



**North East Leadership Board**

Tuesday 14th July 2015 at 2.00 pm

Meeting to be held at Northumberland County Council, County Hall, Morpeth, NE61 2EF

[www.northeastca.gov.uk](http://www.northeastca.gov.uk)

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## SUPPLEMENTAL AGENDA No.1

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8. <b>Financial Monitoring Update - Outturn 2014/15</b>	<b>1 - 8</b>

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**To All Members**

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## North East Combined Authority

### North East Leadership Board

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**DATE:** 14 July 2015

**SUBJECT:** Financial Monitoring Update - Outturn 2014/15

**REPORT OF:** Chief Finance Officer

#### **EXECUTIVE SUMMARY**

The purpose of this report is to provide information about the 2014/15 financial outturn; to provide a summary of the financial monitoring information for 2015/16; and to provide an update on the budget process for 2016/17.

The outturn for 2014/15 showed spending was within budget and reports a healthy financial position. The full audited accounts will be submitted to the Board in September for approval. The financial monitor for the current year shows a satisfactory revenue position at this early stage in the year with spending anticipated to be within our overall budget. There are pressures to deliver the larger capital programme agreed for 2015/16, which will require prompt action to confirm funding to all projects due to start this year.

#### **RECOMMENDATIONS**

The Leadership Board is recommended to –

- a) receive the summary of the 2014/15 outturn position set out in this report, plus any comments that may be made by Governance Committee and provided to the Board for information and comment;
- b) note the information provided about the revenue budget monitor for 2015/16;
- c) receive the update information provided about the capital programme for 2015/16; and consider the issues identified and any further action that may be required to deliver a satisfactory level of capital investment this year; and
- d) agree that the Budget for 2016/17 be prepared in line with the timetable for approval at the Leadership Board's meeting on 19 January 2016.

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### 1 Background Information

- 1.1 The draft accounts for NECA have been prepared and are now subject to external audit. A summary of the outturn position for transport is being reported to TNEC on 9 July. A report on the Outturn and Draft Financial Statements for 2014/15 is being considered by the Governance Committee on 10 July.
- 1.2 Once the external audit has been completed, the full set of accounts will be submitted to the Governance Committee and the Leadership Board for consideration and approval at its meeting on 15<sup>th</sup> September.
- 1.3 Monitoring information is provided periodically through the year in line with the constitution. The report on transport issues is made to TNEC in more detail.
- 1.4 The North East Combined Authority is required by law to set its Revenue Budget and Transport levies for 2016/17 before 15<sup>th</sup> February 2016, in order to enable the constituent councils to be able to take the levies into account in setting their own budgets for 2016/17. It is proposed that the Budget and Levy considered at the Leadership Board's scheduled meeting on 19<sup>th</sup> January 2016. As the accountable body for the North East Local Enterprise Partnership (NELEP), the Budget will include information about the funds available to NELEP and the NELEP's Budget for 2016/17. The budget process and timetable outlined in this report has been prepared to achieve this.

### 2 Outturn 2014/15

- 2.1 The outturn for 2014/15 is positive, with net revenue spending contained within budget; the achievement of a high level of capital expenditure; and an improved level of overall reserves compared with expectations.
- 2.2 This is the first year of the North East Combined Authority, which was established on 15 April 2014 by the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order which came into effect on that date. On the same date, the former Tyne and Wear Integrated Transport Authority was dissolved and its assets and liabilities transferred to the new Authority. The North East Combined Authority accounts include a consolidation of the financial results of the North East Local Enterprise Partnership (NELEP).
- 2.3 As this was a transitional year, the majority of NECA's operational activity and therefore its costs relate to transport activity. Costs within the transport budget are ringfenced between those relating to Tyne and Wear, Durham and Northumberland, reflecting the different funding arrangements in place in each area during 2014/15. The levy for 2014/15 was set by the Tyne and Wear ITA in January 2014, and covers the five Tyne and Wear Districts. For Durham and

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Northumberland, notional grant arrangements were in place during the year and these figures are include in the totals given below.

