

**Report to:** West Yorkshire Combined Authority

**Date:** 14 February 2019

**Subject:** **Budget and business plan 2019/20**

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Is this a key decision?	<input checked="" type="checkbox"/> Yes <input 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 consider and approve the proposed revenue budget and transport levy for 2019/20, the indicative capital programme, capital strategy and treasury management statement.
- 1.2 To approve the detailed business plan for 2019/20 that sets out the services, activities and priorities for the organisation in the coming year.

## 2. Information

### Background

- 2.1 West Yorkshire Combined Authority continues to focus on its ambitious plans, seeking to deliver good inclusive growth for the region. Building on its progress in recent years which has seen the organisation reshaped and streamlined in order to best support this aim, the previous year has seen good progress on a number of fronts with successes including:

- Good progress on West Yorkshire plus Transport Fund (WY+TF) schemes, including the regeneration of subways to Wakefield Kirkgate Station, further stages of the A629, consultation on a proposed new station at Elland, rail

station park and ride schemes at Fitzwilliam and Mirfield stations and progress at York Central which will enable the development of up to 2,500 homes.

- Approval to a natural flood management project in the Colne and Calder valleys that will protect 2,071 homes and 1,022 businesses
- improvements through the Better Homes Yorkshire scheme to over 1,320 homes across the City Region to reduce their heating and hot water bills by an average of £300 a year
- Work has started on the creation of the New Bolton Woods urban village near Shipley that will see 145 new homes created and enabling development bringing 1,000 new homes to the area.
- Securing the regional headquarters for Channel 4, bringing opportunities for the independent production sector across the region and generating a £1 billion economic impact over the next decade.
- Further investments in cycling and walking through the CityConnect programme, including the new Scarborough Bridge pedestrian and cycle crossing and canal towpaths in Bradford and Wakefield.
- Introduction of free wifi at bus stations across West Yorkshire
- Supported over 1,000 businesses with free advice and guidance on growing their business
- Engaged with over 500 businesses as part of the Resource Efficiency Fund, to help them deliver carbon savings
- the opening of the Springfield Centre in Dewsbury, providing high quality vocational programmes for students.

2.2 The Combined Authority works alongside the Leeds City Region Enterprise Partnership (LEP) in delivering its aims, with the LEP providing strong and strategic links to business across the region. During 2018/19 government issued its 'Strengthening LEPs' document, setting out further steps to maximise the success of the current LEP arrangements. As a result the Leeds City Region LEP and York, North Yorkshire and East Riding LEP have proposed that their main constituents join together as one LEP from April 2020. If this merger proceeds then the outcome is a strengthened LEP that will build on the success of the current arrangements and increase the LEP's impact in driving economic growth.

2.3 The increased LEP footprint and reach will strengthen the voice of the north in making the case for investment in the region. The current Growth Deal funding – the largest Growth Deal in the country – comes to an end in March 2021 and the size and shape of funding beyond this date is unknown. Short term funding streams supporting skills and business interventions also come to an end during this time period, creating a huge gap in the Combined Authority and LEP's ability to respond in these critical areas. Whilst negotiations continue with government on a devolution deal that would bring significant benefits for the region to build on the successes to date it is still unclear how and when this will be finalised.

2.4 Coupled with this are the challenges on securing the appropriate revenue budget. The Combined Authority is largely funded by a combination of government grants and the transport levy paid by the constituent local authorities – Bradford, Calderdale, Kirklees, Leeds and Wakefield. Local

authorities are facing a difficult funding position as they await the outcome of the fair funding review and the comprehensive spending review in 2021. Meanwhile their funding continues to fall and the demand for their services continues to increase.

