

AGENDA ITEM 13

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

30 NOVEMBER 2018

**REPORT OF THE HEAD OF
FINANCE AND RESOURCES**

BUDGET 2019-20 AND MEDIUM TERM FINANCIAL PLAN

SUMMARY

The Mayor is required to propose the budget for the Combined Authority on an annual basis, and is committed to consult publicly before its submission to Cabinet for approval. The Budget provides the financial framework within which the Combined Authority will operate in the forthcoming financial year (2019-20) and over the medium-term.

This report seeks approval from Cabinet for the publication of the draft Budget for consultation. Following consultation, and as required under the constitution, the Budget will be presented to Cabinet by the Mayor in January 2019 for approval.

RECOMMENDATION

- i. It is recommended the Combined Authority Cabinet approve that the draft Budget is published for consultation.

DETAIL

BUDGET SUMMARY

1. Since the 2018-19 Budget was agreed a number of further investments against the single pot have been approved by Cabinet, these are detailed in **Appendix 1**.
2. This report sets out the proposed budget for 2019-20 and the medium term financial plan (MTFP) for the period to March 2023 (the Budget). The Budget presents all forecast income and expenditure for the plan period.
3. Income for the period 2019-23 is £444m, comprising £111m single pot income and £333m specific grant income. In addition, it is estimated that as at 31 March 2019 the Combined Authority will hold £69m in reserves which are already committed for approved projects and specific grant schemes and will be expended during the plan period. For the plan period the Authority has a total of £513m available resources at its disposal.

4. Committed expenditure for the period 2019-23 is budgeted at £418m with the remaining £95m available for further investment. Investment decisions regarding the remaining £95m are still to be determined and will be based upon the current investment prioritisation exercise which aims to set out investment priorities for the next ten years.
5. This Budget sets out the detail of the forecast income and expenditure for the plan period and identifies the funding that is available for further investment.

INCOME

6. Total income for the plan period is £444m comprising:

Income 2019-23	£'000
Single pot	111,290
Specific grant	332,714
Total income	444,004

7. In addition, £70m is held in reserves which are committed for approved projects and specific grant schemes and will be expended during the plan period. The following sections provide further detail on the income and related expenditure.

SINGLE POT INCOME

8. Single pot income is defined as all Combined Authority income for which there is fully devolved discretion regarding expenditure. This income provides for new investment through the investment plan process and to meet Combined Authority core costs.
9. Forecast income for the budget period 2019-23 is £111m as follows:

Single pot income	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Local Growth Fund	13,708	9,416	14,217	0	0	23,633
Devolution	15,000	15,000	15,000	15,000	15,000	60,000
Enterprise Zones	2,475	4,120	5,379	5,557	5,977	21,033*
Investment returns	789	844	623	946	491	2,904
LEP Grant	500	500	500	500	500	2,000
LA contributions	250	0	0	0	0	0
Mayoral capacity	1,000	1,000	0	0	0	1,000
Other income	180	180	180	180	180	720
Total	33,902	31,060	35,899	22,183	22,148	111,290

* The Enterprise Zone income includes expected receipts in relation to business rates for current enterprise zones located on the South Tees Development Corporation site. With the recent Budget announcement making South Tees a Special Economic Area which will allow for the local retention of additional business rates growth, there may be implications for EZ income.

Local Growth Fund

10. In total the Combined Authority has been allocated £103m through previous Local Growth Fund rounds. As at the end of March 2019 it is forecast that £86m will have been spent/committed with £17m remaining available for new investment in the plan period.

Devolution

11. Funding of £15m per year for 30 years was agreed as part of the devolution agreement with government. This funding is subject to a five year review. For the purpose of the budget plan period it is assumed that this level of funding will continue beyond the first five year review which will take place during 2020/21.
12. As at the end of March 2019 it is forecast that £39m will have been spent/committed with £65m remaining for new investment and contributions to core costs in the plan period, comprising £60m income to be received and £5.2m held in reserves.

Enterprise Zones

13. The Combined Authority retains business rate income from a number of designated enterprise zones (EZ). As the zones continue to attract more business the income generated is forecast to increase. For the plan period enterprise zone income is forecast to increase by over 140% from the expected 2018-19 outturn of £2.5m to £6m in 2022-23.
14. As with all EZ income streams there is an element of uncertainty surrounding the timing and value of the income however the premises that contribute to this increase are all currently under construction, for example MGT and Tees AMP, this provides a level of certainty behind the estimates. As at March 2019 it is forecast that £21m will be available for new investment and contributions to core costs in the plan period.

Investment Returns

15. A number of Combined Authority investments are made on a recoverable and/or commercial basis. In addition, reserves held provide a return through the Treasury Management policy. In total it is estimated that the Authority will receive £3m in the plan period through investment returns, a significant proportion of which is interest on cash balances.

