

AGENDA ITEM 8**REPORT TO THE TEES VALLEY
COMBINED AUTHORITY CABINET****24 JULY 2020****REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES****INVESTMENT PLAN Q4 DELIVERY UPDATE****SUMMARY**

The Combined Authority Cabinet approved a ten-year Investment Plan (2019-2029) in January 2019, with a one-year on update provided and agreed at Cabinet in January 2020. The one-year on Investment Plan update gives an overview of progress made to date building on previous iterations and reaffirms our continued investment strategy for the period to 2029.

The Investment Plan performance dashboard for the period January – March 2020 which is Quarter 4 of the financial year 2019/20 is provided at **Appendix 1**. This report provides an overview of the financial performance of the ten year Investment Plan, an update on delivery by Investment Plan theme and highlights any perceived risk to achieving the spend forecasts within the Investment Plan.

Key messages from the Performance Dashboard include:

Of the total ten-year Investment Plan (2019-2029) programme: -

- 10.9% has been spent to date up from 9.7% in Q3;
- 67.1% of projects and programmes have either approved business cases or are currently developing business cases up from 50% in Q3; and
- 22% is uncommitted or allocated to activities that are yet to be fully defined.

At year end of the financial year 2019/20, one year into the programme, we have in total, spent £64.2m of Investment Plan funds. Although, this represents an underspend of £42.9m against the forecast within the original Investment Plan, this should not be viewed as underperformance, and can largely be attributed to forecast expenditure relating to land and infrastructure costs that will be reprofiled following the successful Compulsory Purchase Order decision, allowing these funds to be re-allocated instead to development delivering increased economic benefit.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet: -

- i. Notes the contents of the Q4 delivery update; and
- ii. Provides any feedback on the matters covered.

INVESTMENT PLAN Q4 DELIVERY UPDATE

The dashboard provided at **Appendix 1** gives a high-level overview of Investment Plan performance as of Q4, 2019/20.

Table 1 of the dashboard sets out an updated forecast expenditure of the Investment Plan 2019-2029 by theme and year as at Q4 2019/20. In line with financial good practice the Medium-Term Financial Plan sets the budget for a four-year period. Therefore, the expenditure has been set out annually for year 1 through to 4 and then aggregated in year 5-10.

In summary, there have been no changes to overall allocations by theme this quarter. In the financial year 2019/20, we have in total, spent £64.2m, the equivalent to 10.9% of total Investment Plan funds. This has been revised down from the Q3 projection of £120.9m which was equivalent to 20.5% of total Investment Plan funds. Although, this represents an effective underspend of £56.7m this can largely be attributed to the £45m of Business Growth funds that will be reprofiled for STDC land and infrastructure development following the successful Compulsory Purchase Order decision, this is highlighted further in **Table 3**.

Table 2 of the dashboard sets out by each theme how projects are progressing through the assurance process, detailing spend to date, to provide an indicator of performance. In summary, as of Q4 2019/20:

- **£207.9m Approved** – Agreed and in delivery;
- **£248.2m Business Case Development** – Agreed as priority projects within the Investment Plan, and are developing Business Cases for approval; and
- **£132.1m Uncommitted** – Funds remaining within the Investment Plan that are yet to be agreed or defined.

Between Q3 and Q4 an additional £49m of business cases have been approved. Significant movements have occurred within the Business Growth theme with the approval of the £30m Business Growth Programme. At Q4 of 2019/20, in total, 77.5% of Investment Plan projects and programmes now have or are developing business cases. This will allow for increased accuracy in forecasting expenditure, mitigating the probability of underspend and allowing for an increased understanding of when projects are failing to perform in line with the projected programme for delivery as set out in individual business cases, further enabling early detection of delivery risk.

Table 3 of the dashboard sets out for each theme the outturn at year end 2019/20. This table allows for a comparison between what was forecast within the original Investment Plan, expenditure forecast at Q3 and actual performance at Q4 year end.

Within the original Investment Plan we forecast £107.1m of spend across all themes in the financial year 2019/20, this was revised upwards in Q3 to £120.9m, an increase of £13.8m. This reprofiling is being reviewed following the successful Compulsory Purchase Order decision at the South Tees Development Corporation (STDC) site.

Outturn at year end totalled £64.2m which represents an underspend of £42.9m against the forecast within the original Investment Plan and an underspend of £56.7m as forecast at Q3. This underspend, however, should not be viewed as underperformance, and can be attributed to the £45m of Business Growth funds in respect of land and infrastructure costs that will be reprofiled following the successful Compulsory Purchase Order decision.

An additional £8.75m of expenditure relating to the Indigenous Growth Fund (IGF) forecast to come forward in 2019/20 failed to spend. This is mitigated by a number of schemes progressing towards delivery and expenditure in Q1 of the financial year 2020/21, however, some degree of risk remains and will continue to be monitored closely with additional development support offered where deemed appropriate.