- 2.5 In setting its revenue budget the Combined Authority is mindful of these constraints on its partners and is proposing a continuing reduction in the levy contribution paid to it, as well as a short term reprofiling of one of the earmarked reserves. In support of the levy reduction the Combined Authority is also seeking to ensure that it has maximised its opportunities to increase income, reduce expenditure and demonstrate that it is operating as efficiently and effectively as possible. The business plans set out later in this report seek to demonstrate clearly how and where the revenue budget is spent and what services and outcomes are achieved as a result.
- 2.6 The focus for 2019/20 will continue to be on achieving inclusive economic growth, through improving the number of good quality jobs on offer, improving connectivity and increasing opportunities for young people to progress and for businesses to move to and grow within the region. Last year the Combined Authority agreed its three overarching priorities, to which its service provision is aligned – Productivity, inclusive growth and 21<sup>st</sup> century transport. Progress has also been made this year on the Strategic Economic Plan objective of a zero carbon economy. This includes the approval in December 2018 of the regional Energy Strategy and Delivery Plan which commits to reduce carbon emissions in line with the targets set in the Paris Climate Agreement by 2036. It is therefore proposed that a fourth corporate priority of clean growth is introduced.

### **Business plan 2019/20**

- 2.7 Work has been undertaken to produce a detailed business plan for the Combined Authority for 2019/20, maintaining the focus on the three big objectives agreed for the 2018/19 corporate plan: Productivity, inclusive growth and a 21<sup>st</sup> century transport system. As set out in paragraph 2.6 above a number of actions addressing carbon reduction have also been identified, and clean growth is therefore included in the business plan as a fourth priority.
- 2.8 In producing their business plans all directorates have been required to demonstrate how their 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. A clear link through to the four priorities must also be made clear.
- 2.9 **Appendix 1** sets out the proposed business plan for each directorate, demonstrating how they deliver against the organisation's corporate priorities and objectives and, at a summary level, the resources required to do so. Each directorate has also defined a number of key performance indicators that will enable performance to be monitored throughout the year. These indicators build on current levels of achievement to provide an element of stretch, as well

as demonstrating efficiency and value for money. Regular reporting will be undertaken throughout the year.

- 2.10 A public facing corporate plan is being produced for April, drawing on the information in the business plans and presenting this in an accessible way to demonstrate what the Combined Authority and LEP intend to deliver for people in the region in the coming year.

### **Revenue budget 2019/20**

- 2.11 The Combined Authority approved a medium term financial strategy at its meeting in February 2018. This recognised the funding difficulties facing the public sector and acknowledged the need for the Combined Authority to achieve a balanced position whilst reducing the funding from its local authority partners. The strategy included a commitment to reduce the transport levy by £1 million each year and to utilise transport fund reserves to balance the budget for 2018/19 and 2019/20. Over that time period actions would be taken to reduce expenditure, particularly on the provision of bus tendered services such that by 2020/21 the budget would balance without the need to use reserves.
- 2.12 The budget position for 2019/20 has recognised the agreement reached in February 2018 and has been developed through the Combined Authority's Member Budget Working Group, and with input from the Overview and Scrutiny Committee and overview from local authority partner Leaders, Chief Executives and Directors of Finance. This work has enabled the outline budget for 2019/20 to be further developed, taking into account changes that have occurred since the strategy was agreed in February 2018 and agree how to manage new and emerging budget pressures. In reaching the proposed position for 2019/20 and establishing a revised forecast for 2018/19 a number of savings and income targets have been established alongside reductions in expenditure.
- 2.13 The original budget for 2018/19 was approved to use £1.4 million of reserves. Actions taken in the current year have delivered the first tranche of the savings required on bus tendered services whilst minimising impacts on customers. Costs and income have been closely monitored throughout the year and the revised forecast outcome demonstrates that it is expected to be in line with the original approved budget in overall terms. There are some variances within budget lines but the closing position is expected to be a use of reserves of £1.0 million. This is set out in **Appendix 2**.
- 2.14 The proposed revenue budget for 2019/20 is set out in **Appendix 3** and, in line with the agreed strategy, balances income and expenditure to the agreed use of reserves figure of £1.2 million. The following paragraphs consider the key drivers and assumptions for the main budget lines which shape the 2019/20 proposed budget.

