

REPORT OF THE GROUP DIRECTOR OF FINANCE AND RESOURCES

ADOPTION OF INVESTMENT PLAN, BUDGET 2025-26 AND MEDIUM-TERM FINANCIAL PLAN

SUMMARY

The TVCA constitution requires that the Combined Authority annually sets out proposals for allocation of resources in an Investment Plan, which must be formally adopted by Cabinet each year. The current Investment Plan covers the period from 1 April 2019 to 31 March 2029. Where the annual Investment Plan proposal involves changes to funding priorities or commitments to projects and proposals already agreed, unanimous approval of Cabinet is required to enact the change.

Additionally, the Constitution requires that the Chief Executive and Director of Finance and Resources submit a draft budget to Cabinet on an annual basis for consideration and approval for the purposes of consultation. The Budget provides the financial framework within which the Combined Authority will operate in the forthcoming financial year (2025-2026) and over the medium-term.

In accordance with the statutory requirements, the budget shall separate Non-Investment plan expenditure into:

- Expenditure on the Mayors General Functions; and
- Expenditure on Combined Authority Functions.

This report includes the high-level financial allocations within the Investment Plan and provides the final budget for 2025-26. There are no expenditure items on the Mayors General Functions within this paper.

Approval by the Cabinet to consult on the budget proposals shall not be taken to predetermine their final approval, or the position of the Mayor or individual Cabinet members, with or without amendments, following consultation. Consultation shall take place on the draft Budget for such a period, and with such consultees as the Cabinet shall determine; and the consultees shall include the Business Board, the Overview and Scrutiny Committee and the Constituent Authorities.

RECOMMENDATION

It is recommended the Combined Authority Cabinet:

- i. **RECONFIRM** the high-level financial allocations for the Investment Plan 2024-29.
- ii. **APPROVES** the Draft Budget for 2025-26 for the purposes of consultation.

DETAIL

1. This report provides details of the refreshed high-level financial allocations within the Investment Plan for the period 2024-29 and provides the draft Budget 2025-26 to Cabinet for consideration and approval for the purposes of consultation. Subject to the agreement of Cabinet the draft Budget will be published for public consultation during the period 11th December to 9th January. During this period, the draft Budget will be subject to scrutiny through the Combined Authority Overview and Scrutiny Committee and will also be considered at the respective meetings of the Tees Valley Directors of Finance and Resources, Tees Valley Management Group and Local Authority Chief Executives.
2. The comments received regarding the draft Budget will be considered and, where applicable, reflected in a revised Budget proposal from the Mayor due to be presented at Cabinet in January 2025. This complies with the constitutional requirement that before 1st February, having considered the draft Budget prepared by the Group Chief Executive and Group Director of Finance and Resources, the consultation responses, and any other relevant factor, the Mayor shall propose the Combined Authority's draft Budget to Cabinet.

BUDGET SUMMARY

3. There are no changes proposed to the Investment Plan.
4. This report sets out the Budget for 2025-26 and the medium-term financial plan (MTFP) for the period to March 2029. The Budget presents all forecast funding and expenditure for the plan period.
5. There is no expenditure relating to Mayors General Functions and no precepts are proposed in relation to this. All expenditure is designated as relating to Combined Authority Functions.
6. For the MTFP period the Authority forecasts to spend a total of £885.2million. During the period the Authority will have a total of £785.2million available funding resources. This comprises £683.0 m funding to be received in the

period and £102.2million of borrowing. In addition to this the Authority will utilise £100.0million of usable reserves during the period.

Investment Plan

7. This budget does not propose any amendments to the existing allocations within the Investment Plan.

Economic Outlook

8. The Autumn Budget 2024 was delivered to Parliament on Wednesday 30th October 2024, by the Chancellor.
9. The Office for Budget Responsibility (OBR) providing the following information alongside the Budget: -
 - Economic and Fiscal Outlook, growth is forecast to increase to 2.0% in 2025 before moderating to 1.6% by 2029.
 - Forecasts the economy to grow by 1.1% in 2024, before increasing to 2.0% and 1.8% in 2025 and 2026. Growth then returns to around the OBR's estimate of its potential rate, at 1.5%, 1.5% and 1.6% over 2027, 2028 and 2029 respectively.
 - The OBR judges that policies announced at Autumn Budget 2024 boost output in the near term and expect the package as a whole to have a net positive effect on potential output beyond the forecast horizon.
 - The OBR expects annual CPI inflation to remain close to the 2% target throughout the forecast period. The OBR forecasts inflation to average 2.5% in 2024, before increasing to 2.6% in 2025. It is expected to fall towards target across the final three years of the OBR forecast.
 - Public sector net investment averages 2.6 % of GDP over the Parliament. The OBR judges that higher investment will add to GDP during the forecast period, and if sustained will increase the size of the economy in the long term.
 - Consumer Prices Index (CPI) inflation is normalising after an inflationary shock resulted in it peaking at 11.1% in October 2022, and spending 33 consecutive months above target. While inflation may rise slightly in the near term, the OBR expects it to remain close to the 2% target throughout the forecast.
10. TVCA Treasury Management advisors, Arlingclose, have provided the following commentary on the economy.
11. As expected, the MPC held Bank Rate at 5.0% in September. While the “no change” majority of eight to one was unexpectedly strong, the minutes suggested some policymakers believed a gradual approach to loosening policy was warranted given the persistence of services inflation, rather than no loosening at all. This is in line with Arlingclose's long-held view that Bank Rate will initially reduce gradually before a more rapid decline in 2025 as services inflation eases.

12. CPI inflation remained just above the 2% target in August, the Bank expects this to rise to 2.5% by the end of the year as prior falls in energy prices drop out of the annual comparison and reveal the prevailing persistence of domestic inflationary pressures. Private sector wage growth has eased back but remains elevated and services inflation remains high at 5.6%. However, both will continue to decline over time.
13. UK GDP growth has been relatively strong in H1 2024, although this partly reflects a rebound from the H2 2023 technical recession. Underlying growth is weaker, but risks around domestic demand lie to the upside due to recovering consumer demand (although the announcement of higher taxes in the upcoming Budget could damage confidence). Stronger economic activity amid a continued tight, albeit easing, labour market could leave wage growth and inflation persistently higher.
14. Official ONS Labour market data continues to be unreliable but wider indicators suggest the market is loosening as labour demand cools. Anecdotal evidence has suggested lower private sector pay growth for some time, and we expect a weaker labour market situation to hasten that outcome.
15. Arlingclose expects that the continuation of restrictive monetary policy and the appreciation in sterling will bear down on activity and will require more substantial loosening in 2025 to boost activity and inflation.
16. Global bond yields have reduced in anticipation of US monetary loosening, duly delivered by the Federal Reserve. However, US interest rate expectations seem relatively aggressive compared to policymakers' own expectations, which raises the risk of continued US-policy induced volatility in gilt yields. Moreover, there remains a heightened risk of fiscal policy, credit events and/or geo-political events causing additional volatility in yields.
17. The Authority has been working closely with our treasury management advisors to establish the short- and long-term rate forecasts. This work has enabled various models to be produced with sensitivities conducted to inform a borrowing strategy which has informed the rates built into this budget.
18. Senior management have set parameters for accessing future borrowing to allow the Authority to be agile in reacting to market changes in order to secure the most cost-effective rates.

