

AGENDA ITEM 11

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

28th SEPTEMBER, 2018

REPORT OF HEAD OF FINANCE AND RESOURCES

BUDGET REPORT – QUARTER 1 (2018/19)

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 2018 and present a revised Medium Term Financial Plan (MTFP).

RECOMMENDATIONS

It is recommended that the Tees Valley Combined Authority:

- i. Note the quarter 1 financial position as at 30 June 2018; and
- ii. Note the revised Medium Term Financial Plan.

DETAIL

Core Budget

1. The table below details the quarter 1 budget and actual spend for the core budget as at 30th June 2018.

	Qtr1 Budget	Actual @	Variance To
	£000	June	Date
	£000	£000	£000
Salaries Costs	987	923	(64)
Other Non-Staffing Expenditure	390	406	16
TOTAL EXPENDITURE	1,377	1,329	(48)
Single Revenue Pot Contribution	0	0	0
Mayoral Capacity Funding	0	(1,000)	(1,000)
Grants & Contributions	(519)	(519)	0
TOTAL FUNDING	(519)	(1,519)	(1,000)
NET EXPENDITURE	858	(190)	(1,048)

2. As at the end of June 2018 there is an underspend of £48k against the budgeted expenditure. There has been an underspend against salaries of £64k as a result of posts being vacant during the period, recruitment processes are ongoing and posts will be filled in the coming months. Non staffing expenditure is currently overspent by £16k which is predominantly as a result of a one off additional service charge.
3. In the Chancellor's 2017 Budget, the government recognised the need to support further capacity in Mayoral Combined Authorities, and as such £1m per annum for two years was allocated to the Combined Authority. This additional income has been brought into core funding for 2018/19 and was all received in quarter 1 resulting in the variance against the budget.
4. The table below details the budget and projected outturn for the core budget as at the end of quarter 1. The position will continue to be monitored and reviewed during the remainder of the financial year.

	Budget	Projected	Variance
	£000	£000	£000
Salaries Costs	3,948	3,794	(154)
Other Non-Staffing Expenditure	865	892	27
TOTAL EXPENDITURE	4,813	4,686	(127)
Single Revenue Pot Contribution	(3,180)	(2,053)	1,127
Income from Mayoral Capacity Fund	0	(1,000)	(1,000)
Grants & Contributions	(1,633)	(1,633)	0
TOTAL FUNDING	(4,813)	(4,686)	127
NET EXPENDITURE	(0)	(0)	0

5. The total projected underspend for 2018/19 is £127k. Salaries are projected to underspend by £154k during the year due to the phased implementation of recruitment towards the agreed staffing levels. This underspend is partly offset by additional non staffing costs of £27k for a one-off backdated premises service charge and additional expenditure for the purchase of a secure file sharing facility.
6. As mentioned previously an additional £1 million Mayoral Capacity Grant was awarded for the year, this together with the projected underspend this gives a reduced call on the single pot of £1.127m.

Progress Against Medium Term Financial Plan (MTFP)

7. Cabinet approved the MTFP at its meeting on 5 February 2018. As part of the agreed budget process it is required to report progress against the MTFP to Cabinet on a quarterly basis. Since the MTFP was set there have been a number of changes as a result of subsequent investment decisions and additional funding being secured.
8. In addition to the changes mentioned above there are also annual amendments relating to movement between years for previously approved expenditure and income to give the revised projected levels for each year.

9. The following sections outline amendments to the MTFP since being set in February and the revised plan is presented at Appendix 1.

