

AGENDA ITEM 7**REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET****24 SEPTEMBER 2021****REPORT OF THE DIRECTOR OF FINANCE AND RESOURCES****QUARTER 1 BUDGET REPORT AND MEDIUM-TERM FINANCIAL PLAN
UPDATE****SUMMARY**

The purpose of this report is to provide an update on the financial position of the Combined Authority for the period ending 30 June 2021 and present a revised Medium-Term Financial Plan (MTFP).

RECOMMENDATION

It is recommended that the Combined Authority Cabinet:

- i. Note the quarter 1 financial position as of 30 June 2021: and
- ii. Approve the revised Medium-Term Financial Plan.

DETAIL

1. This report sets out the quarter 1 financial position for 2021/22 and the medium-term financial plan (MTFP). The Budget presents all forecast funding and expenditure for the plan period.
2. Other specific funding that has been secured to deliver projects and programmes since the budget was approved has been incorporated into the investment plan.

EXPENDITURE

3. The below table summarises the projected expenditure across the medium term and the investment plan period.

Table 1	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Transport	42,944	80,026	81,060	20,301	15,407	105,744	345,482
Education, Employment & Skills	48,287	56,266	40,109	35,613	35,613	142,447	358,335
Business Growth	68,458	155,802	50,286	14,740	4,430	15,221	308,937
Culture & Tourism	2,176	19,786	18,730	11,465	9,043	650	61,850
Innovation & Clean Growth	1,680	69,547	4,415	1,539	618	1,577	79,376
Place	4,673	34,396	28,702	19,044	1,362	0	88,177
Investment Plan Total	168,218	415,823	223,302	102,702	66,473	265,639	1,242,157
Concessionary Fares	15,846	15,985	15,985	15,985	15,985	63,943	143,729
Commercial Projects	744	18,969	8,805	475	623	1,086	30,702
Research & Evaluation	194	121	125	0	0	0	440
Core Running Costs	4,807	5,419	4,813	4,813	5,413	19,852	45,117
Costs of Borrowing	2,010	3,016	7,594	11,442	13,015	80,774	117,851
TOTAL EXPENDITURE	191,819	459,333	260,624	135,417	101,509	431,294	1,579,996

- Since the previous MTFP report was approved by Cabinet additional funding has been secured to deliver specific projects and programmes across the period.
- A reconciliation of these additional funds is provided below with all values shown representing the total additional allocations over the investment plan period. Further details are provided in the appropriate thematic section of the report.

Table 2	Transport	Business Growth	Innovation & Clean Growth	Total
Project	£'000	£'000	£'000	£'000
Business Support	0	139	0	139
Travel Demand Management	75	0	0	75
City Region Sustainable Transport Settlement	3,500	0	0	3,500
Bus Partnership	100	0	0	100
Energy Hub	0	0	316	316
Public Sector Decarbonisation	0	0	749	749
Net Zero Teesside	0	0	360	360
TOTAL	3,675	139	1,425	5,239

- As a result of these changes the total expenditure budget over the investment plan period has increased by £5.2 million from £1,574.8 million to £1,580 million.

7. The previously forecasted outturn for 2021/22 was £456.9 million. The new funded projects set out in table 2 include £4.7 million of expenditure in 2021/22. In addition to this there has been re-profiling exercise which has resulted in reduction of £2.3 million in expenditure for 2021/22. This gives a revised forecast for the year of £459.3 million.
8. Spend at the end of quarter 1 was £88.8 million which equates to 19% of the forecasted outturn of £459.3 million.

Transport

Investment Plan	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	43,064	76,231	81,060	20,301	15,407	105,744	341,807
Adjustments for Funding Changes (table 2)	0	3,675	0	0	0	0	3,675
Reprofiling	-120	120	0	0	0	0	0
TOTAL	42,944	80,026	81,060	20,301	15,407	105,744	345,482

9. The Authority has been awarded £3.5 million from DfT to support with preparations for City Region Sustainable Transport Settlement commencing in financial year 2022-23. The aim of this funding is to assist the Authority in building longer term local transport planning and delivering capacity.
10. An additional £0.1 million was secured for Travel Demand Management support to assist in managing the impact of Covid on transport for schools and colleges.
11. In April the Authority was awarded £0.1 million grant is to support the development of local bus proposals as outlined in the National Bus Strategy towards the development of Enhanced Partnership Schemes or franchising scheme, and Bus Service Improvement Plans (BSIP) work.
12. The actual position at quarter 1 is £24.6 million which accounts for 31% of the revised forecasted outturn for 2021/22 of £80 million. Projects are progressing in line with budgeted profiles and expenditure is expected to remain on track as new projects and programmes commence throughout the year.