Key budget announcements relevant to the Combined Authority: -

Fiscal events and Spending Reviews

19. The Government has identified 'local government and devolution' and 'transport' as priority areas for reform, which it will build on in Phase 2 of the Spending Review.

20. The Government is committing to one major fiscal event a year. Phase 1 of the Spending Review confirms 2024-25 and 2025-26 budgets for all departments, including:
- Increasing powers to address anti-social behaviour; strengthening neighbourhood policing; and establishing the first trailblazer Young Futures Hubs in England.
 - Establishing Great British Energy with £125million in 2025-26.
 - The Government has fixed the envelope for Phase 2 of the Spending Review consistent with the fiscal rules. It will conclude in late spring 2025.
 - The Government will take a mission-led approach to Phase 2 Spending Review. Departments will work together to develop a shared strategy for delivering the Government's missions:
 - Kickstart economic growth;
 - Make Britain a clean energy superpower;
 - Take back our streets;
 - Break down barriers to opportunity; and
 - Build an NHS fit for the future.
 - The Government will support missions to drive collaboration across government and its partners and to target spending on the priorities that will deliver the biggest impact for citizens.
 - Phase 2 of the Spending Review will focus on reforming the public sector, in order to improve outcomes whilst keeping public spending at sustainable levels. The Government will take a more preventative approach to public service delivery, alongside devolving more power to communities to deliver more efficiently and effectively for citizens.
 - The Government has identified 'local government and devolution' and 'transport' as priority areas for reform, which it will build on in Phase 2 – details below

Approach to growth

21. The Government is committed to extending and deepening English devolution by building mayoral capacity and continuing to work with Mayors and local leaders to deliver the growth mission.
22. In light of this approach, the Government is minded to cease funding for the functions previously delivered by Local Enterprise Partnerships and the Business Board Network, and will consult on ending funding for pan-regional partnerships.

Investment Zones and Freeports

23. The Investment Zones and Freeports programmes will continue. MHCLG will also work with partners to ensure the Freeports policy model aligns with the national Industrial Strategy.
24. Carbon Border Adjustment Mechanism (CBAM) - the UK CBAM will be introduced on 1 January 2027, placing a carbon price on goods that are at risk

of carbon leakage imported to the UK from the aluminium, cement, fertiliser, hydrogen and iron & steel sectors.

Business

25. The Government will bring forward a Small Business Strategy Command Paper in 2025. This will complement the forthcoming Industrial Strategy and Trade Strategy.

Net Zero

26. The UK's clean energy sector will benefit from £3.9billion of funding in 2025-26 for Carbon Capture, Usage and Storage Track-1 projects to decarbonise industry and contracts with 11 green hydrogen producers.

Environment

27. More than £400million of support for tree planting and peatland restoration to protect soils, rivers, and biodiversity, and contribute to climate mitigation and resilience.

Employment

28. Connect to Work – implementation of a new supported employment programme matching people with disabilities or health conditions into vacancies and supporting them to succeed in their roles.

UK Shared Prosperity Fund

29. Continuing the UK Shared Prosperity Fund at a reduced level for a further year, providing £900million. The Government intends for this transitional arrangement to allow local authorities to invest in local growth in advance of wider funding reforms.

Darlington Economic Campus

30. The Cabinet Office's settlement provides for the Cabinet Office to progress plans for Civil Service Hubs including the Darlington Economic Campus
31. The announcements listed above will not all necessarily lead to financial allocations for TVCA and will require Government departments to confirm and communicate their impact on individual Combined Authority budgets in the coming months. This work will be incorporated into the January 2025 Budget report to Cabinet alongside consultation feedback. A more detailed briefing note on the Budget is provided at **Appendix F**.

EXPENDITURE

32. The below table summarises the projected expenditure across the medium term and the investment plan period.

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Transport	62,910	133,169	151,079	62,000	62,000	471,158
Education, Employment & Skills	45,746	39,284	39,284	39,094	39,094	202,502
Business Growth	45,576	21,148	3,143	2,903	3,152	75,922
Culture & Tourism	18,308	8,116	1,727	0	0	28,151
Innovation & Clean Growth	27,792	4,664	0	0	0	32,456
Place	46,972	29,294	4,179	675	675	81,795
Investment Plan Total	247,304	235,675	199,412	104,672	104,921	891,984
Concessionary Fares	12,786	12,786	12,786	12,786	12,786	63,930
Commercial Projects	88,493	27,058	6,443	114	117	122,225
Research & Evaluation	143	0	0	0	0	143
Core Running Costs	5,894	5,294	5,294	5,294	5,804	27,580
Costs of Borrowing	18,543	26,495	34,153	36,770	36,371	152,332
TOTAL EXPENDITURE	373,163	307,308	258,088	159,636	159,999	1,258,194

33. As reported during the year as part of the quarterly MTFP updates the Combined Authority have secured various other sources of funding to deliver specific projects and programmes over the period. This has resulted in changes to the total expenditure which have been incorporated into the above table.

Transport

Investment Plan	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	62,910	133,169	151,079	62,000	62,000	471,158

34. The Tees Valley Strategic Transport Plan (STP) was adopted in January 2020 and provides the framework for investment into transport projects with the aim of providing “a high-quality, quick, affordable, reliable, low carbon and safe transport network for people and freight to move within, to and from Tees Valley”.

35. Following a year-long bidding process and negotiation with government, the Authority secured £310million of City Region Sustainable Transport Settlement (CRSTS1) to deliver a government agreed programme of projects in July 2022.

The bid set out how we need to deliver a world-class transport system at pace to underpin our transformative economic growth ambition.

36. The CRSTS1 period concludes in 2026/27, 2 years prior to the end of the Investment Plan period. CRSTS2 indicative allocations for mayoral combined authorities for the period 2027/28 – 2031/32 were announced on the 4th October 2023. The CRSTS2 indicative allocation for TVCA is £978million. The investment plan financials will be updated accordingly when the funding allocations are confirmed.
37. TVCA has used the opportunity to over-programme CRSTS1 by 25%, £77.5million, as permitted by the Department for Transport (DfT), to include funding for the development of CRSTS2 pipeline projects. This has now been agreed in principle by the DfT, although some caveats exist, and further detail is required on aspects of the proposal.
38. The government recently announced an additional £200million of CRSTS1 for 2025/26 across all eligible Local Transport Authorities and TVCA await further detail on the allocation.