MTFP Income

10. The table below sets out the revised income position for the MTFP.

Income	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	78,982	69,284	69,485	37,878	255,629
Additional income	9,552	23,121	20,334	25,219	78,226
Movement In Years	-707	4,713	-780	457	3,683
Revised	87,827	97,118	89,039	63,554	337,538

11. Since the budget was set an additional £78 million funding has been incorporated into the plan:
- A £59m Transforming Cities Fund allocation to the Combined Authority. A report was presented to Cabinet in June 2018 outlining the approach to be taken to establish a delivery plan for the fund. To date none of this funding has been committed.
 - At the time of setting the MTFP it was reported that a further £8.3m had been secured for investment into local roads which would be channelled directly to the lead local authorities. However DfT subsequently awarded the grant to the Combined Authority for distribution to the local authorities and therefore it has now been incorporated into the MTFP.
 - The £2m Mayoral Capacity Funding has now been incorporated into the MTFP, which is received in equal instalments over 2 year period 2018/19 and 2019/20.
 - As a result of an increase in Enterprise Zones business rate income estimated receipts have been increased by £6.7m across the MTFP.
 - A further £2.2m additional funding has been secured for a range of projects:
 - £0.5 million from BEIS to extend the business growth hub;
 - £0.3 million to help to protect local roads from severe weather conditions;
 - £0.2 million to contribute towards further development of the business case for the South Tees District Heating Network;
 - £0.77 million from BEIS as the lead applicant in the delivery of the Local Energy Capacity Support programme;
 - £0.43 million of Local Authority contributions to fund the concessionary fares expenditure.

MTFP Expenditure

12. The table below sets out the revised total approved expenditure for the MTFP.

Expenditure	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	109,549	52,805	38,919	21,675	222,948
Additional Commitments	22,279	13,740	4,447	107	40,573
Movement In Years	-9,708	7,627	6,867	0	4,786
Revised	122,120	74,172	50,233	21,782	268,307

13. The following sections outline these MTFP changes by each of the SEP themes.

Business Growth

14. The table below sets out the revised expenditure position for Business Growth.

Business Growth	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	17,088	4,624	1,750	0	23,462
Additional Commitments	3,879	1,713	0	0	5,592
Movement In Years	-2,807	7,137	0	0	4,330
Revised	18,160	13,474	1,750	0	33,384

15. Since the budget was set an additional £5.6m has been committed as follows:

- In February 2018 Cabinet approved a £3.2m joint proposal to bring forward the development of new Grade A office accommodation at Feethams in Darlington Town Centre.
- In April 2018 the Combined Authority was successful in securing £0.5m from BEIS to extend the Business Growth Hub service for 2018/19 and 2019/20.
- At December 2017 Cabinet findings from the Sector Action Plan Work were reported which ring-fenced an initial £1.9m to deliver the plans.

16. The revised projection for expenditure in 2018/19 is £18.16m and at the end of quarter 1 the reported spend against this forecast is £383k. It is expected that expenditure will accelerate during the remaining periods as delivery on the Business Compass grant scheme increases, the sector action plans are further developed and the construction of business accommodation at TAMP and Feethams commences.

Research, Development, Innovation & Energy

17. The table below sets out the revised expenditure position for Research, Development, Innovation & Energy.

RDI&E	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	18,183	6,000	0	0	24,183
Additional Commitments	1,490	0	0	0	1,490

Movement In years	-3,678	-2,250	6,000	0	72
Revised	15,995	3,750	6,000	0	25,745

18. Since the budget was set an additional £1.49m has been committed as follows:

- £500k to support the refurbishment of existing space to create a Non Destructive Testing (NDT) Research facility at TWI Middlesbrough, which will act as the future growth hub for the research group outside of Cambridge.
- £772k awarded from BEIS to act as the lead applicant in the delivery of the Local Energy Capacity Support programme.
- In April 2018 the Combined Authority secured a further £218k from BEIS to continue the development of the South Tees District Heating Network.

19. The revised projection for expenditure in 2018/19 is £16m and at the end of quarter 1 the reported spend against this forecast is £5.18m. Overall, expenditure projections are on track with the majority of expenditure related to the Teesside University National Horizons project which is progressing to plan.

