

**AGENDA ITEM 6**

**REPORT TO THE TEES VALLEY  
COMBINED AUTHORITY CABINET**

**23 NOVEMBER**

**REPORT OF THE  
MANAGING DIRECTOR**

**PORTFOLIO: INVESTMENT**

**BUDGET 2018-19 AND INVESTMENT PLAN**

**SUMMARY**

The Combined Authority is required to set out its Budget on an annual basis, and to consult publicly before its submission to Cabinet. We are also committed to review the Investment Plan, previously agreed in March 2017, in the light of new developments including the election of the Tees Valley Mayor. Together the Budget and Investment Plan provide the financial framework within which the Combined Authority will operate in the forthcoming financial year (2018-19) and over the medium-term. This report seeks approval from Cabinet for the publication of a draft Budget, and to proposed revisions to the Investment Plan. The Budget and Investment Plan will come back to Cabinet in February 2018 for approval on the terms set out in our constitution.

**RECOMMENDATIONS**

It is recommended that the Combined Authority Cabinet:

- i. Notes the draft Budget and refreshed Investment Plan; and
- ii. Agrees to publish the Budget in draft for public comment, and to actively seek views from stakeholders.

## TEES VALLEY COMBINED AUTHORITY BUDGET AND INVESTMENT PLAN

1. The Tees Valley Combined Authority was created in April 2016 and agreed its first Investment Plan in March 2017. For the first time, the Tees Valley was able to bring together multiple government funding sources, previously determined in Westminster and Whitehall, into a “single pot” for local decision-making. The Investment Plan described how £464 million of investment was being invested through a 5 year programme from 2016-2021. The Investment Plan also demonstrated how the Combined Authority would:
  - actively support project development;
  - respond flexibly to opportunities;
  - build an asset base to be used for future re-investment;
  - seek innovative partnership and commercial funding models;
  - continue to secure further resources into the local fund;
  - explore borrowing powers and take a commercial approach to assessing and managing risks;
  - invest in strong proposals for the best value for money; and
  - work to the agreed Assurance Framework.
  
2. The Combined Authority also committed to refresh the Investment Plan in autumn 2017, to reflect new priorities established by the first elected Tees Valley Mayor, and other developments. Following the review by the Mayor, we remain committed to the priorities set out in March 2016 and as a result are not proposing any change in the allocation of funds across our core themes, except to the extent that new funding has been secured.
  
3. The Combined Authority has made significant progress over the last six months in obtaining additional funding. As a result, the revised Investment Plan needs to reflect £19 million of additional funding secured for the Tees Valley, made up of:
  - £11 million of finance for business, allocated to the Tees Valley Combined Authority as a return from investment by previous North East regional funds;
  - £6 million of funding from Government to create the Routes to Work programme, to help people most distant from the labour market to find work;
  - £1.5m Great Places funding from Government to fund culture and tourism events in the region;
  - £0.2m funds from BEIS to contribute towards our existing growth hub service; and
  - £0.2m from Government to extend the careers and enterprise programme.
  
4. Since March 2017, the Combined Authority Cabinet has continued to make commitments in line with its Investment Plan priorities, committing a further £23 million to projects, including:
  - £7 million of Development Funding on proposals for future investment;
  - £7.5 million on Routes to Work;
  - £1.5 million to deliver the Great Places initiative;
  - £1.8 million from the Culture Programme;
  - £2 million in grants to support apprenticeships;
  - £2.3 million on local transport projects; and

- £1 million on other smaller investments.
5. Other adjustments to the funds available in the Investment Plan have been made as a result of external circumstances, being:
- a lower estimate of income from retained business rates from Enterprise Zones, of £4 million (2017-21), due to reductions in the rateable value of business properties compared to initial estimates; and
  - a £2 million reduction in funds as a result of fall in the value of Sterling compared to the Euro.
6. In addition, in October 2017 the Combined Authority secured £8 million in investment for local roads, which will be channelled directly to the lead local authorities so will not form part of the investment Plan. There are also further proposals in the pipeline to Government, including for investment in housing growth, in demonstrating Carbon Capture and Storage technology, and for major transport infrastructure. As and when these proposals are successful, their resource implications will be reflected in future versions of the Investment Plan.
7. The table below summarises the revisions to the Investment Plan since it was first published in March 2017. In total, the resources available to the Combined Authority over the five year period (2016-21) are now estimated at £477 million, of which £266 million has been committed to projects and programmes. This includes the Tees Valley's European funds, which have been guaranteed by Government through the Brexit process.

