

**Report to:** West Yorkshire Combined Authority

**Date:** 9 January 2020

**Subject:** **Draft business plan and budget 2020/21**

**Director:** Angela Taylor, Director, Corporate Services

**Author(s):** Jon Sheard and Angela Taylor

Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	N/A

## 1. Purpose of this report

- 1.1 To provide West Yorkshire Combined Authority with outline directorate business plans and the proposed draft revenue and capital budget for 2020/21.

## 2. Information

- 2.1 At its recent meetings the Combined Authority has considered the position with regard to the medium term financial strategy. The current year budget was set in the context of the previously agreed three year strategy (2018/19-20/21 that included a commitment to reduce the transport levy by £1 million in each of the three years and to reduce the use of reserves to produce a balanced position by 2020/21 and subsequent years.
- 2.2 The budget is accompanied by business plans for each directorate that clearly set out their planned activities and how these activities map out against the four Combined Authority and LEP objectives of boosting productivity, enabling inclusive growth, supporting clean growth and delivering 21<sup>st</sup> century transport. These four are used to guide and direct the allocation of budget resources. Each plan is being summarised as a plan on a page and the latest drafts of these are set out in **Appendix 1**.

- 2.3 The inclusion of the objective 'supporting clean growth' was identified and agreed by the Combined Authority in 2019. Reflecting the decision earlier this year to recognise the climate emergency it is now proposed that the objective 'supporting clean growth' is renamed 'tackling the climate emergency.' This reflects the Combined Authority's and partners' ambition to become a net zero carbon region by 2038, with significant progress by 2030.
- 2.4 Work to deliver a balanced budget has progressed under scrutiny and engagement with appropriate committees, partners, including Directors of Finance and public engagement is currently underway using the yourvoice portal. All this work is being overseen by the member Budget Working Group. The need to both achieve and demonstrate efficiency, effectiveness and value for money remains core to the approach being taken, alongside minimising impact on front line services to the public and businesses.
- 2.5 The 2020/21 business plans produced by each directorate reflect a focus on both continuing to deliver services as effectively as possible whilst also identifying those areas where additional work is required to ensure continuing improvement, transformation of services and full achievement of the corporate priorities. With limited opportunities to generate income and the ongoing squeeze on public sector finance it is clearly not possible at this point to set a budget that enables delivery of all elements of the business plan.

### **Revenue budget 2020/21**

- 2.6 The draft baseline revenue budget is attached as **Appendix 2** and at this point shows a balanced position for 2020/21. It assumes the transport levy is cut by a further £1 million (the third in a series of three year cuts) as previously agreed. It also acknowledges the difficulty of setting a budget in the current context when devolution negotiations are not yet concluded, the new government and its policies are unknown and the spending review is still to happen later in the year. Recent budget discussions have shown little opportunity or appetite to add to current spending in this situation and that the focus should be on maintaining existing front line services.
- 2.7 In putting together budget submissions directorates within the Combined Authority are tasked with minimising costs and maximising income. Senior manager challenge sessions are used to scrutinise the funding requirements put forward, with this information then informing discussions with Members on options to present a balanced budget. These actions have resulted in a range of efficiencies and savings each year that have contributed to the Combined Authority being able to reduce the transport levy and achieve more for less.
- 2.8 A balanced position has been achieved on the basis that the renegotiation of the English National Concessionary Travel Scheme (ENCTS) arrangements will deliver £0.5 million additional savings, and that £400k of efficiency / transformation savings can be found within transport functions. These savings will contribute to protecting front line services to the travelling public in the form of bus tendered services and the concessionary travel schemes.

- 2.9 There are a significant number of risks and challenges that remain for 2020/21, including any actions that may be required to respond to the sales of the UK bus operations of First and Arriva, the uncertainty around funding for skills and business support and the impact of Brexit. In addition to these a number of resource requirements are included in the business plans that are currently unfunded, including follow up work on the Williams rail review and the skills commission, further posts in economic analysis, further support on developing projects to address clean growth/circular economy requirements and additional resource to trade and inward investment to support creative industries and smart cities.
- 2.10 A risk based review of the level of general reserves required is underway and will be brought to the next meeting. Given the factors above, it is expected this will be at a slightly higher level than the current £5 million and the savings achieved in the current year will enable reserves to be maintained at nearer to £7 million.
- 2.11 The proposed budget for 2020/21 is presented, in line with previous years, as a joint Combined Authority and LEP position. It assumes that the core funding for the LEP continues to be received, along with the current level of LEP subscriptions from the Combined Authority's constituent authorities. These figures are unlikely to be confirmed until the work to address the requirements of the Strengthened LEPs publication is finalised.
- 2.12 In line with our constituent authorities, it has been assumed that future year pay awards will be around 2% average rate and the results are awaited from the Pension Fund triennial valuation which will provide employer contributions rates for 2020/21 to 2022/23. At present it is assumed employer pension rates remain at the same level as current year.
- 2.13 The Combined Authority ensures no employee is paid less than the real living wage. As part of its work on social inclusion consideration will be given as to whether to pursue the full Living Wage Foundation accreditation. This would require the Combined Authority to ensure its contractors and sub-contractors all pay their employees no less than the real living wage. Further work will be undertaken to establish the potential financial costs of doing this, alongside the wider inclusive growth benefits of doing so, looking at this issue in line with our constituent authorities. No contingency has been built into the current budget assumptions to enable this accreditation to be pursued.

