration and achievement levels, helping to provide pathways to sustainable employment within the area) and employers (by sourcing qualified ready-for-work staff who bring new ideas and innovation, increasing business productivity). This system will be underpinned by a wide range of expert training provision geared towards the Key Sectors and growth industries that the Tees Valley economy is currently built upon and is aiming to further develop. Targeting EU resources will help us to address the high rates of youth unemployment and low rates of employment, low achievement rates and skill levels, an ageing workforce in key sectors and the difficulty faced by some employers to recruit and retain skilled labour. The table below explains Tees Valley's needs, market failures and how we can overcome these:

| Evidence and Need  | Market Failures   | Activities (ESF)   |
|--|---|--|
| <ul style="list-style-type: none"> <li>Low achievement rates across all NVQ levels (13.1% of people have no qualifications, compared to 8% nationally)</li> <li>Difficulty of key employers to recruit skilled labour (29% of local vacancies were considered Hard to Fill, compared to 22% nationally)</li> </ul> | <ul style="list-style-type: none"> <li>Long term failure to plan/invest in skills/recruitment</li> <li>Vacant posts hard to fill but even harder to fill with local people particularly skilled/high level posts, e.g. engineers</li> <li>Impact of sustained low wage economy</li> </ul> | <ul style="list-style-type: none"> <li>Activities to develop, support and sustain the Tees Valley Skills Hub</li> <li>Support individuals to gain new skills to respond to opportunities arising and increase the availability of intermediate, advanced and higher apprenticeships leading to graduate opportunities in key and supporting sectors</li> </ul> |

| Evidence and Need   | Market Failures   | Activities (ESF)   |
|---|---|--|
| <ul style="list-style-type: none"> <li>Qualified graduates leaving the area</li> <li>Opportunities through excellent HE and FE provision (73% of Tees Valley employers found FE leavers prepared for work; 84% reported similarly for graduates)</li> </ul> | <ul style="list-style-type: none"> <li>Reliance on large industry with traditional skills</li> <li>Industries and the skills they need are misunderstood and perceived as unattractive by some young people</li> <li>Previous interventions unsuccessful</li> <li>Lack of incentive to succession plan</li> <li>Careers guidance failing to address industry needs (I.T. and engineering)</li> <li>High % of NEETs</li> <li>Low apprenticeship take-up by employers</li> <li>Poor quality LMI advice from mainstream sources</li> <li>Poor employer perception of young people as employees</li> <li>Low aspirations and lack of role models for young people</li> <li>Reliance on large traditional industries/public sector has reduced entrepreneurship.</li> <li>Low NVQ rates</li> <li>Low levels of postgraduate training because of financial barriers to entry</li> </ul> | <ul style="list-style-type: none"> <li>Support activities to increase the number of Tees Valley enterprises engaged in workforce planning/providing training to develop new/ higher level skills in their staff</li> <li>Develop activities to bring together skills initiatives and partnerships with employers/entrepreneurs stimulating employer-led skills delivery and new delivery partnerships</li> <li>Provide a coherent and consistent offer (of Skills, Employment and Enterprise information and support ) to individuals, employers, providers and practitioners in Tees Valley</li> <li>Support individuals to gain postgraduate skills for research and innovation in key industries</li> </ul> |

## Funding

| Skills<br>(34% of ESF allocation)   | ESF            | Match<br>(40%) | Total<br>Investment |
|---|----------------|----------------|---------------------|
| Invest in education, skills and lifelong learning through identifying, promoting and providing the current and future skills needed by employers and encouraging and developing those skills and ambitions in individuals of all ages to secure a responsive skills infrastructure, driven by employer demand | £23.45m        | £15.63m        | £39.08m             |
| Match Funding Split:  |                |                |                     |
| Private   |                | £3.12m         |                     |
| Opt In SFA**  |                | £12.5m         |                     |
| <b>TOTAL</b>  | <b>£23.45m</b> | <b>£15.63m</b> | <b>£39.08m</b>      |

\*Sources and amounts are subject to change as we further develop the activities and programme.

\*\*We are proposing to Opt In to the SFA for a proportion of the allocation under this theme.

## Activities

Based upon the considerable evidence base we have built up to support the **Tees Valley Employment and Skills Strategy**, we will invest in education, skills and lifelong learning through activity which:

- Identifies, promotes and provides the current and future skills needed by employers in our key priority and supporting sectors;
- Encourages and develops those skills and ambitions in individuals of all ages, and
- Secures a responsive skills infrastructure, driven by employer demand:

We will do this by focusing on the priorities set out below:

- **Activities to develop, support and sustain the Tees Valley Skills Hub (ESF & ERDF)**
- **Support individuals to gain new skills** to respond to opportunities arising and increase the availability of intermediate, advanced and higher apprenticeships leading to graduate opportunities in key and supporting sectors (ESF)
- **Support Individuals to gain postgraduate skills** for research and innovation in key industries (ESF)
- **Support activities to increase the number of Tees Valley enterprises engaged in workforce planning/providing training** to develop new/ higher level skills in their staff (ESF)
- **Develop activities to bring together skills initiatives and partnerships with employers/entrepreneurs** stimulating employer-led skills delivery and new delivery partnerships (ESF)
- **Provide a coherent and consistent offer** (of Skills, Employment and Enterprise information and support) to individuals, employers, providers and practitioners in Tees Valley (ESF & ERDF)

## Outputs & Results

| <b>Invest in education, skills and lifelong learning through identifying, promoting and providing the current and future skills needed by employers and encouraging and developing those skills and ambitions in individuals of all ages to secure a responsive skills infrastructure, driven by employer demand</b> |              |
|--|--------------|
| <b>Outputs</b>   | <b>Total</b> |
| Number of participants receiving support (a + b + c)   | 15,065       |
| a) Number of unemployed (inc. long term unemployed) participants   | 8,149        |
| b) Number of inactive participants   | 555          |
| c) Number of employed (including self employed)  | 6,361        |
| Number of participants aged 15-24  | 6,355        |
| <b>Local Outputs</b>   |              |
| Number of micro, SMEs supported  | 133          |
| <b>Results</b>   |              |
| Number of inactive participants newly engaged in job searching upon leaving  |              |
| Number of participants in education / training upon leaving  |              |
| Number of participants gaining a qualification upon leaving  |              |
| Number of participants employed upon leaving   |              |
| Number of participants engaging in positive activities that address barriers to work or widen participation in training (for example improving basic skills or life skills, volunteering in the community, undertaking work experience)  |              |
| <b>Local Results</b>   |              |
| Number of Apprenticeships Starts (based on 15-24 participants)   |              |
| Number of Apprenticeships completed  |              |

NOTE: All outputs are notional at this stage and will be subject to change in future iterations of the Strategy. The above our estimates based upon experience from existing/previous provision as delivered under the current EU Programme, provided by a range of informed partners at national and local level, e.g. DWP, SFA, local authorities etc. We have used this in association with our plans for intended high level activities under the new provision to calculate our expected outputs and results for the new Programme.

## Opt In

We will 'opt-in' in principle to the offer being made by SFA, subject to:

- further detailed discussions on delivery arrangements
- the national contract arrangements
- any other opt-ins that may become available.

## Delivery

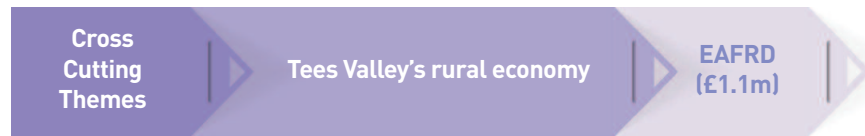
Through consultation with partners on delivery mechanisms, elements of this theme will be commissioned by SFA, with other elements considered by partners to be best delivered through an 'Open' call (based on the approaches used in the 2007-13 ERDF programme), allowing for innovation and giving the voluntary and community sector the opportunity to bid to deliver projects.

## Contribution to EU and National Policy

Through our investment, we will contribute to the delivery of the Europe 2020 agenda for smart, sustainable and inclusive growth, particularly the agenda for new skills and jobs and Youth on the Move. By doing this, we will also contribute to the delivery of the Government's policies outlined in 'Rigour and Responsiveness in Skills' and 'Skills for Sustainable Growth.' We will increase the take-up and availability of apprenticeships following the Richard and Holt Reviews and increase participation through the raising of the leaving age and reducing NEETS via 'Building Engagement, Building Futures' and the Work Programme.

Furthermore, our Strategy will help deliver the aim to improve the quality of further education and skills training and tie into government policies to deliver for both businesses and employees via initiatives such as the Youth Contract and Traineeships. We also have ongoing dialogue with the National Offender Management Service (NOMS) to ensure alignment and linkages across services to avoid duplication and deliver value for money and services that make a real difference.

## Cross Cutting Themes



### Rationale

Our vision is of a successful and flourishing Tees Valley rural economy, with thriving, sustainable communities, well prepared and able to meet challenges and changes ahead, well integrated with adjacent urban areas and with much improved access to jobs and services. A successful rural economy will contribute much more than economic and employment outputs, supporting the visitor economy, protecting the environment and providing an attractive and scenic living space with cultural, heritage, wildlife, community activities and traditional sporting events helping to draw businesses and people to the Tees Valley.

The vision for business is of a more diversified rural business base, improved supply chains making use of the capacity of rural areas to produce for the large market within the Tees Valley and surrounding areas, adding value, creating new enterprises and associated jobs and contributing to increased GDP. We believe that rural businesses and individuals should have the same access to the projects and programmes of support, be this employment and skills (through the Skills Hub) or business support (through the Business Growth Hub), as their urban neighbours. However, where there are extra costs of accessing such programmes, we believe that EAFRD will play an important role in ensuring that businesses and residents in rural areas are not disadvantaged.