Summary	Total Funds Secured (£million)	Commitments (£million)	Available Funds (£million)
<b>Investment Plan Review - October 2017*</b>			
Direct TVCA Resources	£306	£196	£110
European Funding	£171	£70	£101
<b>Total Revised Investment Plan</b>	<b>£477</b>	<b>£266</b>	<b>£211</b>
<b><i>Changes Include:</i></b>			
<i>Additional Direct Resources</i>	<i>+</i> £19	<i>+</i> £23	<i>-</i> £4
<i>Enterprise Zone Income Change</i>	<i>-</i> £4	<i>n/a</i>	<i>-</i> £4
<i>Euro Exchange Rate</i>	<i>-</i> £2	<i>n/a</i>	<i>-</i> £2
<b><i>Net Change</i></b>	<b><i>+</i>£13</b>	<b><i>+</i>£23</b>	<b><i>£-10</i></b>

## European Funding

8. European funding will come to an end when the UK leaves the European Union. The government has, however, guaranteed that any financial commitments entered into before April 2019 will be covered by the UK government after Brexit. On this basis

we have continued to support the delivery of the Tees Valley's £170 million European Structural and Investment Funds (ESIF) allocated for the 2014-2020 period.

9. Following Cabinet agreement, the Combined Authority has applied for Intermediary Body (IB) Status for ESIF funding, which will give us greater involvement in the preparation and issuing of calls for projects and in the appraisal of projects. IB status for ERDF (business support, innovation, ICT and low carbon activity) has now been confirmed by DCLG and it is anticipated to be confirmed by DWP for ESF (skills and employment) activity shortly.
10. We will continue to maximise all opportunities to utilise the ESIF funds and encourage partners to develop proposals. The key challenge for most organisations is the availability of match funding, and we will work within our Investment Plan to facilitate the use of these funds for activities that will support the delivery of our Strategic Economic Plan.
11. We currently have £101 million of European Funds available and the next round of calls are due to be launched in December. The current pipeline for European funding is £34.4 million with a minimum requirement for £14 million match from these proposals. The Combined Authority will review its obligations in respect of match funding, and, if appropriate, will suggest changes to funding allocations to allow us to maximise the use of these funds.

#### **Teesside Pension Fund**

12. A Memorandum of Understanding has been signed with the Teesside Pension Fund (TPF), through which £200 million has been identified for investment in the area, to be delivered alongside the Combined Authority's own Investment Plan.
13. We are working with the TPF and its fund managers to establish projects from within our Investment Plan that would meet its investment requirements, with the intention of co investing. A number of current Expressions of Interest have been shared with the Fund's managers and advisers, and active discussions are under way between the Combined Authority, several of its partners and the fund managers to assess the potential suitability of those projects for investment in line with the Fund's investment parameters.

#### **South Tees Development Corporation**

14. South Tees Development Corporation was established on 1 August 2017 to develop the South Tees site in Redcar. The Masterplan for the site was officially launched on 18 October 2017 and STDC is currently engaging in public consultation on its plans.
15. We are working with the Board of STDC and civil servants at BEIS and DCLG to agree a funding package for the Development Corporation for the next 3 years which will allow it to work on site assembly, including (if required) utilising its compulsory purchase powers, as well as bring early investors to the site to kick start development. The Tees Valley Mayor has also held discussions with ministers. To ensure we can make progress in preparation for future development, we have made available £750,000 of development funding in the current year.

## **Project Development**

16. The Combined Authority is developing a future pipeline of investments, in response to proposals from partners, including the five constituent councils. There is currently an active pipeline of 31 proposals amounting to £152 million currently under assessment; although we expect this figure to fall as we work with partners to review, prioritise and explore alternative funding sources for those projects where this is appropriate.
17. The Combined Authority cabinet recognised at an early stage that providing resources to fund this type of development is a significant enabler to bringing major infrastructure projects forward on a timely basis. To allow this to happen it set up the £7 million Development Fund with delegated authority to the Combined Authority Managing Director, in consultation with the Mayor, to authorise up to £1 million on individual projects that meet the criteria.
18. The Development Fund has proved very valuable in allowing the Tees Valley to develop, challenge and refine proposals before they are brought to Cabinet for agreement. The Development Fund also allows the Combined Authority to strengthen the business cases for proposals to central government, and contributes to the high success rate of those proposals in securing additional investment. As projects supported by the Development Fund come forward successfully for investment, they repay the Development Fund, thereby recycling resources for re-investment into other projects.
19. Due to the success of the Development Fund which is now fully committed, it is proposed to supplement it by an additional £3 million, bringing the total funding available to £10 million (for allocation up to 2021). This would be financed by transferring the £3 million previously allocated under the Investment Plan for “flexible delivery” into the Development Fund. The Combined Authority Cabinet has now established a framework for devolved decision-making which can support the flexible response to urgent priorities from mainstream sources, and a separate flexible fund is therefore no longer necessary.
20. Further details of the programmes supported by the Development Fund are set out in Annex B. We expect some of the projects currently under development to come forward for decision over the next few months. The Combined Authority also continues to welcome additional Expressions of Interest from public and private sector partners, where there is a clear link to the delivery of the Strategic Economic Plan, and a strong business case for investment. Expressions of Interest can be submitted at any time. Initially we envisaged quarterly calls for partners to submit proposals within pre-set windows, but experience with the first round of proposals suggests that an open window approach will allow us to be more responsive to opportunities and accelerate delivery.