CRSTS2 Programme (April 2027 to March 2032)

39. TVCA has an indicative allocation of £978million for CRSTS2 over the period. This was made up of a baseline allocation of £617million from the £8.8billion of CRSTS2 funding announced in the 2023 Spring Budget and a £361million uplift from the £8.55billion of additional CRSTS2 funding announced as part of Network North in October 2023. TVCA await clarity from government on future devolved transport allocations. Furthermore, TVCA await clarification on whether elements of this future funding can be brought forward into the last two years of CRSTS1 (2025/26 and 2026/27).
40. To deliver a transport programme of this size and scale it is necessary to continue project development work. A funding strategy has been developed to facilitate development work in 2024/2025 prior to the release of future transport funding by government, which includes:
 - Where CRSTS2 projects are an expansion of existing CRSTS1 projects, CRSTS1 funding is to be used to commence development work.
 - Where there is an existing CRSTS1 programme allocation, which a CRSTS2 project aligns to, the CRSTS1 programme allocation is to be used to commence development work.
 - Where CRSTS2 projects are new and currently have no status with government, TVCA has pursued the opportunity to over-programme CRSTS1 by 25%, as permitted by the DfT, to include the development of these new CRSTS2 projects.

Transforming the Tees Valley Rail System

41. The transformation of the Tees Valley rail system will provide:
- a modern 'metro style' passenger rail system with an aspiration for a minimum 30-minute service frequency at every station so that passengers can turn up and go; and
 - capacity for freight growth linked to Teesworks and the Freeport.
42. Cabinet has previously approved funding to develop strategic rail infrastructure projects that will unlock network capacity, and this forms a significant element of the Integrated Transport Plan. A total of £144million (of which £119million is within the period covered by this report) has been earmarked as TVCA's contribution to transforming the rail network. Including projects to improve capacity at Darlington, Middlesbrough and Hartlepool stations, for freight and for other projects to improve accessibility and the passenger experience. This sum is expected to leverage £170million of additional funding.
43. Good progress is being made on the TVCA led works at Darlington Station. The overall Darlington Station project, including the works being delivered by Network Rail, will complete in summer 2025.
44. Phase 1 of the Middlesbrough Station project, the extension of platform 2, started in December 2020 and completed in May 2021. Phase 2, which will create a new station entrance and two new business units, will be completed in late 2024. Development work has progressed on phase 3 of the project, which aims to increase station capacity for new services by improving the track and signalling infrastructure and building a new platform. TVCA is in contract with Network Rail for the next stages of development of the project. Discussions with London North Eastern Railway (LNER), TransPennine Express (TPE) and Northern about infrastructure requirements in the carriage sidings are ongoing. Completion of outline designs, costs and an assured programme for the works are expected by August 2025. The phase 3 works are anticipated to complete by the end of March 2027.
45. The Hartlepool Station project to reinstate a second through platform to improve capacity and resilience on the Durham Coast Line, facilitating future growth in services, has been completed. Following completion, a new semi-fast, limited stop train service between Middlesbrough and Newcastle has been introduced by Northern, speeding up journey times between the major towns and cities and providing much needed additional capacity on the line.
46. The Eaglescliffe Station project will provide a new fully accessible pedestrian footbridge. This will provide a connection between the existing eastern car park, the island station platform and the new western car park to be built by Stockton Borough Council. This project will improve access to the industrial estate and nearby new residential development. The project is now in delivery and is anticipated to complete in October 2025.

47. Development work is continuing on the following rail projects (note some of the projects only involve feasibility work at this stage):

- Redcar Central Station
- Teesworks Stations/Transport Hubs
- Station enhancements to improve accessibility and modal integration
- Eaglescliffe to Northallerton W12 Gauge Clearance
- Teesside Airport Station
- Delivery of infrastructure to enable direct trains between Darlington and Hartlepool
- Middlesbrough to Nunthorpe rail enhancements feasibility study
- East Cleveland Rail feasibility study
- Improving freight access to the rail network
- West Dyke Road level crossing feasibility study
- Electrification feasibility study
- Rail Devolution proposition
- Thornaby Station upgrade (Part of Tees Valley Care & Health Innovation Zone)
- Teesside Park Station (Part of Tees Valley Care & Health Innovation Zone)
- Tees Marshalling Yards (Part of Tees Valley Care & Health Innovation Zone)

Ensuring the Key Route Network can facilitate sustainable growth

48. The Key Route Network (KRN) is made up of the most important roads for growth and productivity. The KRN accounts for 22% of the total road network in Tees Valley. There are specific locations that are already at capacity or are forecast to be over capacity by 2025. The consequence of taking no action will be a significant increase in congestion, which will negatively impact upon journey times, reliability, and air quality, and threaten the economic transformation of the region.

49. The A19 New Tees Crossing OBC has been updated by National Highways and is being considered by Government as part of the third Road Investment Strategy (RIS3), which covers the period 2025-2030. TVCA has repeatedly emphasised the importance of the scheme for wider priorities, specifically Teesworks and the Freeport. Government is in the process of developing their next Road Investment Strategy (RIS), which covers the period 2025-2030. The NTC is being considered as part of this process.

50. However, there is limited funding available and many competing projects nationally, so the likelihood of securing any additional development funding is unknown. Given the uncertainty around potentially securing additional government funding for further development work, Cabinet approved an allocation of £15million from CRSTS2. TVCA is working with National Highways to develop a revised Options Assessment Report, which is anticipated to complete in summer 2025.

51. In January 2024, TVCA Cabinet approved funding for Darlington Northern Link Road from the CRSTS2 allocation and work is progressing on an Options Assessment Report to inform next steps.
52. Furthermore, in January 2024 Cabinet approved a further £116million from CRSTS2 to the following road projects:
- Eastern Tees Crossing feasibility work.
 - Contribution to deliver the A19 / Elwick Road / North Lane Junction and Elwick Road / Hartlepool Western Link Project.
 - Deliver A689 corridor improvements.
 - Deliver package of interventions to address A66 capacity constraints Middlesbrough – Teesport – Redcar.
 - Deliver A66 resilience package.
53. Cabinet approved £60million in January 2024 to deliver South Bank Station Transport Hub and Lackenby Transport Hub. The South Bank Station Transport Hub will include a park and ride facility and highway improvements, which will serve the significant employment opportunities in the vicinity of the station. This funding will also deliver a new Transport Hub/Lorry Park and associated highway works to provide a new access off the A66/Tees Dock Roundabout. The Transport Hub/Lorry Park will be utilised in several ways: as a holding area for British Steel's scrap delivery lorries for the proposed Electric Arc Furnace; to serve other vehicle movements to/from the Freeport; and as a general stopover facility
- A shared commitment with the operators to transform Tees Valley bus services and grow passenger numbers.
54. TVCA, the local authorities and the regional bus operators work collaboratively through the Enhanced Partnership to deliver the Bus Service Improvement Plan (BSIP).
55. The BSIP is focussed on five ambitions, which are:
- Sustainable network for the future – a collaborative approach to establish a network focused on commercial services and emerging commercial services, which will require short-term financial support (subject to securing revenue funding);
 - Bus priority improvements – new infrastructure and digital investment to prioritise bus on core corridors and improve customer experience;
 - Improved fare offer – simpler fares, a new offer for young people (subject to securing revenue funding) and targeted promotions to drive growth;
 - Enhanced customer experience – putting the needs of customers at the heart of service delivery and improving information provision with one brand identity; and

- Decarbonising the bus fleet – one of the first regions in the UK to have an entirely zero emission local bus fleet.