Our EAFRD priorities are focussed upon supporting our rural SMEs to increase their competitiveness, access supply chain opportunities from major employers (particularly in the advanced manufacturing and process sectors), foster the growth of new businesses and provide solutions to obstacles to growth in our rural areas, namely superfast broadband (to enable companies and residents to access services and trade) and sustainable transport (to ensure that rural connectivity can combat social exclusion). In this way, they link very closely to our ERDF priorities under SME competitiveness.

| Evidence and Need   | Market Failures  | Activities (ESF)   |
|---|--|--|
| <ul style="list-style-type: none"> <li>9.9% of the population and 13% of Tees Valley firms are located in rural areas</li> <li>Tees Valley has a lower proportion of rural businesses than the national average</li> <li>Significant opportunities for growth in our rural economy if we can overcome barriers such as broadband, transport and business support</li> <li>Potential for SME creation and expansion in rural areas in creative/digital, food production, equestrian, renewable energy and the visitor economy</li> <li>Encourage innovative community transport solutions targeting travel to work services from rural areas lacking public transport</li> </ul> | <ul style="list-style-type: none"> <li>Rural isolation arising from lack of physical and virtual connectivity</li> <li>Poor broadband coverage resulting from lack of commercial incentive to invest in rural areas</li> <li>Redundant rural buildings deemed commercially unviable</li> <li>Lack of visibility of Tees Valley's rural areas as attractions for the visitor economy</li> <li>Legacy of large scale employers and 'paternalistic' culture resulting in lower level of rural SMEs and lack of enterprise creation</li> <li>Low wage economy in parts of the rural economy</li> <li>Small industrial and mining communities in rural areas left isolated</li> </ul> | <ul style="list-style-type: none"> <li>Support rural businesses through tailored business support, providing a top up from the Business Growth Hub and other SME Competitiveness support</li> <li>Encourage the establishment and growth of new and existing firms in rural areas (through bringing groups of SMEs together, creating a Rural Business Growth Hub, supporting the development of key rural sectors, the re-use of redundant buildings and encouraging supply chain development)</li> <li>Support superfast broadband connectivity in rural areas and the provision of rural transport solutions</li> </ul> |



## Funding

| EAFRD £1.1m  | EAFRD        |
|--|--------------|
| Supporting the growth and competitiveness of rural SMEs and support superfast broadband connectivity in rural areas and the provision of rural transport solutions | £1.1         |
| <b>TOTAL</b>   | <b>£1.1m</b> |

\*Given the announcement of the Tees Valley EAFRD allocation in December 2013, this indicates our initial thinking and, therefore, sources and amounts are subject to change as we further develop the activities and programme.

## Activities

- Support rural businesses through tailored business support, providing a top up from the Business Growth Hub and other SME Competitiveness support **(ERDF & EAFRD)**
- Encourage the establishment and growth of new and existing firms in rural areas by bringing groups of SMEs together, creating a Rural Business Growth Hub as part of the Tees Valley Business Growth Hub, supporting the development of key rural sectors – such as creative and digital, the visitor economy, natural environment, food and equestrian – the re-use of redundant buildings and encouraging supply chain development **(ERDF & EAFRD)**
- Support superfast broadband connectivity in rural areas and the provision of rural transport solutions **(ERDF & EAFRD)**

## Outputs & Results

| European Agricultural Fund for Rural Development (EAFRD) |       |
|--|-------|
| Outputs  | Total |
| Jobs created in supported projects                       | 41    |
| Local Outputs  |       |
| Number of enterprises supported                          | 73    |
| Results  |       |
| Encouraging the Competitiveness of SMEs                  |       |

Note: Given the announcement of the Tees Valley EAFRD allocation in December 2013, this indicates our initial thinking and, therefore, all outputs are notional at this stage and will be subject to change in future iterations of the Strategy.

## Delivery

Work to identify the delivery mechanisms for EAFRD in Tees Valley is currently ongoing with discussions taking place with key stakeholders, including the Tees Valley Rural Community Council and the local authorities. This will determine how the process will work, based upon learning from the approaches used in the 2007-2013 programme.

## Contribution to EU and National Policy

Through our EAFRD investment in increasing the competitiveness of rural SMEs and overcoming barriers to growth, we will contribute to the delivery of the Europe 2020 agenda for smart, sustainable and inclusive growth, particularly the agenda for new skills and jobs, the Digital Agenda for Europe and Youth on the Move. By doing this, we will contribute to the delivery of the Government's policy to stimulate economic growth in rural areas, building on the Rural Growth Network pilots and initiatives such as the Rural Community Energy and Broadband funds.

## Partnership, Delivery & Risk

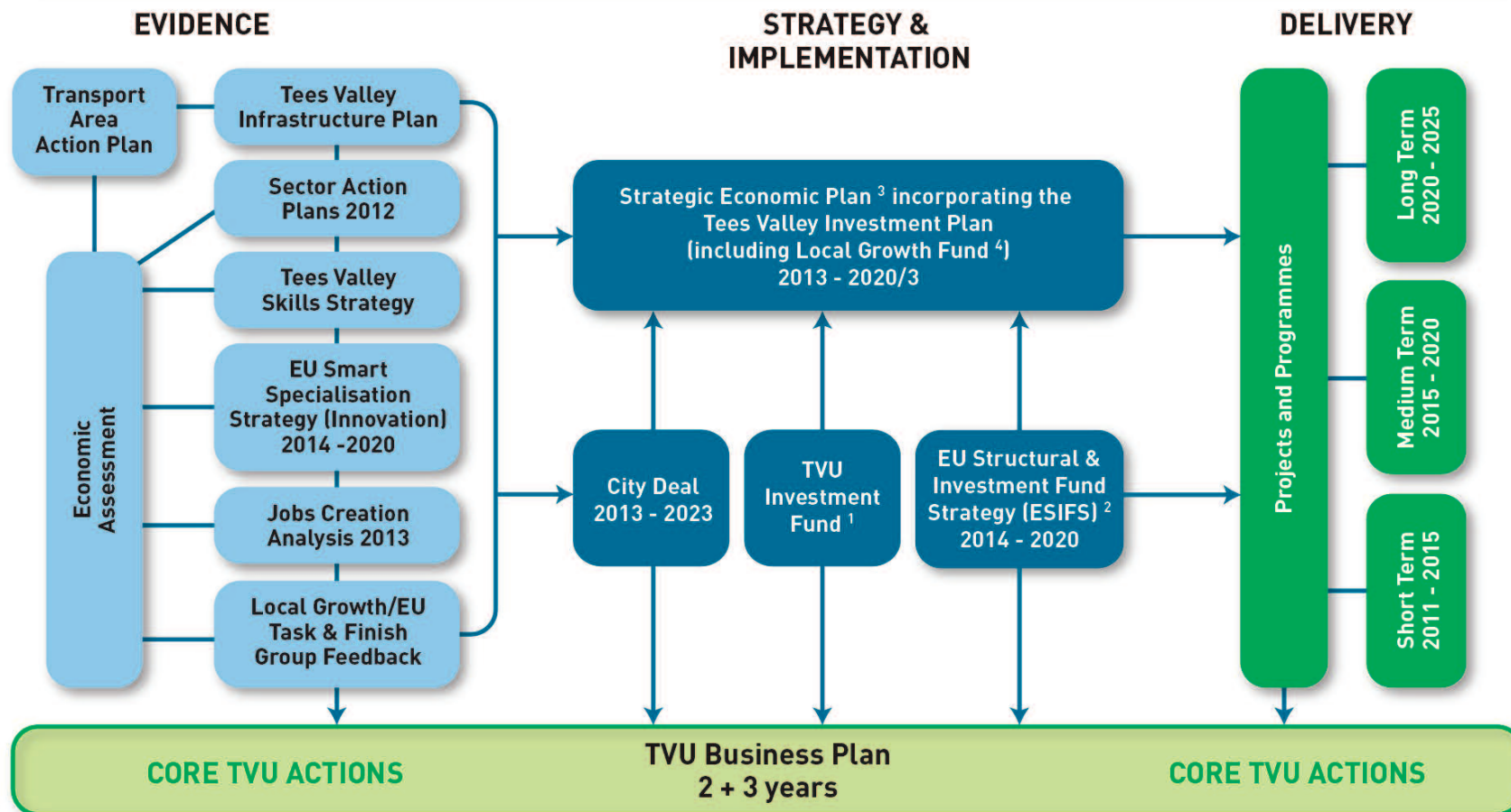
TVU has a long track record of addressing strategic economic development, transport and housing matters in the Tees Valley. Since the formation of the Tees Valley Joint Strategy Unit (JSU) in the mid-1990's, the partnership has evolved to become a robust public-private partnership that drives forward economic growth, with strong leadership and steer from both our private and public sector representatives on our Leadership Board which formed in 2007.

The success of the partnership is based on the engagement of partners, strong governance, transparency and accountability. At TVU we continue to build a genuine working partnership that promotes a collaborative, cross boundary approach to tackling the major issues and opportunities in our area. Our role includes the LEP activities but also some strategic economic development delivery:

- **Determining the strategic vision for the area** - building on our extensive experience of strategy development and on our long term aims and ambitions, we are currently developing our wider Strategic Economic Plan (draft submitted to government in December 2013) alongside our ESIFS, ensuring cohesion and alignment of priorities for investment to deliver our vision for the area.
- **Investment prioritisation and delivery** - managed through our established Tees Valley Investment Panel who advise the Leadership Board on proposed LEP related investments and oversee their management and delivery.
- **Deliver strategic economic support across the Tees Valley** - the five Tees Valley Local Authorities have come together to deliver certain strategic economic functions across the area, covering business engagement, economic strategy and intelligence, inward investment, skills, marketing and promotion, strategic transport, and investment planning.

The diagram on the next page illustrates the strategies and plans and the interrelationships between the LEP, UK and EU levels.

## Tees Valley Statement of Ambition (2010 - 2025)



<sup>1</sup> Investment generated from Enterprise Zone income and Growing Places Funds repayments.

<sup>2</sup> Specifically written for the purposes of the EU Structural & Investment Funding for 2014-2020. NOTE: £173.5m has been notionally allocated to the Tees Valley.

<sup>3</sup> Includes wider strategic investment planning (which incorporates SIFS investments, plus other local investment priorities).

<sup>4</sup> Local Growth Fund monies will be available from 2015-2016 onwards. Funding is dependent on having in place a Strategic Economic Plan: of the £2bn on offer to LEPs in 2015-2016. £1.1bn will be on a competitive basis and £900m allocated. Beyond 2015-2016 there is a commitment of £2bn capital per year for the next 5 years with much of this being awarded on a competitive basis.

## Current Partnership Engagement

Tees Valley Unlimited has engaged with a wide range of partners throughout the process of developing the ESIFS.