## **Finance for Business**

21. This Investment Plan makes progress on the proposal to improve access to finance for business, by bringing forward new proposals for additional support for Tees Valley businesses seeking investment. Plans involve allocating £11 million of funding recycled from previous regional ERDF funded investments, including the North East Jeremie Fund, which adds to the existing approved £5 million business support allocation within the Investment Plan, to provide an initial £16 million funding allocation to business for propositions that are unable to access finance from other sources. This will be an important addition to our available funds, to ensure that

businesses that are able to grow and contribute to wider economic growth are not constrained by an inability to access funding to support their plans.

22. We intend to appoint a dedicated Business Finance Advisor who will co-ordinate access to this and the other funds (including the Northern Powerhouse Investment Fund), as well as working with the private sector to ensure that businesses can find the right funding for their requirements.

### **Sector Action Plans**

23. We commissioned the production of Action Plans covering 7 key sectors, delivered by independent economic consultants, Regeneris, working with businesses across the region. The purpose of this exercise was to provide a sectoral analysis in relation to the Combined Authority's published 25,000 jobs target as well as to identify actions that need to be undertaken to take these matters forward. These Action Plans are not primarily about financial allocation and will be brought to Cabinet in the near future. This budget includes a financial allocation of £2 million to cover the financial implications identified in the work to date.

### **Additional Priorities**

24. In addition to the programmes set out in this Investment Plan, the Tees Valley Mayor has made some specific additional commitments in his election campaign, which are currently under development by the Combined Authority. These include:

- A proposal to secure the future of Durham Tees Valley Airport. Initial discussions are underway with the current airport owners to secure a solution that is sustainable, viable and reflects value for money. Subject to progress with these discussions, proposals would then be brought forward to the Combined Authority Cabinet for approval; and
- Proposals to establish a viable and sustainable new garden town settlement. The Combined Authority is working closely with the Homes and Communities Agency on an initial assessment of the scope, scale and location of a new settlement. Further details will be brought forward when this assessment is complete.

### **Investment Themes**

25. The Combined Authority's Investment Plan published in March 2017 made indicative allocations of funding between the key themes of the Strategic Economic Plan. Revised allocations are summarised in the table below. Since March 2017, allocations have been adjusted to reflect:

- the additional funds £19 million secured by the Combined Authority, as set out in paragraph 3 above;
- re-assignment of £21 million of European Funding from Business Growth to Research and Development, Innovation and Energy to reflect a realignment of European priorities for these funds;
- a reduction of European Funding for Skills and Employment of £2 million, due to fluctuations in the exchange rate; and
- reductions in Enterprise Zone Income of £4 million, resulting in less available funding for enabling infrastructure.

26. No other changes are proposed. The broad priorities established by the March 2017 Investment Plan therefore remain on track, and no fundamental change to relative priorities is currently proposed.

<b>INVESTMENT THEME SUMMARY 2016/17 – 2020/21</b>					
<b>Theme</b>	<b>Notional Allocation £m</b>	<b>Committed Funds £m</b>	<b>Available Funds £m</b>	<b>TVCA Funds £m</b>	<b>ESIF £m</b>
Business Growth	105	48	57	23	34
Research, Development, Innovation & Energy	81	44	37	12	25
Education, Employment & Skills	116	60	56	15	41
Culture	12	3	9	8	1
Transport	115	94	21	21	0
Enabling Infrastructure	37	10	27	27	0
Project Development	10	7	3	3	0
Evaluation	1	0	1	1	0
<b>TOTAL</b>	<b>477</b>	<b>266</b>	<b>211</b>	<b>110</b>	<b>101</b>

27. The next sections of this report set out in more detail the latest position on each of the Investment Plan themes, identifying new developments and up-coming opportunities.

### **Business Growth**

28. Significant improvements have been made in the provision of business support through the expansion of Tees Valley Business Compass, and to access to finance for business through the establishment of the Northern Powerhouse Investment Fund. However, there are opportunities to develop more targeted approaches to supporting scale-up and potential scale-up businesses.

29. The Tees Valley has participated in a number of previous regional Access to Finance funds, which successfully lent money to businesses, who later repaid those loans. Where European Funding was involved, the agreements establishing the Funds specified that, providing certain conditions were met, recycled loans could remain within the region for further re-investment. The Tees Valley Combined Authority is now in a position to secure the benefit of that recycled funding support business growth, and to address gaps in the financial support currently available to local businesses. Additionally, existing single pot funds can be utilised to provide very flexible access to finance where other funds are not appropriate. By bringing together £11 million available from legacy funds, alongside £5 million identified from the Investment Fund, we propose to create a new business finance facility. This

additional £16 million funding could leverage a further £35 million of private investment.