- 2.15 **Bus strategy** – The commitment made in the strategy requires a 20% reduction in the cost of bus tendered services over a three year period. This is on top of actions already taken over the last 10 years which have seen the cost of providing bus services reduce by 50% in real terms. These were achieved through both smarter procurement and a continued focus on value for money.
- 2.16 A thorough review of the way in which bus services are provided is underway in order to deliver the required 20% reductions over the three year period of the strategy. In 2018 the Combined Authority’s Transport Committee considered the issues around the effectiveness of expenditure on bus services in supporting mobility and approved revised policy guidelines together with a programme of district level bus network reviews. It also approved for consultation revised policy guidelines in respect of home to school services.
- 2.17 Actions taken in the current year in relation to contract awards and amendments have delivered the first tranche of the savings required on bus tendered services whilst minimising impacts on customers. The opportunity to retender some schools services has provided additional savings which assist in contributing to the further savings targets required by 2020/21.
- 2.18 **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. The year 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. The assumption in the 2019/20 budget is £46 million with a small reduction forecast for 2020/21. In the absence of any further agreements payments will be made based on actual patronage and the calculated reimbursement rate.
- 2.19 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 nineteen. 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. A further £650k is spent on discretionary concessions for seniors on rail and work will be undertaken in the coming year to ensure how this is best aligned with policy outcomes.
- 2.20 **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, which is a great value smartcard that makes travelling on buses and

trains a lot simpler. 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.

- 2.21 **Transport Services** – as well as the position set out above with regard to bus tendered services and concessionary travel other areas of spend have been examined within the transport services directorate. Costs have already been reduced over recent years 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 already 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. There is also a plan to reduce the operating costs of travel centres within the bus stations with the full impact of this coming into the budget from 2020/21.
- 2.22 **Enterprise Zones** - the LEP has established two Enterprise Zones (EZ), one in Leeds and a multi site one that consists of eight sites along the M62. The business rates earned from these sites accrues to the LEP and is received by the Combined Authority as the accountable body. This continues over the 25 year period since they were established (2013 for Leeds and 2016 for the M62) and is one of the key income streams that has the capacity to grow and assist in establishing a viable revenue budget in future years.
- 2.23 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 2018 the forecast income from this site has fallen 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.
- 2.24 The M62 EZ consists of eight sites, only two of which are forecast to make any payments this financial year – Lindley Moor West and South Kirkby. Collectively the sites require significant 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 plan identifying priority sites for investment is under development.
- 2.25 **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. Due to the size and shape of the future capital programme a further increase has been made for 2019/20.

- 2.26 **Policy, Strategy and Communications**– a number of posts in the team have been held vacant in the 2018/19 budget in order to manage costs. 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 district council partners. Additionally there is significant work required to ensure the development of the Local Inclusive Industrial Strategy (LIIS), is underpinned by robust evidence. A compelling strategy will be key to unlocking future funding for the region. Some Government funding has been secured to support this significant piece of work but it is likely that further resources will be required and some allowance has been made in the 2019/20 budget to ensure this work is prioritised. Should the proposed LEP merger proceed then the work required to produce the LIIS will increase.
- 2.27 **LEP merger** – the proposed merger between the main constituents of the Leeds City Region LEP and the York, North Yorkshire and East Riding LEP will be considered by the two LEP Boards at their March meeting. Government funding of £200k has been secured by each LEP to support the work required, should approval be given to proceed, to establish new ways of working for the new merged organisation and put in place the right governance and practical arrangements.
- 2.28 **Rail** – the concerns with the performance of the local rail network is requiring a marked increase in work from the current rail team to address issues and consider future plans. A short term increase in the team is planned for 2019/20 to assist with this work. Current work on supporting the rail franchise is funded from government via the rail administration grant arrangements which are under review and may result in a loss of income in future years. The Combined Authority is pressing for retention of this funding.
- 2.29 **Trade and Investment** – external funding is being sought to continue the Key Account Manager posts currently provided through external funding 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 and that the team is able to respond on behalf of the region to opportunities.
- 2.30 **Pay and pension** – the triennial pension valuation will be undertaken during 2019 and will have an impact on ongoing employer contributions from 2020/21. At this stage it has been assumed that contributions will remain unchanged.
- 2.31 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.