Education, Employment & Skills

Investment Plan	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	44,001	60,523	40,138	35,613	35,613	142,447	358,335
Adjustments for Funding Changes (table 2)	0	0	0	0	0	0	0
Reprofiling	4,286	-4,257	-29	0	0	0	0
TOTAL	48,287	56,266	40,109	35,613	35,613	142,447	358,335

13. The actual position at quarter 1 is £11.9 million which accounts for 21% of the revised forecasted outturn for 2021/22 of £56.3 million. Capital projects, Northern School of Art Middlesbrough Relocation and Northern Studios, are progressing at pace with completion due in late Summer.

Business Growth

Investment Plan	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	64,548	156,070	53,789	14,740	4,430	15,221	308,798
Adjustments for Funding Changes (table 2)	0	139	0	0	0	0	139
Reprofiling	3,910	-407	-3,503	0	0	0	0
TOTAL	68,458	155,802	50,286	14,740	4,430	15,221	308,937

14. During the year £0.1 million additional funding has been secured in addition to previous Business Support programmes providing targeted local support and advice to businesses.

15. The actual position at quarter 1 is £39 million which accounts for 25% of the revised forecasted outturn for 2021/22 of £155.8 million. Expenditure is currently in line with forecasted profile with works at the Development Corporation progressing at pace.

Culture & Tourism

Investment Plan	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	2,667	19,295	18,730	11,465	9,043	650	61,850
Adjustments for Funding Changes (table 2)	0	0	0	0	0	0	0
Reprofiling	-491	491	0	0	0	0	0
TOTAL	2,176	19,786	18,730	11,465	9,043	650	61,850

16. The actual position at quarter 1 is £0.5 million which accounts for 2.5% of the revised forecasted outturn for 2021/22 of £19.8 million. Although expenditure to date is low currently the business Cases for Hartlepool Waterfront, Darlington Railway Heritage Quarter and the Growth Programme for Creative and Visitor Economy are all progressing, and once approved expenditure is forecast to increase significantly towards the back end of the year.

Innovation & Clean Growth

Investment Plan	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	1,650	68,674	3,893	1,539	618	1,577	77,951
Adjustments for Funding Changes (table 2)	27	876	522	0	0	0	1,425
Reprofiling	3	-3	0	0	0	0	0
TOTAL	1,680	69,547	4,415	1,539	618	1,577	79,376

17. The Energy Hub has secured £0.7 million grant funding from the Public Sector Decarbonisation Skills Fund along with a further £0.3 million for hub delivery. The purpose of this fund is to provide funding to the towards expenditure on staff with skills and expertise that will be used to help public sector organisations to identify and deliver building energy efficiency and decarbonisation measures with a focus on reducing direct emissions; or to develop net zero organisational plans in the public sector.
18. Funding to the value of £0.4 million has been secured from Innovate UK from the ISCF decarbonisation of industrial clusters phase 2 grant fund.
19. The actual position at quarter 1 is £0.5 million which accounts for 1% of the revised forecasted outturn for 2021/22 of £69.5 million. Expenditure to date is lower than anticipated due to delays in commencement of the BEIS for the Green Homes Local Authority Delivery (LAD) phase 2 programme. This accounts for £53 million of the overall forecast and is being delivered by the 31 Local Authorities that make up the North East, Yorkshire and Humber region. This is being monitored closely alongside the delivery plans submitted by each Authority.

Place

Investment Plan	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	4,852	34,396	28,523	19,044	1,362	0	88,177
Adjustments for Funding Changes (table 2)	0	0	0	0	0	0	0
Reprofiling	-179	0	179	0	0	0	0
TOTAL	4,673	34,396	28,702	19,044	1,362	0	88,177

20. The actual position at quarter 1 is £4.4 million which accounts for 13% of the revised forecasted outturn for 2021/22 of £34.4 million. Approvals against the Indigenous Growth and Brownfield Housing Programmes have progressed during the year and expenditure is forecast to accelerate on these individual projects throughout the year.