### **Research, Development, Innovation & Energy**

30. With the launch of the Clean Growth Strategy, industrial decarbonisation is becoming an increasingly important Government priority, along with the decarbonisation of heat and transport. Tees Valley is uniquely positioned to offer the opportunity to develop, pilot, and commercialise new technologies needed for significant decarbonisation and position itself as a test bed for the UK and are in discussions with Government about bringing forward a proposal.
31. We are developing district heating projects which utilise waste industrial heat and will aim to take these projects through to delivery in 2019. We are working in partnership with other public sector bodies to provide a comprehensive scheme that will benefit the Tees Valley economy as well as contributing to the alleviation of fuel poverty.
32. The Government has announced £23 million for hydrogen refuelling stations and a £25 million fund to investigate the safety case for using hydrogen to heat residential houses; coupled with a £15 million bid to Ofgem by Northern Gas Networks. We would expect a proportion of this funding to be invested in the region and the Combined Authority.
33. Government has announced a Heat Recovery Fund aimed at supporting industrial companies to recover and use heat. We will be supporting companies to apply for this support.

### **Education, Employment & Skills**

34. The Combined Authority, working with its partners and local businesses, will focus on creating clear pathways for young people from education into good quality jobs and creating a skills system that provides business with the skills they need to grow. We will shortly be publishing the results of our plan to build the skills we need for a modern economy in the Tees Valley through our Inspiring our Future document.
35. To achieve this we will:
  - support innovation and collaboration between schools in addressing common challenges;
  - reduce the skills gaps experienced by employers in high growth sectors;
  - help businesses create more, higher level apprenticeships, leading onto high quality jobs;
  - expand the opportunity for young people to take up apprenticeships and access high quality technical education;
  - improve skill routeways to entry level and good, progressive jobs;
  - support people most distant from the labour market to secure and retain work;
  - improve and extend high quality Careers Education for all;
  - work with businesses to identify and plan for their future skills demands;
  - ensure local communities have access to high quality college and training facilities; and
  - enhance the role the Tees Valley's Higher Education institutions play in delivering economic growth.
36. In delivering all of these priorities we will ensure that business plays a leading role in setting priorities, identifying barriers, and delivering better outcomes, and that high

quality evaluation and research drives future improvements and helps the Tees Valley learn from experience.

37. As part of the signed devolution deal, the Adult Education Budget for the Tees Valley will be devolved to the Combined Authority provide local control of skills training for unemployed adults resident in Tees Valley. This is currently planned to take effect from August 2019. This is an important first step into devolution of skills funding, which could provide the evidence that greater alignment of skills funding to local need can deliver faster and more appropriate outcomes for economic growth. This opportunity enables the Combined Authority to influence the skills system in Tees Valley to better fit the needs of local people and businesses.

## **Culture and Tourism**

38. Central to our Culture and Tourism strategy is working towards a bid to be City of Culture 2025. Our cultural strategy involves investing in our heritage with the greatest potential to attract visitors and influence the visitor economy, investing in high quality festivals and events, supporting the creation of new events and festivals and building capacity within the cultural sector to create a stronger cultural ecosystem.
39. We have begun our investment in the large heritage sites connected to the Stockton and Darlington Railway, the Maritime heritage in Hartlepool and the 17th Century landscape at Kirkleatham. We have also invested in the Stockton International Riverside Festival, the Festival of Thrift and a new Waterfront Festival in Hartlepool. We have already engaged festival developers to initiate work on the 200th Anniversary of the Stockton and Darlington Railway in 2025. National Portfolio Organisation status has now been achieved for Middlesbrough Town Hall and for the collaboration between the five main museums,
40. We are discussing with the Arts Council how to secure joint investment in creating a step-change in opportunity and practice in Tees Valley. In terms of capacity building, particularly in relation to our forthcoming bid to be City of Culture, we are now developing 3-4 year development plans for each art form - theatre, film, literature and writing, dance, outdoor and combined arts, music and visual arts. We are beginning to discuss plans for our early City of Culture conversations with our communities. We will invite artists to bid to help develop this work.
41. Tourism product and business development will begin shortly and the team will engage with VisitBritain and VisitEngland on domestic and international marketing. The tourism team will work closely with colleagues in each authority and will focus on product development to create a much stronger understanding of what Tees Valley can offer visitors.
42. As part of the Stockton and Darlington railway heritage project we are currently compiling a bid to the Northern Cultural Legacy Fund which offers the potential to secure a grant for up to £4 million. In order to achieve this the bid requires match funding of £1.65 million for which we are currently exploring options for third party contributions.

## **Transport**

43. The Combined Authority has established four principal priorities for transport infrastructure:
- a new Tees Crossing;
  - improved East West Connectivity via the A66;