56. TVCA was allocated BSIP/BSIP+ funding in 2023/24 and 2024/25 and has been working collectively with all local authorities and the bus operators through the Enhanced Partnership. TVCA has utilised the funding to support services that were no longer commercially viable, kick-start a package of service enhancements where there is the potential for them to become commercial over time and introduce a 21 and under fare offer. The government has recently announced £640million of funding for 2025/26 to support bus services, to be allocated across all Local Transport Authorities, and TVCA await detail on the specific allocation.

Making Cycling & Walking the natural choice for shorter journeys

57. TVCA has an approved Local Cycling and Walking Infrastructure Plan (LCWIP) setting out a long-term approach to developing a comprehensive Tees Valley cycling and walking network. The LCWIP has received positive feedback from Government. The plan is underpinned by analysis, which identifies the priorities for investment, with a focus on corridors where there is the greatest potential to encourage people to walk or cycle to work, school or to access essential services.

58. The package is complemented by a programme of activity delivered through five active travel hubs to encourage cycling and walking. This includes personalised advice, training, better information, and positive incentive programmes.

59. TVCA has successfully secured additional money from the Active Travel Fund, Levelling Up Fund and the Capability and Ambition Fund to support delivery of the programme.

60. TVCA is working alongside local authorities to deliver the programme, with several schemes complete and overall completion of the programme required by March 2027.

Ensuring everyone can access opportunity

61. The Tees Valley Wheels 2 Work scheme continues to provide a subsidised transport solution for those with no access to a private vehicle or public transport. The fleet is now all electric and includes electric motorbikes and electric bikes. The scheme takes referrals from Job Centre Plus, but any individual can apply and it is being widely publicised to raise awareness. In September 2024, Cabinet approved an extension of the scheme through to September 2025.

62. The Tees Flex on-demand bus service continues to operate, with the current contract running through to March 2025.

63. In January 2024, Cabinet approved £10million of CRSTS2 funding to further develop and implement solutions to overcome barriers to employment. Development work is currently underway to inform the development of this programme.

Positioning the Tees Valley at the forefront of decarbonising transport

64. TVCA is also committed to delivering a step-change in the provision of electric vehicle charging infrastructure. Installation is complete on the initial roll-out, focused on publicly accessible car parks.
65. Government's Local Electric Vehicle Infrastructure (LEVI) fund aims to deliver a step-change in the scale of deployment of local, primarily low power, on-street EV charging infrastructure across England, and accelerate the commercialisation of, and investment in, the local charging infrastructure sector. Residents without off street parking are the primary focus of the LEVI fund.
66. TVCA submitted an application to the LEVI fund and were awarded the full £6.5million allocation. Project development has continued in collaboration with the local authorities to the timescales required by the DfT.

Putting Tees Valley at the heart of the digital transport revolution

67. TVCA is delivering a wide-ranging package of digital infrastructure and services to accelerate our ambition for a digitally enabled transport system across the region. The package includes:
- Managing and optimising the highway network using the Urban Traffic Management & Control (UTMC) system. The system facilitates faster and safer traffic flows across the region and the technology can change traffic lights, improve traffic flows, support the emergency services and collect data to improve urban planning
 - Interventions to encourage, support and incentivise people to use active travel and public transport
 - Interventions to collate and provide data on multi-modal journeys, real time movement and occupancy data to enable customers to make informed travel choices.
 - A Digital Twin to create a virtual replica of the traffic network to enhance performance and reliability.
 - A Data Platform to form the foundational digital infrastructure for TVCA, allowing for data analytics capabilities.
 - A Digital Service to deliver the customer-facing offering that will enable TVCA to communicate, engage and interact with users.
68. In January 2024 Cabinet approved £60million from CRSTS2 to deliver a transformational digital technology package. The £60million investment will effectively enable:

- The UTMC system to be upgraded to the most cutting-edge technology currently available.
- Deployment of a significant expansion of equipment across the road network.
- Creation of a regional data platform to enable collaborative data sharing across multiple partners and facilitate joined-up strategic planning

Teesside Airport

69. The Airport continues to perform in line with the revised Business plan presented to Cabinet in July 2022 and this will continue to be closely monitored. The Executive Team at Teesside Airport are updating the business plan and will provide an update to cabinet.

Education, Employment & Skills

Investment Plan	2024/25	2025/26	2026/27	2027/28	2028/29	Total	#
	£'000	£'000	£'000	£'000	£'000	£'000	
Budget	45,746	39,284	39,284	39,094	39,094	202,502	

70. The Investment Plan includes a range of externally sourced and devolved funding streams. This includes new sources of funding, including UK Shared Prosperity Funding and existing streams, including the devolved Adult Skills funding and Careers Education. The Multiply programme is an integral part of UKSPF and provides numeracy support for Tees Valley residents that will assist in raising skills levels, improving their access to and progression in work.
71. Adult Education functions continue to be devolved and Cabinet annually approves the funding awards to appropriate Training Providers from the public, private and voluntary sectors.
72. The devolved funding enables a more flexible and responsive approach to awarding funding for skills development, this better addresses business skills needs while supporting more people to access work, especially new job opportunities being created across Tees Valley.

Business Growth

Investment Plan	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	45,576	21,148	3,143	2,903	3,152	75,922

Infrastructure Projects

73. The £20million 'Welcome to Redcar & Cleveland' Programme has been developed to promote area regeneration in support of economic growth in the tourism and visitor economy of R&C and the wider Tees Valley. Prior to the periods included in this report £15.3million had been incurred on delivery, with the remaining £4.7million to be incurred during 2023-25 period. The range of projects within the programme will act as a key catalyst to promote and attract a sustainable visitor economy as part of its wider place-based regeneration plans for the borough, in line with national policy.
74. Stockton's allocation of £20million, £14.8million within the timeframe of this report, will be used to deliver the vision for Stockton Town Centre. The vision is to create a vibrant, modern town centre by building on past investment to provide a sustainable retail offer that safeguards the traditional function of the High Street. This is alongside creating a space that enables diversification of uses through a combination of public and private investment. It aims to capitalise on the River Tees as a significant natural asset and create investor confidence through increased footfall and new uses.

Business Support Programme

75. Tees Valley's Business Support Offer is continuing to support businesses via the website, email portal, telephone and directly through business solutions advisors. The demand for business support services and advice remains strong, particularly with the difficult economic climate.
76. The business support approach in TVCA will continue to provide responsive and direct support to business enquiries. However, through the development of the new Business Solutions-led approach, there is now a greater focus upon being more proactive in engaging with businesses to establish what support they need. This will continue to help develop bespoke and responsive solutions to assist them to start-up, grow and thrive.
77. The UK Shared Prosperity Funding for Business Support has been developed and c. £13million has been awarded to provide support programmes for Net Zero, Net Zero Environmental Product Declarations (EPDs), Digital Transformation, Securing Investment, Supply Chain development, Expertise, Entrepreneurship, Innovation Challenge and an Incubator and Accelerator programme. These programmes support innovative and pilot projects that directly support Tees Valley businesses and create a more flexible approach to accessing support that fits their needs
78. The Tees Valley Large Capital Grant scheme has defrayed £6.7million to date against private sector capital investments in excess of £28million supporting the creation and safeguarding of more than 900 jobs. The pipeline of applications currently being processed is strong. It is forecast that the funds will be fully defrayed against private sector investments by 2026.