Local Enterprise Partnership Grant, LA Contributions

16. The Combined Authority receives LEP grant of £500k per annum. In addition, the five constituent local authorities currently each provide £50k per annum to support the Combined Authority and match the LEP grant. For the plan period the LEP grant match can be met from other available income streams and therefore the Local Authority contribution is not required, providing a local authority saving of £1.0m over the plan period.

Mayoral Capacity Funding

17. Funding of £1.0m per annum was granted to Mayoral Combined Authorities with elected mayors for 2018-19 and 2019-20, to boost the new mayors' capacity and resources, this income has been absorbed into the single pot. No commitment has been provided by Government to fund capacity beyond this period.

Other income

18. Other income comprises of funds received from external recharges and contributions from South Tees Development Corporation for shared resources.

Council Tax Precept

19. 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. 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 2019/20, and will not set a Council Tax precept in future years.

SPECIFIC GRANT INCOME

20. Specific grant income relates to funding received by the Combined Authority for identified purposes. The range of Authority discretion varies across the specific grants ranging from very limited to quite wide. For example, there is significant flexibility on the transforming cities fund albeit within the constraint that it must be transport related investment. Whereas Great Places funding is for very specific projects following a bidding process and has little flexibility or discretion. All these funding streams do come with a degree of constraint in as to how they are applied, and therefore do not provide the fully devolved flexibility that single pot income does.

Specific grant income	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000
Transforming Cities Fund (DfT)	4,000	13,000	18,000	24,000	16,500	71,500
Routes to Work (DWP)	2,218	2,439	1,211	0	0	3,650
Growth Hub (BEIS)	246	246	0	0	0	246
Nat. Productivity Investment Fund (DfT)	3,274	5,050	0	0	0	5,050
Access Fund (DfT)	1,109	1,051	0	0	0	1,051
ERDF (Business Compass) (ERDF)	4,482	6,843	0	0	0	6,843
ERDF Legacy (MHCLG)	0	3,666	3,667	3,667	0	11,000
Great Places (HLF)	711	528	0	0	0	528
Adult Education Budget (DfE)	392	20,179*	30,000	30,000	30,000	110,179
Careers & Enterprise	60	50	21	0	0	71
Local Transport Plan (DfT)	13,943	13,943	13,943	13,943	13,943	55,772
Concessionary Fares Income (LAs)	16,706	16,706	16,706	16,706	16,706	66,824
Other	1,476	0	0	0	0	0
Total	48,617	83,701	83,548	88,316	77,149	332,714

* note the Adult Education Budget funding for 19/20 is less than future years as full devolution does not commence until part way through the year in August 2019

21. With the exception of the Transforming Cities Fund all the above specific grant incomes are required to be expended during the plan period.

Transforming Cities Fund

21. The Transforming Cities Fund was announced by Government in the 2017 Budget and Tees Valley was awarded a total of £59m funding to transform local public transport. This funding is to cover a 4 year period with £4m received in 2018/19 and the remaining £55m being received in the period covered by this plan. In the 2018 Budget the fund

was extended into 2022/23 and an additional £16.5m was awarded to the Tees Valley. The fund gives the Combined Authority freedom to invest on strategic transport priorities such as rail, bus rapid transit, cycling or other public and sustainable transport improvements.

Routes to Work

22. £6m of funding was secured over a 3 year period from 2017 to 2020, matched by £1.5m from the single pot, to provide holistic support to those long term unemployed aged 30 or over. The project identifies and provides support to address and overcome multiple barriers that some people face when trying to access work. The Service is monitored by the Combined Authority and delivered by the five Tees Valley Local Authorities through multiple service providers offering one-to-one tailored support.

BEIS Growth Hub

23. The Growth Hub support from BEIS was extended in until 2019/20 to ensure that all businesses in every region have access to a local Growth Hub. This funding is to allow the Growth Hubs to carry on building their reach, developing peer-to-peer networks, connecting businesses to the best support available from the private and public sectors and to target support on those businesses with the opportunity, ambition and greatest potential to grow.

National Productivity Investment Fund (NPIF)

24. Over £8m NPIF funding covering 2018/19 and 2019/20 was allocated to improve local road networks and public transport. One of the purposes of the fund is to ease congestion and provide upgrades on important roads. Applications for individual projects were assessed and approved by Department for Transport with the region receiving funding for Darlington Growth and Enterprise Zone Connectivity, A66/A171 Cargo Fleet Roundabout Improvement Scheme and A171 Swans Corner to Flatts Lane Improvement.