- Darlington Station improvements; and
  - improvements to the rail line between Teesport and Northallerton.
44. We will soon be publishing our Strategic Transport Plan which places an emphasis on assisting economic development and SEP delivery whilst recognising and improving the contribution our transport system makes to social and environmental objectives.
  45. Important objectives include reducing congestion and improving the operation of the Tees Valley Key Route Network (Roads), improving local, regional and national rail connectivity and delivering a better bus network for the area.
  46. Ensuring good access to key development sites such as the South Tees Development Corporation is also a key objective of the plan.
  47. Tees Valley partner authorities recently received £8.5 million from the National Productivity Investment Fund for 3 road improvement schemes in the Tees Valley area. There may be other rounds of this fund, and potentially another round of Highways Maintenance Challenge Fund for repairs to the existing network.
  48. Department for Transport are in the process of finalising their investment programme for their Road Investment Strategy 2. £15.2 billion was committed to RIS one for the period 2015-2020 and it is likely the investment figure for RIS2 will be similar. This provides an opportunity to source funding for our two large local Major Scheme projects - New Tees Crossing and Darlington Northern Bypass.
  49. Similarly it has been announced that £38 billion will be available for Network Rail's CP6 Investment Period from 2019-2024. The emphasis for this funding is on maintenance and renewal, but guidance on how to access monies for 'enhancements' is expected by the end of the year. This will allow an understanding of how financial contributions towards Darlington Station improvements, Middlesbrough Station improvements, extra platform capacity at Hartlepool station and investment in the Teesport to Northallerton rail line might be accessed.
  50. There are also opportunities for investment via the new Housing Infrastructure Fund, which allows funding for transport schemes that open up housing sites for development.

## **Infrastructure**

51. Significant work has been undertaken with the HCA, local authorities and key partners, which has included a detailed line by line analysis of all housing sites across Tees Valley. This work has identified actions to unlock these sites and accelerate housing delivery, including the need to significantly increase the provision of affordable housing in the intermediate market. We will deliver a 6 month action plan that focuses on the three key priorities of unlocking sites, accelerating delivery and increasing affordable homes provision.
52. We intend to work with Government to unlock funding to deliver the development of the STDC site, which is a long term project that expects to generate 20,000 jobs within the next 20 years.

## **Funding beyond 2021**

53. The current Combined Authority Investment Plan covers the period 2016-21, and no commitments have yet been made beyond that point. However, many of our functions, in areas such as transport and infrastructure, and to deliver the opportunities of the South Tees Development Corporation, need to take a longer term approach to investment. And some of the Expressions of Interest currently under consideration may involve commitments for funding, and commercial returns, which extend beyond 2021.
54. The Combined Authority also benefits from longer-term funding commitments from Government. The Devolution Deal secured a commitment from to an annual allocation of £15 million a year up until 2031, and our income from retained business rates on enterprise zones extends until 2037. As the Combined Authority starts to establish an asset base, we can take a longer term approach to our investments.
55. In addition, the Government has committed to granting borrowing powers to Mayoral Combined Authorities from 2018, within a borrowing limit to be determined. The Combined Authority has proposed to Treasury that our limit is set high enough that it will not constrain our ability to borrow according to the Prudential Code, which allows local authorities to borrow where a strong investment case exists, and the costs of borrowing can be met through the returns from investment.
56. Future Investment Plan reviews will therefore extend the horizon for investment into future years, as new borrowing powers are established and longer term commitments are brought forward.

## **Core Budget**

57. In order to deliver on our ambitious programme and meet the requirements of the Strategic Economic Plan, we need adequate core capacity within the Combined Authority team. The team now operates across a wide range of areas: delivering business support, securing inward investment, developing investment projects, promoting skills and employment, developing transport infrastructure and services, securing investment in new homes and communities, and promoting culture and tourism. The Combined Authority amalgamates a number of different functions which in other parts of the country are managed separately, including as the Tees Valley's Local Enterprise Partnership and Strategic Transport Authority. Functions have been secured from central Government, delivering responsibilities previously exercised in Whitehall, and not by drawing powers and funding from local councils.
58. As well as setting out longer-term priorities, and refreshing our Investment Plan, the annual Budget is an opportunity to review the core funding needed to deliver on those priorities. This is particularly necessary as the Combined Authority continues to take on new responsibilities from central Government, with more devolution on the way.
59. There is also scope for efficiency savings, as new responsibilities are delivered more effectively over time, and functions can be brought together to create synergies which release resources for other priorities. During 2017-18, the Combined Authority has secured 7% efficiency savings on its existing functions. The Combined Authority is committed to continue to review core costs and make efficiency savings where possible. A target of 5% savings has been set for 2018-2019.

