

## AGENDA ITEM 6

## REPORT TO TEES VALLEY COMBINED AUTHORITY CABINET

29<sup>TH</sup> JANUARY 2021

## REPORT OF OVERVIEW &amp; SCRUTINY COMMITTEE

**OVERVIEW & SCRUTINY COMMITTEE BUDGET CONSULTATION REPORT****SUMMARY**

The Combined Authority is required to set out its Budget on an annual basis, and to consult publicly before this Budget receives final approval by Cabinet.

The Overview and Scrutiny Committee convened a Finance and Resources sub-committee - made up of the committee's Vice-Chair and four other full members - to scrutinise the draft Budget in more detail, conduct a full analysis of the draft documents and contribute to the consultation process.

This report details the findings of the sub-committee and their final consultation response to the Cabinet.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. Note the process undertaken by Overview and Scrutiny Committee Finance and Resources Sub-committee to scrutinise the budget;
- ii. Note the report of the Overview & Scrutiny Committee (attached at **Appendix 1**).

**DETAIL**

1. The Overview & Scrutiny Committee agreed at its meeting of 13<sup>th</sup> September 2018 to establish a standing Finance and Resources Sub-committee in order to focus on Combined Authority budget arrangements in detail, and to report back to the main Committee.
2. This sub-committee is chaired by Councillor John Hobson (Middlesbrough Council) Vice-chair of the full committee. The other members of the group are Councillor Sue Jeffrey (Redcar and Cleveland Borough Council) Councillor Mike Renton (Darlington Borough Council), Councillor Stephen Harker (Darlington Borough Council) and Councillor Chris Barlow (Stockton Borough Council).
3. The sub-committee first met on 3<sup>rd</sup> December 2020, after being provided with the draft Budget upon its publication on Friday 27<sup>th</sup> November. At this meeting they were able to question the Group Director of Finance and Resources on the proposed budget.
4. A second meeting was held on 17<sup>th</sup> December 2020. Where a presentation was delivered regarding the Covid Economic Recovery Action Plan.
5. Following these meetings, the members of the sub-committee agreed that they were

satisfied with the responses given and now felt they had a good understanding of the budget.

6. A report from the sub-committee was drafted for presentation at the meeting of the Overview & Scrutiny Committee on 7<sup>th</sup> January 2021. At this meeting, the full committee were able to review the findings of the sub-committee and put forward any final questions.
7. The Committee's report and a full list of questions posed by members and officer responses is attached in Appendix 1.

### **FINANCIAL IMPLICATIONS**

8. The final published Budget report will be presented to January 2021 Cabinet and will set the budget for the Combined Authority.

### **LEGAL IMPLICATIONS**

9. As a Mayoral Combined Authority, the Tees Valley Combined Authority is legally required to set a budget for the coming financial year and a Medium-Term Financial Plan covering the coming financial year and the three years thereafter. Under its constitution, the Combined Authority is also required to have an Investment Plan.

### **RISK ASSESSMENT**

10. This Budget is categorised as low to medium risk. Existing management systems and daily routine activities are sufficient to control and reduce risk.

### **CONSULTATION**

11. Consultation is being undertaken with the public and key stakeholders in the period November 27<sup>th</sup> 2020 to December 31<sup>st</sup> 2020.

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## **APPENDIX 1**

### **Tees Valley Combined Authority Overview and Scrutiny Committee: Budget 2021-22**

The Finance and Resources Sub-Committee, acting with the authority of the Combined Authority Overview and Scrutiny Committee, are satisfied with the information provided by officers with regards to the proposed Combined Authority Budget for the period 2021-22.

Whilst concluding that this budget be noted members would like to place on record the following observations:

- The sub-committee questioned whether this budget allocates enough resources to Education & Skills and Research & Innovation.
- The sub-committee felt that they have not been given the opportunity to look at TIAL in as much detail as they would have liked to and have therefore not been able to fully scrutinise the budget allocations in this area. Officers advised that the responsibility for TVCA in relation to TIAL is in respect of the allocations within the TVCA Investment Plan and budget. The responsibility of TVCA does not extend to detailed budget review of a separate company.
- The sub-committee would like the Budget to include the detail that the devolution £15m which is used to fund borrowing can be agile and flexible and as a last resort, should it be needed, be used as revenue to fund areas where intervention is required and is not being given from central government.

