

Report to: West Yorkshire Combined Authority

Date: 27 July 2020

Subject: **Budgets and funding**

Director: Angela Taylor, Director, Corporate Services

Author(s): 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 advise the Combined Authority of the impact of the COVID-19 pandemic on budgets for 2020/21 and future years.
- 1.2 To seek approval to an approach to commit future gainshare to resource the additional work required to become mayoral ready by May 2021.

2. Information

COVID- 19 and budgets

- 2.1 The Combined Authority approved the 2020/21 budget at its meeting on 6 February 2020. This was a one-year balanced budget, acknowledging the risks and volatility at the time including a possible devolution deal coming up, Brexit and options work underway on interventions in the bus market. It was also recognised that the funding situation in local government was unclear, with delays to longer term settlements and the outcome of the fair funding review due to the government focus on Brexit. Funding gaps for 2021/22 onwards had been forecast and the intention was to start early in 2020/21 to address this as the impact of the various risks was fully understood.

- 2.2 Ahead of this work starting in March the organisation had to respond to the COVID-19 pandemic. Over the period it has become increasingly clear that this situation is putting significant financial pressure on the organisation. The most recent 'worst case' forecast for the impact of COVID-19 identifies a potential full year revenue funding gap of c.£12 million in terms of its normal activities only, which must be considered against a net revenue budget of £100 million. Key impacts are being felt across commercial income, bus station costs, commission from travel card / MCard sales, bus revenues (for gross cost contracts) and transport service costs. It should be noted that throughout the lockdown period combined authorities have been asked / required by Government (under Procurement Policy Notes 01/20 and 02/20) to continue paying the bus operator payments for both concessionary travel and the subsidised routes at pre-COVID-19 levels.
- 2.3 These forecasts have been shared with the Ministry of Housing, Communities and Local Government (MHCLG), and transport elements with Department for Transport (DfT). To date the DfT has approved some additional bus subsidy grant nationally, of which £2,079,000 has come to West Yorkshire. However, Members should note that there are some restrictions in the use of this funding, as it is provided largely to 'plug' gaps in the bus network as commercial operators withdraw. Though welcomed, the funding will only go part way to covering the estimated impact. At present there is still no further information from MHCLG on any support payments to be issued. Discussions have been held with officers at MHCLG and the Chair has written to the minister but there is still no offer of any funding to address the other gaps.
- 2.4 The forecast of the impact of COVID-19 on revenue budgets is being kept under close review. The fluidity of the situation means assumptions will continue to need to be updated over the course of the year. Short term, little or no income has been received from commercial tenants and it will be some time before it is established if all businesses will return and if arrears will be paid. Income from sales of MCards is likely to remain affected longer term.
- 2.5 A significant proportion of the revenue budget is spent on subsidised bus routes and concessionary travel. Arrangements in place require payment to bus operators at pre-Covid-19 levels on tendered services and concessionary travel until at least 4 August 2020. The bus industry is clearly in a state of uncertainty and the current operating model is unlikely to be sustainable in the future. Discussions continue with government on what future support for the bus industry will consist of, including the necessary support to enable schools transport to resume in September. Continuing to pay for concessionary travel at pre-Covid-19 levels whilst only 19% of usual concessionary journeys are being made removes an opportunity for this funding to be applied to the funding gap or to support other bus interventions. As mentioned earlier, Government has made some funding available for bus services through its Covid-19 Bus Services Support Grant (CBSSG); the Combined Authority received £2.08m from the first payment.
- 2.6 The Combined Authority, like all local authorities, is legally required to deliver a balanced budget and cannot be in a situation where its expenditure exceeds its available resources. Such a situation would give rise to the need for the

responsible finance officer, the section 73 officer, to issue a section 114 notice to cease spending. Reflecting the unique situation of the pandemic the Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance that supports authorities in exploring opportunities to address a budget shortfall and that while this work continues and engagement with government continues then it should not be necessary to issue a section 114 notice.