60. As the Combined Authority grows and takes on additional responsibilities there is an increasing need to fund additional staff resources, in particular the requirements of the skills agenda means more local posts are required to manage these requirements. In addition we are expanding internal delivery capacity to minimise the need for external consultants. As a result the staff numbers will increase from 53 to 71 in the coming year. Of this increase 9 are funded by income provided to deliver the programmes to which the funds relate. The Combined Authority also hosts a number of other members of staff working on specific projects, including Business Compass and Routes to Work. We also work closely with the team responsible for the south Tees development corporation, with a number of joint posts
61. There remain some areas of cost pressure that are not fundable by income being received and therefore require a targeted budget increase. These are as follows:
- the Combined Authority is taking on new responsibilities for Education, Employment and Skills, as set out in paragraphs 33 to 36 of this report, and the published strategy “Inspiring Our Future”. The associated net core cost pressure is £220,000;
  - the Combined Authority is taking on a more pro-active regional promotion and communication role, in support of activities to attract inward investment and tourism, to encourage take-up of initiatives, to advocate on behalf of infrastructure proposal, and to engage the wider public and business community. The associated net core cost pressure is £100,000;
  - our revised Investment Plan proposes an expanded role for the Combined Authority in extending financial support for business: securing investment from existing Funds, and delivering additional finance for growing Tees Valley businesses. We propose to coordinate this from within the Combined Authority team, including by appointing a new Business Finance Adviser, with associated net core cost pressure of up to £130,000; and
  - additional pay and pension costs, in line with national local government pay arrangements, create a net cost pressure of £40,000.
62. It is proposed that these additional core cost pressures are met from an increased contribution from within the Combined Authority’s existing revenue resources. The overall position on core costs and their funding sources is set out in the table below.
63. The overall full-time equivalent staffing level is currently 53, and is estimated to rise to 70 over 2018-19, in line with new responsibilities. The Combined Authority’s annual payroll is likely to exceed the £3 million Apprenticeship Levy threshold, and as such the Combined Authority will have to contribute into the Apprenticeship Levy from 2018-19. The Combined Authority employs one apprentice, and a previous apprentice has successfully moved into a permanent role. We will look to increase our employment of apprentices in other areas, including the team responsible for supporting apprenticeships across the Tees Valley. The Combined Authority also proposes to meet the recommendations of the Living Wage Foundation, for a minimum hourly pay of £8.75.

	17/18 £'000	18/19 £'000
Salaries	2,691	3,789
Other Non Staffing Expenditure	959	865
<b>TOTAL EXPENDITURE</b>	<b>3,650</b>	<b>4,654</b>
LA Contributions	250	250
Local Enterprise Partnership Grant	610	500
Local Growth Fund	266	266
Contribution From Single Pot	2,394	3,021
Programme Management	0	321
Other Income	130	296
<b>TOTAL INCOME</b>	<b>3,650</b>	<b>4,654</b>

### Medium Term Financial Plan (MTFP)

64. We are required to report on our MTFP, which incorporates all of our income and costs from the Investment Plan and Core Budget, covering the period from 2018-19 and the following three years. This requirement takes us beyond the end of the current Investment Plan period to 2020/21.
65. For the purpose of the MTFP we have assumed income will continue into 2021/21, as will core costs, but we have not formally allocated any of these revenues to any Investment Plan area as these allocations will be done as we move forward, based on priorities at that time.

MEDIUM TERM FINANCIAL PLAN							
	16/17 £'000	17/18 £'000	18/19 £'000	19/20 £'000	20/21 £'000	TOTAL' £000	21/22 £'000
Local Growth Fund	37,799	27,989	13,708	9,416	14,207	103,119	0
Devolution	15,000	15,000	15,000	15,000	15,000	75,000	15,000
Enterprise Zones	533	1,091	1,517	1,678	3,152	7,971	4,445
Local Transport Plan	13,935	13,952	13,952	13,952	13,952	69,743	0
Loan Repayments & investment Income	1,020	2,501	1,025	1,668	568	6,782	513
Local Partnership Grant	500	610	500	500	500	2,610	500
Growing Places Fund	4,364	0	0	0	0	4,364	0
Education, Employment & Skills Specific Grants	1,258	1,488	2,050	2,050	1,021	7,867	0
Transport Specific Grant Schemes	2,067	4,268	1,109	1,051	0	8,495	0
Other Specific Grants	1,365	1,071	1,067	0	0	3,503	0
European Structural Investment Funds	339	1,836	7,921	2,874	0	12,970	0
ERDF Legacy	0	0	3,667	3,667	3,666	11,000	0
SSI Task Force	42,509	0	0	0	0	42,509	0
Concessionary Fares Income	16,505	16,599	16,599	16,599	16,599	82,901	16,599
Local Authority Contributions	2,472	250	250	250	250	3,472	250
Other Income	0	130	617	579	570	1,896	571
<b>TOTAL INCOME</b>	<b>139,666</b>	<b>86,785</b>	<b>78,982</b>	<b>69,284</b>	<b>69,485</b>	<b>444,202</b>	<b>37,878</b>
Business Growth	4,734	15,600	9,421	4,624	1,750	36,129	0
Research, Development, Innovation & Energy	699	7,367	13,578	9,000	0	30,644	0
Education, Employment & Skills	4,554	8,310	8,932	2,600	1,281	25,677	0
Culture & Tourism	0	1,400	1,617	350	0	3,367	0
Transport	21,237	21,727	19,986	17,403	13,952	94,305	0
Infrastructure	58	10,269	0	0	0	10,327	0
Development Pot & Evaluation	0	6,883	0	0	0	6,883	0
Core Costs	2,972	3,650	4,654	4,695	4,746	21,146	4,792
Concessionary Fares	16,505	16,599	16,599	16,599	16,599	20,804	16,599
SSI Task Force (not in investment plan themes)	10,306	10,840	0	0	0	1,756	0
Mayoral Election Costs	0	1,156	0	0	600	82,901	0
<b>TOTAL EXPENDITURE</b>	<b>61,065</b>	<b>103,801</b>	<b>74,787</b>	<b>55,271</b>	<b>38,928</b>	<b>333,852</b>	<b>21,391</b>
<b>AVAILABLE FOR NEW INVESTMENTS</b>	<b>78,601</b>	<b>(17,016)</b>	<b>4,195</b>	<b>14,013</b>	<b>30,557</b>	<b>110,350</b>	<b>16,487</b>