For transparency purposes, the questions asked of officers relating to the budget are detailed in below.

- 1. Can the Covid Economic Recovery Plan (ERP) be shared with Overview & Scrutiny Committee? It is referred to within the Budget paper and therefore needs to be shared with the committee to allow us to understand the full picture.**

The TVCA Recovery Plan and TVCA Covid Report have been circulated to all Committee Members

- 2. Has the ERP worked through what the costs are likely to look like for the Combined Authority – what do we need to spend in terms of Funding we already have and what additional funding is needed direct from Government?**

The ERP is about ensuring we are targeting the right themes and the right areas to give support to aid recovery. The level of support that is provided locally, from the Investment Plan, and from central Government within each theme area still needs to be determined. At the moment where we are able to move forward, for example within the Culture theme and the implementation of the Culture Taskforce, we have absolutely taken into account Covid information within that sector and used the funding in areas where it will have the most impact. The Business Growth area is another example where we have created the Hub to give businesses a single point of access from where they can receive the relevant support and signposting to meet their needs. To date we have received some central funding from Government, for example, Getting Building Fund, ERDF business support funds, these initiatives are also contained within the plans. Strategically we have maintained allocations at theme level, but the target areas have been reflected by intelligence from the report. A lot of the funding we have received from Government has been within the response phase. We are developing proposals for the recovery phase, given there has been a second wave, which look at the vision for the Tees Valley area and at funding asks. It is a combination of long-term Government asks and short-term responses via local funding and through the investment plan.

- 3. Does the budget need to be altered to cope with Covid. Will we be facing difficult choices around funding and how will we tackle this?**

With regard to costs and capital projects or schemes, all Local authorities and Combined Authorities across the country are keeping a close eye on these to ensure contractual commitments cover those areas. Any cost overruns are managed through funding agreements that we already have in place. The broader point relates to a balance between central government intervention and local funding. It's about determining what, as a Combined Authority, we should be investing locally against nationally what we expect Government to pay for. It is a delicate balancing act. TVCA is here for strategic economic growth and whilst short term funding has clear benefits we also need to keep focus on the Investment Plan. The Combined Authority is trying to put asks in where there is credible evidence that we need support or intervention funding – it really is a blend of interventions that we are using to protect the Investment Plan.

- 4. The budget is really familiar – the headline allocations haven't changed over the last few years. Funding in the Education & skills allocation does not appear to again be sufficient to respond to the needs of the people of the Tees Valley. Are we putting our resources into the right places?**

The reason for the Strategic Plan is that it is adaptable to react to those things that we are not expecting to happen. It's not a negative that the headline allocation hasn't changed, the important part is making sure we understand what will make the most difference post Covid in terms of skills. Chris Beck is working through this currently, taking the SQW report into account also, to determine what is the most effective response. The budget is not rigid, and we can move things within the investment plan as we need to subject to unanimous approval of the Cabinet. If more resource is required in this area then this would be considered at Cabinet and funding directed as deemed necessary.

- 5. Where has the Brownfield housing fund come from and can we have some further details?** The funding is from central government and is for social and private housing across the five Local Authority areas. It is a fund that is available across the country and this is our share of it. Further information regarding the scheme has been circulated to all Committee Members.

- 6. There is an increase of £184.2 million total expenditure – where does that figure come from?** This is from movements between the £1,484.1 million and £1,668.3 million. This includes the negative movements also.

- 7. The Rail Network Investments detailed in paragraphs 19-23 are these all to be delivered during next financial year and from the earmarked £49M?**

Yes – on some projects this will be in the form of development work commencing and for other projects they will be physically starting on site. Middlesbrough station work is due to commence early in 2021. Others the design work will start. This is all within the next financial year.

