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**Report to:** West Yorkshire Combined Authority

**Date:** 13 December 2018

**Subject:** **Draft business plan and budget 2019/20**

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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 2019/20.

## 2. Information

- 2.1 The Combined Authority approved a medium term financial strategy including the detailed 2018/19 budget at its meeting in February. Recognising the challenging financial position faced by its local authority partners, the strategy included a commitment to reduce the transport levy by £1 million each year and to reach a balanced position by 2020/21 that does not require the use of reserves.
- 2.2 Work has been progressing to update and refresh the business plan for the Combined Authority, maintaining the focus on the three big objectives agreed for the current year corporate plan: Productivity, inclusive growth and a 21<sup>st</sup> century transport system. A number of actions addressing a possible fourth objective of carbon reduction have also been identified. All teams have been required to demonstrate how expenditure delivers against the objectives and

priorities of the Combined Authority and its partners, demonstrating efficiency and effectiveness and value for money for the services delivered.

- 2.3 The Combined Authority recognises the difficult funding position facing local authorities as they await the outcome of the fair funding review and comprehensive spending review in 2021. This is at a time when their funding continues to be cut and demand for their services is increasing. In the same way that local authorities are focussed on cost reduction, efficiencies and income generation the Combined Authority has also sought to ensure in developing its budget each year that it too is reviewing its activities and finding ways to deliver its services more efficiently. It also seeks to maximise third party income, such as advertising revenue and sponsorship for inward investment events.
- 2.4 In putting together budget submissions teams 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.
- 2.5 Actions taken include the reduction in the cost of providing bus services by 50% in real terms over the last ten years, as a result of smarter procurement and a continued focus on value for money. The commitment made in setting the 2019/20 budget includes a further 20% reduction in the cost of bus tendered services over a three year period. The Combined Authority has also reduced costs by three quarters of a million pounds through efficiencies and staff savings arising from adopting new technology including smart ticketing and moving customers to on-line services. Further savings of over a third of a million pounds per year have been made in the cost of managing the Combined Authority's facilities through better contract management and the introduction of an improved more efficient CCTV system.
- 2.6 New teams that have been established have been benchmarked against other authorities and best practice. For example the Delivery directorate was put together in 2016 and the Portfolio Management Office that oversees project delivery is operating on a ratio of only 1 person to every 15 projects, compared to the industry recommendation of 1 to every 4. Other teams have achieved reductions in headcount or an increase in output for the same resource.
- 2.7 **Appendix 1** sets out the draft business plan for each directorate, demonstrating how they deliver against the organisation's priorities and objectives and, at a summary level, the resources required to do so.
- 2.8 **Appendix 2** sets out the draft proposed revenue budget for 2019/20. The final budget for 2019/20 will be approved at the Combined Authority meeting of 14 February to enable the transport levy to be set in accordance with legislative requirements.

- 2.9 The latest position for 2018/19 is considered in agenda item 12 and confirms that the previously agreed position of a use of reserves of £1.4 million looks likely to be achieved. The latest draft budget for 2019/20 shows a required use of reserves of £1.8 million, against the target agreed in February of £1.2 million. This position has been developed through the Member Budget Working Group, and with input from the Overview and Scrutiny Committee and overview from the Chief Executives. There have been a number of changes to the figures since the strategy was agreed in February and some significant budget pressures identified. In order to reach the current position a number of reductions and cuts have been included in the draft position and some reprioritisation to enable an allowance for emerging pressures. These are set out in more detail in the following paragraphs which consider the key drivers and assumptions for the main budget lines. Further work is underway to reduce the funding gap down to the previously agreed use of reserves of £1.2 million.
- 2.10 **Bus strategy** – earlier this year the Transport Committee considered the issues around the effectiveness of expenditure on bus services in supporting mobility and approved revised policy guidelines together with a process of district level bus network reviews. It also approved for consultation revised policy guidelines in respect of home to school services. At the February 2018 budget meeting a 20% savings target was set for all bus service procurement over the period 2018/19 to 2020/21. To date, contract awards and amendments are delivering the necessary savings for 2018/19 and there is an expectation that the targeted savings for 2019/20 will be exceeded by some £500k. This has been possible as a result of retendering some schools services and reshaping of the batch renewals retendered in 2018/19.
- 2.11 **Bus franchising** - discussions regarding bus partnership and alternative models including franchising are continuing. If franchising were to be identified as the preferred way forward then there would be a need to invest in the initial work required to produce an outline business case, including external legal and financial consultancy work. At this stage no costs have been included in the budget to progress this detailed feasibility work although liaison will continue other combined authorities who are progressing this agenda.
- 2.12 **Concessionary travel** – a significant part of the Combined Authority’s budget is spent on the discretionary and statutory elements of the concessionary travel scheme. The costs of the statutory English National Concessionary Travel Scheme for 2018/19 are £46 million and are calculated using a spreadsheet model prescribed by the Department for Transport. This model includes a number of factors, including bus operating costs, so in effect will change each year as inflation affects fuel and salary costs of bus operators. In order to mitigate the potential volatility of these costs arrangements with the major bus operators are in place. 2019/20 is the third and final year of the current arrangement and indications at this stage are that there is a fall in patronage which may result in reviewing the thresholds of the agreement to be applied in 2019/20.