## **General Reserve**

66. We consider the need for unearmarked reserves within the context of the MTFP but on an annual basis, recognising that in some years there may be schemes or developments that present special forecasting risks or lead to a need to cover a time lag between spending and receipts, and could lead to the need for a higher level of reserves than usual to make for robust budget planning. Where such items exist we will consider them on an annual basis. There is no such matter to consider in this budget report.
67. The General Balance Reserve was established at £650,000 last year. Guidance for Local Authorities dictates that 3% of net revenue expenditure should be held in the General Balance Reserve to manage risk and any unforeseen circumstances, and it is prudent for us to work towards applying that principle. The nature of Combined Authority expenditure is slightly different from other Local Authorities in that it incurs revenue expenditure over the Investment Plan period, so expenditure in individual years can fluctuate significantly. In addition to this we manage revenue expenditure on behalf of Government for which we take no risk.
68. For those reasons, we consider that the appropriate way of identifying the net revenue of the Combined Authority for this purpose is to take the average of the risk-based revenue that we expect to receive over the period of the MTFP and hold 3% of this in the General Reserve. This requires us to set the General Reserve Balance at £677,000 which is an increase of £27,000 on last year. We anticipate that this will be funded from surpluses generated over budget in 2017/18 which will be held in the General Reserve.

## **Concessionary Fares**

69. The Combined Authority has delegated Transport powers for Concessionary Fares and these costs have to be attributable across the constituent Councils by way of agreed contributions. The 2018/19 position following negotiations with bus providers is expected to be finalised in March. For the purposes of this report it is assumed that these will remain at 2017/18 levels over this period and any variations to this will be reported to Cabinet.

## **Committed Resources**

70. The table in paragraph 65 sets out the Combined Authority Resource Position incorporating all funding and approved schemes. The unallocated line of the table sets out the funds available to the Combined Authority to commit to projects and programmes. More detail of the specific schemes approved and Development Fund allocations are provided in Annexes A and B respectively.

## **Council Tax Precept**

71. Legislation requires Combined Authority Mayors to set a precept on the Council Tax, to support functions which cannot be funded through other sources of income.
72. The Tees Valley Combined Authority is able to meet the costs of its functions entirely from resources it has secured as a result of the Devolution Deal and other income sources. The Tees Valley Mayor therefore proposes to set a zero precept for 2018-19, and has no plans to set a Council Tax precept in future years.

## **FINANCIAL IMPLICATIONS**

73. This report sets the budget for the Combined Authority.

## **LEGAL IMPLICATIONS**

74. As a Mayoral Combined Authority we are 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 our constitution, we are also required to have an Investment Plan.

## **RISK ASSESSMENT**

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

## **CONSULTATION**

76. Consultation will be undertaken with the public and key stakeholders for a period from 24<sup>th</sup> November 2017 to 5 January 2018.

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## ANNEX A

Approved Commitments	INVESTMENT PLAN PERIOD					TOTAL
	2016/17	2017/18	2018/19	2019/20	2020/21	
	£'000	£'000	£'000	£'000	£'000	
Business Growth Grants	2,999	6,872	0	0	0	9,871
SSI Devolved Pot	0	6,492	0	0	0	6,492
BEIS Growth Hub	246	246	0	0	0	492
Sector Action Plans	43	37	0	0	0	80
Materials Processing Institute Open Access Technology Centre	1,107	117	0	0	0	1,224
Finance for Business	0	0	1,500	1,750	1,750	5,000
ERDF Business Compass	339	1,836	7,921	2,874	0	12,970
<b>Business Growth</b>	<b>4,734</b>	<b>15,600</b>	<b>9,421</b>	<b>4,624</b>	<b>1,750</b>	<b>36,129</b>
South Tees District Heating	127	224	0	0	0	351
City Deal CCS Project	279	173	0	0	0	452
Low Carbon Action Plan	115	162	0	0	0	277
Nuclear Study	0	30	0	0	0	30
Digital City	178	178	178	0	0	534
National Horizons Centre	0	1,100	7,400	9,000	0	17,500
Healthcare Futures Centre (Personalised Medicines)	0	4,000	6,000	0	0	10,000
Teesside Advanced Manufacturing Park - Phase 2 Development	0	1,500	0	0	0	1,500
<b>Research, Development, Innovation &amp; Energy</b>	<b>699</b>	<b>7,367</b>	<b>13,578</b>	<b>9,000</b>	<b>0</b>	<b>30,644</b>
AGE Grant	985	1,263	0	0	0	2,248
Careers & Enterprise	101	109	100	100	31	441
Routes To Work	0	1,250	2,500	2,500	1,250	7,500
Employment & Education & Skills Strategy	0	40	0	0	0	40
Cleveland College of Art & Design Hartlepool	3,468	834	0	0	0	4,302
NETA Skills Centre	0	824	0	0	0	824
Skills enhancement – Telecare and electric vehicles	0	130	0	0	0	130
Hartlepool Innovation Skills Quarter Phase 2	0	1,500	3,632	0	0	5,132
Kirkleatham Catering Academy and Walled Garden	0	1,000	1,700	0	0	2,700
Apprentice Grant	0	300	1,000	0	0	1,300
YEI Extension	0	1,060	0	0	0	1,060
<b>Education, Employment &amp; Skills</b>	<b>4,554</b>	<b>8,310</b>	<b>8,932</b>	<b>2,600</b>	<b>1,281</b>	<b>25,677</b>
Great Places	0	500	1,067	0	0	1,567
Destination Marketing Programmes	0	350	350	350	0	1,050
Festivals and Events	0	200	200	0	0	400
Heritage and Attraction Asset Capital Development	0	250	0	0	0	250
Building Cultural Capacity	0	100	0	0	0	100
<b>Culture</b>	<b>0</b>	<b>1,400</b>	<b>1,617</b>	<b>350</b>	<b>0</b>	<b>3,367</b>
Local Transport Plan	13,935	13,952	13,952	13,952	13,952	69,743
Pothole Action Fund	0	707	0	0	0	707
National Productivity grant	0	2,298	0	0	0	2,298
Local Sustainable Transport	990	0	0	0	0	990
DfT Access Fund	0	1,163	1,109	1,051	0	3,323
Transport Studies	99	328	0	0	0	427
DfT Local Majors Studies	650	100	0	0	0	750
Transport – Scheme Development Fund	100	370	0	0	0	470
Transport – Bus Network	30	0	0	0	0	30
Elwick By-pass	600	0	0	0	0	600