**8. Tees Crossing and Darlington Link Road - do we know when we might be able to talk about funding for DLR as the overlap with TC will be no longer significant?**

The 1-year CSR is already allocated so it would likely be when we start looking at the 3-year CSR – which would be 2022. It's about what alternative funding can be accessed pending a longer-term CSR settlement. We will keep lobbying with Government and twin track to an extent with other funding sources where we can do so.

**9. What is the total cost of the Tees crossing? How much are we still waiting for and when will we get a decision on the final funding?**

£427m is the total cost. We are funding 5% of this, which is required by DfT, which is £21.3m. Cabinet approved a maximum allocation of £24m previously allowing for more detailed costings as the scheme moves through its delivery phases. At the time of meeting £2.2m has been spent on development so far. £1m of this came from DFT so we have spent £1.2m so far. The 5% contribution from TVCA includes the development costs to date. We are expecting a decision on the funding around spring next year. A further update report in respect of the Tees Crossing was taken to Cabinet on 27 November 2020 where Cabinet approved a further £11.5m to fully fund delivery of Portrack Relief Road and provide a fixed local contribution to the Tees Viaduct

**10. Will the money for car parking agreed at Cabinet come from the transport budget?**

The £10.6m to provide free car parking for 2 years will transfer from the transport allocation into the indigenous growth fund and will be managed through this programme. It is devolution funding that we will be moving across.

**11. Will that transfer to Indigenous Growth fund of £10.6m therefore affect the headline budget figures?**

Yes it will but at the point the consultation paper was written the transfer had not been agreed. This budget is the draft version for discussion and consultation and will not be locked down until it has been agreed at January Cabinet. We will only ever amend the MTFP post approval decision. Any movements will be documented in the finalised budget in January and there will be an audit trail of all adjustments.

**12. There appears to be no amendments to the budget for Teesside Airport. There are significant risks to the airport from Covid. Are we therefore assuming that the budget that was set 3 years ago is robust enough?**

The airport has a 10-year business plan with staged milestones to achieve both financially and non-financially each year. The Covid impact is being continually assessed across all airport and airline industries. Yes, there is a risk due to Covid and we have asked the question as to whether, over the 10-year period, they are going to stay within allocation and the answer given is yes. The information we have currently is that the airport will stay within the budget provided over the lifetime of the plan.

**13. Lots of projects are European funded. Are we right that the question of how this will be replaced remains?**

Yes, there are questions around what funding we will have and what we then prioritise if the funding is different to what we expect it to be.

**14. Where is the £14m in 21/22 for southside development at the airport coming from?**

That is through a commercial loan from TVCA to TIA direct approved by Cabinet on 20<sup>th</sup> December 2019. Repayment of this is linked to returns so it will be paid once the development is operational. The investment is necessary to make the business park work as a business park, so for access roads etc, this is regardless of who might come and reside there.

**15. Will Combined Authority pay be frozen in line with the Public Sector pay freeze announced by Government?**

The Combined Authority Follow Government pay terms so yes if this is implemented then we will follow that the same as each Local Authority will do and there will be a saving on the core cost budget which we would normally allow for wage inflation. A wage increase has been budgeted at 2% which is approximately £87,000 so the budget would decrease by that amount. This would be a cash saving

and we will need to look at this and take a view on it and then be clear on what we are deploying it for. There are approximately 8 staff members within the Combined Authority who fall under the £25k cap and would be eligible for an increase.

**16. Are we expecting a decrease in income with regard to Enterprise Zones?**

We are in a better position than a lot of other areas for EZ as we have a lot of large companies rather than smaller ones. We have only accounted for those businesses paying currently or where construction has finished or is finishing now and will therefore be paying in future. It is linked to occupancy on site.

**17. How long do the PWLB fix interest rates for?**

It can be dependent on reports they have received but they are not keen to destabilise too much for Local Authorities. They wouldn't change them annually or even biannually. Rates are different dependent on the term of borrowing. The loan rates remain very competitive. The recent PWLB consultation exercise with public sector bodies has led to proposals for tightening what you can borrow for.