As part of our early preparations, we produced an Interim Prospectus for European Funding 2014 – 2020 in early 2013 and used this as a basis to undertake initial discussions with key partners throughout April and June 2013. This included discussions with local authorities, rural partners, environmental interests, higher education, business representative organisations and civil society.

To ensure that the input of our partners was fully captured in the development of the priorities for the draft ESIFS, submitted in October 2013, we invited a wide range of partners to attend a series of thematic Task and Finish Groups during August and September 2013. Due to the significant overlap between the Strategic Economic Plan for Local Growth and the Structural and Investment Funds Strategy, the Task and Finish Groups were used to consider priorities for both. The Task and Finish Groups covered the following themes:

- Innovation (Smart Specialisation)
- ICT
- SME Competitiveness
- Low Carbon Economy
- Climate Change Adaptation & Environmental Protection
- Sustainable Transport
- Employment & Skills
- Social Inclusion
- Place

The thematic Task and Finish groups were used to map out existing and potential future activities, consider the prioritisation of the activities and the likely sources of match funding. The outcome of the facilitated sessions was used to inform both the ESIFS and the SEP. A list of partners invited to attend the Thematic Task and Finish Groups is in Annex 2.

The draft ESIFS was then published on TVU's website for public consultation for a month in October/November 2013, with around 30 responses received. Feedback was very positive and TVU responded to the 20 main questions arising from the feedback, mainly on SME competitiveness, the low carbon economy and climate change adaptation, and published these on our website.

Feedback was received from Government in November 2013, which was very positive, outlining that "Tees Valley has produced a good comprehensive first draft," with "a clear and compelling picture of Tees Valley and the issues and challenges the area faces. There is good read across from the statistical analysis and narrative to the objectives and investment priorities selected." The draft was also praised for the amount of consultation undertaken and the strong governance arrangements that are in place.

However, Government identified a number of areas where it felt more work was required from all LEPs, particularly to:

- Strengthen the link between market failures and proposed interventions
- Develop the value for money case for interventions
- Review notional allocations to thematic objectives and look to concentrate funding on as few Thematic Objectives as possible to maximise impact
- Describe the rationale for allocations
- Details of match funding (particularly from opt-ins)

In order to respond to the Government feedback, TVU held a further round of Thematic Task and Finish Groups with local partners in December 2013. The Groups explored the robustness of outputs, further identifying and validating key priorities, examining match funding opportunities and more clearly linking the evidence of need to the intervention described. Groups confirmed support for the interventions outlined and highlighted areas where it was felt some activities should be moved under other themes to ensure clarity and maximum impact and value for money.

Across all objectives there was strong consensus around the needs being tackled, the approach taken by TVU and a strong desire to deliver a coordinated programme.

We plan to hold further Task and Finish Groups in February/March 2014 in order to develop an implementation plan to deliver the Tees Valley European Structural and Investment Funds Strategy.

## Sustainable Development, Equality & Social Innovation

We fully support the commitment to promote sustainable development, equality and social innovation in line with UK and European regulations. Consequently TVU commissioned an independent sustainability appraisal of the draft ESIFS, factoring its recommendations into our final submission. Furthermore, TVU have carried out an equality impact assessment of the Strategy. By doing so, we are ensuring that our Strategy takes into account both sustainable development and equality; these are embedded within our evidence base and activities.

## Existing Governance Arrangements & Management of Funds

TVU has extensive experience of working with partners throughout the development and delivery of a wide range of externally funded capital and revenue projects and programmes. Between 2002 and 2012 it was responsible for the successful delivery of the £100m Tees Valley Single Programme Fund, with responsibilities covering the management, monitoring, reporting and auditing Tees Valley projects. Furthermore, TVU has seen significant success with Regional Growth Funding, helping private sector firms to secure more than £150m to date, leveraging in a further £1bn private sector investment.

Building on our successful track record for investment management and delivery, the Tees Valley Investment Panel was established in May 2012 with the remit to advise the Leadership Board on investment opportunities and to aid decision-making on suitable future investments. Membership reflected the need to harness both public and private sector investment expertise, with membership consisting of the five Tees Valley Chief Executives plus local business representatives with particular experience in investment planning, management and delivery.

To date the Panel has successfully overseen the following:

- **The establishment, management and delivery of the Tees Valley Investment Fund**, which currently consists of Enterprise Zone income and Growing Places funding;
- **The establishment of the 'Tees Valley Catalyst' fund** – an innovative project funded through Regional Growth Fund which will provide extra financial security to SMEs to enable bidding for larger contracts, thus opening up new markets and opportunities; and
- **The development of new investment models to deliver growth**, including financial instruments and loan funds to maximise private sector investment leverage.

There are five main pillars of investment that will play a crucial role in catalysing growth in the Tees Valley:

**STRATEGIC ECONOMIC PLAN BY 2025:**

Create 25,000 more jobs Increase GVA by £1 billion

|                         | <b>LOCAL GROWTH FUND</b><br><br>TARGET:<br>UNLOCK GROWTH<br>POTENTIAL  | <b>EUROPEAN STRUCTURAL<br/>&amp; INVESTMENT FUNDS</b><br><br>TARGET:<br>CREATE JOBS & LOCAL<br>EMPLOYMENT & CATALYSE<br>PRIVATE SECTOR GROWTH  | <b>TEES VALLEY<br/>INVESTMENT FUND</b><br><br>TARGET:<br>SUPPORT GROWTH,<br>JOB CREATION &<br>LOCAL EMPLOYMENT   | <b>TEES VALLEY CITY DEAL</b><br><br>TARGET:<br>SAFEGUARDING KEY<br>INDUSTRIES, SUSTAINING<br>EMPLOYMENT AND<br>CREATING A SOLID BASE<br>FOR ECONOMIC GROWTH   | <b>OTHER LOCAL<br/>INVESTMENT</b><br><br>TARGET:<br>SUPPORT OUR<br>AMBITIONS FOR<br>GROWTH |
|-------------------------|--|--|--|---|--|
| <b>FUND SIZE</b>        | £2bn (nationally)<br>£80m Tees Valley Draft  | £187.12m<br>- including YEI  | £66m*  | £12m Directly<br>(and associated with the Deal)   |  |
| <b>PROGRAMME PERIOD</b> | 5 years: 2015/2016-2019/20<br>focus on 2015/16   | 7 years: 2014 - 2020<br>spend by 2023  | 5 years: 34m* by 2019/20<br>10 years: 66m* by 2024/25  | 2013-2025   |  |
| <b>REQUIREMENTS</b>     | <ul style="list-style-type: none"> <li>Strong <b>capital</b> focus</li> <li>Funds unringfenced</li> <li>Only funds available for transport &amp; Further Education capital projects</li> <li>Ability to leverage other funding an important consideration</li> </ul>   | <ul style="list-style-type: none"> <li>Strong <b>revenue</b> focus</li> <li>Must meet EU funding regulations 40% min match funding required (circa £78m local match needed)</li> <li>Ability to leverage other funding (especially private sector) an important consideration</li> </ul>   | <ul style="list-style-type: none"> <li>These funds are based on projections of <b>Enterprise Zone</b> income and <b>Growing Places</b> Funds returns; they are therefore subject to change and are reviewed regularly.</li> </ul>  | <ul style="list-style-type: none"> <li>The Tees Valley City Deal commits Tees Valley and Government to work together to attract new investment to the area, train our workforce and create more jobs.</li> </ul>  |  |
| <b>LOCAL FOCUS</b>      | <ul style="list-style-type: none"> <li>Support <b>flagship</b> sub-regional projects that catalyse growth, job creation &amp; local employment</li> <li><b>Enable job creation</b> by investing in <b>critical infrastructure</b> to unlock employment sites</li> <li><b>Enable local</b> capital investment to remove barriers to growth</li> </ul> | <ul style="list-style-type: none"> <li>Support <b>flagship</b> sub-regional projects that catalyse growth, job creation &amp; local employment</li> <li>Create &amp; support <b>direct job creation</b></li> <li>Create and support <b>local employment</b></li> <li>Encourage <b>opportunities</b> for all across and within our local communities</li> </ul> | <ul style="list-style-type: none"> <li>Support <b>flagship</b> sub-regional projects that catalyse growth, job creation &amp; local employment</li> <li>Create &amp; support <b>direct job creation</b></li> <li>Support projects to become <b>investment ready</b></li> <li>Support projects that make a <b>return for re-investment</b></li> </ul> | <ul style="list-style-type: none"> <li>providing the conditions to <b>enable increased investment</b> in the processing, chemicals and new green technology industries;</li> <li>taking industrial <b>carbon capture and storage (CCS)</b> forward for Tees Valley and the UK as a whole;</li> <li>creating new business and civic benefits from <b>waste industrial heat</b>.</li> </ul> | <p><b>Private Sector Investment</b></p> <p><b>Partners Investment</b></p>                  |

## Evolving Governance Arrangements

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

To strengthen our partnership and to ensure collaborative delivery management, the five local authority Leaders and Mayors have agreed in principle to establish a Combined Authority to undertake the functions of economic development, transport and skills from April 2015. Within such a structure, the local authorities would work to retain strong private sector investment to build upon the current success of the partnership.

Clearly, with the emergence of City Deals, the Local Growth Fund and the need for LEPs to develop and deliver local ESIFS for 2014-2020, there is a need to review the role, remit and membership of the Tees Valley Investment Panel and Leadership Board to ensure it is robust and fit-for-purpose. A thorough and detailed review of our governance arrangements will be considered as part of our agreed City Deal and our wider Strategic Economic Plan. This review will also ensure any future governance arrangements required to deliver our ESIFS are taken into account.

In the meantime, we have recently expanded our Investment Panel membership to ensure the appropriate representative organisations are able to help shape our ESIFS. Our members include representatives from the Local Authorities, private sector, the Local Nature Partnership, Rural Community Council, Voluntary Sector, Higher Education, the Department of Communities and Local Government, plus the Department for Work and Pensions (for the European Social Fund). We acknowledge that membership may need to expand further to meet the requirements detailed in Annex H of the ESIFS guidance. We will consider this as part of our governance review process and will discuss this further with Managing Authorities through the appropriate local ESIFS team for the Tees Valley.