Middlesbrough Rail Station	100	0	0	0	0	100
Eaglescliffe Station	0	100	0	0	0	100
Bank Top Station Fesibility Study	0	12	0	0	0	12
Sustainable Access To Employment	1,193	2,307	2,400	2,400	0	8,300
Middlehaven Dock Bridge (Local Majors)	3,540	390	0	0	0	3,930
A689 Wynyard Improvement	0	0	2,525	0	0	2,525
<b>Transport</b>	<b>21,237</b>	<b>21,727</b>	<b>19,986</b>	<b>17,403</b>	<b>13,952</b>	<b>94,305</b>
Redcar Growth Zone	0	5,000	0	0	0	5,000
One Public Estate	58	386	0	0	0	444
Central Park Infrastructure	0	183	0	0	0	183
South Bank Wharf	0	1,000	0	0	0	1,000
Kirkleatham Business Park Industrial Units	0	500	0	0	0	500
Salters Lane Phase 1	0	2,200	0	0	0	2,200
Billingham Bio-Pharmaceutical Campus	0	1,000	0	0	0	1,000
<b>Infrastructure</b>	<b>58</b>	<b>10,269</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>10,327</b>
<b>Development &amp; Evaluation</b>	<b>0</b>	<b>6,883</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,883</b>
<b>INVESTMENT PLAN</b>	<b>31,282</b>	<b>71,556</b>	<b>53,534</b>	<b>33,977</b>	<b>16,983</b>	<b>207,332</b>
SSI Task Force Projects	10,306	10,840	0	0	0	21,146
Core Running Costs	2,972	3,650	4,654	4,695	4,746	20,717
Mayoral Election	0	1,156	0	0	600	1,756
Concessionary fares	16,505	16,599	16,599	16,599	16,599	82,901
<b>TOTAL EXPENDITURE</b>	<b>61,065</b>	<b>103,801</b>	<b>74,787</b>	<b>55,271</b>	<b>38,928</b>	<b>333,852</b>

## Development Funding

<b>DEVELOPMENT FUNDED PROJECT</b>	<b>AMOUNT</b>
CPI LGF	250,000
South Bank Wharf LGF	75,000
HBC ISQ LGF	233,000
South Tees Development Corp Loan	400,000
Highways Challenge Fund	200,000
Buses Act	80,000
Waste Strategy	400,000
Government Relocation Study	19,000
Ministry of Building Innovation	350,000
Development of Light Industrial Units at Kirkleatham Business Park EZ	30,000
Redcar Railway Station Business Quarter	50,000
Skippers Lane Industrial Estate Expansion	100,000
Feethams Grade A Office Development	100,000
Energy Life-Cycle Centre Potential Institute of Technology	300,000
Hartlepool Innovation & Skills Quarter Phase 2	505,000
Hartlepool Waterfront	680,000
Kirkleatham Estate Investment Project	415,000
River Tees Development Plan	130,000
Faverdale (Phase 1)	220,000
Darlington Station	300,000
South Tees Development Corporation Site Investigations	750,000
Durham Tees Valley Airport	500,000
Tesside Advanced Manufacturing Park	120,000
Eaglescliffe Station Western Access	576,000
Boho Next Generation	100,000
<b>COMMITTED FUNDS</b>	<b>6,883,000</b>