

Combined Authority Board	Agenda Item 2
31 May 2023	

Title:	Budget Outturn Report 2022-23
Report of:	Nick Bell, Executive Director Resources and Performance
Lead Member:	Mayor Dr Nik Johnson
Public Report:	Yes
Key Decision:	Yes – KD2023/018
Voting Arrangements:	A simple majority of all Members present and voting

Recommendations:	
A	Note the outturn position of the Combined Authority for the 2022-23 financial year.
B	Approve the updated requested slippage of unspent project budgets on the approved capital programme of £56.8m and on the revenue budget of £13.7m
C	Approve the ringfencing of £2.4m on treasury management income into an inflationary reserve as set out in paragraph 4.8.

Strategic Objective(s):	
	<p>The proposals within this report impact on all four of the Combined Authority's strategic objectives as approving budgets to be carried forward into 23-24 allows the continued delivery of the Authority's programmes. Without the smooth continuation of funding which approval of proposed carry forwards provides many of the Authority's projects would have to be paused while funding and deliverability are reassessed.</p> <p>The creation of the proposed reserve will directly support increased connectivity by ensuring that there are sufficient resources available to meet further anticipated inflationary pressures on the bus network.</p>

1. Purpose	
1.1	This report provides the Board with an overview of the outturn financial position for the 2022-23 financial year and revised slippage requests.
1.2	Underspends are split between project slippage, where the Board is asked to agree the carry forward of the funding, and underspend/savings, where there is funding that will be returned to the Combined Authority's reserves as it is no longer required.
1.3	The position presented is based on the Combined Authority's accounts before external audit, as such there is a possibility that the position will be changed following audit findings – as part of the reporting on the audit of the accounts any such changes will be reported at that time.

2. Background

2.1	<p>This report presents the actual expenditure position for the financial year ended 31st March 2023. The body of the report focuses on changes from the draft outturn position presented to the March Board, however Appendix 4 includes explanations from budget holders and project managers for every material variance across the 2022-23 budget and capital programme.</p>
2.2	<p>As was noted at the Board in the January report there is a substantial gap between the actual expenditure incurred and the budgeted spend which was programmed for delivery in this financial year. Significant work was done ahead of the March report to deliver a more realistic forecast, reducing the outturn by £39m. The outturn position reported here shows that, while this work did significantly improve the realism of the expenditure forecasts, actual expenditure has still reduced further and work is continuing to improve this during 2023-24.</p>
2.3	<p>While some slippage and delays to often complex capital programmes are unavoidable and unpredictable, as can be seen in the history of slipped and delayed capital programmes and projects in both local and national organisations, we reported to the March Board the key themes which had emerged during the drive to establish a more realistic set of forecasts:</p> <ul style="list-style-type: none">• A disconnect between what is known by those in the organisation closest to the project and what is fed through into the financial reporting.• The significant delay (often 3+ months) between delivery on the ground and actual spend through the Combined Authority's accounts.• Overly optimistic estimations of the time take between Combined Authority approval and physical initiation of the project (contract agreement and works starting).
2.4	<p>In particular, work is now focusing on the following areas:</p> <ul style="list-style-type: none">• Formalisation of the monthly reporting processes and improved reporting from the Agresso finance system to ensure that information known to project managers is captured in a consistent, regular manner.• A discussion with constituent councils and other delivery partners to identify opportunities to either speed up the journey of costs through from delivery agent to the Combined Authority, or to capture reliable expenditure accruals so that spend can be reported when the work is done during the year, rather than when the claim is submitted and approved.• Greater scrutiny of initial project spend profiles to ensure the time taken for project initiation is recognised.
2.5	<p>In addition to these actions, the Combined Authority will be reporting against more accurately profiled budgets in 2023-24, giving a clearer picture of project progression against the original plan. This will result in earlier warning of projects which are not progressing as anticipated.</p>
2.6	<p>As previously agreed by the Board, the exception reporting thresholds are: £100k in Mayoral and Corporate Services revenue budgets, £250k for 'Income', 'Housing', 'Business and Skills', and 'Delivery and Strategy' revenue budgets, and £500k on all capital projects.</p>

3. Revenue Budget Position

3.1 A summary of the financial position of the Authority as at 31 March 2023, showing 'Revenue' income and expenditure for the year, is set out in the table below. A more detailed breakdown of income and expenditure for the year is shown at Appendix 1.