## Managing Conflicts of Interest

Both the Tees Valley Investment Panel and the Leadership Board have in place a robust 'Conflicts of Interest' procedure to eliminate potential conflicts of interest around strategic project level investment decisions (see Annex 3). Panel and Board members must declare if they have a direct or indirect interest in the project and, if their interest is direct, they must leave the room for the decision-making process.

We believe these procedures are in keeping with European Guidelines and have worked well to date; they ensure that those making the decisions have no direct interest in the outcome of any decision made, providing assurance of impartiality in the decision-making process.

## Delivering Activities

Through our consultation process, we have gathered strong evidence of commitment and support from public sector bodies, the private sector and civil society, with some even at this early stage identifying commitment to deliver projects which are in keeping with the focus of our strategy. Consequently the activities detailed in our ESIFS will be delivered in a variety of ways:

- **Through open and competitive tendering for delivery contracts** - this will be appropriate for a number of key strategic projects that are key to delivering against our overall investment priorities and will ensure strong alignment to our Strategic Economic Plan. For example, certain activities that fall within the Tees Valley Business Growth Hub and the Tees Valley Skills Hub. Risks will be mitigated by ensuring all EU procurement procedures and State Aid requirements are precisely followed throughout the commissioning of activity and through robust contract management. Further detail on which mechanism is best suited for each Thematic Objective is outlined in Section 2, 3 and 4.
- **Through Opt-in models** - we have outlined in principle our wish to opt in to UKTI, MAS, Growth Accelerator, SFA, and BIG Lottery subject to:

- further detailed discussions on delivery arrangements
- the national contract arrangements
- any other opt-ins that may become available.
- **Through Financial Instruments** - we are keen to continue an Access to Finance Financial Instrument and are in discussions with partners around how this can be delivered (see Annex 1). We are also keen to investigate the potential for a Financial Instrument on housing efficiency and a Local Impact Fund. Detail on both are outlined in Section 2.
- **Through open calls** - A number of firm project ideas came out of the two rounds of Task and Finish Groups held throughout August and December 2013. TVU is beginning to develop a strong pipeline of projects which together with the package of support outlined above will minimise risk of non delivery. Consequently there is a clear need for many of our partners to access European Structural Funds for their own specific projects. An open calls approach will ensure open and transparent processes with equality of opportunity for projects to be considered. Deliverability and impact will be key criteria in determining which projects to select.

## State Aid, Income Generation and Procurement Advice

Through consultation our partners have highlighted their concerns about the risks associated with delivering Structural funded projects. Matters relating to State Aid, procurement and revenue generation continue to be the main causes for clawback under the existing programmes and this needs to be addressed for the future Programme. Whilst it is correct that the risks lie with the project lead, it is clear that having access to existing national expertise that can help and advise project leads, one-to-one, on these matters would prove instrumental in reducing investment risk and encourage more projects to come forward. This in turn would increase programme spend and delivery.

Consequently we would welcome a national approach to meeting the requirement for help and advice on EU regulations that can directly affect the development and delivery of projects as part of the managing authority's responsibilities.

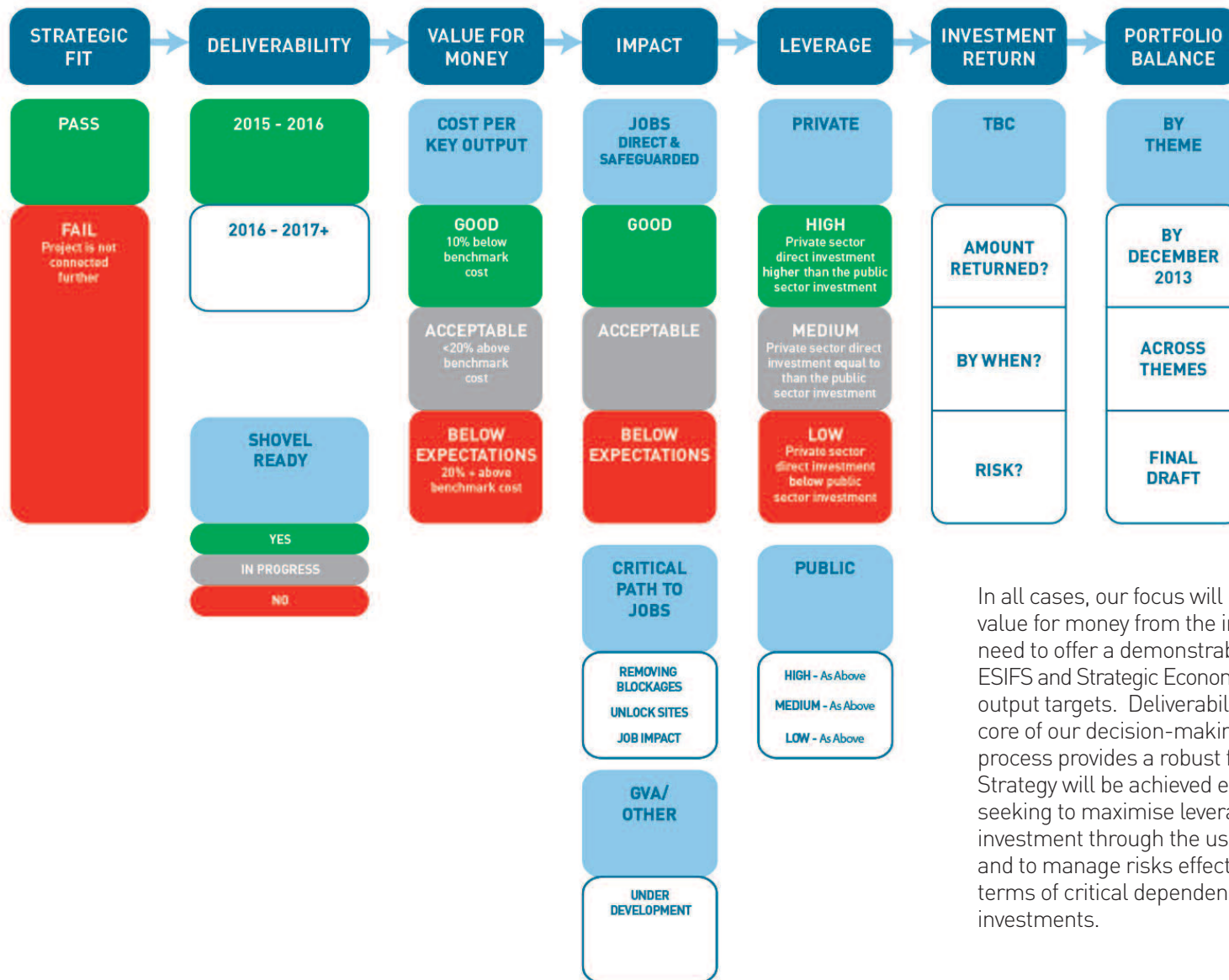
## Securing value for money

TVU has already established the Tees Valley Investment Fund (TVIF), with Enterprise Zone income and Growing Places Fund returns as principal sources. TVIF provides a key funding mechanism by which to deliver our Strategic Economic Plan for the Tees Valley alongside allocations from the Local Growth Fund (LGF) and ESIFS. TVU is the holding fund manager of the Fund and our experienced Investment Panel acts as the investment advisory body to the TVU Leadership Board.

The income generated from these funds will be reinvested in conjunction with LGF and EU funds into our strategic priority themes / projects across the Tees Valley to support delivery of our ESFIS and Strategic Economic Plan and, ultimately, the delivery of our Statement of Ambition. This model has significant potential for further development and the attraction of private sector funds.

We are in the process of refining our prioritisation framework as outlined in the diagram below. Our process is consistent with established methodologies, including the HM Treasury 'Green Book' and Departmental guidance such as WebTAG and is being developed so it can be used to prioritise any scheme whether it be capital or revenue based. The following framework has been developed for assessing projects for the Local Growth Fund.





In all cases, our focus will be on securing economic growth and value for money from the investments we make. Investments will need to offer a demonstrable and proportionate contribution to our ESIFS and Strategic Economic Plan objectives and our jobs and GVA output targets. Deliverability of economic growth impacts is at the core of our decision-making and our investment prioritisation process provides a robust framework for ensuring that our Strategy will be achieved efficiently. In all cases, we will be seeking to maximise leverage of private sector investment through the use of our Investment Fund and to manage risks effectively, particularly in terms of critical dependencies between investments.

## Supporting Delivery: 'Cradle to Grave' Support for Applicants

At TVU we have made good use of the availability of funding through ERDF Technical Assistance which has allowed us to offer 'cradle to grave' project support in the Tees Valley, from initial project ideas through to development, delivery and closure of projects - further detail is given in Annex 4.

Our experience to date has taught us that partner requirements will vary depending on internal capacity and expertise; hence a bespoke package of support must be tailored to meet their individual project needs. This includes the following:

- Assistance at the project development and application stage to ensure that proposed activity is eligible;
- Checking of claims to ensure that costs and outputs are eligible and can be verified prior to submission therefore reducing the risk of clawback at a later date;
- Pre audit visits to ensure that the relevant documents and verification evidence is available prior to an Audit visit taking place.

This service not only provides partners with an additional resource but has also been invaluable in terms of assisting the Managing Authority in the successful delivery of the current North East ERDF Programme. It is anticipated that this support would continue through Technical Assistance into the 2014-2020 programme to ensure that successful delivery continues.

## Managing Delivery & Collaboration with MAs and LEPs

TVU recognises that the smooth and successful delivery of European funded projects and programmes is very much dependent on working closely with Managing Authorities and with other LEPs, particularly with neighbouring LEPs and those that share our sectoral focus. Consequently we are in ongoing dialogue with the NELEP and NYER LEP on major shared issues and are exploring the possibility of collaborating, where appropriate, with both on project administration, access to finance schemes and cross border project delivery.

We will also work as part of our business support interventions with LEPs that share our priorities, such as the Coventry and Warwickshire LEP on Automotive and the Heart of the South West on aerospace.

Furthermore, we understand that there is significant cross-departmental work ongoing at a national level regarding the 2014-2020 Managing Authority Business Processes, particularly in relation to setting 'minimum standards' for inception and approval, contract management, compliance and IT. We would welcome the opportunity to feed into these groups to ensure any solutions are workable for TVU and other LEPs, and in particular help to ensure alignment with our Strategic Economic Plans wherever possible. We believe this will encourage a quick adoption of the business processes across LEPs which will significantly aid programme allocation and spend.