- 2.32 The proposed budget includes a savings target of £1.05 million against staffing costs. This is based on savings against budget that will arise as a result of the timing gap between employees leaving and their replacements starting work, as well as the savings secured by purposefully not filling the full establishment of the policy and strategy teams. 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.
- 2.33 **Commercialisation** – the Combined Authority owns a portfolio of operational property asset, largely the bus stations in West Yorkshire and some land and property acquired for previous transport schemes. An asset management strategy is in development. In parallel with this opportunities are being sought to maximise commercial rents from the portfolio and to identify the longer term scope to realise any redevelopment potential. The proposed revenue budget includes increased targets for tenant income at the main premises, as well as income from toilet charging which has been introduced at the larger bus stations.
- 2.34 **Other income streams** – the Combined Authority continues to seek and be awarded further funding, much of which is short term and only confirmed on an annual basis. All of this confirmed funding has been built into the 2019/20 budget. At this point the continuation of this funding beyond 2019/20 is unclear and gives rise to a budget gap of up to £3 million should the Combined Authority and LEP wish to continue providing the services funded in this way. This ‘cliff edge’ scenario of short term funding coming to an end for business support programmes in particular continues to cause ongoing challenges in planning the delivery of these key programmes.
- 2.35 **Borrowing costs** – An indicative three year capital programme and statement of available funding have been prepared and are considered in more detail later in this paper. 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 capital programme. Much of the current Growth Deal funding which makes up the largest element of the capital funding available concludes in March 2021. There is an ongoing income stream beyond this date of £40 million per annum for the West Yorkshire plus York Transport Fund (WY+TF), to be supplemented by borrowing in accordance with the original City Deal agreed in 2012, 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. The call for projects undertaken in 2018 sought to ensure priority projects identified since the original Growth Deal schemes were identified could be included in the programme and recognised that borrowing may be required to manage any over programming arising.

- 2.36 The detailed WY+TF programme is verified by local authority partners delivering the individual projects and highlights a borrowing requirement from 2019/20 onwards. The estimated revenue costs of supporting this borrowing, which is predominantly for the WY+TF, are reflected in the final proposed budget in today's report, and are 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. The Transport Fund reserve currently has sufficient funds to meet these initial borrowing costs and it is therefore proposed that a rebate back to local authority partners of £2 million is made for each of the next two years. Ongoing review of the capital programme and borrowing requirements will continue and the scale of contributions to the reserve will be reconsidered each year as part of the annual budget discussions.
- 2.37 **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 in 2019/20 to establish the potential financial costs of doing this, alongside the wider inclusive growth benefits of doing so. This will be undertaken using existing resources.

### **Reserves policy**

- 2.38 Any budget proposals should be supported by an appropriate reserves policy. Good practice is that such a policy should be based on a risk assessment of the different areas of spend and income and as such will vary from year to year and from organisation to organisation. The workings for this year's reserves policy are set out in **Table 1** below and are based on the approach taken in previous years with an updated assessment of the relative risks.