DfT Access Fund

25. Over £1m of funding per annum was awarded over a 3 year period covering 2017/20 and is being used to widely encourage the use of public transport, cycling and walking through the introduction of sustainable transport schemes, promotion and marketing. The funding also targets those who have difficulties to get back into work because of the restrictions accessing transport and the cost of travel affecting their ability to attend interviews. They will also benefit from discount bus travel and bike loans.

ERDF Business Compass

26. Funded by the ERDF to promote and support growth to SME's the Business Compass service provides support to help with anything from developing a skilled workforce, accessing finance and grants and developing a growth strategy to finding the right location, product development, sales and marketing and starting up a new business. The Programme runs from January 2017 to December 2019. The Combined Authority is currently looking at options to extend this programme beyond this date.

ERDF Legacy

27. Funding has been recycled from previous regional ERDF funded investments, including the North East Jeremie Fund, to provide additional support for Tees Valley businesses seeking investment.

Great Places

28. Tees Valley Combined Authority has secured £1.5 million as part of the Heritage Lottery Fund and Arts Council England Great Place scheme to fund activities which will put arts, culture and heritage at the heart of the community. Led by Tees Valley Combined Authority, the Great Place – Greater Tees project will provide funding for a number of arts and cultural organisations across Tees Valley and support popular existing events as well as new initiatives.

Adult Education Budget

29. The AEB funding provides an estimate of £110m funding over the period with full devolution commencing August 2019 and aims to provide those aged 19 and over in the Tees Valley area with support into training and education to enhance skills in order to meet the skills requirements of employers. The Combined Authority will be working with a wide range of providers to align training to business needs and to prevent young people becoming long-term unemployed.

Careers & Enterprise Company

30. The Enterprise Adviser Network has been running since 2015 and is currently funded up till 2020. The network of advisors work with local schools and businesses to ensure every young person has the chance to access those meaningful employer encounters that play such a vital part in helping them decide their future path.

Local Transport Plan

31. As the transport authority for the Tees Valley the annual capital block funding allocations are passported through the Combined Authority to the constituent Local Authorities based on historical allocations. The Combined Authority role in this is transactional in enabling the funding to be transferred from Government to the Local Authorities.

Concessionary Fares Income

32. Under the role of transport authority the Combined Authority is responsible for passporting funding to the local bus operators via income received from the constituent authorities on an annual basis. The Combined Authority role in this is transactional in enabling the funding to be transferred from the Local Authorities to the bus operators.

EXPENDITURE

SINGLE POT INVESTMENT – COMMITTED (as at 30 October 2018)

33. All single pot investment is delivered through the Combined Authority Investment Plan.

Investment Plan	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Approved investments	41,747	28,011	16,307	1,995	340	46,653
Development fund commitments	6,000	832	-	-	-	832
Total	47,747	28,843	16,307	1,995	340	47,485

Approved investments incurring expenditure in the plan period

34. For the plan period forecast expenditure on approved investments equates to £47m, as presented in **Appendix 2**. These approved investments comprise 22 individual projects and programmes and a brief outline of each is set out below.

A689 Wynyard Improvements

35. In the original growth deals of 2014/15 £3m was allocated, subject to due diligence, to improve signalisation and widen five roundabouts on the A689 at Wynyard. Subsequently, Stockton Borough Council submitted a change request to vire money between approved schemes which resulted in a revised figure of £2.525m. This scheme will provide additional capacity on the A689 roundabouts to provide the local access required for the proposed housing developments in Wynyard and South West Hartlepool. This complements the recent improvements to the strategic road network that the Highways Agency has completed, to provide additional capacity at the A19/A689 Interchange, and their longer term commitment to providing the additional capacity required to accommodate future development traffic and wider traffic growth along the A19 between Norton and Wynyard. The Combined Authority is currently working with Stockton Borough Council on bringing forward this scheme.

Apprentice Grant for Employers

36. The Apprentice Grant for Employers programme has the aim of supporting businesses (principally micro and small enterprises) that would not otherwise be in a position to recruit individuals aged 16 to 24 into employment through an Apprenticeship programme. Employers who recruit an apprenticeship and keep them in employment for at least 13 weeks receive a grant which goes some way to offsetting the cost involved in employing and investing in the development of an apprentice. The programme was devolved to Tees Valley in 2016/17 with £1.536m funding through the Skills Funding Agency. In January 2017 Cabinet approved further funding of £524k to continue the programme. In July 2017 Cabinet approved a further £1.3m funding to enable further continuation of the programme. Currently in delivery, the £1.3m funding is forecast to be expended by the end of 2019/20.

Business Finance Scheme

37. In February 2018 Cabinet approved an allocation of £5m through the Investment Plan to 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 will add to the 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.

