

AGENDA ITEM 14

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

30 NOVEMBER 2018

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

BUDGET REPORT – QUARTER 2 (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 September 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 September 2018; and
- ii. Note the revised Medium Term Financial Plan.

DETAIL

Core Budget

1. The table below details the quarter 2 budget and actual spend for the core budget as at 30th September 2018.

	Qtr2 Budget	Actual @	Variance To
	£'000	Sept	Date
	£'000	£'000	£'000
Staffing Costs	1,974	1,748	(226)
Other Non Staffing Costs	635	670	35
TOTAL EXPENDITURE	2,609	2,418	(191)
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	2,090	899	(1,191)

2. As at the end of September 2018 there is an underspend of £191k against the budgeted expenditure. There has been an underspend against salaries of £226k as a result of posts being vacant during the period whilst recruitment processes have been ongoing towards to the approved staffing levels. Non staffing expenditure is currently overspent by £35k which is predominantly as a result of a one off additional service charge.
3. The table below details the budget and projected outturn for the core budget as at the end of quarter 2. The position will continue to be monitored and reviewed during the remainder of the financial year.

	Budget	Projected Outturn	Variance
	£'000	£'000	£'000
Staffing Costs	3,948	3,607	(341)
Other Non Staffing Costs	865	914	49
TOTAL EXPENDITURE	4,813	4,521	(292)
Single Revenue Pot Contribution	(3,180)	(1,888)	1,292
Mayoral Capacity Funding	0	(1,000)	(1,000)
Grants & Contributions	(1,633)	(1,633)	0
TOTAL FUNDING	(4,813)	(4,521)	292
NET EXPENDITURE	(0)	0	0

4. The total projected underspend for 2018/19 is £292k. Salaries are projected to underspend by £341k 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 £49k for a one-off backdated premises service charge, additional expenditure for the purchase of a secure file sharing facility and recruitment costs associated with chief executive post.
5. The additional £1m Mayoral Capacity Grant which was awarded for the year together with the projected underspend gives a reduced call on the single pot of £1.292m.

Progress Against Medium Term Financial Plan (MTFP)

6. 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.
7. 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.
8. The following sections outline amendments to the MTFP since being set in February and the revised plan is presented at Appendix 1.

MTFP Income

9. 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
Previously Projected	87,827	97,118	89,039	63,554	337,538
Additional income	392	20,179	30,000	43,943	94,514
Movement In Years	-5,384	504	1,213	3,667	0
Revised Projection	82,835	117,801	120,252	111,164	432,052

10. Since the previous update the Adult Education Budget has now been built into the plan at the estimated values based on information provided by ESFA. This includes transitional arrangements and totals £80.6m over the period covered by this plan.

11. The Local Transport Plan funding for 2021/22 has now been including into the plan based on current levels of £13.9m.

MTFP Expenditure

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

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	122,120	77,838	54,150	25,449	279,557
Additional Commitments	3,162	25,372	34,991	70,943	134,468
Movement In Years	-20,193	15,438	3,300	1,995	540
Revised Projection	105,089	118,648	92,441	98,387	414,565

13. The revised projection for expenditure in 2018/19 is £105m and at the end of quarter 2 the spend against this forecast is £42.8m.

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

Business Growth

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

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	18,160	17,140	5,417	3,667	44,384
Additional Commitments	0	0	0	0	0
Movement In Years	-9,517	6,660	1,467	1,750	360
Revised Projection	8,643	23,800	6,884	5,417	44,744

16. The revised projection for expenditure in 2018/19 is £8.6m and at the end of quarter 2 the reported spend against this forecast is £1.3m. 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.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	15,995	3,750	6,250	0	25,995
Additional Commitments	140	0	0	0	140
Movement In Years	185	0	0	0	185
Revised Projection	16,320	3,750	6,250	0	26,320

18. Since the previous report was set an additional £140k has been committed as follows:

- As reported to Cabinet in September £60k was committed to develop a proposal to meet a call by the Office of Low Emission Vehicles (OLEV, part of DfT) for deployment of Hydrogen Vehicles and refuelling infrastructure.
- £80k was committed through delegated authority to match fund a hydrogen business development role employed by TWI which was also reported to Cabinet in September.

19. The revised projection for expenditure in 2018/19 is £17.3m and at the end of quarter 2 the reported spend against this forecast is £8.8m. 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.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	12,195	9,694	5,898	0	27,787
Additional Commitments	392	22,708	30,000	30,000	83,100
Movement In Years	-2,548	715	1,833	0	0
Revised Projection	10,039	33,117	37,731	30,000	110,887

21. Since the quarter 1 budget report was set an additional £83 million has been ring-fenced as follows:

- As referenced in paragraph 10 The Adult Education Budget has now been built into the medium term financial plan at the estimated values based on information provided by ESFA. This includes transitional arrangements and totals £80.6m over the period covered by this plan.
- The investment plan originally ring-fenced £3.5m for Sustaining 16+ Facilities Capital, in the Quarter 1 budget report it was reported that £968k had been committed to IT Infrastructure project at Redcar College. A spend profile has

been notionally allocated to the remaining £2.5m and this has been incorporated into the MTFP subject to specific projects being approved for this funding.