<b>Table 1 - Reserves Policy</b>	<b>Budget 2019-20 £m</b>	<b>Reserves 2019-20 £m</b>
<b>Risk on Concessions</b>	56.42	
3% contingency for volatility of payments: no agreements in place with operators as paying on SMART data		1.69
<b>Risk on Subsidised Bus services</b>	16.77	
3% contingency due to inflation higher than budget		0.50
50% Risk of not reducing budget/unintended reactions from operators		0.70
<b>Risk on other areas of spend</b>		
Passenger & Bus Station Services (net)	6.95	
Trade and Inward Investment	0.95	
Policy, Strategy and Communications	5.59	
Financing (net)	5.47	
Resources	<u>5.71</u>	
	24.67	
Risk of inflation increases/capacity demands etc at 3%		0.74
<b>Risk on income</b>		
Risk that income falls short of expectations (eg Enterprise Zone receipts)		0.50
<b>Total reserves required</b>		<u>4.14</u>

- 2.39 The closing general reserves position for 2018/19 is currently forecast to be £4.2m, although it is intended to seek to increase this level further through in year savings/ efficiencies in the remaining months. For 2019/20 the budgeted assumption is that £1.2m of reserves are required reducing the general reserve to £2.1m – which would be below the level assumed in the reserve policy workings (**Table 1** above). In line with the decision made in February 2018 regarding the medium term financial strategy to protect the general reserves at the required level, it is proposed that a transfer is made from the WY+TF reserve in the short term to maintain the general reserves at the minimum level. The general reserves policy will be kept under review to ensure it is kept at an optimum level to best meet the needs of both the Combined Authority and the West Yorkshire local authorities.
- 2.40 The WY+TF reserve was established to enable effective management of the borrowing costs of the WY+TF and to avoid the need for sudden increases in funding. The spend profile of the projects has shifted since the contributions were agreed, enabling some flexibility in the short term to support the general reserves as set out whilst noting that there is still a considerable commitment to meet borrowing costs in coming years as part of the City Deal agreement. **Table 2** below provides a summary of the reserve position.

**Reserves - Table 2**

	Balance as at 31/3/19 £	2019/20 Additions £	2019/20 Rebate £	2019/20 Applied £	Balance as at 31/3/20 £	2020/21 Additions £	2020/21 Rebate £	2020/21 Applied £	Balance as at 31/3/21 £
General Reserves	(4,217,277)				(4,217,277)				(4,217,277)
WY+ TF	(30,627,026)	(6,176,598)	2,166,000	1,198,646	(33,438,978)	(6,176,598)	2,166,000	0	(37,449,576)
<b>Total</b>	<b>(34,844,303)</b>	<b>(6,176,598)</b>	<b>2,166,000</b>	<b>1,198,646</b>	<b>(37,656,255)</b>	<b>(6,176,598)</b>	<b>2,166,000</b>	<b>0</b>	<b>(41,666,853)</b>

**Notes**

1. The rebates in 2019/20 and 2020/21 from the WY + TF are the agreed amounts for the WY districts (£2m) and York (£0.166m).

2. The 'Applied' against WY+TF Reserves in 2019/20 & 2020/21 is the proposed Revenue budget deficit for each year (subject to CA approval in Feb 2019).

**Transport levy**

- 2.41 The Combined Authority is required to set the transport levy annually and in accordance with the regulations meaning that the levy must be set by 15 February in the year preceding that to which the levy applies.
- 2.42 Adjustments have been made to the levy for a number of years to enable an equitable distribution of funding that has been paid to local authorities when formerly it was paid directly to the Combined Authority (and the former West Yorkshire Integrated Transport Authority). This includes for example concessionary fares funding that was paid to the partner authorities on a different formula basis than population. These adjustments were agreed with them and ensure that they each 'passported' through to the Combined Authority any relevant direct funding received. The mechanism involves setting a gross levy and providing a rebate to each local authority in the year to compensate for any over-recovery. In order to ensure consistency in respective levy payments these agreements have been presumed to continue for 2019/20.
- 2.43 **Table 3** below sets out the net and gross levy by population, in accordance with the regulations, showing the effect of the decrease of £1m and the change in the population base which this year is relatively insignificant.

