
Report to: Overview and Scrutiny Committee

Date: 13 September 2019

Subject: **Budget, Funding and Business planning 2020/21**

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1. Purpose of this report

- 1.1 To update the Committee on the budget, funding and business planning for 2020/21, particularly with regard to the ideas and priorities in development for the 2020/21 budget and the financial planning work that will influence the medium term financial strategy, to include the gateway review, capital strategy, interim funding plans and emerging thinking about future revenue funding (eg enterprise zones).

2. Information

Budget and business planning process

- 2.1 The budget and business planning process for the 2020-21 financial year has now commenced with each Directorate currently in the early stages of compiling their key business priorities and outline budget requirements. This initial development work is being undertaken within the context of continued financial constraints, with the overall aim of achieving a balanced revenue budget from 2020/21 onwards and completing the capital programme with prescribed timescales and funding approvals.
- 1.1. As the Overview and Scrutiny Committee will be aware, the current 2019-20 Corporate Plan for the Combined Authority is built around four overarching strategic priorities of:
- Boosting productivity;
 - Delivering 21st Century transport;
 - Enabling inclusive growth; and
 - Supporting clean growth.

- 1.2. These four priorities will continue to form the basis of next year's business plans and each Directorate has been tasked with clearly demonstrating how their own detailed business activities in 2020-21 will support these strategic aims.
- 1.3. In addition there are also a number of wider themes which are likely to have cross cutting implications on the content of business plans and budgets in 2020-21. These include both internal facing issues and external influences such as:
- Implications of Brexit;
 - Transforming Cities Fund;
 - 'Strengthening LEPs' agenda (LEP review & merger);
 - Local Industrial Strategy;
 - Public Transport Transformation programme & potential bus operator sales; and
 - High Speed Rail.
- 1.4. In terms of the timetable for the 2020-21 business and budget planning process, the proposed stages of activity leading up to the commencement of the next financial year are highlighted in the table below:

Date	Activity
Sep-Oct 2019	<ul style="list-style-type: none"> • Detailed directorate planning • Initial internal review and challenge
Nov 2019	<ul style="list-style-type: none"> • Detailed review and challenge • Public engagement
Dec 2019	<ul style="list-style-type: none"> • Draft budget/business plans to Combined Authority • Public engagement
Jan 2020	<ul style="list-style-type: none"> • Refining proposals to take account of feedback
Feb 2020	<ul style="list-style-type: none"> • Draft final budget and business plans to Combined Authority
Mar 2020	<ul style="list-style-type: none"> • Corporate Plan and LEP Delivery Plan development

- 1.5. With regard to the format of business plans, each Directorate is developing a detailed business plan document to include:
- Team by team business priorities;
 - Details of how directorate priorities link back to the four corporate priorities;
 - Summary of how staff resources will be mapped against priority areas of work; and
 - The performance measures which will be used to monitor success against achieving priorities.

- 1.6. One of the key learning points from the 2019-20 business planning process related to the challenges in quickly identifying key themes and cross cutting messages, within the detailed business plans. In order to address this issue, this year each Directorate will also be required to develop a 'business plan on a page'. The purpose of this will be to succinctly communicate the key business plan headlines for each area in an accessible user friendly format.

Revenue budget planning

- 1.7. The Combined Authority approved the 2019/20 budget at its meeting in February 2019. The revenue budget was set in the context of the previously agreed three year financial strategy 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 provide a balanced position by 2020/21 and subsequent years. The challenges of achieving this were set out in the report and a number of supporting actions were agreed.
- 1.8. The need to achieve and demonstrate efficiency and effectiveness and demonstrate value for money from the organisation's activities is core to the approach being taken. A number of savings and reductions were built into the agreed 2019/20 budget and the budget setting process for 2020/21 will again seek to demonstrate how expenditure delivers against the objectives and priorities of the Combined Authority and its partners. This information will be provided to members and partners for their scrutiny and input at different stages of the process, in line with the approach taken last year. It is proposed that the budget working group will continue to meet to consider these matters in more detail with regular reports being provided to the Combined Authority.
- 1.9. The final budget for 2020/21 will need to be approved at the Combined Authority meeting of 6 February 2020 to enable the transport levy to be set in accordance with legislative requirements. It is intended to undertake public engagement and consultation specifically as part of its budget setting process.
- 1.10. The agreed three year strategy to 2020/21 is intended to take the Combined Authority to a point where further use of reserves to balance the budget is not required, recognising that some significant savings and reductions built into the budget must be achieved to deliver this.
- 1.11. At the time of approving the budget in February the gap to close in 2020/21 was £2.952 million. Draft projections to 2021/22 increase this gap to £4.2 million, with this further increasing to £8.1 million in 2022/23. **Table 1** overleaf summarises the position. One of the significant factors affecting this position is the 'cliff edge' funding ie the loss of short term funding streams predominantly to deliver skills and business initiatives that end over the coming years. The budget is presented on a prudent basis; as this funding ends the interventions it funds also come to an end, which would mean the loss of some critical work programmes. Adding these costs back in, to ensure this work continues, takes the budget gap to the totals shown in the table.