### **Revenue budget beyond 2020/21**

- 2.14 Based on a continuing standstill on the transport levy, and assuming that expenditure on bus tendered services remains unchanged from the 2020/21 position then the budgets for 2021/22 and 2022/23 still present budget shortfalls that would be exacerbated by the cliff edge funding that comes to an end. Additionally all major capital funding streams should be spent by the start of 2021/22, other than West Yorkshire plus York Transport Fund, and

depending on the success of bidding for further funding streams, both the delivery team and the associated capitalisation will need to be reconsidered.

- 2.15 At this stage it would be challenging to introduce recurring expenditure into the base revenue budget for any recurring spend.

### **Capital budget**

- 2.16 Work is continuing on finalising the three year capital spend projections and ensuring that the funding available is maximised. A significant number of new schemes have achieved decision point 2 (strategic outline business case) of the assurance framework and have therefore passed the eligibility threshold for inclusion in the Growth Deal programme. Much of the current Growth Deal funding which makes up the largest element of the capital funding available concludes in 2021 and the programme is being reviewed to ensure deliverability within these timescales.
- 2.17 There is an ongoing income stream beyond this date of £30-48 million per annum for the West Yorkshire plus York Transport Fund, to be supplemented by borrowing in accordance with the original City Deal, but it is expected there will still be a requirement beyond 2021 for a broader capital programme that would need to be supported by borrowing or yet to be identified funding streams. At this stage government's intentions with regard to future capital funding opportunities are not yet known.
- 2.18 The detailed expenditure programme is being verified by partners delivering the projects and highlights a borrowing requirement from 2020/21 onwards. The revenue costs of supporting this borrowing, which is predominantly for the Transport Fund, will be reflected in the final proposed budget in February 2020, to be funded from the Transport Fund reserve. It is intended to utilise the Transport Fund reserve to support these costs but once these are applied it must be noted that there will be an ongoing long term commitment to meet the costs of the borrowing entered into. A fuller consideration of debt costs and the application of the Transport Fund reserve to meet these is being undertaken and will be brought to the February 2020 meeting.
- 2.19 **Appendix 3** sets out the latest draft forecast budget for capital expenditure and funding by programme for up to 2022/23. These figures are indicative at this stage and include the costs and funding for the Transforming Cities Bid and Future Mobility Zone bid, both of which are awaiting government confirmation. The final budget that will be brought to the February meeting will ensure sufficient headroom in the proposed figures to enable expenditure to be accelerated where possible.
- 2.20 Early information on the draft borrowing costs has been shared with the West Yorkshire Directors of Finance. They have noted the lower level of borrowing expected for 2020/21 and have proposed that the previously agreed £2 million rebate from the Transport Fund reserve next year is increased to £3 million. During 2020/21 a longer term proposal for meeting the borrowing costs in the

medium and longer term will be developed with the Directors of Finance to be reflected in the updated medium term financial strategy.

## **Summary**

- 2.21 Members are asked to consider the proposed draft budget and provide any input into the final version of both the business plan and budget that will be brought to the 6 February 2020 meeting. The treasury management strategy will accompany the paper, having first been considered by the Governance and Audit Committee in January.

## **3 Clean growth implications**

- 3.1 It is proposed to strengthen the Combined Authority's focus on carbon reduction by renaming the clean growth corporate priority to "Tackling the Climate Emergency". The draft business plans contain objectives and priorities to tackle the climate emergency, and the budgets seek to include where possible resource to address this work. The capital budget includes some specific schemes relating to clean growth.
- 3.2 Enabling wider aspects of clean economic growth remains of the utmost importance to the Combined Authority. However, making "Tackling the Climate Emergency" a corporate priority means that carbon reduction becomes an explicit objective of the Combined Authority, consistent with the Climate Emergency Declaration in 2019.

## **4. Inclusive Growth Implications**

- 4.1 Inclusive growth objectives and priorities are included in the draft business plans, and the budgets seek to include where possible resource to address this work.

## **5. Financial Implications**

- 5.1 As set out in the report.

## **6. Legal Implications**

- 6.1 There are no legal implications directly arising from this report.

## **7 Staffing Implications**

- 7.1 There are no staffing implications directly arising from this report.

## **8. External Consultees**

- 8.1 No external consultations have been undertaken. Information on the budget position is being shared with members of the public via the internet during January.

## **9. Recommendations**

- 9.1 That the Combined Authority consider the draft business plan and revenue budget proposals for 2020/21 and draft capital budget and provide any further input to them.
- 9.2 That the Combined Authority agrees the proposed amended corporate priority of “Tackling the Climate Emergency”.

## **10. Background Documents**

- 10.1 None.

## **11. Appendices**

Appendix 1 – Draft business plan for 2020/21

Appendix 2 – Draft revenue budget

Appendix 3 – Draft capital budget