2022-23 Revenue	Mar Budget £'000	Adjustments £'000	Outturn Budget £'000	Outturn Spend £'000	Outturn Variance £'000	Change from FO £'000	App 4 ref:	Requested slippage £'000	Requested STA slippage £'000
Grant Income	-51,097	-	-51,097	-42,301	8,796	4,376		N/A	N/A
Mayor's Office	488	-	488	210	-278	-6	1	-	-
CA Gross Staffing Costs	7,528	-	7,528	7,483	-45	-264	2	-	-
Other Employee Costs	330	-	330	306	-24	-89		28	-
Externally Commissioned Support Services	581	-	581	344	-237	-152	3	145	-
Corporate Overheads	830	-	830	830	0	50	4,5	7	-
Governance Costs	144	-	144	28	-116	-32	6	-	-
Other Corporate Budgets	1,388	-	1,388	-3,269	-4,657	-338	7-9	512	-
Recharges to Ringfence Funded Projects	-3,233	-	-3,233	-3,241	-8	-8		-	-
Corporate Services Expenditure	7,568	-	7,568	2,481	-5,087	-833		692	-
Business and Skills	51,470	-5,512	45,959	29,363	-16,596	1,981	10-19	11,003	-
Delivery and Strategy	15,890	273	16,163	14,938	-1,225	-208	20-22	623	1,350
Housing	563	-	563	473	-90	6		20	-
Workstream Expenditure	67,924	-5,239	62,685	44,774	-17,911	1,779		11,646	1,350
Total Expenditure	75,979	-5,239	70,741	47,465	-23,276	940		12,338	1,350

3.2	<p>The Outturn Variance as set out in the table above shows a 'favourable' variance of forecast expenditure against approved budgets of £23.3m. This is a £0.9m decrease in the forecast variance relative to the position reported to the March Board. The material changes to forecast expenditure budgets are listed below and each has a detailed variance explanation included in Appendix 4:</p> <ul style="list-style-type: none"> • £1.3m reduction in spend across LAD3 and HUG 1 funded energy schemes. • £1m increased spend on AEB programme, bringing the programme to an intended over-delivery position which will be funded from the AEB reserve. • £816k spent on HUG 2 mobilisation. This is the creation of the budget in-line with the Board decision to deliver the programme, not an unanticipated increase. • £0.6m increase in spend on Net Zero Investment Design due to works due to be completed in April being completed early so costs being recorded in 22-23. • £0.6m increase in spend on the Growth Co programme. This is due to a change in when claims can be paid by the CPCA rather than any change in delivery. • £0.4m decrease in Heath and Care Sector Work Academy spend • £0.4m increase in spend on Skills Bootcamps wave 3, reducing the forecast underspend on the project • £0.3m increased spend on concessionary fares, reducing the anticipated underspend • £0.3m decreased overspend on supported bus services due to the additional DfT grant funding • £0.3m decrease on the bus review implementation • £0.3m decrease in core staffing costs for the year • £0.1m decrease in spend on ICT support. This is predominantly due to a £75k grant for cyber security work reducing the net spend, this work will be done in 23-24 and thus there is a request to carry forward with £75k. • £0.1m decrease in net spend on the improvement plan, half of which is due to a £50k grant received from the Local Government Association to support this work.
3.3	<p>Concessionary fare journeys have still not recovered following the pandemic resulting in an underspend of £1.1m. This, along with £675k of continued grant support from the Department for Transport through the Local Transport Fund, have offset the pressures on the supported bus service budget resulting in an overall positive variance of £553k.</p>
3.4	<p>The pressures on supported bus services are continuing in 2023-24. Whilst the Combined Authority took the difficult decision to implement a Mayoral precept in 2023-24 to enable stability in the bus network in the face of rising costs and uncertainty in continued government funding, it is likely that the funding generated by this will be insufficient to meet rising costs in 2023-24 and therefore any unringfenced revenue savings from 2022-23 may be needed to help fund the supported bus service in 2023-24.</p>
3.5	<p>There are two lines in revenue which may appear unusual:</p> <ol style="list-style-type: none"> a) The ICT external support line shows a requested slippage of £75k while only having an underspend of £62k. This is a combination of an overspend on the budget being offset by a £75k grant, received in March, to support cyber security work in 2023-24 – as the grant is ringfenced the £75k needs to be spent in 2023-24 so this line is shows a requested slippage of £75k despite there being an underlying overspend on this budget. b) Contribution to the A14 upgrade is showing a negative expenditure of £25k. This is because the CPCA had set aside £90k to pay its contributions for 2020-21 and 2021-22. Following discussion with DfT it was agreed that the contributions would only start in 2022-23 so whilst the 2022-23 contribution has been paid, the £90k set aside for 2020-21 and 2021-22 won't be needed, resulting in a net £25k saving to the CPCA.