Creative Place

Investment Plan	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	18,308	8,116	1,727	0	0	28,151

79. The Investment Plan allocation for our Culture & Tourism Programme is £20million, of which £16.2million is within the period contained in this report. Of this, £11.1m is sourced from the UKSPF allocation for 'Communities & Place'. In June 2022 a programme Business Case was approved which set out the objectives, outputs and impacts of the Growth Programme for the Creative & Visitor Economies. Committed and intended investment through the four Programme pillars is described below.

Sector Growth & Sustainability

80. Baseline analysis of Tees Valley's creative cluster identified that interventions were required to stimulate network development and collaboration; support the development and progression of sector skills and talent; enable the development of IP and support innovative practice; and build resilience and capacity within sector businesses. Investment made through the Sector Growth & Sustainability pillar of the programme has sought to address these barriers to growth.
81. Most projects supported through the Sector Growth & Sustainability pillar of the Growth Programme are multi-year projects due to conclude in 2025/26. In 2025/26, focus will be directed to key areas which consolidate investment made-to-date and which support a sustainable increase in region-made content and creative products and grow opportunities for creative export.

Festivals and Events

82. Investment through this pillar aims to balance the development of Tees Valley's indigenous festival ecosystem with attraction of high-profile national event brands which shine a spotlight on the region and galvanise interest from visitor markets
83. Festivals supported through the Festivals Scale-Up Programme are entering the final year of delivery. Work is underway to ensure these important festivals are able to sustain the momentum gained in recent years – against a challenging national sector landscape.
84. A multi-year partnership with British Cycling has been secured and has enabled delivery of legs of the British National Road Championships and Tour of Britain within the region in 2024. In 2025, the partnership will deliver a further major

event and will support the development and engagement of a network of cycle-friendly businesses across Tees Valley.

85. Following a Challenge Fund call for new festival products which support and promote visitor engagement with Tees Valley's natural environment, a new festival product will be introduced to Redcar & Cleveland in 2025/26 as the result of a collaboration between Tees Valley's Festival of Thrift and national partner Wild Rumpus

Destination Product Development

86. Through this pillar of the programme, in 2025/26 we will invest in interventions which strengthen the proposition of the region as a visitor destination. Significant preliminary work has taken place to inform the activity which will be delivered with intended emphasis on heritage, walking, cycling and food.

Profile Raising

87. This programme pillar is focused on destination marketing (through the Visit Tees Valley destination platforms); raising awareness of the strengths and achievements of the region's creative and visitor sectors; and building the proposition of the region as a location for business tourism (conferences, events etc).

Infrastructure Projects

88. In Investment Plan allocation of £20million (£9.4million in the period covered by this report) has been provided for Darlington Council's priority project, a major capital scheme which will establish a Railway Heritage Quarter. This will be based around the "Head of Steam" museum on North Road/Station Road, north of Darlington town centre. The aim is for the Railway Heritage Quarter to become a major visitor attraction and museum by 2024, becoming a central part of the bi-centenary celebrations of the birth of the Stockton & Darlington Railway in 2025. The capital element of this project is complete, and 'Hopetown' opened this summer.
89. An Investment Plan allocation of £20million (£9.4million in the period covered by this report) has been provided for Hartlepool Council's priority project, a major capital scheme which will create a 'destination' at the waterfront, encouraging growth in visitor numbers to regenerate the place via the tourism / leisure / culture offer. The Project will work with the National Museum of the Royal Navy to expand the exhibition space while leisure facilities will be constructed along with external event space and improved public realm. Construction has started on the Highlight Leisure Centre and is expected to complete in 2026. Hartlepool Borough Council is working with the National Museum of the Royal Navy (NMRN) and the National Heritage Lottery Fund to develop the business case for the expansion of the museum.

Innovation and Clean Growth

Investment Plan	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	27,792	4,664	0	0	0	32,456

90. Our £19million innovation programme, approved in January 2020 is focused on supporting the key sector areas identified in the SEP, namely, bio science, digital, advanced engineering, and clean growth. The programme has several linked activities to provide the cornerstones for growth in these sectors, as well as funding for key industrial networks helping develop the wider supply chains. Further support for these networks is being developed for partnership and direct delivery as part of TVCA's UK Shared Prosperity Fund Programme.
91. Key projects include support for a bioscience incubator at Darlington Science Park; the Net Zero Industry Innovation Centre being developed at Teesside University; facilities to support hydrogen and offshore engineering innovation at TWI, support for future digital research projects, including a new research centre at Teesside University, and the new Centre for Digital Trade and Innovation in partnership with The International Chamber of Commerce.
92. The programme is leveraging national funds wherever possible to maximise its impact. The region has been selected to participate in the Innovate UK launch pad programme, which will see £7.5million invested in stimulating innovation activity focusing on clean growth. TVCA also secured £150,000 from Innovate UK for Cluster Coordination to support delivery of the Launchpad programme in the region and promote engagement with funded projects and other innovation companies.
93. As part of its Innovation Programme TVCA has invested £2million in CPI to help develop its Novel Food Innovation Centre and which will bid into central government for further funding. We have supported The Materials processing Institute to secure more than £20million of funding for their work on the transition to a net zero economy. The region has been successful in bringing the DfT's hydrogen Transport Hub to the region with more than £15million of hydrogen related infrastructure and trials.
94. TVCA is the accountable body for the North East and Yorkshire Net Zero Hub which is creating a pipeline of investible Net Zero and green energy projects as well as delivering centrally funded Government programmes. The Hub has supported the Net Zero ambitions of a wide variety of organisations through its Energy Projects Enabling Fund and Community Energy Fund, and tackled fuel poverty by delivering part of DESNZ's Local Energy Advice Demonstrator.
95. The Hub is delivering a programme of Housing Retrofit schemes within Tees Valley and the wider North East and Yorkshire Net Zero Geography. This

includes a £81million Social Housing Decarbonisation Fund (SHDF) scheme, including £32.4million of Government grant, which will conclude in March 2025.

96. TVCA has secured £300,000 from Forestry Commission's Woodland Creation Accelerator Fund to support the region's five local authorities in their woodland related ambitions and its own agenda for strategic level nature-led Net Zero activity. This funding was supplemented by £82,000 from the Net Zero Hub to create the Trees on Tees initiative.
97. Trees on Tees was further supported when the Authority secured £1.7 million funding for England's Community Forests which is provided through the Community Forests' multi-million-pound Trees for Climate fund, part of Defra's Nature for Climate Fund. The project will increase and improve green spaces across the area and deliver high quality woodlands with enhanced public access.