**18. Are we using all our reserves in this period?**

Yes. Reserves are made up of funding received in advance and not yet utilised. We have a small general reserve, around £1m. All Combined Authorities do this as good practice. It is different to Local Authority reserves which are considerably higher against a smaller budget, but this is linked to risk.

**Questions and Answers****1. The Economic Recovery Plan has now been shared but this refers to parts 2&3. Are these available and if so, can we have sight of them?**

The plan has been in development since May. Following wave 1 of Covid parts 2&3 were updated to a point but then wave 2 arrived and we needed to take stock and make sure everything we needed to know was captured. This is still being worked through and parts 2&3 need to go to Cabinet before they can be circulated more widely, including to O&S Committee.

**2. If Cabinet haven't been informed of the full Covid response then can we be assured that the headline amounts are still correct and resources are being directed to the right areas?**

The headline amounts are in the budget but that doesn't mean that we can't put proposals forward for re-directing resources if this is necessary. As soon as parts 2&3 are presented then we can reassess the need and redirect funding where applicable and subject to unanimous approval by Cabinet. We will continue to work with the facts and information brought forward and if amendments are needed we will take these proposals forward to Cabinet for agreement. There are interesting challenges ahead with budget setting due to the fallout of Covid. This is why we have a flexible and agile budget so we can quickly react and provide support where most needed.

**3. What is the plan for the development of the railway station at Teesside Airport?**

The initial investment is to upgrade the station. It's not cost effective to move the station closer to the airport terminal so we will focus on a solution to redevelop the station and have means of transporting passengers quickly and easily to the terminal. The development of the terminal is ongoing and is needed to accommodate the increase in passengers associated with route development and securing a low-cost carrier, but we need the infrastructure and connectivity to be there also. The Transport Plan is looking at Rail network across the Tees Valley as a whole and this station development is part of this.

**4. Have there been any particular problems exposed due to only having a 1-year CSR settlement rather than 3 year this time?**

Certainty is obviously more helpful over the medium term for planning ahead. However, we will focus on what we expect to do in the near term. We will still look at what we need for the 10-year investment plan also, but it just means we don't have finalised locked down Government allocation for grants. We are confident we will get the next 5-year devolution funding following a positive independent review piece of work by the Governments advisers SQW. A copy of this paper was presented to Cabinet in November 2020. We had hoped to see another medium term set of allocations. We are still progressing, still planning and enabling, it's just not as helpful in allowing us to commit to things sooner rather than later.

**5. Is there a particular issue around UKSPF given this is now a bidding process rather than an allocation?**

It is being done as a pilot initially for this one year. Business and Skills Director Chris Beck clarified that the allocations from the pilot are in addition to what we currently receive for European funds as European funding does not expire until 2023. Ideally, we would want to see a 3-4-year allocation to give us stability but it's not working in this way currently due to the impact of Covid. We can offer reassurance that we are doing as much analysis as we can to look at what we received previously and what we need in future but as of yet we don't know the allocation.

**6. Do we know what projects or activities are not being funded that we now have to bid for?**

The Shared Prosperity fund starts next year but the European funding doesn't stop until March 2023. It is therefore not replacing any European projects until March 2023. We are still working through what we are bidding for. Some will be for replacing current activities whilst some funding will be directed towards new activity. The larger European money, for example in skills and business support such as Business Compass only started in July this year and runs until 2023. We won't be expecting to bid until this time next year for an extension to these projects.

**7. Does this mean that our response to Covid can't be as complete as we would like it to be because we aren't clear about our funding going forward?**

In the short term the answer is no as there is the overlap of funding. In the Medium Term to Longer Term we need more certainty on funding for some initiatives. For the immediate period and up to 2023 funding is in place and we will use the information we have to target the right areas with this funding. We are being very fleet of foot in accessing support funding and getting this out to businesses and people. There is flexibility within the programmes to meet Covid requirements, subject to European funding rules, and we have optimised funding based on these rules. The short-term business support sits within the LA's. We work closely with these colleagues to maximise what we do through joint working.