Careers & Enterprise Programme

38. The Enterprise Advisor Network programme provides support to connect local business with schools and colleges across the Tees Valley. Advisors support and enhance existing activities, ensure that the schools are aware of additional support available and identify what additional support the school requires to deliver improved careers education. Match funding of £110k has been provided to enable the extension of the careers initiative. Beyond this, funding for the initiative is to continue through the Cabinet approved Careers and Enterprise Initiative.

CPI Healthcare Futures Centre

39. In the original growth deals of 2014/15 £10m was allocated, subject to due diligence, for the CPI Healthcare Futures Centre, a new facility on the Enterprise Zone at Central Park which will allow organisations to develop and test medicine manufacturing technologies that can be applied in the new and emerging therapeutic supply chains. It will integrate with existing National Biologics Manufacturing Centre and the new Teesside University National Horizons Centre to form a strong cluster for the biologics sector. There are a number of factors that have resulted in a delay to the proposal progressing to funding agreement stage. The proposal is reliant on ERDF funding application and as a result changes were required to the funding model. The Combined Authority are progressing with the due diligence and the outcome of the ERDF application is awaited.

Building Cultural Capacity

40. In March 2017 Cabinet approved a £1.8m programme of culture activity, which included a £100k allocation for building cultural capacity. Activity regarding building cultural capacity is currently in delivery, with a forecast £25k remaining to be spent in 2019/20.

Culture - City Games & Cross Country

41. In March 2018 Cabinet approved, subject to due diligence, the allocation of up to £340k grant funding to the Great Tees City Games and Great Tees XCountry and 'in principle' funding for up to a further £1.575 million to secure the Games to take place after 2019 until 2025. The expenditure forecast for 2019 onwards is subject to the outcome of current delivery.

Culture - Destination Marketing Programmes

42. In March 2017 Cabinet approved a £1.8m programme of culture activity, which included a £1.05m allocation for a destination marketing programme. The programme is currently in delivery and aims to celebrate and communicate the very strong tourism assets Tees Valley already has, and ensure that we are ready to promote those which will be developed over the coming years. Focus has been put on to the creation of a destination marketing service with website, private sector engagement, product development and PR and marketing, and working closely with partner organisations to maximise success.

Delivering Sector Action Plans Programme

43. In February 2018 Cabinet approved an allocation of £1.9m through the Investment Plan for delivering sector action plans. It was agreed as part of the approval that individual projects would be approved on an individual basis as they come forward.

Education, Employment & Skills Strategy - Addressing Long Term Unemployment

44. In February 2018 Cabinet approved programme funding of £2m aimed at addressing long term unemployment through a targeted 15-18 programme of holistic support and a pilot a work experience programme for 16-18 year olds. The operating model for the delivery of these programmes is still to be developed with expenditure forecast across 2019/20 and 2020/21.

Education, Employment & Skills Strategy – Business Challenge and Workforce Planning

45. In February 2018 Cabinet approved programme funding of £1.5m for a programme of workforce planning support to businesses. The operating model for the delivery of this programme is still to be developed with expenditure forecast across 2019/20 and 2020/21.

Education, Employment & Skills Strategy – Creating a Tees Valley Careers & Enterprise Initiative

46. In February 2018 Cabinet approved funding of £3m for a programme of work to create a Tees Valley Careers and Enterprise Initiative. This programme will provide more effective, informed and high quality Careers and Enterprise education in all educational establishments including primary schools in the Tees Valley area. The aims of the new initiative will better align careers and enterprise education in schools to business needs and improve the experiences of young people to ensure they are better informed and prepared for work. The aim is to engage 1,000 businesses in careers education across all schools and from Key Stage 2, age 7 upwards. The operating model for delivery of the programme has been developed and is being presented to November Cabinet.

Education, Employment & Skills Strategy – Developing a Skills System for Business Growth

47. In February 2018 Cabinet approved funding of £2m for a programme of work to develop post-16 technical business led route ways. This programme aims to ensure skills provision is focused on meeting the skills gaps in the local economy by reducing the skills gaps by employers in high growth sectors. Helping businesses create higher level apprenticeships including degree level that lead to high quality jobs. Expanding the opportunity for young people to take up apprenticeships and access high quality technical education. Improving skills route ways to entry level and good progressive jobs. The operating model for the delivery of this programme is still to be developed with expenditure forecast across 2019/20 and 2020/21.

Education, Employment & Skills Strategy – Supporting Education Innovation and Collaboration

48. In February 2018 Cabinet approved funding of £2m for a programme of work to support education innovation and collaboration. The aim of the programme is to help meet the education workforce challenge by recruiting and retaining high quality teachers into the Tees Valley. It aims to improve high quality technical education routes for young people into high quality jobs and support collaborative pilot scheme that improve outcomes for pupils. The development of the operating model for the delivery of this programme is currently on hold subject to the detail of a Government announcement in October 2018 regarding the £24m Opportunity North East programme.