3.6	<p>There are six material variances in income compared to the position presented in March:</p> <ul style="list-style-type: none"> • The CPCA received £480k of its 2023-24 AEB funding in 2022-23 as a 'smoothing' payment, so currently shows more funding received than budgeted for. This income will be moved to the AEB reserve and used to fund 2023-24 expenditure. • ERDF claims are behind profile resulting in income being £2.8m below forecast. This is matched by the lower than forecast spend on the services being provided with this funding through the Growth Service. Spend on this programme has accelerated toward the end of the financial year and is anticipated to complete within the funding period in 23-24. • LEP Core funding and Mayoral Capacity Fund – these grants were paused by DLUHC in summer 2022. Following the best value notice CPCA has been told that the funding is still held and will be released once DLUHC are assured the improvement plan is embedded and providing assurance to both our external auditors and the Independent Improvement Board. As such the forecast income for 2022-23 is being slipped into 2023-24 and added to the 2023-24 allocations. • Skills Bootcamps wave 3 have claimed £701k less than forecast due to lower than expected student numbers.
3.7	<p>While the majority of unspent funds are related to ringfenced grants and will be used in future years to deliver the outcomes those funds are reserved for, savings and income overachievements in the Mayor's budget and Corporate Services, totalling £5.0m, represent an overall saving on the Combined Authority's single pot. The vast majority of this, £4.0m, is due to overachievement of treasury management investment income and the CA not having borrowed and thus not utilising the £500k allowance for borrowing costs.</p>
3.8	<p>Both of these factors were anticipated to a degree when setting the 2023-24 budget and MTFP and £2.2m of the extra income was taken into account at that time. It is proposed that the remaining £2.4m of income which was not taken into account when the budget was set is moved into an inflation reserve to help fund the emerging pressures on the supported bus network noted in paragraph 2 above.</p>
3.9	<p>The Board are recommended to agree the updated carry-forwards on the approved, and subject to approval (STA) revenue budgets of £12.3m and £1.4m respectively to enable the Authority's projects and programmes to continue delivery.</p>

4. Capital Programme

4.1 A summary of the 2022-23 capital programme and capital grant income for the financial year to 31st March 2023 are shown in the tables below. Detail of the capital programme can be seen across Appendices 4 and 5. (Please note: 'STA' stands for 'Subject to Approval' and 'YTD' for 'year to date').

Capital Programme Summary	Outturn Budget	Outturn Spend	Variance		App 4 Ref	Requested Slippage	Requested STA Slippage
	£'000	£'000	£'000			£'000	£'000
Corporate Services	242	33	-209	-86%		167	-
Business and Skills	84,090	47,586	-36,504	-43%		24,403	1,802
Delivery and Strategy	62,103	42,262	-19,841	-32%		19,039	4,249
Housing	28,389	8,013	-20,376	-72%		7,147	-
Totals	174,824	97,894	-76,930	-44%		50,756	6,051

Capital Funding Summary		Outturn Budget	Outturn Actuals	Outturn Variance	% Received
		£'000	£'000	£'000	
Capital Gainshare		-12,000	-12,000	-	100.0%
Local Transport Capital Grants		-16,326	-26,933	-10,607	165.0%
Transforming Cities Funding		-21,000	-	21,000	0.0%
Recycled Housing Funding		-5,000	-1,128	3,872	22.6%
Totals		-54,326	-40,061	14,265	73.7%
Business and Skills					
4.2	The Business and Skills directorate's outturn underspend has increased by £7.6m to £29.0m in total. A substantial proportion of both figures, £4.3m and £19.5m respectively, is due to the delays and underspends from the Net Zero Hub retrofit programmes (LAD2, LAD3 and HUG 1). Delays and underspends are also being experienced by other similar Net Zero Hubs across the country owing to the construct of the previous government funded schemes, much of which has been addressed by government in the scheme which the Hub is delivering between 2023 and 2025 (HUG2).				
4.3	The Market Towns programme slipped £1.2m further than was forecast in March, resulting in a total slippage on the programme of £5.6m. Where the individual towns' variance is greater than £500k an explanation is provided in appendix 4.				
4.4	The anticipated Growth Co capital expenditure towards the end of the year did not come forward as expected and has resulted in a total spend for the year of £369k, £1.1m lower than was forecast. However the contractor has delivered a pipeline worth £975k in that time with anticipated spend in April to June 2023 and this ramping up is anticipated to deliver full spend of the allocated capital budget by the end of the Growth Works programme in December 2023.				
Delivery and Strategy					
4.5	The Delivery and Strategy directorate's outturn variance has increased by £6.4m to £19.8m in total. The change is driven by material increases in underspend on Wisbech Access Strategy (£0.5m) and ZEBRA (£3.0m), along with a repayment of £952k from Network Rail relating to Ely Area Capacity Enhancement following Network Rail identifying alternative funding for the programme of works.				
4.6	The 'underspend' on Wisbech Access Strategy includes a £943k rebate from the County Council for utilities works which were paid up-front by CPCA but then not completed as the project has not proceeded to the delivery phase.				
4.7	It was expected that the first 10 Zero Emission Busses would be delivered by the end of March, however this slipped slightly, and delivery was in April, with a launch event held on the 12th May, therefore the anticipated £3m expenditure has slipped into 2023-24. The claim from Stagecoach has now been received by the CPCA for payment.				
4.8	There were no capital grants within the Delivery and Strategy directorate which had a deadline of March 2023, and thus the slippage does not result in funding being unused. However, the Department for Transport (DfT) have undertaken a national review of the TCF programme. Following this the CPCA has received confirmation that no funding has been withdrawn and that, subject to satisfying DfT's requirements regarding project governance and providing clear rationale for any slippage, we should be able to continue to access the remaining £21m of TCF to complete delivery of the funded projects.				
Housing					
4.9	The outturn expenditure on the Affordable Housing Grant programme has decreased by a further £3.8m, to £20.0m total underspend. As the grant payments are based on reaching milestones a delay of a few weeks on completion of a site can stall the expenditure of significant fractions of the total funding for a project. In this case, the additional underspend is due to 5 sites having their completion slip beyond March, all of these have either completed, or are due to by the end of June.				