Place

Investment Plan	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	49,972	29,794	679	675	675	81,795

98. Over ten years, a total of £60million (£43.23million in the reporting period) has been allocated to create the Indigenous Growth Fund (IGF). Each of the five boroughs that make up Tees Valley has distinct economic assets and opportunities, and it is essential that we can unlock these opportunities for residents.
99. A programme Business Case has been developed and approved for the fund. The constituent authorities are currently bringing forward proposals to call off funding from the programme.
100. Six projects have been approved for funding, committing £48.8million (80%). These include:
 - DBC: Supporting the acquisition of key assets in Darlington as part of the wider Town Centre redevelopments
 - DBC: The refurbishment of Darlington Market Vaults which supports the wider programme of works under their Towns Deal.
 - DBC: Darlington Railway Heritage Quarter (completed)
 - HBC: Headland Events Space in Hartlepool
 - HBC: Production Village in Hartlepool which supports the wider programme of works under the Levelling Up Fund.
 - HBC: Business Park Improvements in Hartlepool
 - MBC: Boho 8 & X in Middlesbrough (completed)

- MBC: Town Centre Enforcement
- MBC: Captain Cooks Square Redevelopment in Middlesbrough
- MBC: Middlesbrough College, TTE relocation
- RCBC: High Street Grant Support Schemes within Redcar
- RCBC: Kirkleatham Walled Garden & Catering Academy (completed)
- RCBC: Revitalising Loftus & Skinningrove Tourism Infrastructure
- RCBC: Supporting Victorian Heritage in Saltburn
- SBC: Supporting the acquisition of key assets in Darlington as part of the wider Town Centre redevelopments

101. Projects currently in appraisal include:

- MBC: Middlesbrough – Southlands Housing enablement
- RCBC: Eston Precinct supporting the wider investment programme.

102. Projects currently in development:

- HBC: Hartlepool Waterfront Programme mentioned in paragraph 71 of this report. IGF will be used as part of this wider strategic funding package.

103. The Authority has secured a total of £26.7million of Brownfield Housing Funding, £15.5million in the period covered by this report. The programme fund must be fully defrayed by March 2025. TVCA have previously highlighted the tight delivery deadlines associated with this funding. TVCA has identified a project that would allow full utilisation of this funding within the required timescale.

104. An allocation of £20million to support the new Mayoral Development Corporations (MDCs) in Hartlepool and Middlesbrough was approved by Cabinet in July 2022. Alongside this the Authority secured additional funds for the redevelopment of Gresham in Middlesbrough. The Corporations are progressing masterplans and evaluating a number of development propositions which will be appraised and reported to the relevant boards for approval.

105. An allocation of £10million has been made for other place-based investments in non-Mayoral Development Corporation areas. From this allocation, £6million is ringfenced for projects to drive the economic development of Billingham for which a Business Case is currently being developed. Darlington Council is bringing forward place-based proposals for the remaining £4million.

Expenditure outside the Investment Plan

Concessionary Fares

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	12,786	12,786	12,786	12,786	12,786	63,930

106. The English National Concessionary Travel Scheme (ENCTS) budget for 2025/26 is £12.8million. The budget for future years has been based on the current value, however this is subject to change based on future negotiations.

Commercial Projects

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	88,493	27,058	6,443	114	117	122,225

107. The commercial projects section of the MTFP contains projects which have been invested in via either a commercial loan or with returns on investment. The projects currently within this section are: -

- Southside Development at Teesside International Airport. The first unit on the Airport's Business Park South has been completed and leased to a tenant, creating an additional revenue stream.
- Tees Valley Waste project loan to the constituent Local Authorities, in respect of procurement costs that will begin to be recovered once the project is live
- The development of the South Bank Quay to enable offshore wind which will see returns from proceeds of usage of the Quay. The Quay became operational in Q2 2024/25.

Research and Evaluation

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	143	0	0	0	0	143

108. To assess impact and inform future funding requirements, a budget for research and evaluation was set aside. This includes the expenditure associated with the Government Gateway evaluation carried out by SQW.

CORE COSTS

109. The core costs of the Authority relate to general running costs of the organisation, developing and supporting investment in projects and programmes included in the Investment Plan.

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Core costs	5,894	5,294	5,294	5,294	5,804	27,580

110. The table below sets out the core costs budget for 2025/26 and the previously agreed budget for 2024/25. It is proposed that any inflationary cost pressures will be managed within the current budget envelope.

Core costs	2024/25	2025/26
Salaries (incl. Ni & Pension)	4,281,236	4,281,236
Other Staffing Costs	15,000	15,000
Total Staff Costs	4,296,236	4,296,236
Premises	335,000	335,000
General Running Costs	502,967	502,967
Marketing & Communications	160,000	160,000
Non-Salary Expenditure	997,967	997,967
Election Costs	600,000	0
TOTAL EXPENDITURE	5,894,203	5,294,203

Cost of Borrowing

111. The arrangements for Combined Authority borrowing are set out in the annually agreed Treasury Management Policy. The loan repayments are made up of the minimum revenue provision which is calculated based on the methodology set out in the Treasury management statement based on the capital financing requirement and interest on the actual external borrowing taken out.
112. The Authority minimises its costs of borrowing by utilising internal resources where required, sometimes known as internal borrowing, this reduces risk and keeps interest costs low. The calculations have been updated based on the latest profile of required borrowing requirements.
113. A borrowing strategy has been developed which includes a range of maturities, short and long term, with ability to refinance built in. These are all driven from the latest interest rate forecasts from Arlingclose which are set out in the table below.

	Current	Dec -24	Mar -25	Jun -25	Sep-25	Dec -25	Mar -26	Jun -26	Sep-26	Dec -26	Mar -27	Jun -27	Sep-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.95	4.80	4.30	3.80	3.30	3.05	3.10	3.10	3.15	3.15	3.15	3.15	3.15
Downside risk	0.00	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
5yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.09	3.60	3.50	3.45	3.40	3.40	3.40	3.40	3.45	3.50	3.55	3.55	3.55
Downside risk	0.00	0.45	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
10yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.22	3.90	3.80	3.75	3.70	3.70	3.70	3.70	3.75	3.80	3.80	3.80	3.80
Downside risk	0.00	0.45	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
20yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.67	4.35	4.20	4.20	4.20	4.20	4.20	4.20	4.25	4.30	4.35	4.35	4.35
Downside risk	0.00	0.45	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65
50yr gilt yield													
Upside risk	0.00	0.75	0.85	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.20	4.00	3.80	3.80	3.80	3.80	3.80	3.80	3.85	3.90	3.95	3.95	3.95
Downside risk	0.00	0.45	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65	0.65

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%; PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

114. Long-term gilt yields have fallen alongside US monetary policy expectations. Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary policy loosening in the Eurozone, UK and US. In line with this advice the interest rate for future borrowing has been updated based on Arlingclose forecasts. The latest borrowing requirements and repayments are set out in **Appendix 2**.