## Project Selection, Monitoring & Evaluation

Although we are unable at this stage to firm up any proposals regarding our approach to project selection, monitoring and evaluation (in light of the national business process still being under development), we feel it is important to lay out our initial thoughts and proposals for consideration:

- **We will work in partnership with Managing Authorities to 'select' projects for funding**, ensuring that as a LEP that all projects fit strategically with our ESIFS. We recognise that project appraisal remains the responsibility of the MA. However, particularly where projects are being funded by the TVU Investment Fund and EU funds, we would welcome the use of a single appraisal approach to avoid duplication and unnecessary bureaucracy.
- **Where appropriate, we will work in partnership to align calls for projects with neighbouring LEPs**, ensuring applicants can deliver cross boarder /sectoral focussed projects with greater ease.
- **We will work in partnership with Managing Authorities to simplify business processes**; as detailed under 'Managing Delivery & Collaboration with MAs and LEPs.

# Eligibility and Compliance with European Regulations and Priorities

## EU Compliance

TVU will ensure that it is fully compliant with any European regulations appropriate to the nature of any proposed activity. Both regulations and guidance will be scrutinised to ensure that any policies are developed in line with European regulations to ensure compliance from the outset.

TVU ensures that it keeps up to up to date with key policy developments which could impact upon activity. It regularly responds to consultation exercises and has recently submitted a response to the State Aid modernisation consultation therefore evidencing understanding of State Aid compliance issues.

## Strategy Alignment with other European Funds

### Horizon 2020

Under Horizon 2020 agenda it is proposed that the focus of future activity will be on innovation and close to market activities. Clearly there is a significant link here to our ERDF theme on Innovation and it is crucial that projects under the two EU programmes align and complement one another. To date there are a number of key research establishments and institutions based locally that have accessed existing programmes relating to innovation such as FP7 and they have expressed a view to continue to access funds through Horizon 2020.

We anticipate that the Innovation theme under our ESIFS will complement any research based activity undertaken locally through Horizon 2020 by helping to smooth the passage of products to market, for example by financing or co-financing the follow up to Horizon 2020 research projects.

Furthermore, under our 'ask' for greater freedoms and flexibilities, we have stated the need to allow other themes, including innovation, to claim outputs relating to Business Premises Developed; this would widen our ability to provide the necessary physical infrastructure which will support and host future innovation-based research establishments and SMEs, including those that may access future Horizon 2020 funds.

### COSME

A number of our partners are looking at potentially accessing these funds as a way to support SMEs and to encourage self employment; it is an access to finance programme that will specifically address problems of a transnational nature. TVU will ensure that activity undertaken locally under our ESIFS complements any activities being undertaken through COSME.

### Life +

As the EU's funding instrument for the environment; Life+ will co-finance pilot or demonstration projects with European added value. To date the Tees Valley has not accessed this programme in any significant way. However, through consultation we are aware of a potential project regarding eco-innovation.

### Erasmus +

This is the new programme which will allow four million people across Europe to have the opportunity to take part in education and training activities abroad. We are keen to continue our work with our skills partners who are planning to access this programme. We believe there is potential to use the programme to encourage student work placements abroad, with a view to them returning, joining local companies when they graduate, and then utilising their links with Europe to encourage further exporting. Therefore, TVU will ensure that activities undertaken through ERASMUS are complementary to activities funded through the ESIFS.

### Interreg

This ERDF funded transnational co-operation programme has a strong focus on innovation, environment and transport in the North Sea Programme. Traditionally, the Tees Valley has accessed these funds and will continue to do so over the future programming period.

### *Social Change and Innovation Programme*

This new programme will look to support the development/implementation of schemes that will improve working conditions, reduce accidents in the workforce, address gender / age imbalances and tackle emerging risks in occupational safety and health. It will encourage geographical mobility of workers via SMEs, easier access to credit for vulnerable groups and social enterprises. Groups include unemployed, those at risk of losing their jobs and disadvantaged groups.

**TVU will promote the use of these funds and ensure that any activities funded under the ESFIS are complementary.**

## Distribution of European Structural and Investment Funds Across Thematic Objectives

We have followed the national spending requirements, as a Transition Region, as we consider that the split adequately meets the needs and opportunities of the Tees Valley area appropriately. Therefore the distribution of our total allocation across the thematic objectives matches that required at a national level to meet the European requirements and the split of our Structural and Investment Funds allocation between ERDF and ESF is also consistent with the national requirements.

The allocation of the ESIFs funds 2014 – 2020 in the Tees Valley will be structured around six themes (detailed further in section 2, 3 and 4). The proportion of the overall funding allocated to each of the themes has been determined by a number of factors:

- Throughout extensive consultation, partners identified these areas as being of strategic importance to the Tees Valley
- Engagement with government and managing authorities
- The ability to maximise impact and value for money
- Alignment with the Tees Valley Statement of Ambition, draft Strategic Economic Plan and agreed City Deal
- The ability to maximise linkages between key themes and closely align ERDF and ESF activity in a more integrated way
- How the funds can be aligned with TVU Investment Funds, partners own funding and national funding

| ERDF £104.08m (60% of total structural fund allocation) |                                     |                   |                       |
|---|-------------------------------------|-------------------|-----------------------|
| ERDF Theme  |                                     | % ERDF allocation | Total ERDF allocation |
| 1   | Research & Development & Innovation | 24%               | £25m                  |
| 3   | SME Competitiveness                 | 61%               | £63.46m               |
| 4   | Low Carbon                          | 15%               | £15.6m                |
| ESF £69.39m (40% of total structural fund allocation)   |                                     |                   |                       |
| ESF Theme   |                                     | % ESF allocation  | Total ESF allocation  |
| 8   | Employment                          | 46%               | £32.05m               |
| 10  | Skills                              | 34%               | £23.45m               |
| 9   | Social Inclusion                    | 20%               | £13.87m               |
| EAFRD £1.1m   |                                     |                   |                       |
| Youth Employment Initiative £12.59m                     |                                     |                   |                       |
| TOTAL: £187.12m   |                                     |                   |                       |

## Issues to be considered as part of the ESIFS and Government spreadsheet

### Profile of spend

- The allocations of funding for each activity in 2014 reflect our concerns over the ability to be able to commit and spend funds in the first year of the programme, given that it's unlikely that funds will start to flow until late 2014/early 2015.
- The allocations for the MAS, GA and UKTI Opt Ins have been profiled to mid 2015 due to the current Government contract periods.
- The profile for Business Accommodation and Infrastructure shows an increased level of allocations over the later years of the programme. This is to reflect the allocation of spend towards business accommodation and infrastructure occurring in the later years of the programme.
- The allocation for the Low Carbon activities (excluding the Social Housing FEI) has been profiled towards the later years of the programme to reflect the need for our partners to develop projects and programmes under this theme which will take time to work through.

### Match funding

- The match funding dropdowns available in the spreadsheet do not include an appropriate category for match available from the Youth Employment Initiative. Therefore we have selected 'public national' as the source of match for the YEI ESF allocation. For Tees Valley the YEI allocation is £12.59m, with £12.59m ESF to be matched against it.
- As a Transition Region, the spreadsheet automatically calculates the 60:40 intervention rate for our activities. Our ESIFS includes activities that have different intervention rates to account for higher levels of private sector match for example, and therefore we have shown this in the spreadsheet. The tables for funding within sections 2 and 3 of the ESIFS narrative also display the correct levels of match proposed and therefore gives an accurate picture of total investment.
- As part of the SME Competitiveness Theme we are proposing to undertake flood risk mitigation, adaptation and prevention activities on existing and future sites in the Tees Valley. Initial advice from local representatives is that

some elements may not be eligible for funding through the ERDF. Therefore we would appreciate further clarity nationally on this issue in order to inform the match funding arrangements for such activity.

### Outputs and results

- We have based our estimates of outputs for ERDF, ESF, YEI and EAFRD on current local programme information, where possible, supplemented with advice from our local representatives within Government departments and guidance from national departments. We would appreciate further time to refine outputs as we further develop our activities and programme. This is also important in relation to Opt Ins where discussions on the arrangements will continue post January 2014.
- Given the announcement of the Tees Valley EAFRD allocation in December 2013 and the further guidance provided to LEPs in January 2014, we would particularly appreciate further time to develop our approach to our rural priorities, outputs and delivery mechanisms.
- We have not provided outputs for the FEI for the retrofitting of social housing given that research and discussions are continuing on how this could operate in Tees Valley.
- Discussions on the proposed follow up to the JEREMIE investment fund in the Tees Valley and North East LEP areas are ongoing. Therefore the mix of instruments for the fund may have an impact on the proposed deliverables. We are awaiting confirmation from Government on the proposed use of legacy funding to get significant work on the ex-ante evaluation underway.
- We note the inclusion of the results indicator 'Increase in SME jobs created' and would appreciate further clarity and guidance from Government around its definition and relationship to the European output indicator 'Employment increase in supported enterprises'.