- 2.13 Subsequent years are then forecasting a standstill, when the current agreement with the major bus operators comes to an end. In the absence of any further agreements payments will be made based on actual patronage and the calculated reimbursement rate. The policy position on bus includes a focus on increasing patronage and as such there is a risk that reimbursement costs increase.
- 2.14 A further £9.5 million per annum is spend on discretionary concessions, predominantly for young people and enables them to travel at half fare up to the age of 19. This clearly supports the inclusive growth aims of the Combined Authority and discussions are taking place with bus operators to ensure that maximum benefits are derived from this expenditure.
- 2.15 **Joint work with bus operators** – there are a number of areas of service provision where the Combined Authority works with the bus operators, including the provision of travel information and the sale and administration of MCards. Work has been undertaken to ensure the relative responsibilities of the bus operators and the Combined Authority are understood and that costs are fairly apportioned between them. This has resulted in an increase in income to the Combined Authority in 2019/20 and subsequent years to reflect the current full costs of administering the MCard scheme. There is also a plan to reduce the operating costs of travel centres within the bus stations with the impact of this coming into the budget from 2020/21.
- 2.16 **Enterprise Zones** - the income stream from the Enterprise Zones (EZ) accrues to the LEP and is received by the Combined Authority as accountable body. This is one of the key income streams that has the capacity to grow and is key in establishing a viable budget. The LEP has an Enterprise Zone (EZ) in Leeds at the Aire Valley and a multisite M62 zone, both of which will contribute business rates above the established baseline for a 25 year period from their date of establishment (2013 for Leeds and 2016 for the M62).
- 2.17 The Leeds EZ has been established for some years and is due to pay over £1.2 million in 2018/19. Forecasts used in budget setting in the last three years have shown strong growth in this income but in reality these increases have been slow to materialise. Since establishing the strategy in February the forecast income from this site has fallen from by £1.6 million for 2019/20. Detailed scrutiny of the pipeline of future development is underway to enable a more robust position to be established, building on the already established baseline of £1.2 million due for 2018/19. This is the first year that the full income on the site accrues to the LEP after some initial investment costs have been recovered by Leeds City Council. Significant growth in this income could for example provide a means by which to fund business and skills projects, or further trade and investment activities, and remove some of the dependence on short term government funding.
- 2.18 The M62 EZ consists of nine sites, only two of which are forecast to make any payments this year – Lindley Moor West and South Kirby. Whilst collectively the sites are all due to make multi million pound annual contributions in due course, they require investment and further development before they can

become income generating. Growth Deal funds have been secured as a partial contribution towards these costs and a development plan identifying priority sites for investment is under consideration.