FUNDING

115. The below tables summarise the forecast funding across the medium term and the investment plan period.

Funding Source	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Devolution	15,000	15,000	15,000	15,000	15,000	75,000
Enterprise Zones	3,021	5,999	6,119	6,242	6,367	27,748
Transforming Cities Fund / CRSTS	62,436	62,436	62,437	62,000	62,000	311,309
Loan Repayments & Investment returns	14,386	22,142	20,475	20,615	18,340	95,959
Government Grants	107,024	22,779	9,385	7,228	7,451	153,867
Adult Education Budget / Level 3	33,172	33,172	33,172	33,172	33,172	165,860
Concessionary Fares	12,786	12,786	12,786	12,786	12,786	63,931
Borrowing	141,515	85,918	6,327	0	0	233,760
Movement -to / from reserves	-16,174	47,077	92,385	2,592	4,884	130,764
Total	373,165	307,309	258,088	159,636	159,999	1,258,197

Funding	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Budget	373,165	307,309	258,088	159,636	159,999	1,258,197

Devolution

116. Funding of £15million per year for 30 years was agreed as part of the devolution agreement with government. This funding is subject to a five-year review which was successfully achieved in 2021. For the purpose of the budget plan period it is assumed that this level of funding will continue beyond each of the five-year review points.

Enterprise Zones

117. The Combined Authority retains business rate funding from a number of designated enterprise zones. As the zones continue to attract more business the funding generated is forecast to increase.

118. The current projections for the investment plan period are based on rates that are currently being collected, together with known projects currently under construction. Business rates from future potential projects on the Enterprise Zones are not accounted for in the forecasts but will be kept under review.

Transforming Cities Fund & City Region Sustainable Transport Settlement

119. The Transforming Cities Fund was announced by Government in the 2017 Budget to transform local public transport. 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.
120. The City Region Sustainable Transport Settlement (CRSTS) is the successor to the Transforming Cities Fund and has seen the annual average funding increase from £15.1million to £62million following a successful bid to DfT. The Authority has been awarded £310million to invest in local transport networks to improve the quality of local transport networks over a five-year period which commenced in 2022/23. The average annual funding figure has been included in the funding tables pending final Government allocations being confirmed.
121. The CRSTS1 period concludes in 2026/27, 2 years prior to the end of the Investment Plan period. CRSTS2 indicative allocations for mayoral combined authorities for the period 2027/28 – 2031/32 were announced on the 4th October 2023. The CRSTS2 indicative allocation for TVCA is £978million. The investment plan financials will be updated accordingly when the funding allocations are confirmed.

Loan Repayments & Investment Returns

122. A number of Combined Authority investments are made on a recoverable and/or commercial basis. The returns from these investments, including those from Group entities, have been reviewed thoroughly and it is estimated that £57million will be repaid during the period including interest. These returns will be kept under constant review taking account of all internal and external economic factors.

Government Grants

123. The Combined Authority receives a number of other grants from Central Government which can be either awarded for specific purposes following an application process or where is awarded with fully devolved discretion regarding expenditure. This allocation includes secured grants of UKSPF £40.4million, Levelling Up Fund £17.8million, Transport Development Fund £10.7million, Brownfield Housing £7.8million, Local Energy Advice Demonstration £4.4million, Bus Service Improvement Plan £3.1million, along with a number of other specific project grants.
124. Current estimates are based on secured grants and some assumptions regarding the continuation of current funding. We remain in constant discussions with Government to ensure we secure the maximum funding possible to achieve our priorities set out in the Strategic Economic Plan. Based on current secured income the budget is fully funded for 2025/26.

Adult Education Budget

125. Devolution delivery of the Adult Education Budget commenced 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.

Concessionary Fares Funding

126. Under the role of transport authority, the Combined Authority is responsible for passporting funding to the local bus operators via funding 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.

RESERVES

127. The Combined Authority holds two classifications of usable reserves these are non-ring-fenced funds which have been received but not yet applied against expenditure and the General Balance Reserve. The Combined Authority manages overall resource requirements by reference to the MTFP and overall Investment Plan.

128. At April 2023 the balance of usable reserves was £106.0m which is forecast to reduce through drawdowns by £4.3million in 2023/24 leaving a balance at April 2024 of £101.7million of available funds held in reserve, and it is forecast that this will reduce by £100.0million over the MTFP period.

129. 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. The Combined Authority manages overall resource requirements by reference to the MTFP and overall Investment Plan and the general reserve currently stands at £1.058m.

130. As agreed in the 2019/20 Budget we consider that the appropriate way of calculating a general reserve level 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 calculation has resulted in a requirement of £0.4m, however management has decided to not amend this from the current reserve of £1.058million.

DEVOLUTION DEAL FORWARD FUNDING

131. As part of the devolution deal Government agreed to provide the Combined Authority with a devolved fund of £450million. Although this funding is released by Government on an annual basis of £15million per year for 30 years the aim was that Mayoral Combined Authorities could use this funding stream to

forward fund through prudential borrowing. The original approval to access borrowing was approved as part of the previous investment plan and this report reaffirms the borrowing requirement.

132. Within the Investment Plan there is still flexibility to fund immediate requirements that are not funded by Central Government and generally these are funded from within agreed allocations. Any such amendments require the unanimous approval of Cabinet in line with the constitution. The level of borrowing and the amount of headroom available following these and other allocations are reviewed by Cabinet annually as part of the Investment Plan and review of the Medium-Term Financial Plan.
133. Devolution funding is evaluation every five years which leads to the release of the next tranche of five-year funding from Central Government. The first of the five-year review periods was 31 March 2021, which was successfully completed.

BORROWING

134. In addition to forward funding from devolution funds to deliver the Investment Plan the Combined Authority also has borrowing requirements to fund commercial investment propositions. The arrangements for Combined Authority borrowing are set out in the annually agreed Treasury Management Policy.
135. The Capital Financing Requirement (CFR) shows the underlying need to borrow to fund capital investments. The Authority's chief objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Therefore the actual timing of the borrowing may not always follow the profile of the CFR as the Authority looks to strike this balance, details of this "internal borrowing" can be found at **Appendix D**.
136. Within the MTFP period the total CFR to deliver the Investment Plan and fund commercial projects is £102million as part of a wider borrowing requirement of £450million over the Investment Plan Period of 2019 to 2029, details of which can be found at **Appendix D**. This is well within the Government agreed borrowing caps of £1,237million.
137. The repayments for the borrowing are affordable and can be financed from revenue funding received both during and beyond the investment plan period.

MEDIUM TERM FINANCIAL PLAN 2025-29

138. Funding and expenditure for the plan period, including the final 2025/26 budget is summarised in the medium-term financial plan as set out in **Appendix A**, split into capital and revenue in **Appendix B & Appendix C** respectively.

FINANCIAL IMPLICATIONS

139. This report gives an update on performance against the budget for the Combined Authority, updates the Medium-Term Financial Plan and Investment Plan forecasts.

LEGAL IMPLICATIONS

140. There are no legal implications associated with the recommendations within this report.

RISK ASSESSMENT

141. This Budget Report has been categorised as medium risk to reflect the updated work on the implementation of our group risk management strategy. The group corporate risk register has been updated to reflect funding uncertainty from Government. The existing management systems and daily routine activities are sufficient to control and reduce risk.
142. The risk of increased costs through economic factors is closely monitored and is being managed through the revised borrowing strategy put in place. A robust business case development process reduces the risk of cost pressures of investments by ensuring sufficient contingencies are built in resulting in no additional asks of Authority funds.

