TEES VALLEY COMBINED AUTHORITY | TEES VALLEY MAYOR

AGENDA ITEM 7

REPORT TO THE TEES VALLEY COMBINED AUTHORITY CABINET

29TH JANUARY 2021

REPORT OF GROUP DIRECTOR OF FINANCE AND RESOURCES

INVESTMENT PLAN DELIVERY UPDATE Q2 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. This report is provided on a quarterly basis to cabinet in order to provide an overview of the progress made in the delivery of the ten-year Investment Plan.

The Investment Plan Finance and Output Performance Dashboards for the period July – September 2020, which is Quarter 2 of the financial year 2020/21, are provided at **Appendix 1 and 2.**

This report provides as of Q2 2020/21:

- 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

RECOMMENDATIONS

It is recommended that the Combined Authority Cabinet:

1. Notes the contents of the Q2 delivery update; and
2. Provides any feedback on the matters covered.

INVESTMENT PLAN Q2 2020/21 FINANCIAL DELIVERY UPDATE

1. The dashboard provided at **Appendix 1** gives a high-level overview of the financial performance of the Investment Plan, as of Q2 2020/21. **Table 1** of the dashboard sets out updated forecast expenditure of the Investment Plan 2019-2029 by theme and year as at Q2 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

2. **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 Q2 2020/21:

   £243m (41.3%) Approved – Agreed and in delivery
   £236.8m (40.2%) Business Case Development – Agreed as priority projects within the Investment Plan, and are developing Business Cases for approval
   £108.4m (18.5%) Uncommitted – Funds remaining within the Investment Plan that are yet to be agreed or fully defined.

3. At Q2 of 2020/21, in total, 81.5% 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.

4. In total, £93.3m of Investment Plan funds have been spent by Q2 2020/21 this is the equivalent to 15.8% 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, £149.7m of funds are yet to be spent, this represents 62% of all approved funds, correspondingly 38% of approved funds have been spent.

5. **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 £86.8m, an increase of £22.1m. 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. There is also some degree of accelerating spend which has also occurred in the Transport theme. Slippage has been witnessed notably in the Culture Theme – we have been able to provide increasingly accurate forecasts due to the number of Business Cases coming forward for approval with detailed financial models - this is the case within the Culture Theme which has resulted in the in-year revision, with projected spend revised down to £3.1m opposed to the £11.4m which had previously been reported.

6. **Table 4** of the dashboard shows the in-year quarterly spend forecasts and the actual spend by each quarter, highlighting any changes. Delays in receiving and processing monitoring returns, largely owing to the Covid pandemic led us to utilise best estimates based on previous claims and monitoring returns and approved business cases we therefore profiled forecast expenditure flat at Q1. As of Q2 we are now in receipt of increasingly accurate forecasts from project sponsors, this is expected to continue as we move through the financial year, allowing for more accurate forecasting at the programme level, particularly, when coupled with an increasing number of projects moving through development stages with Business Cases progressing through to approval, as noted above.

7. In Q2 of 2020/21 we have spent £3.3m more than was forecast in Q1 as noted this is because the Q1 forecast was based on an equitable split across the year. Now that we are in receipt of more accurate forecasts there is a lower risk of any deviation in forecast spend in forthcoming quarters. In total Investment Plan expenditure sits at £29.1m of the £86.8m forecast in the financial year 2020/21, this represents 33% of total expenditure. However, Q1 was subject to particularly low spend given the disruption caused by the Covid Pandemic, it is anticipated that spend will continue to accelerate over the remaining quarters of 2020/21, as has been the case in Q2. Given the increased accuracy of our forecasts, as noted above, meeting the remaining in-year expenditure forecast (57.7m) is considered to be relatively low risk, the spend which would be required in remaining quarters is comparative to the spend which has been witnessed in Q2.

8. **Table 5** of the dashboard shows yearly spend forecasts and spend to date for activity funded by the Previous Investment Plan 2017-2019 and any additional funds the Combined Authority has received from Central Government Departments not included within the Investment Plan. To date £49.1m of funds have been spent as of Q2 2020/21. In total £10.8m of these funds have been spent in Q2 alone. It should be noted that £182.2m of additional funds have been secured by the Combined Authority to deliver specific projects from Central Government since Q1 of 2020/21, these are largely as a response to the Covid 19 Pandemic with the exception of funding relating to Teesworks, notable sums are highlighted below:

   £19.8m Brownfield Housing Fund
   £17.4m Getting Building Fund
   £53.6m Teesworks Infrastructure
   £71m South Tees Site Company
   £8.8m of ERDF SME's Business Growth Grant Scheme
   £6.9m Pothole Challenge Fund

9. Although only £12.8m of the £65m of spend forecast for the financial year 2020/21 has been achieved to date, leaving £52.2m forecast for the remaining two quarters, this is not considered to be a considerable risk given that spend is tied to the delivery of specific projects, however we are committing development resource where necessary to ensure delivery. It should also be noted that only £7.7m of the entirety of the £322.4m forecast over the 2019-2029 period is subject to the development of business cases, nevertheless on balance we have identified meeting forecasts as a medium risk which requires close monitoring to ensure achievement.