4.10	At the end of 2023-24 all but one of the Housing Loans portfolio have completed with repayment in full, the one remaining loan is due to complete repayment in 2023-24 which will bring the loan funded programme to a close.
	Overall Position
4.11	Stripping out treasury management income, A14 contributions, debt charges and the improvement plan budget as these were not corporate controlled costs planned for the year, the CPCA spent £5.8m against a net budget of £6.3m – with savings of £314k and slippage of £181k to support specific initiatives.
4.12	All areas of savings will be examined to identify whether there are ongoing efficiencies which can be delivered, however two of the largest – accommodation and mayoral staffing - have already been adjusted within the approved 2023-24 budget.
	Project Costs
4.13	The majority of 2022-23 underspend is due to slippage, however the impact of the slippage varies depending on the funding source with some being time limited, meaning unspent/undrawn down funds are returned to Government and others are able to be carried forward for delivery in future years.
4.14	The slippage on the capital programme has resulted in significantly increased cash balances for the CPCA which, along with much improved interest rates, has resulted in treasury management income overachieving by £4m, this should be considered against a backdrop of inflation continuing to stay above 10%. As noted in paragraph 3.3 and elsewhere in the report this has already resulted in emerging pressures in the supported bus network as well as capital projects – for example the University of Peterborough phase 3 project has seen inflation erode its spending power much faster than was anticipated leading to requests for additional funds to deliver the original scope.
4.15	On services funded by ringfenced grants, where the funding is capped, the effect is seen in lower outcomes being achieved for the same cost. For example the highways capital maintenance grants, the core funding from government to maintain roads and fix potholes, is fixed at 2021-22 levels until 2025 so fewer potholes will be able to be fixed each year as costs increase if funding stays flat.
4.16	On the capital programme this will likely result in more projects being unable to live within their original budgets. While project budgets include an allowance for inflation, the current level of inflation was not anticipated 2 years ago so historic projects in particular will face unanticipated levels of inflationary pressure. The Combined Authority has increased its capital contingency reserve to £1.5m in anticipation of this, but this does not mean the CPCA could afford 10% increases in its entire capital programme budget. It may require changes to the scope of some projects or de-prioritisation if sufficient capital funds are not available.
4.17	Even with built-in inflation risk, and the contingency budget, if inflation remains high the buying power of the Combined Authority's grants will erode quickly which, over the medium-term could make projects non-financially viable and impact the sustainability of the Combined Authority's revenue operations.
4.18	Given the severity of the impacts of inflation the risks are included within the Combined Authority's corporate risk register which is regularly reviewed and discussed by both senior officers and the Audit and Governance Committee.

5. Appendices

5.1	Appendix 1. Detailed breakdown of the revenue outturn position for the 2022-23 financial year
5.2	Appendix 2. Capital Outturn position for the 2022-23 financial year
5.3	Appendix 3. Capital Programme
5.4	Appendix 4. Detailed Explanations of Material Variances

6. Implications

Financial Implications

6.1 The financial implications of the decisions are set out in the body of the report.

Legal Implications

6.2 The Combined Authority is required to prepare a balanced budget in accordance with statutory requirements.
This report monitors how the Combined Authority and the Mayoral Fund performed against the financial targets set in January 2022 through the Budget setting process in accordance with the Cambridgeshire and Peterborough Combined Authority Order 2017 and the Combined Authorities Financial Order 2017.

Public Health Implications

6.3 As the agreement to slip funding only enables continued delivery of existing projects there are no direct Public Health implications.

Environmental & Climate Change Implications

6.4 As the agreement to slip funding only enables continued delivery of existing projects there are no direct Environmental and Climate Change implications.

Other Significant Implications

6.5 There are no other significant implications.

Background Papers

6.6 None