## Our Need for Freedoms and Flexibilities

### Ability to Use Local measures where relevant:

#### Outputs

- **Ability to use 'Business premises developed' as an output for other themes.**  
Through partner consultation it has become very apparent for the need to provide new infrastructure to support SMEs by giving them the right type of environment in which to innovate, prosper and grow. This will support the development of our Enterprise Zone and key innovation assets, ensuring that our sites are ready for occupation, which will in turn offer catalytic potential to grow our business base in our key sectors, thus creating more high value jobs and increase productivity.
- **Ability to use number of businesses engaged with through ERDF** - As part of our Tees Valley Business Growth Hub proposals (SME Competitiveness), we intend to measure how many businesses engage and interact with the Growth Hub. The Hub's role is to join up business support, simplify the process for SMEs and provide a smooth journey for every company, be this for innovation, enterprise, resource efficiency, ecommerce, supply chain, funding or any other form of support. It is important to record whether the Hub is visible and working through the number of interactions it has with businesses and this is currently being measured as part of the successful RGF-funded Tees Valley Business Growth Hub.
- **Ability to offer enterprises financial assistance through ERDF** - Under the current programme the output 'SMEs receiving financial assistance' proved instrumental in supporting local businesses by offering small grants to help them establish and grow. We would like assurance that this type of output would be eligible under the new programme output 'Number of new enterprises receiving support'.
- **Ability to use 'Number of Enterprises receiving grants' through ERDF** - We propose to measure this as part of activity under the SME Competitiveness theme where enterprises will receive a financial grant to use as a wage subsidy. This indicator is part of the European Commission's list of indicators in the 'Guidance Document on Monitoring and Evaluation' (October 2013) and is a subset of 'Number of enterprises receiving support'.
- **Ability to use 'Number of social rented and affordable homes benefiting from retrofitting' as part of the proposed Social Housing FEI** - We propose to use the above output indicator as part of the Social Housing FEI in order to adequately assess the impact of investments made under the FEI.
- **Ability to use 'Number of Apprenticeship starts and Number of Apprenticeships completed' through ESF** - We consider that we should have the ability to measure number of apprenticeship starts and number of apprenticeships completed under the employment and skills themes. Our activities will include increasing the availability of apprenticeships and it is therefore important to measure this activity.
- **Ability to use 'Numbers of individuals in communities receiving support' for our activities under the Social Inclusion theme** - We would like to include a measurement of the number of individuals in communities receiving support through the Social Inclusion Thematic Objective and are currently undertaking further work to identify the communities to target.
- **Ability to use 'Potential entrepreneurs assisted to be enterprise ready' through ESF** - As part of the activities under the Employment theme we will be supporting entrepreneurs to become enterprise ready. Therefore we are proposing to use the above output under the Employment theme.
- **Ability to use 'Number of Enterprises supported' through EAFRD** - We would like to measure the number of enterprises supported through our EAFRD programme, given the emphasis we are placing upon boosting the competitiveness of rural SMEs and increasing the number of new enterprises in these areas.

## Results

- **Ability to use 'Jobs safeguarded'** - It is important to measure the number of jobs safeguarded in addition to the number of jobs created in order to effectively measure the impact of investment and therefore we are proposing to measure this through ERDF.
- **Ability to use 'Reduction in fuel poverty'** - Through the social housing financial instrument we would like the ability to include the reduction in fuel poverty as a measure in order to effectively measure the impact of the activity in increasing the energy efficiency of our housing stock but also to demonstrate the impact for individuals and families.
- **Ability to use 'Participants in self-employment 6 months after leaving' and 'Number of projects fully or partially implemented by social partners or NGOs' through ESF** - Through activity relating to supporting entrepreneurship and social enterprise creation we would like to be able to measure the above results in order to assess the full impact of the investment.

## Ability for projects to deliver over the full programme period

TVU has identified a number of key strategic projects which are core to delivering our strategy for growth. Having the ability to set the delivery framework over the full lifespan of the programming period would offer more certainty for delivering against our longer term vision for the area.

## Ability to help shape the Business Processes of Managing Authorities

We understand that there is significant cross-departmental work ongoing at a national level regarding Managing Authority Business Processes, particularly in relation to setting 'minimum standards' for inception and approval, contract management, compliance and IT.

We would welcome the opportunity to feed into these groups to ensure any solutions are workable for TVU and other LEPs, and in particular help to ensure

alignment with our Strategic Economic Plans wherever possible. We believe this will encourage a quick adoption of the business processes across LEPs which will significantly aid programme allocation and spend.

## Ability to locally vire investment according to changing / emerging local need

Whilst we have consulted our partners on the split of funds, it is important that we are able to quickly respond to changes in the local economy. Therefore, we request the ability to vire funding across themes, with decisions taken at the Tees Valley level, to respond to emerging and changing local need. We accept that there is a proposed minimum investment threshold for both ESF / ERDF, and similarly under certain themes (such as low carbon), which may require more formal approval through the National Growth Board. We ask for the flexibility to make such requests to the National Growth Board, as required, to support N+3 targets and maximise spend according to local needs.



## Annex 1: JEREMIE 2

### Access to Finance

Access to Finance is an essential requirement in the Tees Valley and aligns with both European and UK policy. We also recognise the long-term value in moving towards a greater use of financial instruments.

We plan to build on the success of the existing JEREMIE model in the North East, to set up a JEREMIE 2, in line with the Supplementary Guidance to Local Enterprise Partnerships and the general belief that this is best practice. The current JEREMIE will cease to invest in December 2015 and a continuum of finance provision is required to prevent distorting the access to finance for SMEs.

A mid-term review of the North East JEREMIE Project by Regeneris Consulting <sup>1</sup> confirms the contribution to the economy that such as a fund can have, concluding that “net additional job creation and GVA are in line with our expectations for a project of this nature and that the unit costs are reasonable at this stage in the life of [the fund]”, and this even “before [they have] taken account of the potential legacy to the public sector.”

In addition to supporting 544 businesses, creating over 1000 new jobs and safeguarding a further 1855, across the North East region <sup>2</sup> so far (Sept '13), the programme has successfully ensured a local presence of fund managers which has helped to reach sectors and geographical areas that had previously been underrepresented. This has helped to build up key relationships and a better understanding of SME finance to support competitiveness across the LEP area's policy makers and businesses, to be carried forward into the new ESIF programme.

We therefore welcome government's responsiveness to ensure funding is held locally and able to enhance the success of our local 'fund of fund' to address market failure in the provision of private equity and debt capital. We will continue to develop this approach alongside the support business support infrastructure required to improve the quality of investment propositions.

A detailed undertaken by EKOS <sup>3</sup> on behalf of North East Access to Finance (NEA2F) reviewed the North East region's access to finance fund initiatives over the last 10 years and the JEREMIE programme to date. It concluded that “regional funds have played a key role in supporting the economic growth of the

North East and its SME base” and that “in the absence of these funds, much of this economic activity would not have occurred and there is no evidence to suggest the private sector would have stepped in and filled any void.”

The report further demonstrated continued strong demand and need for the access to finance to support SME development, proposing a new fund with up to £200m capital to invest.

Even at this scale, it concludes, there would be limited risk of private sector displacement. This is confirmed by the evidence from JEREMIE to date: clear private sector co-investment targets for fund managers have, in fact, attracted new outside investors to businesses in the region and private sector leverage stands at 2.7:1 ERDF so far.

### JEREMIE 2 scope

We can now confirm our joint intention with Tees Valley LEP, to collaborate and set up a JEREMIE 2 fund, as was set out in the initial response to the Government guidance. This collaboration will deliver greater economies of scale and complements existing structures for the region.

Having balanced the region's need, from the EKOS report, with a bottom up analysis of demand and investment capacity to date from North East Finance, the JEREMIE Holding Fund manager, we propose to establish a £160m fund that will invest over a 5 year period. The Tees Valley's share of this will be 25%, as per the table on the next page.

<sup>1</sup> <http://british-business-bank.co.uk/wp-content/uploads/2013/10/Northern-JEREMIEs-Review-Summary-Report-Final-07-11-13.pdf>

<sup>2</sup> The boundaries of NELEP and TVU as a whole are the same as those used previously for the delivery of publicly-backed funds in the North East.

<sup>3</sup> <http://www.nea2f.co.uk/wp-content/uploads/2013/06/NEA2F-06-13-EKOS-Fund-Evaluation-Research-doc.pdf>

|            | Total funds committed | Investment into area SMEs |
|------------|-----------------------|---------------------------|
| TV LEP     | £19.5m                | £40m (25%)                |
| NE LEP     | £58.5m                | £120m (75%)               |
| Legacy     | £32m                  | -                         |
| EIB (loan) | £80m                  | -                         |

The fund will draw on £19.5m of ERDF investment in the Tees Valley and call on a large proportion of the Region's Legacy funding – the returns for public investment funds from 1999 to 2010. This redeployment into the North East region's access to finance sector is in line with all historical grant conditions. This capital would then all be matched by a new European Investment Bank facility, as is the case for the current JEREMIE, and early discussions are positive.

The outputs and results would be as follows.

|                  | Total fund | If 25% in TV LEP area |
|------------------|------------|-----------------------|
| SMEs assisted    | 1200       | 300                   |
| Jobs created     | 6000       | 1500                  |
| Jobs safeguarded | 3400       | 850                   |
| Private leverage | £135m      | £33.75m               |

The scope of the fund is an increase as compared to the existing JEREMIE fund which had £125m initially for its 5 years investment period. This has been topped up with ERDF and Regional Growth Funding to enable it to operate until December 2015, after which time JEREMIE 2 will be operational.

This increase is considered necessary due to a number of factors:

- need for **follow on** for successful current investments
- a desire for **greater conversion** from application to investment to 1:10 from 1:8.6 (average non-POC/micro). This will be supported by business support initiatives.
- new Risk Capital Guidelines giving the possibility of **bigger deal sizes** and probably more flexibility re: MBOs
- evidence of need for **more debt** finance, previously restricted by the GBER, notwithstanding the British Business Bank's efforts in this area, of which the North East in reasonable proportion to its business base.

Both Tees Valley and the North East LEP are agreeing to allocate their ERDF and the Region's Legacy to this fund on the assumption and understanding that Legacies arising from JEREMIE 2 will be retained for the Region in which they were generated, notwithstanding the national nature of the forthcoming ERDF programme. Indeed, it is ownership of the Legacy that creates the additional value of financial instruments vs grants.

The Ekos study suggests there is unmet demand for a significant increase in the value of the JEREMIE scheme with continued unmet demand; the final size of this fund and the balance of ERDF funding to be drawn on is to be determined alongside a discussion over the use of other funds. The research suggests a total value of £200m for the fund. Nevertheless TVU would expect demand to be demonstrated and the potential efficiencies to be gained from this level of funding.

The fund would also have to demonstrate that wider objectives were met, in particular around proof of concept and investment in innovation, greater risk taking with longer-term returns and a greater emphasis where appropriate, placed on other sectors and the social value of investment.

The scope of the fund is subject to the planned ex ante evaluation of JEREMIE 2, which will be undertaken during the period of moving towards implementation, and will provide evidence to support the design of the JEREMIE sub-funds.