INVESTMENT PLAN Q2 2020/21 OUTPUT DELIVERY UPDATE

10. The dashboard provided at **Appendix 2** gives a high-level overview of the overall economic performance of the Tees Valley and the totality of output performance, as of Q2 2020/21.

11. **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.

12. 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.

13. With regards to productivity, as of the latest available data the Tees Valley has seen an overall 8.9% increase in the GVA per hour worked target, this acts as a measure of productivity. Despite this positive growth 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.

14. The Tees Valley has seen, cumulatively, an increase in 1,110 businesses since 2015 a growth of 6.7% to date, therefore just 3.3% behind the target outlined in the SEP. However, it should be noted that there has been a reduction in business per 10,000 adults from 327 to 324 between 2019 and 2020 from the latest available data (October 2020) this is likely to be an effect of the Covid Pandemic, we need to keep a close eye on the impact of the Pandemic on our business base ensuring adequate support through our Business Growth Fund is available to offset further impacts.

15. **Page 2** of the dashboard sets out the direct outputs which have been achieved by the work of the Combined Authority, as of Q2 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 funds approved to date, it is therefore envisioned that as business cases continue to be approved there will be significant increases in forecasted output totals.

16. In terms of the total number of jobs delivered to date as a result of supported Combined Authority activity, 2,506 total jobs inclusive of facilitated and indirect jobs have been created as of Q2 2020/21, this represents approx. 17% of the total number of jobs currently forecast to be created over the lifetime of the Investment Plan. To date 3,582 apprenticeships have been created as a result of Combined Authority interventions as of Q1 20/21 this represents 23% of the total currently forecast, this number has increased significantly since Q1 2020/21, this is as a result of the availability of more accurate monitoring data and a more general increase owing to uptake of the new apprenticeships grant, this figure is expected to continue

to increase over the course of the financial year as the Employment and Skills Programme continues to deliver.

17. Businesses supported to date total 1,106 out of the 4,580 currently forecast which is equivalent to 24% of the overall forecast. The number of Businesses we are forecasting will be in receipt of support over the lifetime of the Investment Plan has significantly increased between Q1 and Q2 from 2,406 to 4,580, again this is as a result of the availability of more accurate monitoring data and as a result of Business Cases linked to the Innovation Programme moving from development to approval. In order to reach the forecast target over the lifetime of the Investment Plan a further 3,474 businesses are to be supported. As of Q2 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.

18. In total, to date, 34,644sqm of additional floorspace has been created by interventions supported by the Combined Authority this represents over 7% of our overall forecast. The lifetime forecast of commercial floorspace which will be created has increased significantly from 261,317m2 in Q1 to 451,470 m2 in Q2, again this is as a result of increased accuracy in monitoring data and as a result of IGF Programme Call-Offs coming forward for approval. It is anticipated that this output may be subject to lag due to the Covid pandemic curtailing construction, however, the overall output forecast will generally be slow to deliver over the lifetime of the plan given the nature of capital construction projects. 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.

19. **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 Q2 2020/21 is, for information:

    - Combined Authority Investment – 58%
    - Public Sector match funding – 30%
    - Private Sector funds leveraged – 12%

20. Therefore, for every £1 spent by the combined authority a further approximately £0.71 will be leveraged from additional match funding.

NEXT STEPS

21. 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.

22. 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

23. 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

24. None related to this report.

RISK ASSESSMENT

25. 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 the work of the Combined Authority.

26. 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. As of Q2 2020/21 we have been increasingly in receipt of more accurate monitoring returns and improved financial forecasts, this has allowed, in turn, for a more accurate picture of performance.

27. In the medium term it is anticipated that some degree of re-casting of milestones and the forecasted achievement of outputs may continue to be necessary as we progress through the financial year. Long term, macro-economic factors such as changes in consumer behaviour and investor confidence may have an impact on the activity supported by the Combined Authority, particularly, in considering the Place and Culture theme.

28. 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.

29. 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	**Low**	**Medium**
Investment Plan (2017-2019):	**Medium**	

30. As 41.3% of Investment Plan funds have been approved and a further 40.2% of projects and programmes are currently 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 that the Combined Authority is delivering.

31. The table below summarises the current risk rating for the achievement of current total Investment Plan forecasts of each key output taking into account performance to date and macro-economic risk factors:
32.

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

33. 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 & COMMUNICATION

34. 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.

EQUALITY & DIVERSITY

35. None related to this report.

LOCAL ENTERPRISE PARTNERSHIP

36. This item will be considered at the LEP meeting in advance of it coming forward to Cabinet.

Name of Contact Officer: Jonathan Bailes
Post Title: Investment Planning Manager
Email: **jonathan,bailes@teesvalley-ca.gov.uk**
Telephone Number: 01642 524423