Education, Employment & Skills

20. The table below sets out the revised expenditure position for Education, Employment & Skills.

EES	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	10,062	2,600	1,031	0	13,693
Additional Commitments	2,530	5,594	4,000	0	12,124
Movement In Years	-397	1,500	867		1,970
Revised	12,195	9,694	5,898	0	27,787

21. Since the budget was set an additional £12m has been committed as follows:

- The £10.5m Inspiring Our Future Strategy was formally approved by Cabinet in February 2018. The strategy provides a comprehensive approach to addressing a wide range of challenges across the Education, Employment and Skills arena whilst maintaining the focus of creating a locally available skilled workforce that provides the skilled personnel that businesses require.
- In the Investment Plan a need to improve and sustain 16+ facilities was identified, and at June Cabinet £968k was approved for an IT Infrastructure project at Redcar College.
- It was reported to Cabinet in February that £656k had been committed to a project to bring back into use the mothballed £4.5m Northern Lights Academy facility in Hartlepool and turn it into a Centre of Excellence in Technical Training for Creative Industries for young people.

22. The revised projection for spend in 2018/19 is £12.2m and at the end of quarter 1 the reported spend against this forecast is £306k. Although the spend for the first quarter is lower than anticipated the Kirkleatham catering academy project has now

commenced and expenditure will catch up in the coming quarter. This along with accelerated delivery of the Routes to Work programme and commencement of delivery of the Skills strategy will see spend increase as the financial year progresses.

Culture and Tourism

23. The table below sets out the revised expenditure position for Culture & Tourism.

Culture & Tourism	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	2,117	450	0	0	2,567
Additional Commitments	960	0	340	0	1,300
Movement In Years	373	-25	0	0	348
Revised	3,450	425	340	0	4,215

24. Since the budget was set an additional £1.3 million has been committed as follows:

- In the Culture and Tourism update to Cabinet in March 2018 a commitment was made to support the Great Tees City Games and Great Tees X-Country to the maximum value of £1.575m with £680k of this falling within the MTFP period. Alongside this £250k approval was given to support a proposal to become a host venue for the Rugby League World Cup 2021.
- In order to develop world-class heritage and attraction capital projects in readiness for our City of Culture bid for 2025 £370k was committed to developing a robust business case and accelerate delivery of the North Road Railway Heritage site.

25. The revised projection for expenditure in 2018/19 is £3.45m and at the end of quarter 1 the reported spend against this forecast is £101k. Overall, expenditure is on track with expected increases through the delivery of the Great Places and destination marketing programmes.

Transport

26. The table below sets out the revised expenditure position for Transport.

Transport	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	20,144	17,176	13,952	0	51,272
Additional Commitments	7,751	6,326	0	0	14,077
Movement In Years	463	0	0	0	463
Revised	28,358	23,502	13,952	0	65,812

27. Since the budget was set an additional £14m has been committed as follows:
- At the time of setting the MTFP it was reported that a further £8.3m had been secured for investment into local roads which would be channelled directly to the lead local authorities. However DfT subsequently awarded the grant to the Combined Authority for distribution to the local authorities and therefore it has now been incorporated into the MTFP (as both income and expenditure).
 - The Cabinet meeting in March 2018 allocated £2.5m towards delivering Phase 1 of the Middlesbrough Rail Station Masterplan. Working alongside investment from Network Rail and Middlesbrough Council the funding will carry out improvements to the fabric of the station in the short-term to improve the passenger experience and enable a review of the capacity needs of the station to ensure accommodation of current and planned rail services.
 - In June 2018 Cabinet agreed an additional contribution of £3m to support the next stage of development and design of the Darlington 2025 proposal. This resource will develop the Strategic Outline Business Case required to secure commitment from the Department for Transport to both further develop and deliver the scheme.
 - In March 2018 the Combined Authority was awarded £253k from DfT to help to protect local roads from severe weather conditions for 2018/19.
28. The revised projection for expenditure in 2018/19 is £28.36m and at the end of quarter 1 the reported spend against this forecast is £15.9 million which is in line with projections.

Infrastructure

24. The table below sets out the revised expenditure position for Infrastructure.

Infrastructure	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	13,705	0	0	0	13,705
Additional Commitments	3,530	0	0	0	3,530
Movement In Years	-5,729	1,000	0	0	-4,729
Revised	11,506	1,000	0	0	12,506

29. Since the budget was set an additional £3.5m has been committed as follows:
- In February 2018 Cabinet approved investment of £3.36m to provide the infrastructure to unlock the wider development of the Kirkleatham Estate, including a new access road from the A174 and a car park.
 - The One Public Estate programme supports projects to transform local communities, and in March the Combined Authority secured an additional £170k to continue delivering the programme.
30. The revised projection for spend in 2018/19 is £11.5m and at the end of quarter 1 the reported spend against this forecast is £300k. Spend will be accelerated in the coming

months as work on the Kirkleatham Estate project commences and the Redcar Growth Zone project progresses.