- 2.4 Transport net revenue spending of NECA amounted to £89.298m across all seven areas. This was only slightly less (-£0.263m) than the revised budget for the year, with cost pressures in respect of concessionary travel costs offset by savings in other transport costs.
- 2.5 In terms of the ringfenced Tyne Tunnels account, additional income from higher traffic flow and savings in capital financing costs produced a small operating surplus of £0.197m, which was £0.619m better than the operating deficit of £0.422m that had been anticipated.
- 2.6 Within the separate accounts for Nexus, which are included in the group accounts of NECA, increased income from Metro operations and other cost savings helped to reduce the operational deficit (which was funded from reserves) by £3.467m from an estimated deficit of £4.769m to a deficit of £1.302m, which improved their reserves position at the year end.
- 2.7 Corporate revenue expenditure by NECA amounted to £0.221m, which was funded by a small transitional budget of £0.14m and use of £0.081m of corporate reserves, which reflected additional activity that grew during the year. An increase in these costs was anticipated when the budget for the current year was set. The corporate unearmarked reserve for NECA at the year end amounted to £0.269m.
- 2.8 Revenue spending on NELEP activity and the North East Investment Fund programme delivery budget amounted to £1.287m. There was £18.87m of Investment Funding loans and grants allocated during the year. Additional business rates of £1.058m from Enterprise Zones was received and this will be ringfenced to help finance capital infrastructure works, including repayment of capital grants received from the North East Investment fund.
- 2.9 Transport capital spending in 2014/15 was £58.883m, which was 91.4% of the approved programme for the year of £64.428m. The approved programme included an element of 'over programming' to ensure that spending was above the minimum level required by DfT. The variance is due to a combination of cost savings and spending that was rephased into the new year, as set out in the TNEC report. The actual level of expenditure is above the minimum required by DfT and is acceptable, with unused capital funding carried over into 2015/16. This level of expenditure was higher than the national average where actual capital spending was 82% of the forecast spending for the year.
- 2.10 The usable reserves of NECA amount to £57.4m are almost entirely ringfenced for specific purposes – such as the financing of the Tyne Tunnels; North East Smart Ticketing initiative (NESTI); match funding for Metro capital funding in future years; the balance on the NELEP investment funds and capital grants for specific projects received in advance. The unearmarked transport reserves

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amounted to £0.797m and the unearmarked NECA general reserve amounted to £0.269m at the year end.

- 2.11 A full set of accounts will be reported to the Leadership Board in September for approval once they have been audited.

### **3 Financial Monitor for 2015/16**

- 3.1 The financial monitor at this early stage in the year is based on spending to the end of May (period 2).

- 3.2 In terms of the revenue budget there are no significant adverse issues to report. The improved position with regard to the Tyne Tunnels account and Nexus accounts in 2014/15 is also likely to have a positive impact in the current year, reducing the estimated deficits on these accounts and reducing the planned use of reserves needed to fund the deficits.

- 3.3 The need to fund activity relating to developing the Devolution agenda and the development of the combined authority, means that there will be a further use of unearmarked transport and NECA general fund reserves this year.

- 3.4 In terms of the capital programme, the receipt of £54m additional Local Growth Fund monies significantly increased the overall size of the overall capital programme to over £119m this year. There is a risk that some variations in the programme, including delays in the full and formal approval of business cases and funding may result in a lower level of spending this year. The latest estimate of spending this year is around £111m. Normally, in developing a capital programme, a significant level of over-programming of 20% or more, would be built into the approved programme, which was not possible this year. Options for optimising the level of spending in the current year are being considered, in order to achieve a better than average level of spending, and these will be reported to TNEC, the LEP Board and to a future meeting of this Board.

- 3.5 The sponsors of one of the potential new schemes was unable to proceed at this time, which created a saving in the programme this year of £4.7m, which has enabled the 2.5% programme management costs to be funded without any topslice to individual project budgets and provides an opportunity to bring forward spending on the approved college project in East Durham. As final business cases of approved projects have come forward for evaluation and approval, the spending profiles and cost estimates have been updated. At this early stage the report on the capital programme to TNEC has identified potential spend of £82.6m on transport projects in the current year taking into account the latest information on the profile of spending for each project.

- 3.6 Causes for the changes in profiled spending identified so far include issues relating to the timing of land acquisitions and the uncertainty of funding for future years, with the potential of no formal confirmation of any of the approved LGF grant from 2016/17 onwards until after the autumn spending review. This has a

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particular impact on schemes that have capital expenditure in future years as well as in the current year. Officers from NELEP; NECA and delivery bodies have been working to make as much progress as possible without the full approval of funding for future years. However, some project sponsors are finding it difficult to accept the funding risk and commit expenditure at this point.