Table 1
West Yorkshire Combined Authority -Draft Medium Term Financial Strategy

Expenditure	2019/20 Total £m	2020/21 Total £m	2021/22 Total £m	2022/23 Total £m
Salary & Pay Related Costs	23.575	24.194	24.698	25.192
Indirect Employee Related Costs	0.389	0.378	0.368	0.368
Premises Related Costs	6.238	5.982	5.950	5.950
Travel, Transport & Subsistence Related Costs	0.112	0.094	0.089	0.089
Member Related Costs	0.221	0.221	0.221	0.221
Office Supplies & Services	0.511	0.542	0.512	0.512
ICT & Telephony Costs	2.614	2.458	2.350	2.350
Professional & Consultancy Fees	2.814	1.951	1.832	1.832
Marketing & PR Costs	2.078	1.136	1.140	1.140
Insurance	0.305	0.305	0.305	0.305
Operator Payments (Transport)	25.601	24.655	24.656	24.656
Concessions	56.447	55.778	55.778	55.778
Additional Pension Costs	2.302	2.282	2.266	2.266
Financing Charges	5.465	5.570	5.570	5.570
Grants	2.654	1.863	1.677	1.677
Third Party Delivery / Miscellaneous Costs	4.164	3.382	2.074	2.074
Contribution to External / Related Parties	0.325	0.324	0.333	0.333
Staff Vacancy Savings Target	(1.047)	(1.050)	(1.048)	(1.069)
Total gross revenue expenditure	134.766	130.063	128.770	129.243
Direct cost contribution				
Govt grants and awards	(10.696)	(7.782)	(6.462)	(6.462)
Bus services operator grant	(2.064)	(2.064)	(2.064)	(2.064)
Education Contribution to Transport	(6.768)	(6.768)	(6.768)	(6.768)
Bus Station - Tenant Income	(1.583)	(1.575)	(1.575)	(1.575)
Bus Station / Services Income (PPT, Depart Chgs)	(2.849)	(2.882)	(2.905)	(2.905)
Admin Recovery (Staff Secondments)	(2.406)	(2.384)	(2.391)	(2.391)
Capital recovery	(7.795)	(8.037)	(8.178)	(8.342)
Other third party income	(1.839)	(1.673)	(1.704)	(1.704)
Net revenue requirement	98.767	96.900	96.724	97.033
Funding available				
Rail Income	(0.878)	(0.439)		
LEP General Funding Income	(1.234)	(1.234)	(1.234)	(1.234)
Growing Places Fund Interest	(0.300)	(0.200)	(0.200)	(0.200)
Enterprise Zone Receipts	(1.958)	(2.126)	(2.162)	(2.162)
Transport Levy	(93.198)	(92.198)	(92.198)	(92.198)
Net Expenditure Total/budget shortfall	1.199	0.703	0.930	1.239
Further 'cliff edge' funding gap	0.626	2.249	3.230	6.830
Revised budget shortfall	1.825	2.952	4.159	8.069

- 1.12. The next phases of work, to be overseen by the budget working group, will consider the actions already taken, the assumptions underpinning the budget/MTFS and the options available to increase income, reduce expenditure and seek to balance the budget. The following paragraphs set out the key challenges, issues and changes that need to be considered in setting the 2020/21 budget and establishing a viable MTFS beyond that date. The actions required and impact on the business plan and financial strategy of the climate change emergency declaration will also need to be considered. The Committee is asked to put forward any other further matters to be considered.
- 1.13. **Bus strategy** – the Transport Committee has 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. The 20% savings target set for all bus service procurement over the period 2018/19 to 2020/21 has been achieved to date but there are further challenges to deliver the full savings by 2020/21.
- 1.14. The recent announcements by First Group and Deutsche Bahn that are likely to result in the sale of their UK bus companies are likely to have some significant impacts on the local bus market and service provision and will be closely monitored.
- 1.15. **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 2019/20 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. The assumption in the 2019/20 budget is £46 million with a small reduction forecast for 2020/21 and beyond. In the absence of any further agreements payments will be made based on actual patronage and the calculated reimbursement rate.
- 1.16. 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 is now being undertaken to ensure how this is best aligned with policy outcomes.
- 1.17. **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 a budgeted increase in income to the Combined Authority in 2019/20 and subsequent years to reflect the current full costs of administering the MCard scheme.