Feethams Grade A Office Development

49. In February 2018 Cabinet approved £3.23m investment for the construction of 3,264sqm of Grade A office accommodation in Darlington town centre. The budget identifies £3.13m forecast expenditure in 2019/20 and 2020/21. The remaining £100k has been recovered for previous development costs.

Hartlepool Centre of Excellence in Technical Training for the Creative Industries

50. Approved under delegated decision in December 2017 for £656k the centre aims to bring back into use the mothballed £4.5m Northern Lights Academy facility and turn it into a Centre of Excellence in Technical Training for Creative Industries for young people. It will target emerging technologies and industry growth sectors including traineeship and apprenticeships in TV and Film, Sound Production, Theatre and Live Event production and Digital Media.

Hartlepool Western Growth Corridor

51. Approved funding of £4.173m by Cabinet in July 2018, this project consists of the development of a by-pass for the Village of Elwick and an overbridge and compact grade separation at the current Elwick North junction to the A19, which will improve the strategic and local road network. This will provide a third main route into Hartlepool, enabling the development of significant levels of new housing in the West of the Borough.

Ingenium Parc – Phase 1

52. The project was approved by Cabinet in November 2017 and £3.9m was allocated in the provision of enabling infrastructure to unlock 11.5ha of key employment land located within Darlington's Eastern Urban Fringe to ensure it is development ready.

Routes to Work

53. As outlined in paragraph 23 of this report, £6m of Routes to Work programme funding was secured from the Department of Work and Pensions (DWP), matched by £1.5m from the Combined Authority. The programme provides holistic support from a range of service providers for those unemployed or economically inactive individuals aged 30+ across the Tees Valley area, who are deemed to need the most help and support to move back into work. This includes many elements with the primary focus being on the individual. It provides the opportunity to identify and address multiple barriers that some people face when trying to access work and does not solely focus on providing training courses. The Combined Authority match funding of £1.5m will only be expended after the £6m DWP funds have been utilised, hence it is forecast to be spent in 2020/21.

Sustainable Access to Employment Programme

54. This four-year £8.3m programme approved by Cabinet in January 2017 contributes to delivering a high value, low carbon economy by promoting the use of sustainable modes of transport to reduce congestion and cut emissions. It also aims to improve accessibility to employment opportunities for Tees Valley residents through the improvement of walking and cycling access between key employment and housing sites and access to existing transport networks. The remaining £1.2m of this programme will be delivered in 2019/20.

Sustaining 16+ Facilities Capital

55. In 2017 Cabinet approved an allocation of £3.5m for sustaining 16+ facilities capital. An open application process, the funding is available to support the sustainability of further education colleges following the post-16 education area review. For the budget plan period £2.535m of this funding remains available for capital investment.

Youth Employment Initiative Extension

56. In 2016 Cabinet approved an allocation of up to £2.06m to act as a required 25% match as part of the overall programme budget. This allocation secured up to an additional £6.188m of European Structural Fund for the Tees Valley.

Development fund commitments

57. For the plan period forecast expenditure on development funding equates to £0.83m. The detail of the projects to incur this expenditure are set out at **Appendix 2**.

SPECIFIC GRANT EXPENDITURE

58. Expenditure against specific grants broadly follows income receipt, descriptions of each is set out in the income section of this report apart from the SSI Task Force grants which is described below.

59. It is anticipated that at 31 March 2019 there will be £18m of specific grant income held in the balance sheet all of which will be expended during the plan period and all specific grant programmes will be completed within the budget plan period with the exception of the annual Adult Education Budget, Local Transport Plan and Concessionary Fares. A number of the grant schemes are delivered by the Combined Authority directly with associated staff resources which are funded directly from the grant itself.

60. There are currently no approved projects against the Transforming Cities Fund however for the purposes of this report a notional expenditure profile has been included. Once projects are approved this profile will be updated to reflect this.

61. During 2015/16 the Government announced an £80m funding package to provide economic support for those employees impacted (directly and indirectly) by the closure of the SSI plant in Redcar, of which £47m was channelled through the Combined Authority and managed by the SSI Task Force. To date 93% of the funding is committed and the remaining projects and programmes are currently working their way through the assurance process.