Development Fund

31. The table below sets out the revised expenditure position for the Development Fund.

Development Fund	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Budget	2,738	462	0	0	3,200
Additional Commitments	2,259	0	0	0	2,259
Movement In Years	468	265	0	0	733
Revised	5,465	727	0	0	6,192

32. Since the budget was set an additional £2.259m has been committed to the following projects:

- Rail Gauge enhancement between Northallerton and Eaglescliffe;
- A689 Wynyard improvements;
- Darlington Sports Village;
- Middlesbrough District Heating commercialisation stage;
- Tees Crossing;
- Darlington North Link Road;
- Masterplan for Marshalling Yards;
- Full Fibre network.

SSI Task Force Funds

33. Under the SSI task force projects there has been £1.6m slippage from 2017/18 into 2018/19. This is as a result of agreement with BEIS to extend the projects and gives a revised spend of £5.699m over the MTFP.

Concessionary Fares

34. There has been an additional £443k built into the Concessionary Fares expenditure across the medium term as a result of revised agreement with the bus operators which is fully funded from additional income. This has resulted in revised expenditure of £66.4m over the period.

FINANCIAL IMPLICATIONS

35. This report gives an update on performance against the budget for the Combined Authority and updated the Medium Term Financial Plan.

LEGAL IMPLICATIONS

36. None

RISK ASSESSMENT

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

CONSULTATION

38. None

Name of Contact Officer: Martin Waters

Post Title: Head of Finance and Resources

Telephone No. 01642 526527

Email Address: Martin.waters@teesvalley-ca.gov.uk

APPENDIX A

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Income					
Local Growth Fund	13,708	9,416	14,207	0	37,331
Devolution	15,000	15,000	15,000	15,000	60,000
Enterprise Zones	2,475	4,120	5,379	5,557	17,531
Local Transport Plan	13,952	13,952	13,952	0	41,856
Transforming Cities Fund	4,000	13,000	18,000	24,000	59,000
Loan Repayments & Investment Income	668	3,726	788	970	6,152
Local Enterprise Partnership Grant	500	500	500	500	2,000
Education, Employment & Skills Specific Grant Schemes	3,427	2,550	21	0	5,998
Transport Specific Grant Schemes	3,360	7,377	0	0	10,737
Other Specific Grant Schemes	2,709	246	0	0	2,955
European Structural Investment Fund	5,788	5,029	0	0	10,817
ERDF Legacy	3,667	3,667	3,666	0	11,000
Concessionary Fares Income	16,706	16,706	16,706	16,706	66,824
Local Authority Contributions	250	250	250	250	1,000
Mayoral Capacity Funding	1,000	1,000	0	0	2,000
Other Income	617	579	570	571	2,337
TOTAL INCOME	87,827	97,118	89,039	63,554	337,538
Approved Commitments					
Business Growth	18,160	13,474	1,750	0	33,384
Research, Development, Innovation & Energy	15,995	3,750	6,000	0	25,745
Education, Employment & Skills	12,195	9,694	5,898	0	27,787
Culture	3,450	425	340	0	4,215
Transport	28,358	23,502	13,952	0	65,812
Infrastructure	11,506	1,000	0	0	12,506
Development & Evaluation	5,465	727	0	0	6,192
SSI Related Schemes (not allocated to investment plan themes)	5,699	0	0	0	5,699
Core Running Costs	4,686	4,894	4,987	5,076	19,643
Mayoral Election	0	0	600	0	600
Concessionary fares	16,706	16,706	16,706	16,706	66,824
TOTAL EXPENDITURE	122,220	74,172	50,233	21,782	268,407
Reserves B/F	87,001				
Transfer To / From Reserves	(34,393)	22,946	38,806	41,772	