	Relevant Population June'17 for 2019/20	Net 2018/19 £000	Gross 2019/20 £000	% of levy By District %	Refund 2019/20 £000	Net 2019/20 £000	Rebate (£2m) 2019/20 £
Bradford	534,800	23,448,690	24,108,520	23.18%	928,249	23,180,271	468,759
Calderdale	209,454	8,980,742	9,442,083	9.08%	582,523	8,859,560	179,161
Kirklees	437,145	18,407,122	19,706,281	18.95%	1,528,687	18,177,594	367,593
Leeds	784,846	33,755,755	35,380,471	34.02%	1,946,435	33,434,036	676,114
Wakefield	340,790	15,308,279	15,362,645	14.77%	113,517	15,249,127	308,373
	<b>2,307,035</b>	<b>99,900,587</b>	<b>104,000,000</b>	<b>100.00%</b>	<b>5,099,411</b>	<b>98,900,588</b>	<b>2,000,000</b>

- 2.44 Also included in **Table 3** is the proposed part rebate of previously received contributions towards the Transport Fund reserve. The proposal is to rebate £2 million for the next two financial years whilst the requirement for borrowing against the capital programme is building up.

- 2.45 In accordance with the regulations District Councils will be notified of the transport levy by mid-February and will make payments to the WYCA in ten monthly instalments from 1 April 2018.

### **Capital strategy**

- 2.46 One of the outcomes of the recent review by the Chartered Institute of Public Finance and Accountancy (CIPFA) of the Treasury Management Code of Practice and the Prudential Code requires authorities to have in place a capital strategy. This should set out the long term context in which capital expenditure and investment decisions are made, giving due regard to both risk and reward and impact on the achievement of priority outcomes. This capital strategy should form a part of an authority's integrated revenue, capital and balance sheet planning.
- 2.47 An initial strategy is in development and it is proposed this is considered in more detail by the Governance and Audit Committee and brought to a future meeting of the Combined Authority for approval. The following section on the capital programme considers the capital plans in more detail.

### **Capital programme**

- 2.48 The following paragraphs set out the capital funding available to the Combined Authority for 2019/20 and subsequent years and the indicative capital programme for which this funding will be used. It reflects the impact of the way in which the Department for Transport (DfT) provides capital funding, most notably the devolution of the major scheme funding and the topslice of Local Transport Plan Integrated Transport (LTP) block funding to the WY+TF element of the regional Growth Deals. It also sets out information regarding Growth Deal funding for the region awarded to the LEP, for which the Combined Authority is the accountable body. Whilst this provides significant sums for investment in interventions there are also requirements to ensure grant conditions are met, including an unwritten requirement to spend in year and this necessitates a review of funding and expenditure to ensure the most effective and efficient use of resources to ensure delivery of key priorities alongside maximising the funding available.
- 2.49 In previous years, following discussions with the Investment Committee, and considering the flexibility granted from Government, the Combined Authority endorsed the approach whereby at the year end the available funding was applied to appropriate capital schemes in a way to maximise the use of time limited funding and reduce the risk of funding being clawed back or reduced in future years. This enabled certain funding streams to be carried forward to this and subsequent years in order to optimise the delivery of the portfolio of approved projects. It is proposed that a similar approach is taken for 2018/19 and that this be kept under review as part of the year end closedown work.
- 2.50 **Table 4** below sets out the capital expenditure and funding estimates for the period 2018/19 to 2021/22.

**Summary Capital Programme**

**Table 4**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
<b>Expenditure per programme</b>				
Local Transport Plan	9,335	20,000	19,093	13,104
Highways Maintenance Plan	34,630	32,320	31,550	31,550
Major scheme Expenditure	1,905	6,971	712	119
Non LTP Funding (transport)	20,412	76,005	81,725	17,614
Growth Deal (WY+ TF)	84,878	121,603	159,275	200,696
Other economic growth funding	12,124	6,386	3,172	4,072
<b>Total Expenditure</b>	<b>163,284</b>	<b>263,285</b>	<b>295,527</b>	<b>267,155</b>
<b>Financing</b>				
LTP Grant	13,104	13,104	13,104	13,104
LTP Grant carry forward	9,116	12,885	5,989	
Highways Maintenance Plan	31,550	31,550	31,550	31,550
Non LTP Funding (Excluding Majors)	2,810	63,773	81,725	17,775
Growth Deal, Economy & WY+ TF	74,349	73,510	100,340	40,000
Other economic growth funding	11,458	6,826	3,024	1,306
Carry forward	107,494	75,933	18,873	18,725
Borrowing requirement	2,221	10,566	59,647	160,815
<b>Total Funding Available</b>	<b>252,102</b>	<b>288,147</b>	<b>314,252</b>	<b>283,275</b>