**8. What does the 1-year settlement mean with regard to certainty of projects?**

European funding received is already against projects so those are not exposed as we have already committed to the level of funding we have. Continuity beyond this is the issue. We will need to make a decision closer to 2023, and once we know if funding is coming in, whether we continue with specific projects or reprioritise for better value for money. There are also exit costs to bear in mind if projects don't continue. We have certainty in a lot of the skills and business programmes but what is changing now is that there is lots of short-term funding coming into the Authority for different types of support for businesses due to Covid. We are managing tactically the flow of money and things are stable. We are not that far off the normal cycle.

**9. Beyond European funding what proportion of the budget is left uncertain?**

Our investment plan is over the 10-year period. As well as investment grants, devolution funding also comes in and that helps finance any form of borrowing for the Investment plan. It gives stability to the investment plan and allows us to borrow against this. Each area is reliant on grants from Government, but it depends on their proportion of Government grants being brought in at any given time. We tend to use European funds for very specific projects and in other areas leverage borrowing, more so for infrastructure items. It's important to link in to the overall £1.6billion of funding. We are not complacent with this and are constantly looking at what we depend on from European funding.

**10. Is it correct that in the table shown (Paragraph 11) there is a mix of certainty and uncertainty and also an assumption that things will continue?**

If you look at the AEB line as an example, this is only allocated every year and by academic year. To look at it one way none of that line is secured but then to not give the money would need to go through a number of procedures. It is classed as unsecured, but we would never commit to spending it until it was secured. We don't put the breakdown of elements in the table as this is subject to various bidding and negotiation processes with central Government. European money included in the table is only based on actuals that we have secured. The reality is we will get some Government funding in the future, but the issue is sufficiency, what we need to use for recovery plans etc.

**11. Is everything in the column for 2021/22 - £346m all secured?**

Yes, that's all secured funding

**12. The devolution £15m is used to fund borrowing. If we were to lose significant amounts of Government grants then what element of the £15m is left to invest in revenue spend or is it all allocated to borrowing?**

It is not committed, there is a headroom amount. Beyond the investment plan 10-year period there is £85m that will be available.

**13. Does that mean then that there is no headroom until 10 years' time, not even for an emergency response?**

We haven't committed to borrowing yet. There would be no headroom if we were to leverage the money and incur borrowing within this Investment Plan period but if there is an issue and a need to be agile and flexible then we can be as we haven't committed the expenditure and consequential borrowing yet. When it comes to decision making about the Investment plan there is still flexibility in that 10-year period as to what we fund and pay for. If we want to change things and the mix of revenue and capital then we can but the consequence of that is we can't leverage as much borrowing.

**14. Have the Sector action plans been reviewed and updated to account for changes post Covid and indeed are the priority sectors still the same or do they need to change?**

Pre Covid we were working hard to get the Local Industrial Strategy over the line. This work reaffirmed what was in the original SEP. We will need to refresh this now. All the work from Vivid came with one



big caveat, which was “subject to no second wave”. The time to therefore do the refresh work will be once we are out of Covid, so we have clear visibility of which sectors will need help. We will also be able to see how sectors have bounced back and where there is scarring, and how we can then intervene. Where there are Industrial Strategies, such as clean growth as an example, we won’t change those as they are areas we need to develop. In areas of development we are actively applying for funding. Clean energy, offshore wind, Freeport etc. We need to continue with these as they will be good for the economy and we therefore wouldn’t want to deprioritise them. Others we may need to look at post Covid and make some strategic decisions. The LIS focus remains on green, clean growth, bio manufacturing, digital & financial services etc. We have a lot of strategy work aligned to these areas as that’s where we get a lot of support.

**15. The Freeport is likely to attract investment to the area. Has the revenue implication of a Freeport been factored into this budget or is it too early to tell?**

The Bid is open and the deadline for bidding calls is 4<sup>th</sup> Feb. We are currently working on our bid for this. The Business rates will actually be paid for by Government in full. This will be paid by Government direct to the Local Authority. So, for example, if a business goes onto Wilton then the business rates will go to RCBC.