Specific grant expenditure	2018/19 £'000	2019/20 £'000	2020/21 '000	2021/22 £'000	2022/23 £'000	Total £'000
Transforming Cities Fund	0	0	5,000	27,000	43,500	75,500
Routes to Work	2,218	2,439	1,211	0	0	3,650
BEIS Growth Hub	246	246	0	0	0	246
National Productivity Investment Fund	3,274	5,050	0	0	0	5,050
DfT Access Fund	1,109	1,051	0	0	0	1,051
ERDF (Business Compass)	4,494	6,843	0	0	0	6,843
ERDF Legacy	0	3,666	3,667	3,667	0	11,000
Great Places	711	528	0	0	0	528
Adult Education Budget	392	20,179	30,000	30,000	30,000	110,179
Careers & Enterprise	60	50	21	0	0	71
SSI Task Force	8,256	14,209	0	0	0	14,209
Local Transport Plan	13,943	13,943	13,943	13,943	13,943	55,772
Concessionary Fares Income	16,706	16,706	16,706	16,706	16,706	66,824
Other	2,455	0	0	0	0	0
Total	53,864	84,910	70,548	91,316	104,149	350,923

CORE COSTS

62. More than 96% of all Combined Authority income is invested, with less than 4% being utilised for core costs. For the 2019/20 budget it is planned to remain within the current 2018/19 funding envelope for core costs and manage any budgetary pressures through efficiencies. The key budgetary pressure in 2019/20 to be managed through efficiencies is the pay award which equates to an additional estimated cost of £150k. Managing this additional cost pressure gives the Combined Authority a 2019/20 efficiency target of approximately 3%. In addition, one-off costs are incurred for mayoral elections, with the previously agreed budget of £0.6m for 2020-21.

	2018/19	2019/20	2020/21	2021/22	2022/23	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Core costs	4,813	4,813	4,813	4,813	4,813	19,252
Mayoral election	-	-	600	-	-	600
Total	4,813	4,813	5,413	4,813	4,813	19,852

63. The table below sets out the proposed core costs budget for 2019/20 and the previously agreed budget for 2018/19. A more detailed breakdown of running cost budgets are provided at **Appendix 3**.

Core costs	2018/19	2019/20
Salaries	3,113,332	3,113,332
National Insurance	340,722	340,722
Pension Contribution	478,858	478,858
Other Staffing Costs	15,000	15,000
Total Staff Costs	3,947,912	3,947,912
Premises	336,000	336,000
General Running Costs	369,000	369,000
Marketing & Communications	160,000	160,000
Non-Salary Expenditure	865,000	865,000
TOTAL EXPENDITURE	4,812,912	4,812,912

64. In the current year we are projecting savings of approximately £292k, comprising £341k underspend on salaries (vacant posts and vacancies filled during year) offset by an additional £49k in non-staffing costs (a one-off backdated premises charge, additional expenditure for the purchase of a secure file sharing facility and Chief Executive recruitment costs).

RESERVES

65. We consider the need for unearmarked reserves within the context of the MTFP 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 therefore could lead to the need for a higher level of

reserves than usual to make for robust budget planning. There are no such matters to consider in this budget report.

66. 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. As agreed in the 2018/19 Budget 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 a proportion of this in the General Reserve. This would require us to set the General Reserve Balance at £842k which would represent a reduction of £120k from current levels. However, we are proposing to not action this reduction and leave the general reserve at £962k.
67. Due to the transformational nature of Combined Authority investment the in-year receipt of income is not, nor intended to be, aligned to in-year investment. As a Mayoral Combined Authority the devolution arrangements enable funds to be carried forward to align with the timing of investment priorities and longer term strategic aims rather than incur expenditure by an arbitrary in-year deadline. As a consequence funds received will be held in reserves until required for investment. Likewise, if investment requirements exceed available reserves and in-year income the Combined Authority has the power to borrow against future income streams to fund investment priorities.
68. The reserves held can be classified under Single Pot Reserves and Specific Grant Reserves. The balances across the plan period are set out below.

Single Pot	2018/19	2019/20	2020/21	2021/22	2022/23
Opening Balance	70,509	51,483	48,887	63,066	78,441
To/From Reserves	(19,026)	(2,596)	14,179	15,375	16,995
Closing Balance	51,483	48,887	63,066	78,441	95,436

Specific Grants	2018/19	2019/20	2020/21	2021/22	2022/23
Opening Balance	23,456	18,209	17,000	30,000	27,000
To/From Reserves	(5,247)	(1,209)	13,000	(3,000)	(27,000)
Closing Balance	18,209	17,000	30,000	27,000	0

BORROWING

69. In January 2018 the Combined Authority was granted borrowing powers by Government up to an agreed cap of £571m in 2019/20 and £774m in 2020/21. Borrowing powers provide substantial additional financial flexibility for the Combined Authority, allowing borrowing against future income to finance upfront investment. The levels are strict maximums set by the Treasury, and do not imply that the Combined Authority will be borrowing to this level. Debt limits will instead be set by Cabinet, on the basis of approved business cases for individual projects, and within the overall debt position reported to Cabinet quarterly.
70. As with local authorities, borrowing can only take place when strict conditions are met, as determined by the Director of Finance in her statutory role in compliance with the prudential code. There must be a designated income source to repay the finance costs of borrowing before it can be approved
71. To date funding requirements for investments have not exceeded available funds and therefore the borrowing powers have not been acted upon. Although borrowing has not been required to date Cabinet have approved the use of prudential borrowing powers against two investments, namely Tees AMP £6.15m and Feethams £3.23m.
72. The currently approved expenditure set out in this paper indicates that expenditure for the plan period will be met from expected income and current reserves. However, this

position is subject to the ongoing review of investment plans and the Treasury Management Policy has been amended to accommodate such borrowing if needed within the plan period.