- 2.7 Local authorities hold a level of general or unearmarked reserves to enable them to respond to unexpected budget pressures in year. The reserves policy and position agreed in February 2020 recognised a higher level of risk than usual and determined £7 million as an appropriate level for 2020/21. Additional savings were achieved during 2019/20 such that reserves currently stand at £8 million. Consideration is being given to using some of these reserves to address the funding gap, but this is only a short-term solution and reserves would need to be replenished in setting a budget for 2021/22. Local authorities are expecting the impact of the pandemic to continue to be felt longer term on future business rates and council tax collections and this will provide a challenging environment in which to set next year's transport levy on the local authorities.
- 2.8 As well as consideration of general reserves, reviews are underway on current budgets and any other available reserves to seek to identify opportunities to repurpose existing budgets to help meet the gap. Additionally, there are other cost pressures and commitments that need to be addressed.

Becoming mayoral ready

- 2.9 A significant programme of work has been identified, now including the transfer of the Office of the Police and Crime Commissioner (OPCC), with a challenging and immovable timescale of May 2021 to meet. The Combined Authority is seeking to prioritise activities and resource the programme at a time when Covid-19 is putting immense financial pressure on the organisation.
- 2.10 For additional work arising in the year the Combined Authority would normally seek to repurpose current budgets and consider if these could then be supplemented by any 'surplus' general reserves and 'consume its own smoke.' The funding gap caused by Covid-19 removes this option at present, until or unless additional funding is received from government to meet the gap. The devolution deal provides only £250k to meet preparation costs (Mayoral 'capacity funding').
- 2.11 The costs of delivering the MCA ready programme are being carefully calculated/refined. However, the costs of holding the election and producing necessary communications and collateral are currently estimated at £2 million, which will be incurred across this and the next financial year. Additionally current estimates are that up to £950k is required to meet the additional costs of legal, finance, communications and human resources support to undertake the consultation, prepare for the transfer of the OPCC (which is the bulk of the £950k) and to deliver other workstreams covering the development of

governance and constitutional arrangements, mayoral office, budgets, Adult Education Budget (AEB) transfer and production of the assurance framework.

- 2.12 In order to enable this work to progress urgently it is proposed that these costs of circa £3 million are funded from the 'gainshare' element of the devolution deal, the first tranche expected in late 2020/21. The required work can be cash-flowed from existing balances until the gainshare is received, subject to a successful conclusion to the statutory process, in early 2021. Should for any reason gainshare not be received then other funding, possibly from earmarked reserves may need to be considered. If Covid support funding is provided by Government, then the call on gainshare would be reduced.

Other funding pressures

- 2.13 It is critical that the Combined Authority can deliver swiftly and effectively on the devolution agenda. One of the successes of the deal was securing £317 million to deliver the Transforming Cities Fund (TCF). Whilst this funding was pro rata the largest in the country the local aspirations remain to deliver the higher scenario that had also been put forward and which would require an additional £164.5 million of funding.
- 2.14 Work is well underway on bringing forward the outline business cases through the assurance process with a focus on delivery by the programme end date of 31 March 2023. The Combined Authority is asked to consider whether it wishes to support an extension to the TCF programme to enable the full higher scenario to be delivered over a longer timescale. This would be funded from gainshare, using an appropriate mix of capital and revenue funding to support borrowing.
- 2.15 Members are asked to consider the implications of Covid-19 on the revenue budget of the Combined Authority. A further meeting of the Budget Working Group will be convened, and an updated position reported to the next meeting of the Combined Authority in September 2020.

3. Clean Growth Implications

- 3.1 There are no clean growth implications arising directly from this report.

4. Inclusive Growth Implications

- 4.1 There are no inclusive growth implications arising directly from this report.

5. Financial Implications

- 5.1 The financial implications are covered in the body of 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.

9. Recommendations

- 9.1 That the Combined Authority considers the position on the 2020/21 revenue budget and agrees any further actions required.
- 9.2 That the Combined Authority approves the use of future gainshare to support the costs of transitioning to a Mayoral Combined Authority.
- 9.3 That the Combined Authority approves the use of future gainshare to support the delivery of the higher scenario of the Transforming Cities programme.

10. Background Documents

- 10.1 None.

11. Appendices

None