Significant points to note, highlighted by the accompanying graph for **Table 3** are as follows:

- Transport – outturn at year end for the Transport theme was £49.3m, in comparison to £47.9m forecast within the original Investment Plan, this can be attributed to the acceleration of scheme expenditure over the lifetime of the plan and does not pose a significant risk.
- Education, Employment and Skills – outturn at year end for the Education, Employment and Skills theme was £1.0m in comparison to the £7.5m forecast within the original Investment Plan, this can be attributed to the delay in progressing the Employment and Skills Programme and the Education and Careers Programme from business case development through to approval and delays owing to the Covid-19 pandemic and the delivery of the Northern School of Arts. However, both business cases have now been approved with project delivery commencing, whilst the Northern School of Arts has forecast commencement of construction to take place in Q1 of 2020/21.
- Business Growth – outturn at year end for the Business Growth theme was £12.3m in comparison to the £38.7m forecast within the original Investment Plan, as noted above, this can be attributed to forecast expenditure relating to land and infrastructure costs now being reprofiled following the successful CPO decision. The financial profile outlined in the STDC full business case has enabled us to forecast more accurately future expenditure and we have therefore decreased the risk assessment of this theme from medium to low over the lifetime of the plan.
- Culture – outturn at year end for the Culture theme was at £0.3m, in comparison to the £1m forecast within the original Investment Plan, the ongoing climate owing to the Covid-19 pandemic will present significant challenges for this thematic area, as the Culture Programme business case has also not progressed further. As a result theme risk has moved from low to medium over the lifetime of the plan.
- Research, Development and Innovation – outturn at year end for the RD&I theme was at £0m, in comparison to the £2m forecast within the original Investment Plan, however, this quarter £19m of RD&I projects moved in to business case development, following Cabinet approval of the Innovation Programme in January. This allows for a more accurate profiling of spend, the theme has therefore been moved from medium to low risk over the lifetime of the plan.
- Place – outturn at year end for the Place theme was £1.3m, in comparison to the £10m forecast within the original Investment Plan, as noted above, this can be attributed to £8.75m of IGF expenditure we forecast to come forward in 2019/20 failing to spend. This is mitigated by a number of schemes progressing towards delivery and expenditure in Q1 of the financial year 2020/21, however, some degree of risk remains as such we have kept this theme as medium risk over the lifetime of the plan.

Table 4 of the dashboard shows revised quarterly spend totals for the financial year 2019/20 highlighting the aforementioned £56.7m underspend against the Q3 forecast.

Table 5 of the dashboard shows yearly spend forecasts and spend to date for activity funded by the Previous Investment Plan 2017-2019. To date £46.4m of funds have been spent this financial year with Q4 delivering an additional £17.7m of spend in comparison to Q3. This does, however, represent an underspend of £13.2m in comparison to our original forecast for 2019/20. This can largely be attributed to delays in the drawing down of approved funding from delivery bodies and retentions being unable to be released.

Furthermore, just £12.3m (9%) of the total £140.2m of funds are subject to business case development, this area is therefore considered to be low risk over the lifetime of the Investment Plan 2019-2029 period.

NEXT STEPS

The Investment Plan delivery update has been produced on a quarterly basis highlighting our financial performance by theme throughout the financial year 2019/20. The next Investment Plan delivery update will, at Q1 of the new financial year 2020/21, set out our financial forecasts for the remaining nine years of the Investment Plan, which we will report progress against in subsequent updates over the course of 2020/21.

In addition, we will also move to report in terms of the outputs achieved by our investment to date, at Q1 2020/21 we will set out:

- Progress on the targets within the Strategic Economic Plan; and
- Direct outputs and outcomes as a result of Combined Authority activity.

We will continue to report in this vein over the course of 2020/21, as we continue to undertake the process of aligning our monitoring and financial data. Upon the implementation of the Combined Authority’s Business Intelligence system, we will consider the most appropriate means of ongoing reporting, including, additional thematic dashboards.

FINANCIAL IMPLICATIONS

The Investment Plan update sets out the high-level activities that the Combined Authority will consider over the plan period, within an initial funding envelope of £588.2m. Each project or programme within the Investment Plan will continue to come forward with a detailed business case for due diligence and final approval by Cabinet, in line with our Assurance Framework.

LEGAL IMPLICATIONS

None related to this report.

RISK SUMMARY

The overall performance risk associated with the ten year Investment Plan is that the Combined Authority does not pass the Government gateway process to unlock further years of devolution deal funding. Appropriate programme and project management processes are in place to ensure that delivery is achieved.

This report highlights perceived risk in achieving the spend forecasts set out within the Investment Plan. The table below summarises the current risk rating for each thematic area of the Strategic Economic Plan both in year and over the lifetime of the Investment Plan in terms of spending. It should be noted that for 2019-20, as per **Appendix 1**, there is no in year risk of achieving forecast expenditure at year end. Furthermore, as 77.5% of all programmes and projects have now developed or are developing business cases, spend forecasts are becoming increasingly accurate for future years allowing a fuller picture of Investment Plan risk.

Theme	Risk in Year	Investment Plan Risk
Transport	N/A	Medium
Education, Employment & Skills	N/A	Medium

Business Growth	N/A	Low
Culture & Tourism	N/A	Medium
Research, Development & Innovation	N/A	Low
Place	N/A	Medium
Investment Plan (2017-2019):	Low	

CONSULTATION

1. Consultation has been undertaken on the Investment Plan with the Local Authorities and Local Enterprise Partnership in line with the Combined Authority Assurance Framework with a one-year on update provided and agreed at Cabinet in January 2020.

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