- 3.7 Government officials have been asked to consider giving a formal confirmation to as much funding as possible for 2016/17 as soon as possible, as opposed to waiting until after the outcome of the spending review is known in the autumn. Options to enable projects to proceed are currently being considered in more detail. Approval of the final business cases and grant approvals may need to be considered as urgent items over the next few weeks, in order to deliver as much of the programme as possible this year. An update on the position and any relevant announcements made in the Emergency Budget on 8 July will be provided at the Board meeting together with the latest information about the capital programme for this year.
- 3.8 LGF grant has already been received in full in the current year and we have been advised that any grant not applied in full this year can be carried over into next year. Maximising activity and spending this year is important as it would help demonstrate an above average performance and ability to deliver programmes, which would place the North East in a strong position to secure any additional funding that may become available in future years.

## **4 Budget Setting Process for 2016/17**

- 4.1 It is proposed that NECA would agree its Budget and Transport Levies at its scheduled meeting on 19<sup>th</sup> January 2016, which will help achieve the setting of the Transport Levies by the statutory date in February.
- 4.2 The constitution of the Combined Authority requires that consultation on Budget Proposals is undertaken at least two months before the Levy must be set. This effectively means that a Budget Report covering the 2016/17 Budget decision will need to be considered by the Leadership Board at its meeting on 17 November 2015. This will start the formal consultation process, which will include consideration of the budget report by Overview and Scrutiny Committee. This may enable the outcome of the Autumn Statement to be known and taken into account in determining the Budget proposals to be consulted upon.
- 4.3 The preparatory work has started and discussions will take place with officers of the constituent councils of the combined authority over the next two months to help prepare the draft high level budget proposals for initial and informal consideration by the Leaders and the Elected Mayor in October. Discussion of Transport issues will take place with members of the Transport North East Committee and its Tyne and Wear Sub Committee, which will consider reports

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of the Tyne Tunnel budget and toll levels for 2016, as well as the Metro budget and fares for implementation in January 2016.

- 4.4 Draft budget proposals will also need to be considered by the NELEP as well as Overview and Scrutiny Committee.
- 4.5 A detailed schedule for the preparation of the Budget will be prepared for information of members and officers in the next few weeks.

### **5 Potential Impact on Objectives**

- 5.1 The budget and capital investment programme help to deliver the Policy Objectives of the Combined Authority including the delivery of the Strategic Economic Plan. The future reports will set out revenue and capital budget proposals that will help deliver the Objectives on the Combined Authority

### **6 Finance and Other Resources**

- 6.1 The views of the Chief Finance Officer are included in this report. The outturn for 2014/15 was positive and good progress is being made in the current year. Options for maximising progress on the capital investment programme for the current year are being investigated for future approval. Preparation of the 2016/17 Budget and the delivery of the budget process will require input of a wide range of officers across the councils as well as officers working on behalf of the LEP and the combined authority. The Chief Finance Officer will draw on available resources to deliver the budget reports and plan.

### **7 Legal**

- 7.1 The NECA is required by virtue of the Transport Levying Bodies Regulations 1992 to issue the transport levy before 15 February preceding the commencement of the financial year in respect of which it is issued.
- 7.2 The budget process timetable will enable the budget to be agreed in line with the statutory requirements and the constitution of NECA, particularly in relation to consultation.

### **8 Other Considerations**

#### **8.1 Consultation/Community Engagement**

The NECA constitution requires that consultation on its budget proposals to be undertaken at least two months prior to the budget being agreed. It is proposed that the 2016/17 Budget Proposals be reported to the Leaders Board on 17 November to start a consultation process, which will include the Overview and



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Scrutiny Committee and the North East Chamber of Commerce. Earlier discussions will take place with constituent councils of NECA and in relation to the Transport elements of the budget through the Transport North East Committee and the Transport North East (Tyne and Wear) Sub-Committee.

### 8.2 Human Rights

Any human rights issue will be reflected in the future reports on budget proposals.

### 8.3 Equalities and Diversity

There are no specific issues arising directly from this report.

### 8.4 Risk Management

- 8.4.1 Risks in relation to the budget are taken into account in establishing the level of reserves. Appropriate arrangements will be put in place and reported as part of the Budget Report. Options for managing the risks relating to the uncertainty of future capital grant funding are currently being considered and any significant proposals will be reported to the Board

### 8.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

### 8.6 Environment and Sustainability

There are no specific issues arising directly from this report. The Budget reports will set out environment and sustainability implications.

## 9 Background Documents

- 9.1 NECA constitution.

## 10 Links to Plans in the Policy Framework

- 10.1 The Budget Report itself will reflect all of the NECA Plans and Policies.

## 11 Appendices

None

## 12 Contact Officers

- 12.1 Paul Woods Paul.Woods@northtyneside.gov.uk, Tel: 07446936840

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### 13 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