22. The revised projection for spend in 2018/19 is £10m and at the end of quarter 2 the reported spend against this forecast is £1.8m. Although the spend for the first half of the year 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.

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	3,450	425	340	0	4,215
Additional Commitments	499	0	0	0	499
Movement In Years	-1,049	847	0	245	43
Revised Projection	2,900	1,272	340	245	4,757

24. As reported to Cabinet in July £499k was awarded to the National Museum of the Royal Navy Hartlepool to support the wider Hartlepool Waterfront Masterplan.
25. The revised projection for expenditure in 2018/19 is £2.9m and at the end of quarter 2 the reported spend against this forecast is £308k. Overall, expenditure is on track with expected increases through the delivery of the Great Places, destination marketing programmes and Museum of the Royal Navy Project

Transport

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

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	28,358	23,502	13,952	0	65,812
Additional Commitments	1,491	2,664	4,991	40,943	50,089
Movement In Years	-284	284	0	0	0
Revised Projection	29,565	26,450	18,943	40,943	115,901

27. Since the quarter 1 budget report was set an additional £50m has been ring-fenced as follows:
- 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 of £32m within the current plan period. Once projects are approved this profile will be updated to reflect this.
 - The Local Transport Plan funding for 2021/22 has now been including into the plan based on current levels of £13.9m as referenced in paragraph 11.

- At Cabinet meeting in July £4.2m was committed to bring forward the construction of the Hartlepool Western Growth Corridor.

28. The revised projection for expenditure in 2018/19 is £29.6m and at the end of quarter 2 the reported spend against this forecast is £17m which is in line with projections.

Infrastructure

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

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	11,506	1,000	0	0	12,506
Additional Commitments	0	0	0	0	0
Movement In Years	-5,583	5,600	0	0	17
Revised Projection	5,923	6,600	0	0	12,523

29. The revised projection for spend in 2018/19 is £5.9m and at the end of quarter 2 the reported spend against this forecast is £300k. Spend will be accelerated in the coming months as work on the Kirkleatham Estate project progresses.

Development Fund

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

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Previously Projected	5,465	727	0	0	6,192
Additional Commitments	640	0	0	0	640
Movement In Years	-105	105	0	0	0
Revised Projection	6,000	832	0	0	6,832

31. Since the quarter 1 report £640k has been committed to developing a business case for Northern School of Arts and also to carry out a Business Accommodation review for the Tees Valley to inform investment decisions.

SSI Task Force Funds

32. Under the SSI task force projects there was £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 £5.7m over the MTFP.

Concessionary Fares

33. 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 £66.8m over the period.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

35. None

RISK ASSESSMENT

36. 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

37. None

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APPENDIX A

	2018/19	2019/20	2020/21	2021/22	TOTAL
	£'000	£'000	£'000	£'000	£'000
Income					
Local Growth Fund	13,708	9,416	14,217	0	37,341
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	13,943	13,943	13,943	13,943	55,772
Transforming Cities Fund	4,000	13,000	18,000	24,000	59,000
Loan Repayments & Investment Income	1,105	3,634	1,178	1,361	7,278
Local Enterprise Partnership Grant	500	500	500	500	2,000
Adult Education Budget	392	20,179	30,000	30,000	80,571
Education, Employment & Skills Specific Grant Schemes	2,282	2,489	1,232	0	6,003
Transport Specific Grant Schemes	4,636	6,101	0	0	10,737
Other Specific Grant Schemes	2,116	774	0	0	2,890
European Structural Investment Fund	4,542	6,843	0	0	11,385
ERDF Legacy	0	3,666	3,667	3,667	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	180	180	180	180	720
TOTAL INCOME	82,835	117,801	120,252	111,164	432,052
Approved Commitments					
Business Growth	8,643	23,800	6,884	5,417	44,744
Research, Development, Innovation & Energy	16,320	3,750	6,250	0	26,320
Education, Employment & Skills	10,039	33,117	37,731	30,000	110,887
Culture	2,900	1,272	340	245	4,757
Transport	29,565	26,450	18,943	40,943	115,901
Infrastructure	5,923	6,600	0	0	12,523
Development & Evaluation	6,000	832	0	0	6,832
SSI Related Schemes (not allocated to investment plan themes)	4,472	1,227	0	0	5,699
Core Running Costs	4,521	4,894	4,987	5,076	19,478
Mayoral Election	0	0	600	0	600
Concessionary fares	16,706	16,706	16,706	16,706	66,824
TOTAL EXPENDITURE	105,089	118,648	92,441	98,387	414,565