AVAILABLE FOR INVESTMENT

73. As at 30 October 2018 £95m remains available for single pot investment within the plan period based on current known income streams and committed expenditure. A prioritisation exercise is currently being undertaken to identify a 10 year investment strategy. The profiling of this expenditure is dependent on the outcome of the prioritisation exercise and it is expected that there will be further commitment of funds within the plan period as prioritised projects are approved.
74. The current amount available for investment as outlined above is based on known income streams until 2023, if we extended the known income streams out to 2029 to cover the 10 year prioritisation period this would make available an additional £103m for investment, and gives an available for investment balance of £198m.
75. The above does not take account of any further grants that we may be awarded from Central Government. We are awaiting details of how the UK Shared Prosperity Fund will operate and what level of funding we may receive from this fund which is due to go out to consultation later in the year.

MEDIUM TERM FINANCIAL PLAN 2019-23

76. Income and expenditure for the plan period, including the proposed 2019/20 budget is summarised in the medium term financial plan as set out in **Appendix 4**. The medium term financial plan is also set out based on Investment Plan themes at **Appendix 5**.

NEXT STEPS

77. Subject to Cabinet approval the Budget will be subject to a period of consultation as set out below in paragraph 81 below. The results of the consultation and proposed final budget will be reported to Cabinet in January 2019. In line with the budget process as set out in the constitution and if required, an additional Cabinet budget meeting is provisionally scheduled for February 2019.

FINANCIAL IMPLICATIONS

78. This report sets the budget for the Combined Authority under the context of the agreed Investment Plan. This report does not propose any amendments to the Investment Plan.

LEGAL IMPLICATIONS

79. 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.

RISK ASSESSMENT

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

CONSULTATION

81. Consultation will be undertaken with the public and key stakeholders for a period from 30 November 2018 to 6 January 2019.

Name of Contact Officer: Martin Waters
Post Title: Head of Finance and Resources
Email: martin.waters@teesvalley-ca.gov.uk
Telephone Number: 01642 526527

Investments against the single pot approved by Cabinet since the 2018-19 Budget was agreed

	£ '000
Feethams Grade A Office Development	3,230
Snow Centre	250
Education, Employment & Skills Strategy	10,500
Kirkleatham Catering Academy and Walled Garden	3,660
Culture: City games	1,915
Culture: Rugby League World Cup Bid	250
Annimersion	39
Middlesbrough Station	2,500
Darlington Station	3,000
Stockton Riverside College - Redcar College IT Infrastructure	968
TVCA Hydrogen Transport Deployment Bid	80
TWI Joint Hydrogen Business Development Manager	60
Hartlepool Western Growth Corridor	4,173
National Museum of the Royal Navy Hartlepool	499
Liberty Steel Grant	1,000
Liberty Steel Loan	3,600
TOTAL	35,724

Forecast expenditure on approved investments in the plan period

SINGLE POT APPROVED INVESTMENTS EXPENDITURE	Projected by end of 18/19	2019/20	2020/21	2021/22	2022/23	MTFP TOTAL	Approved project total
		£'000	£'000	£'000	£'000		
A689 Wynyard Improvements	0	2,525				2,525	2,525
Apprentice Grant For Employers	850	450				450	1,300
Business Finance Scheme	0	1,500	1,750	1,750		5,000	5,000
Careers & Enterprise Programme	50	60				60	110
CPI Healthcare Futures Centre (Personalised Medicines)	0	3,750	6,250			10,000	10,000
Culture: Building Cultural Capacity	75	25				25	100
Culture: City games & Cross-Country	340	340	340	245	340	1,265	1,605
Culture: Destination Marketing Programmes	672	378				378	1,050
Delivering Sector Action Plans Programme	0	1,900				1,900	1,900
Education, Employment & Skills Strategy - Addressing long term unemployment (15-18 programme & work experience)	0	1,000	1,000			2,000	2,000
Education, Employment & Skills Strategy - Business challenge and workforce planning	0	750	750			1,500	1,500
Education, Employment & Skills Strategy - Creating a TV Careers & Enterprise Initiative	500	1,250	1,250			2,500	3,000
Education, Employment & Skills Strategy - Developing a skills system for business growth	0	1,000	1,000			2,000	2,000
Education, Employment & Skills Strategy - Supporting education innovation and collaboration	0	1,000	1,000			2,000	2,000
Feethams Grade A Office Development	0	1,663	1,467			3,130	3,130
Hartlepool Centre of Excellence in Technical Training for the Creative Industries	312	344				344	656
Hartlepool Western Growth Corridor	1,500	2,673				2,673	4,173
Ingenium Parc - Phase 1	2,300	1,600				1,600	3,900
Routes to Work	0		1,500			1,500	1,500
Sustainable Access To Employment Programme	7,092	1,208				1,208	8,300
Sustaining 16+ Facilities Capital	0	2,535				2,535	2,535
Youth Employment Initiative Extension	0	2,060				2,060	2,060
TOTAL	13,691	28,011	16,307	1,995	340	46,653	60,344
DEVELOPMENT FUND APPROVED EXPENDITURE							
District Heating Commercialisation Stage	100	400	0	0	0	400	500
Eaglescliffe Station Western Access	329	329	0	0	0	329	658
Kirkleatham Estate Investment Project	312	103	0	0	0	103	415
TOTAL	741	832	0	0	0	832	1,573

