TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 7

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

11 SEPTEMBER 2020

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

INVESTMENT PLAN DELIVERY UPDATE Q1 2020/21

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 Finance and Output Performance Dashboards for the period April – June 2020, which is Quarter 1 of the financial year 2020/21, are provided at **Appendix 1 and 2.**

This report provides:

- An overview of the financial performance of the ten year Investment Plan;
- An update on delivery by Investment Plan theme;
- A summary of any perceived risk to achieving the spend forecasts within the Investment Plan;
- An overview of the current position on the targets set out within the Strategic Economic Plan; and
- A summary of direct outputs achieved by the work of the Combined Authority.

The Investment Plan Financial Performance Dashboard is provided at **Appendix 1**, key messages from the Financial Dashboard, at Q1 2020/21, include:

- 36% (£214.1m) of the total ten-year Investment Plan (2019-2029) programme (£588.2m) has been approved;
- 11.6% (£68.5m) of approved funds have been spent;
- 77% (£456.6m) of projects and programmes have either approved business cases or are currently developing business cases; and
- 23% (£131.6m) of funds are uncommitted or allocated to activities that are yet to be fully defined.

The Investment Plan Output Performance Dashboard is provided at **Appendix 2**, key messages from the Outputs Dashboard, as of Q1 2020/21, include:

- 2,227 total jobs have been created, this represents 15% of the total number of jobs forecast to be created over the lifetime of the Investment Plan (14,775), based on projects which have been approved;
- 937 apprenticeships have been created as a result of interventions supported by the Investment Plan this represents 6% of the total forecast (15,134) over the lifetime of the Investment Plan, based on projects which have been approved;

- 1,106 Businesses have been supported to date, this represents 45% of the total number of Businesses currently forecast (2,406) to be supported based on projects which have been approved; and
- 34,644sqm of additional floorspace has been created this represents 13% of the overall forecast (261,317sqm) to be created as a result of interventions supported by the Investment Plan, based on projects which have been approved.

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet: -

- Notes the contents of the Q1 delivery update; and
- Provides any feedback on the matters covered.

INVESTMENT PLAN Q1 2020/21 DELIVERY UPDATE

The dashboard provided at **Appendix 1** gives a high-level overview of the financial performance of the Investment Plan, as of Q1 2020/21.

Table 1 of the dashboard sets out updated forecast expenditure of the Investment Plan 2019-2029 by theme and year as at Q1 2020/21. 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 the overall allocations by theme at the start of 2020/21, total allocations are shown below, for information:

- Transport – £256.7m
- Education, Employment and Skills - £55m
- Business Growth - £146.5m
- Culture and Tourism - £60m
- Research, Development and Innovation - £20m
- Place - £50m
- Total – £588.2m

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 Q1 2020/21:

- **£214.1m Approved** – Agreed and in delivery;
- **£242.5m Business Case Development** – Agreed as priority projects within the Investment Plan, and are developing Business Cases for approval; and
- **£131.6m Uncommitted** – Funds remaining within the Investment Plan that are yet to be agreed or fully defined.

At Q1 of 2020/21, in total, 77% 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.

In total, £68.5m of Investment Plan funds have been spent by Q1 2020/21 this is the equivalent to 11.6% of total Investment Plan funds. The ten year plan is broadly on track if spend was to be spread equally over the lifetime of the plan. Of the projects which have been approved, £145.6m of funds are yet to be spent, this represents 68% of all approved funds, correspondingly 32% of approved funds have been spent.

Table 3 of the dashboard sets out for each theme the in-year 2020/21 forecast expenditure as detailed in the Investment Plan and highlights any changes that have occurred. The original Investment Plan forecast £64.7m of spend across all themes in the financial year 2020/21, this has been revised upwards to £85.4m, an increase of £20.7m. This reprofiling has taken place due to underspend from the previous financial year 2019/20 being carried forward. Notably, this has occurred in the Business Growth Theme, underspend specifically relating to land and infrastructure costs following successful Compulsory Purchase Order decision has been reprofiled, these funds will now come forward in line with the approved business case for the STDC site. Accelerating spend has also occurred in the Transport theme and the Culture and Tourism theme, this primary relates to accelerating spend associated with Covid recovery which also accounts for the increase in the forecast expenditure in 2020/21.

It should be noted at the start of the financial year no projections based on the previous quarter have been entered, these will be entered at the Q2 Investment Plan update using the forecast data from Q1 of 2020/21.