Expenditure that sits outside the Tees Valley Investment Plan 2019-29

Concessionary Fares

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	15,846	15,985	15,985	15,985	15,985	63,943	143,729
Adjustments for Funding Changes (Table 2)	0	0	0	0	0	0	0
Reprofiling	0	0	0	0	0	0	0
TOTAL	15,846	15,985	15,985	15,985	15,985	63,943	143,729

21. The actual position at quarter 1 is £3.9 million which accounts for 24% of the revised forecasted outturn for 2021/22 of £16 million.

Commercial Projects

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	2,499	17,214	8,805	475	623	1,086	30,702
Adjustments for Funding Changes (Table 2)	0	0	0	0		0	0
Reprofiling	-1,755	1,755					0
TOTAL	744	18,969	8,805	475	623	1,086	30,702

22. The commercial projects section of the MTFP contains two projects currently Southside Development at Teesside International Airport and the Tees Valley Waste project loan to the constituent Local Authorities in respect of procurement costs that will begin to be recovered once the project is live.

23. The actual position at quarter 1 is £1.8 million which accounts for 10% of the revised forecasted outturn for 2021/22 of £19 million.

Research and Evaluation

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	165	150	125	0	0	0	440
Adjustments for Funding Changes	0	0	0	0	0	0	0
Reprofiling	29	-29	0	0	0	0	0
TOTAL	194	121	125	0	0	0	440

24. To assess impact and inform future funding requirements a budget for research and evaluation was set aside. This includes the expenditure associated with the Government Gateway evaluation which was carried out by SQW.

CORE COSTS

25. The table below sets out the forecasted outturn position of core costs for 2021/22.

Core costs	Budget	Forecasted Outturn	Variance
Salaries (incl Ni & Pension)	3,899,945	3,873,193	-26,752
Other Staffing Costs	15,000	15,000	0
Total Staff Costs	3,914,945	3,888,193	-26,752
Premises	335,000	338,202	3,202
General Running Costs	408,967	432,517	23,550
Marketing & Communications	160,000	160,000	0
Mayoral Election	600,000	600,000	0
Non-Salary Expenditure	897,967	897,967	0
TOTAL EXPENDITURE	5,418,912	5,418,912	0

26. Whilst there are minor overspends projected under some headings these are offset by savings elsewhere resulting in a break-even position.

COST OF BORROWING

27. The 2021/22 budget approved the use of the Combined Authorities borrowing powers to deliver the Investment Plan. The arrangements for Combined Authority borrowing are set out in the annually agreed Treasury Management Policy. The loan repayments are made up of the minimum revenue provision (MRP) which is calculated based on the methodology set out in the Treasury management statement based on the capital financing requirement and interest on the actual external borrowing taken out.
28. The Authority minimises its costs of borrowing by utilising internal resources where required, sometimes known as internal borrowing, this reduces risk and keeps interest costs low. The calculations have been updated based on the latest profile of required borrowing requirements. As part of prudent financial planning the Authority is required to set aside MRP for the repayment of debt. This has been reviewed considering current delivery profiles and subsequent debt requirement.

FUNDING INCOME

29. The below tables summarise the forecast funding across the medium term and the investment plan period.

Summary

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	2020/21
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Budget	186,152	456,930	263,455	135,417	101,509	431,294	1,574,757
Funding Adjustments	27	4,690	522	0	0	0	5,239
Reprofiling	5,640	-2,287	-3,353	0	0	0	0
TOTAL	191,819	459,333	260,624	135,417	101,509	431,294	1,579,996

Breakdown

Revised Funding Forecast	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26 – 28/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Local Growth Fund	14,217	0	0	0	0	0	14,217
Devolution	15,000	15,000	15,000	15,000	15,000	60,000	135,000
Enterprise Zones	2,266	5,206	5,451	5,562	5,882	25,080	49,447
Transforming Cities Fund	18,000	24,000	37,556	6,400	4,376	58,768	149,100
Loan Repayments & Investment returns	698	3,289	3,863	2,678	4,874	9,413	24,815
Government Grants	49,693	185,796	43,321	20,481	12,793	45,010	357,094
Adult Education Budget	29,627	34,386	32,645	30,613	30,613	122,450	280,334
Local Transport Plan	13,930	11,336	11,336	11,336	11,336	45,344	104,618
Concessionary Fares	15,994	15,837	15,985	15,985	15,985	63,943	143,729
Borrowing	36,000	113,959	72,772	27,166	333	0	250,230
Movement -to / from reserves	-3,606	50,524	22,695	196	317	1,286	71,412
Total	191,819	459,333	260,624	135,417	101,509	431,294	1,579,996

30. Since the last report to the Combined Authority additional funding to the value of £5.2 million has been secured to deliver specific projects and programmes over the period. This has resulted in changes to the total income.