- 1.18. **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. A number of savings have already been included in the 2019/20 budget with some of the plans, such as those relating to travel centre operations, delivering the full impact of savings in 2020/21.
- 1.19. **Rail** – 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. The impact of the findings from the national rail reviews will also need to be considered, along with any changes to the franchising model that may emerge.
- 1.20. **Trade and Investment** – external funding is continually being sought to continue the Key Account Manager posts currently provided through external funding – this is dependent on annual bidding rounds and should these be unsuccessful the 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 and that the team is able to respond on behalf of the region to opportunities. Again short term funding has been secured for this but its continuation is dependent on the success of further bidding.
- 1.21. **Other income streams / projects** - 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 and future years where confirmed. At this point the continuation of this funding beyond the current contracts is unclear and gives rise to an immediate 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. Many of these programmes also include European funding and there is still no clarity over the shape and size of the Shared Prosperity Fund that is expected to replace these funds.
- 1.22. **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 employer contributions will remain unchanged.
- 1.23. The pay award has been agreed for 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.

- 1.24. The agreed budget includes a savings target of £1.05 million per annum 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.
- 1.25. **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 is being undertaken to establish the potential financial costs of doing this, alongside the wider inclusive growth benefits of doing so.
- 1.26. **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. The agreed revenue budget for 2019/20 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
- 1.27. **Enterprise Zones** – the income stream from the Enterprise Zones (EZ) that accrues to the LEP and is received by the Combined Authority is one of the key income streams that has the capacity to grow. At present there is income from the business rates on some of the EZ sites in Leeds, Wakefield and Kirklees but with potential for significantly more, with business cases having been considered by Investment Committee for some of the locations. Actions to increase this income are underway, including a capital programme to remediate some of the sites to enable new business to invest and prudent forecasts will be built into the financial strategy. However it should be noted that the Growth Deal funding available to develop these sites is time-limited and must be spent by 2021 and it is unlikely that all sites can be developed in this timeframe.
- 1.28. **Capitalisation** – the level of capitalisation, ie charging eligible revenue costs to capital schemes, was estimated at £2 million from 2019/20, 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.
- 1.29. **Borrowing costs** – please see further information in the capital section below.

Capital budget planning

- 1.30. The Combined Authority and LEP have been successful in securing significant levels of capital funding and the programmes and projects funded by these awards are subject to approval through the assurance process. The table below sets out the capital programme established as part of the budget setting process in February 2019.

Expenditure per programme	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
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
Total Expenditure	163,284	263,285	295,527	267,155
Financing				
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
Total Funding Available	252,102	288,147	314,252	283,275

- 1.31. A significant number of new schemes have achieved decision point two 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 and there is yet no clarity on funding that may be available to replace it. 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 significant borrowing or other yet to be identified funding streams. The continuation of the WY+TF funding is subject to the government's gateway review process at regular intervals, the first of which is due to report later in 2019. The Combined Authority has submitted a bid for the region for the Transforming Cities fund and should this be successful then this will be a further significant funding stream to add to the above table.
- 1.32. It is intended to utilise the Transport Fund reserve to support borrowing 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. Ongoing review of the capital programme and related borrowing requirements will continue and the

scale of contributions to the reserve will be reconsidered each year as part of the annual budget discussions.

3. Financial Implications

3.1 As set out in the report.

4. Legal Implications

4.1 None arising directly from this report.

5. Staffing Implications

5.1 Budget proposals will include information on staffing levels and the impact on these of any decisions presented.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Overview and Scrutiny Committee notes the work underway on budget and business planning and the medium term financial strategy and provide any comments.

7.2 That the Overview and Scrutiny Committee considers any further work to be undertaken as part of the work on budget and business planning, or any further matters to be considered.

8. Background Documents

None.

9. Appendices

None.