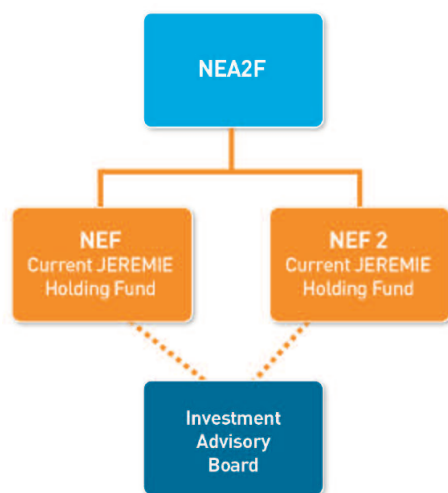
### JEREMIE 2 governance

The region benefits from a nearly ready-made, efficient, infrastructure for the deployment of a JEREMIE 2 and all the learnings associated with the set-up of the previous initiative.

North East Access to Finance Ltd the custodian of the Legacy from the region's access to finance programmes from 1999 onwards, and a key thought partner for the Tees Valley and North East LEPs.

JEREMIE Holding Fund, North East Finance Ltd (NEF), is a financial institution, set up as subsidiary of NEA2F. This facilitated the flow of Legacy returns to come from JEREMIE. The current JEREMIE initiative operates under the "Finance for Business North East" brand (FBNE) and has invested in a suite of funds.

It is intended that a second subsidiary of NEA2F be created, subject to necessary approvals, as "NEF2" and that this financial institution would be the JEREMIE 2 Holding Fund and the applicant for ERDF purposes. NEF2 will have its own board. Subject to stakeholder agreement, the management of NEF2 would benefit from the expertise developed in the NEF team and make use of the NEF's independent Investment Advisory Board.



For the set-up phase, a Project Team is in the process of being created, funded by Legacy funds, and they will be overseen by a Project Board consisting of LEP representatives, 2 private sector individuals and key stakeholders such as BIS and DCLG.

### JEREMIE 2 investment funds

It is not the intention to provide continuation of the existing 7 investment funds into which the JEREMIE programme has invested, but to use this experience in the design of a new suite of funds and the procurement of fund managers. Given the successful delivery of JEREMIE through these funds, however, we anticipate that key investment themes will remain the same, i.e. micro finance, proof of concept, technology and early stage venture capital and growth capital.

The Project Team will gather evidence and work closely with regional stakeholders to make a proposal for a new suite of funds, which would then be evaluated and ultimately approved by the Investment Advisory Board, in line with the current JEREMIE's process.

An ex-ante evaluation will be performed, to guide and validate the design of the suite of funds.

In the design of the suite, the Project Team will be mindful of Tees Valley's ESIFS and Strategic Economic Plan objectives, and there is a clear opportunity for the fund to contribute to the objectives of Innovation (technology and proof of concept investment) and Social Inclusion (micro-finance) in addition to its core Thematic Objective of SME Competitiveness.

However, these objectives will need to be balanced against the need for financial returns, in order to attract the EIB as a lender, and to provide a Legacy for the future re-use for SME competitiveness in the region.

### JEREMIE 2 project plan

An indicative project plan is set out below, and assumes the National Operational Plan development and negotiations with the European Commission will remain on track.

The aim is to have fund managers identified, in place and generating deal flow during Q4'15 to enable a smooth continuation of provision of finance.

|  | Q1'14 | Q2'14 | Q3'14 | Q4'14 | Q1'15 | Q2'15 | Q3'15 | Q4'15 | Q1'16 |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Project Team and Project board set-up          |       |       |       |       |       |       |       |       |       |
| Fund design and ex ante evaluation             |       |       |       |       |       |       |       |       |       |
| Holding Fund set up including approvals        |       |       |       |       |       |       |       |       |       |
| Negotiations with EIB                          |       |       |       |       |       |       |       |       |       |
| Fund Manager procurement including preparation |       |       |       |       |       |       |       |       |       |
| ERDF application and technical appraisal       |       |       |       |       |       |       |       |       |       |
| Legals and completion                          |       |       |       |       |       |       |       |       |       |
| First Investment                               |       |       |       |       |       |       |       |       |       |

## Annex 2: List of Partners

| List of Partners A - D                                 |   |
|--|---|
| Academic Health Science Network                        | Centre for Process Industry             |
| Age UK Darlington                                      | Cleveland College of Art & Design       |
| Air Products   | Cleveland Ironstone Mining Museum       |
| Arriva   | Coast & Country Housing                 |
| Avanta   | Cogent                                  |
| A4E  | Community Campus 87 (Cleveland) Ltd     |
| BE Group   | Community Service Volunteers            |
| Black Ethnic Minority Community Organisations' Network | Confederation of British Industry       |
| Biffa Polymers   | Cornerstone Fundraising and Development |
| Big Lottery Fund                                       | Cultures CIC                            |
| BOC Industrial Gases UK                                | Community Ventures                      |
| British Telecom  | Cyclemaster Pedals 4 All CIC            |
| Cabinet Office (local)                                 | Cyrenians                               |
| Carers Together  | Darlington Association on Disability    |
| Catalyst   | Darlington Borough Council              |

| List of Partners D - G                             |   |
|--|---|
| Darlington Citizens Advice Bureau                  | Ethnic Minorities Training and Education Project        |
| Darlington College                                 | Energi Coast  |
| Darlington Credit Union                            | Engineering Employers' Federation                       |
| Department for Business Innovation and Skills      | English Heritage  |
| Department for Communities and Local Government    | Ensus   |
| Department for Environment, Food and Rural Affairs | Environment Agency                                      |
| Department for Transport                           | Evolution Darlington                                    |
| Department for Work and Pensions                   | Fabrick   |
| DigitalCity  | Federation of Small Businesses                          |
| DRD Power  | First Class Technologies                                |
| Durham Tees Valley Airport                         | First Stop Darlington                                   |
| Durham University                                  | Five Lamps  |
| Jobcentre Plus                                     | Generic Advocacy Training and Consultancy Service C.I.C |
| East Coast Railways                                |   |
| Education Funding Agency                           | Go North East   |

## List of Partners G - L

|                                 |  |
|---------------------------------|--|
| Grand Central Trains            | House Builders Federation                |
| Grey Sky Consulting             | Hunstman PU                              |
| Groundwork North East & Cumbria | Hartlepool Voluntary Development Agency  |
| Growhow                         | Impetus                                  |
| Growth Accelerator              | Industry Nature Conservation Association |
| Hartlepool & District Hospice   | Ineos                                    |
| Hartlepool Access Group         | Intraining                               |
| Hartlepool Borough Council      | Institute of Directors                   |
| Hartlepool College              | J&B Recycling                            |
| Hartlepool NDC Trust            | Jacobs                                   |
| Hartlepool Water                | Know How North East                      |
| Harvest Energy                  | LA Adult Skills Funding Area             |
| Health Education North East     | TVU Leadership Board                     |
| Highways Agency                 | Learning Links Europe                    |
| Homes and Communities Agency    | Life +                                   |

## List of Partners L - N

|  |  |
|--|--|
| Lifeline                                   | Natural England                                |
| Living Sober                               | NEL Fund Managers Ltd                          |
| Local Nature Partnership                   | North East Purchasing Organisation             |
| Lotte Chemicals                            | NETA Training Group                            |
| Manufacturing Advisory Service             | Network Rail                                   |
| Middlesbrough College                      | NHS Innovations North                          |
| Middlesbrough Council                      | NOF Energy                                     |
| Relate North East                          | North East Access to Finance                   |
| Modus Seabed Intervention                  | North East Business and Innovation Centre      |
| Morrison Trust                             | North East Chamber of Commerce                 |
| Middlesbrough Voluntary Development Agency | North East of England Process Industry Cluster |
| The National Renewable Energy Centre       | North East Social Enterprise Partnership       |
| National Careers Service                   | North Star Housing Group                       |
| National Apprenticeship Service            | North Tees NHS                                 |
| National Grid                              |  |

## List of Partners N - S

|   |   |
|---|---|
| North York Moors Coast and Hills LEADER Programme | Redcar & Cleveland College                          |
| Northern Housing Consortium                       | Redcar & Cleveland Mind                             |
| Northern Pinetree Trust                           | Redcar & Cleveland Money Tree and GLEN Credit Union |
| Northern Powergrid                                | Redcar Development Trust                            |
| Northern Rail                                     | Regional Refugee Forum                              |
| Northumbrian Water                                | Relate North East                                   |
| Openart Studio                                    | Royal Society for the Protection of Birds           |
| Owton Fens Community Association                  | Royal Voluntary Service                             |
| PD Ports  | Regional Refugee Forum                              |
| Pertemps People Development Group                 | RTC North   |
| Primrose Hill Football Club                       | Rural Community Council                             |
| Pyreco  | Safe in Tees Valley                                 |
| Radio Stitch                                      | Sanctuary Supported Living                          |
| Redcar & Cleveland Voluntary Development Agency   | Scott Bros.Limited                                  |
| Redcar & Cleveland Borough Council                | Stockton District Advice and Information Service    |

## List of Partners S - T

|   |                                      |
|---|--------------------------------------|
| SEMBCORP  | Technology Strategy Board            |
| SEMTA   | Tees Music Alliance                  |
| Shaw Trust  | Tees Valley Arts                     |
| SITA UK   | Tees Valley Learner Provider Network |
| Skills Funding Agency   | Tees Valley Rural Community Council  |
| SkillShare North East Ltd                                     | Tees, Esk & Wear NHS                 |
| Social Enterprise Acumen                                      | Teesside Engineering Network         |
| Solvert Ltd   | The Children's Society               |
| South Tees NHS  | The George Hardwick Foundation       |
| Stockton Residents & Community Groups Association/BME Network | The Hope Foundation                  |
| Stagecoach  | The Junction Foundation              |
| Stockton Borough Council                                      | The Prince's Trust                   |
| Stockton Riverside College                                    | The Welding Institute                |
| Tadea   | Thrive                               |
| TATA Steel  | Together Middlesbrough               |

## List of Partners T - W

|  |  |
|--|--|
| Transpennine Express                       |  |
| Triage                                     |  |
| Tristar Homes Limited                      |  |
| TTE Technical Training                     |  |
| Trade Union Congress                       |  |
| UK Trade & Investment                      |  |
| Unite Limited                              |  |
| User Voice                                 |  |
| VELA Group                                 |  |
| Virgin                                     |  |
| Voluntary Organisations Network North East |  |
| West Middlesbrough Neighbourhood Trust     |  |
| West View Project                          |  |



## Annex 3: Tees Valley Conflicts of Interest Procedure

### Introduction

1. Tees Valley Unlimited (TVU) Board Members should act impartially and not use their position on TVU to further their personal or private interests. It is therefore good practice to have a set of clear procedures for dealing with any conflicts of interest, which may occur during business at the Leadership Board or Investment Panel,
2. The purpose of this note is to advise TVU Board Members what is meant by a "conflict of interest" and to set out procedures for dealing with such conflicts if they occur.
3. Board Members, who are also elected members or co-opted members of one of the Tees Valley Local Authorities, will have signed an undertaking to adhere to a Model Code of Conduct, issued under section 50 of the Local Government Act 2000, and adopted by their authority. Within that Code are requirements relating to the declaration and registration of personal non-prejudicial and personal/prejudicial interests. Local Authority members should have regard to all the requirements of the Model Code when representing their authority on TVU Boards.

