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**Report to:** Leeds City Region Enterprise Partnership Board (LEP Board)

**Date:** 16 January 2020

**Subject:** **LEP and Combined Authority Business Planning and Budget 2020/21**

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## 1. Purpose of this report

- 1.1 To advise the LEP Board of the work underway to progress business and budget planning for 2020/21.

## 2. Information

- 2.1 The business planning and budget setting process for 2020/21 has been progressing well over recent months and has been set in the context of the previously agreed three year 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 produce a balanced position by 2020/21 and subsequent years.
- 2.2 The budget is accompanied by business plans for each directorate that clearly set out their planned activities and how these activities map out against the four Combined Authority and LEP objectives of boosting productivity, enabling inclusive growth, supporting clean growth and delivering 21<sup>st</sup> century transport. These four are used to guide and direct the allocation of budget resources. Each plan is being summarised as a plan on a page and the latest drafts of these are set out in **Appendix 1**. These will be the foundation for the corporate plan for 2020/21 and the separate LEP Delivery plan, both of which will be in place by 1 April 2020.
- 2.3 Work to deliver a balanced budget has progressed under scrutiny and engagement with appropriate committees, partners, including Directors of Finance and public engagement is currently underway using the yourvoice portal. This work is being overseen by the Budget Working Group, which includes amongst its members the LEP Chair. The need to both achieve and demonstrate efficiency, effectiveness and value for money remains core to the approach being taken.

- 2.4 The detailed business plans produced by each directorate reflect a focus on both continuing to deliver services as effectively as possible whilst also identifying those areas where additional work is required to ensure continuing improvement, transformation of services and full achievement of the corporate priorities. With limited opportunities to generate income and the ongoing squeeze on public sector finance it is clearly not possible to set a budget that enables delivery of all elements of the business plan.
- 2.5 The draft baseline revenue budget is attached at **Appendix 2** and at this point shows a balanced position for 2020/21. It assumes the transport levy is cut by a further £1 million (the third in a series of three-year cuts) as previously agreed. It also acknowledges the difficulty of setting a budget in the current context when devolution negotiations are not yet concluded, the new government and its policies are unknown, and the spending review is still to happen later in the year. Recent budget discussions have shown little opportunity or appetite to add to current spending in this situation and that the focus should be on maintaining existing front-line services.
- 2.6 In putting together budget submissions directorates within the Combined Authority are tasked with minimising costs and maximising income. Senior manager challenge sessions are used to scrutinise the funding requirements put forward, with this information then informing discussions with Members on options to present a balanced budget. These actions have resulted in a range of efficiencies and savings each year that have contributed to the Combined Authority being able to reduce the transport levy and achieve more for less.
- 2.7 A balanced position has been achieved on the basis that the renegotiation of the English National Concessionary Travel Scheme (ENCTS) arrangements will deliver £0.5 million additional savings, and that £400,000 of efficiency / transformation savings can be found within transport functions. Both of these contribute to protecting front line bus tendered services and the concessionary travel scheme for the travelling public.
- 2.8 There are a significant number of risks and challenges that remain for 2020/21, including any actions that may be required to respond to the sales of the UK bus operations of First and Arriva, the uncertainty around funding for skills and business support and the impact of Brexit. A risk-based review of the level of general reserves required is underway and will be brought to the next meeting. It is expected this will be at a slightly higher level than the current £5 million and the savings achieved in the current year will enable reserves to be maintained at nearer to £7 million.
- 2.9 The proposed budget for 2020/21 is presented, in line with previous years, as a joint Combined Authority and LEP position. It assumes that the core funding for the LEP continues to be received, along with the current level of LEP subscriptions from the Combined Authority's constituent authorities. These figures are unlikely to be confirmed until the work to address the requirements of the Strengthened LEPs publication is finalised.

- 2.10 It has been assumed that future year pay awards will be around 2% average rate and the results are awaited from the Pension Fund triennial valuation which will provide employer contributions rates for 2020/21 to 2022/23. At present it is assumed employer pension rates remain at the same level as current year.

### **Budget beyond 2020/21**

- 2.11 Based on a continuing standstill on the transport levy, and assuming that expenditure on bus tendered services remains unchanged from the 2020/21 position then the budgets for 2021/22 and 2022/23 still present budget shortfalls that would be exacerbated by the cliff edge funding that comes to an end. Additionally, all major capital funding streams should be spent by the start of 2021/22, other than West Yorkshire plus York Transport Fund, and depending on the success of bidding for further funding streams, both the delivery team and the associated capitalisation will need to be reconsidered.
- 2.12 At this stage it would be challenging to introduce recurring expenditure into the base revenue budget for any recurring spend.

### **Capital programme**

- 2.13 Work is continuing on finalising the three-year capital programme and maximising 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. How Government will handle any underspend is unclear.
- 2.14 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.
- 2.15 The detailed expenditure 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 2020, to be funded from the Transport Fund reserve. It is intended to utilise the Transport Fund reserve to support these costs but once these are applied it must be noted that there will be an ongoing long-term commitment to meet the costs of the borrowing entered into. A fuller consideration of debt costs and the application of the Transport Fund reserve to meet these is being undertaken and will be brought to the February 2020 meeting. **Appendix 3** sets out the latest draft forecast for capital expenditure and funding by programme up to 2022/23.

- 2.16 Early information on the draft borrowing costs has been shared with the West Yorkshire Directors of Finance. They have noted the lower level of borrowing expected for 2020/21 and have proposed that the previously agreed £2 million rebate from the Transport Fund reserve next year is increased to £3 million. During 2020/21 a longer term proposal for meeting the borrowing costs in the medium and longer term will be developed with the Directors of Finance to be reflected in the updated medium-term financial strategy.

### **Summary**

- 2.17 The Combined Authority will be agreeing the detailed budget (capital and revenue) and business plan 2020/21 at its meeting on 6 February 2020. It will also set out a detailed reserves policy and treasury management statement.
- 2.18 The LEP Board is asked to consider the business plans and budget position and provide any further input to them.

### **3. Clean Growth Implications**

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

### **4. Financial Implications**

- 4.1 As set out in the report.

### **5. Legal Implications**

- 5.1 As set out in the report.

### **6. Staffing Implications**

- 6.1 As set out in the report.

### **7. External Consultees**

- 7.1 None.

### **8. Recommendations**

- 8.1 That the LEP Board consider the work undertaken to finalise the business planning, revenue budget for 2020/21 and draft capital budget.

### **9. Background Documents**

- 9.1 None.

## **10. Appendices**

Appendix 1 - 2020/21 draft business plans

Appendix 2 - Draft revenue budget 2020/21 to 2022/23

Appendix 3 – Draft capital budget 2020/21 to 2022/23