Table 4 of the dashboard shows the in-year quarterly spend forecasts and the actual spend by each quarter, highlighting any changes. As noted, in the financial year 2020/21 we are forecasting a total spend of £85.4m. Delays in receiving and processing Q1 monitoring returns, largely owing to the Covid pandemic has led us to utilise best estimates based on previous claims and monitoring returns and approved business cases. However, this will be revised at the forthcoming Q2 Investment Plan update, with a more accurate forecast based on up to date returns received from project sponsors. In addition, the in-year level of risk will also be re-assessed once more accurate profiling has been undertaken in Q2.

As we are at Q1 of 2020/21 we are also not showing previous quarters forecast for in year expenditure or change since last quarter - this will change through the year utilising the previous quarterly forecast for the 2020/21 financial year.

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 £48.4m of funds have been spent as of Q1 2020/21 with an additional £2m of spend delivered this quarter. In total, £45.1m of spend is forecast for the financial year 2020/21 which is £1.3m less than was spent in the financial year 2019/20, however, as only £2m has been spent as of Q1 2020/21 and coupled with the ongoing impact arising from the Covid Pandemic, achieving spend forecasts has been assessed as medium risk. Although, it is worth noting that spend forecasts for future years are considerably lower, and only £5.8m of spend this financial year will be subject to developing a business case.

The dashboard provided at **Appendix 2** gives a high-level overview of the overall economic performance of the Tees Valley and the output performance of the Investment Pan, as of Q1 2020/21.

Page 1 of the dashboard provides an overview of the current position on the targets set out within the Strategic Economic Plan (SEP). It is worth noting that there is a significant lag in a number of data sets which are utilised, as such, current figures are not fully reflective of the present climate. It is anticipated that in future updates there will be reductions in a number of the SEP key indicators, particularly, given the ongoing economic climate arising from the Covid Pandemic.

With regards to jobs, the Tees Valley SEP set a target to create 25,000 net additional jobs in ten years. This target is not solely linked to the Combined Authority activities but is for the Tees Valley economy as a whole. To reach the 25,000 target, Tees Valley would need to out-perform the UK growth rate in a number of sectors and see significantly smaller decline in others. As of the latest data, the number of jobs within Tees Valley fell in 2019 beneath 2014 levels for the first time, overall the cumulative jobs estimate is showing a 1,000 reduction in jobs numbers as of January 2021. As such we are now 26,000 jobs behind target. This is likely to be compounded by the effects of the Covid Pandemic. However, this should be viewed in the light of the UKs macro-economic performance, and is broadly in line with comparative UK regional averages.

As of February 2021 the Tees Valley has seen an overall 8.9% increase in the GVA per hour worked target which acts as a measure of productivity. However, the Tees Valley is lagging behind the UK average. As of the latest data, the Tees Valley is at 90.9% of the UK average. The Tees Valley has a further 3.1% to travel in order to bring the GVA per hour worked up to the 94% of UK average target as set within the SEP.

The Tees Valley has seen, cumulatively, an increase in 1,265 businesses since 2015 a growth of 7.7% therefore just 2.3% behind the target outlined in the SEP. The Tees Valley is also just 17 enterprises behind the target of 344 enterprises per 10,000 adults with a growth of 21 additional enterprises per 10,000 adults in 2019. The Tees Valley continues to experience growth in the number of businesses in the region performing strongly particularly in terms of SME growth. However, the Tees Valley remains 7.4% behind the 72.2% of the UK rate.

In addition, it is of note that as of 2018 the Tees Valley has seen an overall reduction in 10.7m tonnes of C02 Emissions exceeding the targeted 25% reduction in CO2 Emissions set out within the SEP.

Page 2 of the dashboard sets out the direct outputs which have been achieved by the work of the Combined Authority, as of Q1 2020/21. **Chart 1** shows the performance to date on key output targets, against the overall number of outputs which have been forecast based on approved business cases. As such, this chart provides an indicator both of overall anticipated Investment Pan outputs and progress against achieving forecasts. It should be noted that forecasted outputs are only drawn from the £214.1m of Investment Plan funds approved to date, it is therefore envisioned that as business cases are approved there will be significant increases in forecasted output totals.

In terms of the total number of jobs delivered to date as a result of supported Combined Authority activity, 2,227 total jobs inclusive of facilitated and indirect jobs have been created as of Q1 20/21, this represents 15% of the total number of jobs currently forecast to be created over the lifetime of the Investment Plan. To date 937 apprenticeships have been created as a result of Combined Authority interventions as of Q1 20/21 this represents 6% of the total currently forecast, though this number is expected to increase significantly as a result of the new apprenticeships grant over the course of the financial year.

Businesses supported to date total 1,106 out of the 2,406 currently forecast which is equivalent to 45% of the overall forecast. In order to reach the forecast target over the lifetime of the Investment Plan only a further 1,300 businesses are to be supported. As of Q1 20/21, 30 new to firm products have been created as a result of Combined Authority interventions this represents 6% of the current total lifetime target, however, this is expected to increase significantly over the course of the next financial year as the Collaborative Networks Programme begins to deliver.