### Definition

4. A conflict may be defined as either a 'direct' or 'indirect' interest in any TVU business which relates to or is likely to affect the financial, commercial, professional or personal interests of an individual member, their relatives, close associates, employer, any firm in which they are a partner, any company of which they are Directors, or the organisation they are representing on TVU.
5. An example of a conflict of interest could be a business representative influencing a decision that will be of financial benefit to that members business or another business that they have an interest in.
6. The responsibility for declaring an interest and for withdrawal from the meeting room and not improperly influencing a decision on a partnership matter rests with the individual Board Members and the Chair.

### Basic Principles

7. In conducting its business, TVU requires all partner organisations, and their representatives, to act in the overall interests of TVU and its schemes.
8. Partners should accept a collective responsibility for the effective delivery of the funding programmes, which over-rides any individual interests (corporate or personal).
9. Partners should declare an interest when involved with partnership business and act at all times in good faith, in the best interest of the schemes and the local area.

### Procedures

10. A standing item, regarding conflicts of interest, will be included on each agenda at the start of TVU meetings. All members should declare the existence and nature of any interests at this point. Details of the declaration will be recorded in the Board's minutes. If members arrive part way through a meeting they should declare any interest at the start of the relevant item or as soon as it becomes apparent that they have an interest;
11. In circumstances whereby members are discussing the selection or approval of projects:
  - when members have a 'direct interest' in a project seeking investment e.g. they are the applicant, deliverer or have helped develop the proposal; they will declare an interest and leave the room during the decision-making process. By doing so it is implied that the member is fully supportive of the project;
  - when members have an 'indirect interest' in a project seeking investment e.g. a site for redevelopment could greatly benefit a particular area of the Tees Valley, this will be noted and the member may remain in the meeting and contribute to the decision-making process;

- when an agenda item involves multiple projects and would result in the majority of members leaving the room so that it would no longer be practical to continue with the meeting, the Chair may allow members to remain in the meeting and continue as normal, having noted the interests declared.
11. In the case of Local Authority Board Members they should consider whether they have a personal non-prejudicial or personal/prejudicial interest in any matter, as defined in the Model Code of Conduct for Local Authority Members. Where a member has a prejudicial interest in a matter they should leave the meeting room and must take no part in the discussion or voting on the business concerned.

**If members require further advice on conflicts of interest, they should contact Linda Edworthy, Director Policy and Strategy Tel: (01642) 527092.**

## Annex 4: Tees Valley ERDF Training Plan

### ERDF Training Plan Proposal

Since 2007 more than £27 million of ERDF funding has been secured to help deliver 21 projects across the Tees Valley. Whilst it is clearly beneficial for the local area, it is well known that securing and managing ERDF funding can be fraught with difficulties. There are partners out there with a great deal of experience in delivering ERDF projects and who need little or no support with their projects. However, there are many others who have, in recent times, lost core expertise and resources. For those that need support, the Business and Investment Planning Team at TVU can help by offering "Cradle to Grave" support for Tees Valley projects. It has been agreed with DCLG that the process below will benefit both DCLG and Project Applicants.

|              |   | What can we do at TVU to help you:  |   | Why is this support/advice useful for you?  |
|--------------|---|---|---|---|
| PRE-APPROVAL | <b>Outline Application:</b><br>This is the first stage in the application process to access ERDF funding. The purpose of the Outline Application stage is to provide sufficient information to confirm that the project idea meets the basic criteria of the programme and to save abortive work on Full Applications which will not meet ERDF requirements | We can help the applicant to develop a project idea, provide an overview of the funding priorities and give our advice and guidance on eligibility, highlighting key areas such as Procurement where there is a high risk of clawback if done incorrectly | → | It would help you to develop a project idea which meets with the Programmes priorities as set out in the relevant Prospectus and is eligible for ERDF support.  |
|              |   | Provide you with stock answers to help complete your application, such as strategic fit with sub-regional strategies and statistics to back up your application   |   | This will help you to complete the application form   |
|              | <b>Full Application:</b><br>Next Stage once the project has been selected into the programme. The purpose of a full application is to enable a full appraisal of the application and ensure that the project is sufficiently well defined. DCLG will copy TVU into any queries from Appraisers.   | We can provide comments on the applications before submission to DCLG - helping to reduce the number of queries raised by DCLG.   |   | Help to speed up appraisal by the Regional ERDF Team at DCLG. The less queries raised - the less work for you to answer the queries and the time to assess the application by DCLG is then reduced resulting in a quicker approval. |
|              |   | Provide advice and guidance on the implementation of internal systems   | → | Ensure your project is ERDF compliant   |
|              | <b>REDUCE Risks</b><br>The risk rating for your project is set at the appraisal stage (completed at Full Application by DCLG) and reviewed following the Project Engagement Visit (PEV) and during the lifetime of the project.   | Higher the risk rating set = Increase in the number of audits your project will receive<br>Our support will help to minimise your risk rating set therefore, reducing the number of audit visits for your project   |   |   |

|      |  | What can we do at TVU to help you:  |   | Why is this support/advice useful for you?   |
|------|--|---|---|--|
| LIVE | <b>Project Engagement Visit (PEV):</b><br>The aim of the visit is to ensure that applicants understand the requirements of the Funding Agreement and that you have put in place the required systems to meet the monitoring and audit requirements.  | Meet with the relevant project staff prior to the commencement of the project   | → | To ensure that you are fully aware of ERDF requirements to enable effective delivery   |
|      |  | Carry out a Pre-Project Engagement Visit - helping to complete the form and ensure all the required documents are in place for the visit by the ERDF Team at DCLG | → | You will know exactly what to expect from the visit and be fully prepared for the PEV by ERDF Team at DCLG. This will help to reduce the number of follow up actions from the PEV. The more prepared you are and the less actions will all contribute to a lower risk rating. (Note the risk rating of your project is reviewed after the PEV). The lower the risk rating set means the less audit visits. |
|      | <b>Claim:</b><br>Projects will need to submit either monthly or quarterly claims as agreed at approval and in line with the schedule set out in the Funding Agreement. Claims should clearly report achievement against financial and output profiles. Management and Control Information System (MCIS) is used for the submission of all claims | Provide a training overview of the claims process - this will include providing advice on eligibility of outputs and costs  | → | The advice we can offer on eligibility of outputs and costs can help to reduce the risk of ineligible items being identified at a later stage as a result of audits. Help to avoid CLAWBACK!   |
|      |  | For your first claim we can visit you and go through in detail the full claim and documentation   | → | Ensure you are maintaining the correct level and required documentation from the start of your project. This will not only help to reduce any delays in processing and payment of claims but also reduce the risk of clawback  |
|      |  | We can check future draft claims before submission to DCLG  | → | Payment of the claims will be quicker due to less queries raised and amendments required. Again, reduce the risk of clawback   |
|      |  | Provide you with a list of common errors made in the claims process   | → | Help you to identify common errors - help to reduce delays in processing and payment of claims and reduce risk of clawback.  |

|   |  | What can we do at TVU to help you:                              |   | Why is this support/advice useful for you?   |
|---|--|---|---|--|
| LIVE  | <b>Article 13/PAV</b><br>This is the main compliance check visit and is based on claims and performance to date. During the visit, the project will be assessed in terms of delivery and spend and compliance with national and European requirements including procurement and publicity. | Check the completed Article 13 Form prior to submitting to DCLG | →   | Reduce questions raised by incorrectly completing the form.  |
|   |  | Discuss in detail the process of the Audit Visit                | →   | You will know exactly what to expect from the visit and be fully prepared for the Audit Visit. This will help to reduce the number of follow up actions, hence help with the risk rating which is reviewed at this stage and also reduce risk of clawback  |
|   | <b>Article 16</b><br>The inspector will verify expenditure, outputs and compliance with European Regulations. These checks will be at a much more intensive level than those for an Article 13 visit and a higher proportion of the project's defrayed expenditure will be checked.        | Carry out a Pre-Audit Visit                                     |   | Help you to be ready for the audit visit by DCLG and help to ensure that all of the required information requested is available on the day and therefore reduce the number of follow up actions from the audit visit. This will all contribute to the risk rating for your project which is constantly reviewed throughout the project delivery. Reduce the risk of clawback |
|   | <b>Frequency is determined by the risk rating (note: Each Project will receive at least one Article 13 visit during the lifetime of the project)</b>   | Provide a list of common issues raised at previous Audit Visits | →   | By highlighting the common issues that have been raised at audit visits will help you to avoid making the same errors.   |
|   | <b>Variations:</b><br>Generally if a project is under-performing or there are any changes to the delivery of the project in anyway then a variation may need to be completed. <b>All variations need approval</b>  | We can provide advice and assistance on your project variation  | →   | Our support at this stage will help to reduce the number of queries raised by DCLG at approval stage and therefore, help to reduce the time taken to get approval of your variation.   |
|   | <b>Project Closure:</b><br>This process is carried out to ensure that a robust, complete, compliant and accurate story of the projects lifecycle and achievements.   | Offer advice and assistance leading up to project closure       | →   | You will be more aware of the process and information/evidence that you will be required to produce at Project Closure. This will help to reduce the number of actions and therefore the final payment (retention held) will be released to you faster.  |
| <b>Evaluations:</b><br>All projects are required to carry out an evaluation of their activities at the end of the delivery period. Applicants must ensure that Evaluation Costs are included in the Full Application. | Provide guidance on the evaluation requirements  |   | Gain a clearer understanding of the requirements for evaluations to be undertaken |  |



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