- 2.19 **Capitalisation** - the level of capitalisation ie charging eligible revenue costs to capital schemes was increased for 2018/19, reflecting the growing capital programme in comparison to the revenue expenditure. Work on the size and shape of the future capital programme will assist in identifying whether there is an opportunity to further increase this capitalisation of revenue costs.
- 2.20 **Policy and strategy** – a number of posts in the team have been held vacant in the current budget in order to achieve the saving required. This is being continued into 2019/20 but will clearly limit the capacity of the team to deliver across the full range of policy areas for the Combined Authority and its partners. Additionally there is significant work required to ensure the development of the Local Inclusive Industrial Strategy is underpinned by robust evidence. A compelling strategy will be key to unlocking future funding. Should the proposed LEP merger be agreed by government then the strategy will have to address the revised geography. Government funding is being sought to support this work.
- 2.21 **Rail** – the concerns with the performance of the local rail network is requiring a marked increase in work from the current team to address issues and consider future plans. Coupled with this is uncertainty over the funding from government to support this work via the current administration grant arrangements.
- 2.22 **LEP merger** – the proposed merger between the main constituents of the Leeds City Region LEP and the York, North Yorkshire and East Riding LEP is awaiting approval from government. This will require increased resources to establish agreed ways of working for the new organisation and put in place the right governance and practical arrangements. It is unclear at this stage whether government funding will be available to meet some or all of these costs.
- 2.23 **Trade and Investment** – external funding is being sought to continue the current Key Account Manager posts and if this bid is unsuccessful these costs would need to be met from revenue budgets. There is a clear need to ensure post Brexit that there is sufficient resource to continue to build on the successes of recent engagements with China and India for example.
- 2.24 **Pay award** – the 2018/19 and 2019/20 pay awards have recently been negotiated and the increases are reflected in the attached appendices. It is assumed that future pay awards will be around the 2% average rate settled for this year and next.
- 2.25 **Pay and pension** – the triennial pension valuation will take place in 2020 and will have an impact on ongoing employer contributions. Assumptions on the likely impact of this will need to be agreed.

- 2.26 The pay award has been agreed for both 2018/19 and 2019/20 and these costs have been included in the attached revenue budgets. During the pay negotiations it became apparent that there may be benefit in reviewing the pay structure in place at the Combined Authority. Work on this will be progressed during 2019 with the assumption that any costs arising will be managed within the overall staffing budget.
- 2.27 The draft budget includes as assumption on vacancy savings that will arise as a result of the usual churn of people leaving. The Combined Authority has over recent years been undergoing a review of its staffing structures and now that these revised structures are largely agreed and in place staffing costs can be forecast with greater accuracy.
- 2.28 **Commercialisation** – the Combined Authority owns a portfolio of operational property assets (including bus stations) and some land and property acquired for previous transport schemes. Opportunities are being sought to maximise commercial rents from the portfolio and to identify the longer term scope to realise any redevelopment potential.
- 2.29 **Other income streams** – the Combined Authority has been awarded further funding since February, including from the business rates pool, which has been built into the 2019/20 budget. The cliff edge scenario of short term funding coming to an end for skills programmes in particular continues to cause ongoing challenges in planning the delivery of these key programmes.
- 2.30 **Capital programme** – Work is continuing on finalising the three year capital programme and the funding available. A significant number of new schemes have achieved decision point 2 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. There is an ongoing income stream beyond this date of £30 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.
- 2.31 The detailed programme is being verified by partners delivering the projects and highlights a borrowing requirement from 2019/20 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, 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 meeting.
- 2.32 **Living wage foundation accreditation** – 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. No contingency has been built into the current budget assumptions to enable this accreditation to be pursued.

- 2.33 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 February meeting.

### **3. Inclusive Growth Implications**

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

### **4. Financial Implications**

- 4.1 As set out in the report.

### **5. Legal Implications**

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

### **6. Staffing Implications**

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

### **7. External Consultees**

- 7.1 No external consultations have been undertaken. Information on the budget position will be shared with members of the public via the internet during December and January.

### **8. Recommendations**

- 8.1 That the Combined Authority consider the draft business plan and budget proposals for 2019/20 and provide any further input to them.

### **9. Background Documents**

- 9.1 None.

### **10. Appendices**

Appendix 1 – Draft business plan for 2019/20

Appendix 2 – Draft budget for 2019/20