In total, to date, 34,644sqm of additional floorspace has been created by interventions supported from Investment Plan funds this represents 13% of the current overall forecast. It is anticipated that this output may be subject to lag over the next two quarters due to the Covid pandemic curtailing construction. In addition, 1,078 new homes have been delivered to date as a result of support from Investment Plan funds this represents 25% of the current forecast, the overall forecast is expected to increase over the lifetime of the plan as a significant number of new homes will be facilitated, in particular, by Transport interventions yet to come forward for approval.

Chart 2 shows the apportionment of Combined Authority grant funding to the level of other public sector investment and the private sector investment leveraged to date based on those business cases which have been approved. The total match funding profile of approved projects at Q1 2020/21 is, for information:

- Combined Authority Investment – 60%
- Public Sector match funding – 27%
- Private Sector funds leveraged – 13%

Therefore, for every £1 spent by the combined authority a further approximately 40p will be leveraged from additional match funding.

Table 1, of the output performance dashboard shows the efficiency of Combined Authority interventions, this is expressed by the way of cost per job delivered. As of Q1 2020/21 the cost per job created by approved combined authority interventions is £96,093 this figure falls to £39,800 when viewed against the total forecast of jobs created by approved projects over the lifetime of the Investment Plan. It should, however, be noted that a large proportion of Combined Authority investment is delivered on the basis of investing in the right infrastructure to accelerate private sector growth. The number of jobs delivered by the Investment Plan generally comes from investment to support business growth which may not be fully captured as the private sector benefits from the totality of our investments. It is, however, anticipated that over the lifetime of the Investment Plan our efficiency will increase.

NEXT STEPS

The Investment Plan delivery update will continue to be produced on a quarterly basis highlighting financial performance by theme throughout the financial year 2020/21 as well as reporting on the position of the targets set out within the Strategic Economic Plan utilising the most recent available data sets, and the direct outputs achieved by the work of the Combined Authority by quarter.

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 and the delivery of outputs relating to Investment Plan funds.

In producing this report the short, medium and longer term risk impact of the current climate arising from the Covid-19 pandemic has been considered which is reflected in the risk ratings highlighted in the table below. In the short term some delays have been witnessed, particularly, in relation to those projects which were scheduled to undertake construction in the period. In addition, due to resourcing pressures and capacity issues arising as a result of lockdown, delays in the submission and receipt of quarterly claims from project sponsors has been witnessed which has impacted accurate forecasting. In the medium term it is anticipated that some degree of re-casting of milestones and the forecasted achievement of outputs may be necessary. Long term, macro-economic factors such as changes in consumer behaviour and investor confidence may have an impact on the activity supported by the Investment Plan, particularly, in considering the Place and Culture theme.

In order to mitigate against the lasting impacts of the Covid-19 Pandemic, TVCA will continue to work closely with project sponsors in terms of the delivery of projects which may be negatively affected, closely monitoring progress through monthly returns and offering enhanced support where appropriate and/or necessary. In addition, TVCA will ensure adequate development support is provided at Business Case development stage to best consider the impact of the Covid-19 Pandemic on proposed activity, advising appropriate risk mitigations and optioneering in order to ensure that the overall objectives of the Strategic Economic Plan continue to be met.

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:

Theme	Risk in Year	Investment Plan Risk
Transport	**Medium**	**Medium**
Education, Employment & Skills	**Low**	**Medium**
Business Growth	**Medium**	**Low**
Culture & Tourism	**Medium**	**Medium**
Research, Development & Innovation	**Low**	**Low**
Place	**Medium**	**Medium**
Investment Plan (2017-2019):	**Medium**	

As 77% 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. In addition, as the number of approved business cases increases the number of overall forecast outputs over the lifetime of the Investment Plan will increase, allowing for a more detailed understanding of the economic impact the Combined Authority is delivering.

The table below summarises the current risk rating for the achievement of current total Investment Plan forecasts of each key output:

Key Output	Investment Plan Risk
Total Jobs	**Medium**
Apprenticeships	**Medium**
Businesses Supported	**Low**
New to Firm Products	**Medium**
Floorspace Created	**Low**
New Homes	**Low**

TVCA will continue to monitor and review Investment Plan risks, particularly, taking into account the Covid-19 Pandemic, assessing project and programme risk registers, reviewing performance and placing emphasis on the development of robustly de-risked Business Cases, in order to mitigate against lasting impacts on the achievement of outputs and the realisation of the objectives of the Strategic Economic Plan.

CONSULTATION

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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