Running cost budgets 2019/20

Budget Heading	Budget 2019/20
Premises	
Electricity	33,000
Rates	87,000
Rents and Leases	196,000
Repairs and Maintenance Condition	8,000
Cleaning and Domestic Contracts	12,000
	336,000
Transport	
Transport Fares - Payroll	12,000
Transport Fares - Non Payroll	60,000
	72,000
General Running Costs	
Catering, Food & Drink	2,000
Equipment/Furniture/Materials	3,000
Room/Facility Hire	3,000
ICT - Hardware	3,000
ICT - Software / licences	30,000
Insurance	35,000
Printing & Photocopier	1,000
Professional Fees & Consultancy	6,000
External Audit Fees	30,000
Stationery	2,000
Subscriptions & Memberships	32,000
Staff Expenses	15,000
Telecommunications	4,000
Mail Services	1,000
	167,000
Support Costs	
Financial Support (including Treasury Management, VAT advice)	20,000
Internal Audit	2,000
Risk Management & Insurance	2,000
ICT	33,000
Printing	7,000
HR	12,000
Voice & Data Network	29,000
Monitoring Officer / Legal Support	24,700
	129,700
Marketing & Communications	160,000
Total Running Costs Budget	864,700

Medium Term Financial Plan 2019-23

MEDIUM TERM FINANCIAL PLAN	2019/20	2020/21	2021/22	2022/23	TOTAL
	£'000	£'000	£'000	£'000	£'000
Single Pot Income	31,060	35,899	22,183	22,148	111,290
Specific Grant Income	83,701	83,548	88,316	77,149	332,714
TOTAL INCOME	114,761	119,447	110,499	99,297	444,004
Approved Investments	28,011	16,307	1,995	340	46,653
Development Fund Commitments	832	0	0	0	832
Specific Grant Expenditure	84,910	70,548	91,316	104,149	350,923
Core Costs	4,813	5,413	4,813	4,813	19,852
TOTAL EXPENDITURE	118,566	92,268	98,124	109,302	418,260
TRANSFER TO / FROM RESERVES	-3,805	27,179	12,375	-10,005	25,744
Usable Reserves Opening Balance	69,692	65,887	93,066	105,441	
Transfer To / From Reserves	-3,805	27,179	12,375	-10,005	
USABLE RESERVES CLOSING BALANCE	65,887	93,066	105,441	95,436	

Medium Term Financial Plan 2019-23 – Investment Plan Themes

EXPENDITURE BY INVESTMENT PLAN HEADINGS	2019/20	2020/21	2021/22	2022/23	TOTAL
	£'000	£'000	£'000	£'000	£'000
Business Growth	23,800	6,884	5,417	0	36,101
Research, Development, Innovation & Energy	3,750	6,250	0	0	10,000
Education, Employment & Skills	33,117	37,732	30,000	30,000	130,849
Culture	1,271	340	245	340	2,196
Transport	26,450	18,943	40,943	57,443	143,779
Enabling Infrastructure	6,600	0	0	0	6,600
Development Pot	832	0	0	0	832
INVESTMENT PLAN EXPENDITURE	95,820	70,149	76,605	87,783	330,357
SSI Schemes Not In Investment Plan	1,227	0	0	0	1,227
Concessionary Fares	16,706	16,706	16,706	16,706	66,824
Core Running Costs	4,813	5,413	4,813	4,813	19,852
NON-INVESTMENT PLAN EXPENDITURE	22,746	22,119	21,519	21,519	87,903
TOTAL EXPENDITURE	118,566	92,268	98,124	109,302	418,260