- 2.51 The most recent LTP settlement letter issued by the DfT (Roads Funding – Moving Britain Ahead in November 2018) confirmed the figures for 2018/19 and provided indicative allocations for 2019/20 with regards to the Integrated Transport Block and the Highways Maintenance Block (needs element). Though not yet confirmed, the 2019/20 budget includes best estimates for the Pothole Action Fund and Highways Maintenance Block (incentive element). The Combined Authority is determined by DfT to be the accountable body in West Yorkshire and funding will be allocated and paid to it.
- 2.52 The Highways Maintenance allocations and Pothole Action Fund are made in full to District Councils with the funding received by the Combined Authority paid over to the Districts via quarterly payments, as determined by the DfT’s formulaic allocation. Given this money is effectively simply passported through to the local authorities it is not required to be progressed through the assurance framework and it is proposed that approval is given via this report for the expenditure to be incurred via the usual quarterly payments. The values (though some indicative) are set out in **Table 5** It is proposed that the Director, Resources as s73 Officer, be authorised to approve revised payments should final confirmed sums by DfT differ from those indicative ones set out below.

**Table 5**

	Pothole Action Fund		Highways Maintenance Needs Based	Highways Maintenance Incentive	Integrated Transport Block
	2018/19 £m Confirmed	2019/20 £m Indicative	2019/20 £m Confirmed	2019/20 £m Indicative	2019/20 £m Confirmed
West Yorkshire	1.594	1.594	23.507	4.935	13.104
Bradford	0.305	0.305	4.971	1.043	-
Calderdale	0.198	0.198	3.171	0.666	-
Kirklees	0.323	0.323	4.921	1.033	-
Leeds	0.508	0.508	7.001	1.470	-
Wakefield	0.260	0.260	3.441	0.723	-

- 2.53 The capital programme includes the approved allocations for the 'Call for Projects' that were given indicative approval in February 2018 and were assessed as deliverable by 2021. Delivery in full of these projects would exceed the current funding available and the funding table therefore recognises a borrowing requirement in future years to fund the full programme.
- 2.54 Ongoing financial monitoring and planning will enable updates to be provided on the affordability of the programme and the appetite to support the required level of borrowing which is envisaged to be required. In accordance with the City Deal funding for schemes is partly through government grant but is also required to be supported through local contributions, which has previously been agreed as a levy supporting borrowing costs. The mismatch between the funding and expenditure will therefore be addressed through borrowing, and indicative figures are set out in **Table 4**. The release of funding through the Growth Deal to support the WY+TF from 2020/21 onwards is dependent on the outcome of regular independent reviews. These are expected to initially focus on expenditure against forecast with later reviews considering whether the stated aims and objectives have been achieved.
- 2.55 The release of funding to progress projects is subject to the Combined Authority's assurance process. The assurance process is updated annually to reflect latest government guidance and any changes within the LEP and Combined Authority. The Investment Committee will continue to be a key part of the process whereby Growth Deal and other projects are considered and recommended for progression from initial idea through to delivery / construction. Additionally, in December 2018 the Combined Authority agreed certain approval powers for the Investment Committee (subject to annual review). It is also proposed that the arrangement in place for 2018/19 whereby Transport Committee approve Integrated Block funded projects up to a value of £3m is continued for 2019/20, with reporting to the Combined Authority of such decisions, as with the Investment Committee.