CONSULTATION

143. Formal consultation will be undertaken in the period 11th December to 9th January. This is in addition to circulation of this report to Local Authority Directors of Finance, Tees Valley Management Group and Chief Executives.

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Medium Term Financial Plan 2024-29

MEDIUM TERM FINANCIAL PLAN	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Funding	247,825	174,314	159,374	157,044	155,117	893,674
Borrowing	141,515	85,918	6,327	0	0	233,760
TOTAL FUNDING	389,340	260,232	165,701	157,044	155,117	1,127,434
Investment Plan	247,304	235,675	199,412	104,672	104,921	891,984
Concessionary Fares	12,786	12,786	12,786	12,786	12,786	63,930
Commercial Projects	88,493	27,058	6,443	114	117	122,225
Research & Evaluation	143	0	0	0	0	143
Core Running Costs	5,894	5,294	5,294	5,294	5,804	27,580
Costs of Borrowing	18,543	26,495	34,154	36,771	36,372	152,335
TOTAL EXPENDITURE	373,163	307,308	258,089	159,637	160,000	1,258,197
TRANSFER TO / FROM RESERVES	16,174	-47,077	-92,385	-2,592	-4,884	-130,764
Reserves Opening Balance	149,968	166,142	119,065	26,679	24,087	
Transfer To / From Reserves	16,174	-47,077	-92,385	-2,592	-4,884	
Reserves Closing Balance	166,142	119,065	26,679	24,087	19,204	

Capital Medium Term Financial Plan 2024-29

CAPITAL MEDIUM TERM FINANCIAL PLAN	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Funding	118,354	73,636	64,645	64,308	63,907	384,850
RCCO	3,232	5,250	0	0	0	8,482
Borrowing	141,515	85,918	6,327	0	0	233,760
TOTAL FUNDING						
Investment Plan	152,286	178,550	154,463	61,886	61,883	609,068
Commercial Projects	88,493	27,058	6,443	114	117	122,225
TOTAL EXPENDITURE	240,779	205,608	160,906	62,000	62,000	731,293
TRANSFER TO / FROM RESERVES	22,322	-40,805	-89,933	-2,308	-1,907	-104,202
Capital Reserves Opening Balance	123,294	145,616	104,811	14,877	17,185	
Transfer To / From Reserves	22,322	-40,805	-89,933	2,308	1,907	
Reserves Closing Balance	145,616	104,811	14,877	17,185	19,092	

Revenue Medium Term Financial Plan 2024-29

REVENUE MEDIUM TERM FINANCIAL PLAN	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Funding	129,470	100,679	94,730	92,736	91,209	508,824
RCCO	-3,232	-5,250	0	0	0	-8,482
TOTAL FUNDING	126,238	95,429	94,730	92,736	91,209	500,342
Investment Plan	95,020	57,126	44,948	42,785	43,547	283,426
Concessionary Fares	12,786	12,786	12,786	12,786	12,786	63,930
Research & Evaluation	143	0	0	0	0	143
Core Running Costs	5,894	5,294	5,294	5,294	5,294	27,070
Costs of Borrowing	18,543	26,495	34,154	36,771	36,372	152,335
TOTAL EXPENDITURE	132,386	101,701	97,182	97,636	97,999	526,904
TRANSFER TO / FROM RESERVES	-6,148	-6,272	-2,452	-4,900	-6,790	-26,562
Revenue Reserves Opening Balance	26,674	20,526	14,255	11,803	6,902	
Transfer To / From Reserves	-6,148	-6,272	-2,452	-4,900	-6,790	
Reserves Closing Balance	20,526	14,255	11,803	6,902	0.113	

Borrowing

	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing Required	141,515	85,918	6,327	0	0	233,760
			MTFP PERIOD		92,245	

	Bal c/f	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Borrowing Required	266,715	81,493	141,515	85,918	6,327	0	0	450,400
Internal Borrowing	55,015	-8,507	-17,986	-18,522	-10,000	0	0	0
External Borrowing	211,700	90,000	92,082	46,618	10,000	0	0	450,400

	2024/25	2025/26	2026/27	2027/28	2028/29	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Minimum Revenue Provision	5,446	6,978	8,369	8,695	9,035	38,544
Loan Interest						
			MTFP PERIOD		33,077	

Investment Plan Projects & Programmes

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Access to Opportunities	259	1,806	1,750	0	0	3,816
Active Travel Programme	7,733	39,568	30,694	0	0	77,996
Bus Programme	7,894	17,542	26,849	0	0	52,285
Decarbonisation Programme	721	15,362	925	0	0	17,007
Digital	1,573	7,215	3,812	0	0	12,600
Local Highways Funding	21,185	16,578	16,578	0	0	54,341
Place Based Transport Investment	1,986	15,263	14,750	0	0	31,999
Rail Programme	17,998	19,834	55,721	0	0	93,553
Teesside Airport	3,561	0	0	0	0	3,561
CRSTS 2 Programme TBC	0	0	0	62,000	62,000	124,000
Transport Total	62,910	133,169	151,079	62,000	62,000	471,157
Careers Support	215	0	0	0	0	215
Skills Capital	667	0	0	0	0	0
Support for Business	213	190	190	0	0	593
Support for Individuals	40,622	35,669	35,669	35,669	35,669	183,297
UKSPF People & Skills Programme	4,028	0	0	0	0	4,028
UKSPF People & Skills Programme TBC	0	3,425	3,425	3,425	3,425	13,700
EES Total	45,746	39,284	39,284	39,094	39,094	202,502
Boho "The Digital City"	1,308	0	0	0	0	1,308
Business Infrastructure Projects	9,114	5,807	0	0	0	14,921
Business Support Programmes	20,508	7,915	3,143	2,903	3,152	37,622
STDC Projects	2,980	600	0	0	0	3,580
Stockton High Street	7,877	6,703	0	0	0	14,580
Welcome to Redcar & Cleveland	3,789	123	0	0	0	3,912
Business Growth Total	45,576	21,148	3,143	2,903	3,152	75,922
Culture & Tourism Programme	8,559	7,358	1,727	0	0	17,644
Hartlepool Waterfront (incl NMRN)	9,749	757	0	0	0	10,506
Darlington Railway Heritage	0	0	0	0	0	0
Culture Total	18,308	8,116	1,727	0	0	28,151
Environment	1,973	0	0	0	0	1,973
Housing Retrofit	16,131	0	0	0	0	16,131
Innovation Capital Infrastructure	1,423	4,003	0	0	0	5,425

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Net Zero Hub Activity	7,536	0	0	0	0	7,536
Network Support Programme	730	662	0	0	0	1,392
Innovation & Clean Growth Total	27,792	4,664	0	0	0	32,457
Brownfield Housing	14,278	0	0	0	0	14,278
Car Parking	0	0	0	0	0	0
Indigenous Growth Programme	20,140	15,923	0	0	0	36,063
UKSPF Communities & Place	2,151	0	0	0	0	2,151
Place Based Investment Fund	13,403	13,871	679	675	675	29,303
Place Total	49,972	29,794	679	675	675	81,795
INVESTMENT PLAN TOTAL	247,304	235,675	199,412	104,672	104,921	891,984