RESERVES

31. The Combined Authority holds two classifications of usable reserves these are non-ring-fenced funds which have been received but not yet applied and the General Balance Reserve. The Combined Authority manages overall resource requirements by reference to the MTFP and overall Investment Plan.
32. In April 2020 there was a balance of £71.4 million of available funds held in reserve for future investments. It is anticipated that these will be utilised throughout the investment plan period to support the delivery of the investment plan, as set out in the table in paragraph 28.
33. Good practice guidance for Local Authorities is that a proportion of net revenue expenditure should be held in the General Balance Reserve to manage risk and any unforeseen circumstances. The Combined Authority manages overall resource requirements by reference to the MTFP and overall Investment Plan and the general reserve stands at £1.058 million.

BORROWING

34. The Capital Financing Requirement (CFR) shows the underlying need to borrow to fund capital investments. The Authority's chief objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Therefore, the actual timing of the borrowing may not always follow the profile of the CFR as the Authority looks to strike this balance, otherwise known as "internal borrowing".
35. Within the period the total CFR to deliver the Investment Plan and fund commercial projects is £250.2 million.
36. Adding the above borrowing requirement to the balance carried forward for borrowing gives a borrowing level of £292.2m which remains unchanged from the previously approved amount. This is well within the Government agreed borrowing caps of £774 million.
37. The repayments for the borrowing are affordable and can be financed from revenue funding received both during and beyond the investment plan period.

MEDIUM TERM FINANCIAL PLAN 2020-24

38. Funding and expenditure for the plan period, including the proposed 2020/21 budget is summarised in the medium-term financial plan as set out in **Appendix A**.

FINANCIAL IMPLICATIONS

39. This report gives an update on performance against the budget for the Combined Authority, updates the Medium-Term Financial Plan and Investment Plan forecasts.

LEGAL IMPLICATIONS

40. There are no legal implications associated with the recommendations within this report.

RISK ASSESSMENT

41. This Budget Report has been re-categorised as medium risk to reflect the updated work on the implementation of our group risk management strategy. The group corporate risk register has been updated to reflect funding uncertainty from Government. The Combined Authority has made submissions and representations to Government on UK Shared Prosperity and Levelling Up funding and will continue this dialogue into the next comprehensive review round this autumn. The existing management systems and daily routine activities are sufficient to control and reduce risk.

CONSULTATION & COMMUNICATION

42. Tees Valley Management Group, Chief Executives and the Local Enterprise Partnership have been consulted on this report.

EQUALITY & DIVERSITY

43. There are no equality and diversity implications associated with the recommendations in this report. Specific proposals associated with business cases and Investment Plan funding draw down will consider these implications where applicable.

LOCAL ENTERPRISE PARTNERSHIP

44. This item has been considered at the LEP meeting in advance of it coming forward to Cabinet.

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Medium Term Financial Plan 2021-25

MEDIUM TERM FINANCIAL PLAN	2021/22	2022/23	2023/24	2024/25	TOTAL
	£'000	£'000	£'000	£'000	£'000
Funding	294,850	165,157	108,055	100,859	668,921
Borrowing	113,959	72,772	27,166	333	214,230
TOTAL FUNDING	408,809	237,929	135,221	101,192	883,151
Investment Plan	415,823	223,302	102,702	66,473	808,300
Concessionary Fares	15,985	15,985	15,985	15,985	63,940
Commercial Projects	18,969	8,805	475	623	28,872
Research & Evaluation	121	125	0	0	246
Core Running Costs	5,419	4,813	4,813	5,413	20,458
Costs of Borrowing	3,016	7,594	11,442	13,015	35,067
TOTAL EXPENDITURE	459,333	260,624	135,417	101,509	956,883
TRANSFER TO / FROM RESERVES	-50,524	-22,695	-196	-317	
Reserves Opening Balance	75,108	24,494	1,799	1,603	
Transfer To / From Reserves	-50,524	-22,695	-196	-317	
RESERVES CLOSING BALANCE	24,494	1,799	1,603	1,286	