### **Treasury management**

- 2.56 The treasury management function is undertaken in conjunction with Leeds City Council under the terms of a service level agreement. The Combined Authority is required to prepare an annual prudential statement, setting out treasury activity in the year, the arrangements in place and details of the funding position. This is set out in full in **Appendix 4**.

### **Summary**

- 2.57 Members are asked to consider the proposed budget and business plan for 2019/20 and accompanying recommendations.

## **3. Inclusive Growth Implications**

- 3.1 Inclusive growth is one of the Combined Authority's corporate priorities. As such many of the activities funded by the proposed budget will support the

inclusive growth agenda. This is set out in more detail in the business plans included at **Appendix 1**.

#### **4. Financial Implications**

4.1 As this is a budget report all financial implications are set out throughout the main body of the report.

#### **5. Legal Implications**

5.1 The Combined Authority is required by the levying regulations to set the transport levy for 2019/20 by 15 February 2019.

5.2 It has not been possible to provide the statutory 28 days' notice of the key decisions being considered due to an administrative oversight. However, in accordance with the Combined Authority's Access to Information Annex to the Procedure Standing Orders part 1 section 7C – General Exception, the Chair of the Overview and Scrutiny Committee has been notified, notification has been published on the Authority's website and 5 clear days has elapsed following the day of publication of the notice. Accordingly, as set out in the General Exception, the Combined Authority may still make the decisions.

#### **6. Staffing Implications**

6.1 The budget includes the costs and funding for current approved establishment and the associated employer on-costs.

#### **7. External Consultees**

7.1 No external consultations have been undertaken. Information on the budget position has been shared with members of the public via the internet.

#### **8. Recommendations**

8.1 That approval be given to the Combined Authority revised budget / forecast for 2018/19 and the proposed budget for 2019/20.

8.2 That approval be given to the indicative capital programme for 2018/19 – 2021/22.

8.3 That approval be given to the 2019/20 business plan.

8.4 That the Transport Committee be delegated to approve individual schemes within the integrated transport block of the 2019/20 capital programme up to a maximum cost of £3m.

8.5 That in accordance with the powers contained in the Local Government Finance Act 1988 (as amended) and by virtue of article 9(6) of the West Yorkshire Combined Authority Order and the Transport Levying Bodies

Regulations 2015 (as amended) a levy of £104m be determined for the year ended 31 March 2020.

- 8.6 That the Director, Resources be authorised to issue the levy letter in respect of the financial year ending 31 March 2020 to the five District Councils in West Yorkshire.
- 8.7 That a payment of £5.09 million and of £2 million be made to the District Councils in accordance with Table 3 of the report.
- 8.8 That authorisation be given to the Director, Resources to arrange appropriate funding for all expenditure in 2018/19 and 2019/20 subject to statutory limitation, including the most appropriate application of capital funding as set out in the report.
- 8.9 That approval be made to the expenditure of highways maintenance funding of £28.442 million and the pothole action fund of £1.594 million, to be paid quarterly to the West Yorkshire local authorities in accordance with the DfT formula, and for Director, Resources to vary these amounts should DfT revise the payments from those provisionally indicated.
- 8.10 That approval be given to the continuing of the policy, effective from 2017/18, for recovering the Combined Authority costs of managing the capital programme against the capital programme spend being mainly Growth Deal, Leeds Public Transport Investment Programme and Local Transport Plan Integrated Transport. For 2019/20 the estimated total value is £7.8 million (2% - 3%).
- 8.11 That the adoption of the CIPFA Code of Practice for Treasury Management in Public Services be reaffirmed.
- 8.12 That the treasury management policy as set out in **Appendix 4** be approved.
- 8.13 That the prudential limits for the next three years as set out in **Appendix 4** be adopted.

## **9. Background Documents**

- 9.1 None.

## **10. Appendices**

Appendix 1 – 2019/20 business plan

Appendix 2 – 2018/19 revised forecast revenue budget

Appendix 3 – 2019/20 proposed revenue budget

Appendix 4 – Treasury management statement