

Report to: West Yorkshire Combined Authority

Date: 10 November 2020

Subject: **Business Planning and Budget 2021/22**

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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 advise of the work underway on the business plan and budgeting for 2021/22 and seek comment on these matters.

2. Information

Business Planning 2021/22

- 2.1 Work is underway on the detailed business plan for 2021/22 to be set within the context of a revised medium term financial strategy. The development of next year's business plan is particularly challenging compared to previous years, due to a number of strategic factors which will have a fundamental impact on the work of the MCA over the course of 2021/22, but around which there still remains significant uncertainty. These factors include:

- Ongoing preparations for the **transition to the MCA model**, including preparing for the partnership of the MCA and West Yorkshire local authorities, making internal organisational changes to governance, systems and processes and implementing the specific devolution deal workstreams themselves;

- Responding to the significant pressures on existing revenue budgets brought about by the **Covid-19 pandemic** and developing proposals to manage the ongoing financial implications of the recovery throughout 2021/22 and in the longer term;
 - Preparing for the **EU exit** and responding to any regional impacts of this which are not addressed through national support programmes; and
 - The ending of the current **Growth Deal** and the transition to the delivery of new capital funding programmes.
- 2.2 While individually the above mentioned factors have a significant influence on forward planning activities, their collective impact will make the definition of operational priorities more challenging. As such business plans for 2021/22 will need to clearly highlight the assumptions on which they have been based and also be designed with some scope for flexibility to enable iteration as strategic factors become clearer.

Budgets

Revenue budget position 2020/21 (current year)

- 2.3 Members will recall that the revenue budget / Medium Term Financial Strategy (MTFS) approved in February 2020 was a balanced position for 2020/21. It was agreed to hold general revenue reserves at £7.3 million due to numerous uncertainties at the time and in line with the Combined Authority's risk based strategy on reserves. The final general reserves figure going into 2020/21 was actually £8.1 million.
- 2.4 Since the budget was approved, the Combined Authority revenue budget has been impacted by the Covid-19 pandemic. The early forecast in April 2020 based on a continued lockdown throughout the year and no additional funding was estimated at £12 million, across a range of income and expenditure budget lines. These figures were confirmed to the Combined Authority earlier this year and shared with Government in a range of forums with representations made for funding to meet these costs.
- 2.5 A more recent, high-level, forecast predicts a £4.6 million impact, which is net of Covid support grants that have been secured from the Department for Transport. A key assumption in the forecast regards bus operator spend and it continuing at pre-Covid levels. This is the current approach supported by government and the industry and results in transport and combined authorities making payments for journeys at pre-covid rates and not reflecting the drop in passenger numbers. Options to manage future bus operator expenditure are under consideration. Representations continue to be made to government departments for further support. Details are provided at **Appendix 1** - the funding gap has reduced due to funding received, revised estimates and actions taken to reduce expenditure.
- 2.6 Whilst at present the level of general reserves would appear to be able to cover the forecasted financial impact there is a high risk in allowing reserves to

fall. Critically the general reserves would then be depleted by approximately £4 million below the level required when the budget was approved in February 2020, at a time when there are still significant unknowns and risks for this and coming years. Given the known risks today it is reasonable to expect that a similar level of reserves will be determined as required for 2021/22.

- 2.7 These figures will be kept under regular review, especially as further lockdown/ second waves potentially occur and there is still a high level of risk and uncertainty for the coming months. Work continues to identify further funding opportunities, ways to reduce expenditure and other means to enable a balanced budget for the current year to be presented and agreed.

Revenue Budget 2021/22 (+ 2 years) – Medium-Term Financial Strategy

- 2.8 In parallel with the business planning work, work is underway on the detailed budget, to be set within the context of a revised medium-term financial strategy. The process is seeking to ensure that the detailed business priorities set for the organisation are clearly linked to achievable budgets and directly support the organisation in delivering its overarching corporate priorities.
- 2.9 In setting its budget the Combined Authority recognises the challenging financial position faced by its local authority partners, including the impact emerging from the national pandemic and its need to respond to this. 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 baseline for 2020/21 and these will continue going forward, along with additional savings to be identified. The Budget Working Group has met and will continue to meet to consider these matters in more detail with regular reports being provided to the Combined Authority.
- 2.10 As in previous years and as part of the approach to transparency and accountability, the Combined Authority intends to undertake public engagement specifically as part of its budget setting process. The process is intended to invite views and comments on the discretionary elements of expenditure.
- 2.11 High level revenue budget estimates have been provided in the summary table below, which includes the annual deficit positions from the February 2020 approval, further potential impact of Covid-19 and emerging costs from the MCA readiness work.

	2021/22 £m	2022/23 £m	2023/24 £m
Opening Deficit	2.0	3.6	6.3
Covid 19 impact	2.0	0.0	0.0
MCA costs	2.5	1.5	2.5
Total (deficit)	6.5	5.1	8.8

2.12 The current key assumptions and pressures behind the above scenario are:

- i. Transport Levy does not change and remains at £92.2 million and the Combined Authority is seeking to manage transport expenditure within this amount. However, further work is underway to assess the ongoing impact of Covid-19 on the bus operator landscape;
- ii. Legacy funding will continue as previously expected, including LEP core grants & Bus Operator Grants. However, it should be noted that assurances have yet to be received from Government on these funds;
- iii. The external funding for numerous projects in business support and skills and employment is due to end over the 12-18 months. Current assumptions are that further funding will be secured, though not guaranteed and opportunities to secure such funding are being investigated;
- iv. Income levels are not expected to recover to pre pandemic levels for some time. For planning purposes, the MTFs includes those original levels. These will be reviewed further as the budget estimates are developed.
- v. Work underway on strengthening partnerships across the region is expected to identify capacity gaps within the Combined Authority and partner authorities. No allowance has yet been made within the 2021/22 budget for any increases in capacity, but it is expected there will be a need identified to increase numbers particularly in policy and research teams.
- vi. On capitalisation, the full cost of the Delivery directorate, a £2 million contribution for corporate support functions and a small number of other/specific posts are currently recovered through capital. It may be possible to recover any future cost increases that are directly linked to the delivery of the capital programme.
- vii. Pay assumptions currently includes 2% inflation for each year and incorporate the employer pension rates from the recent pension fund valuations.
- viii. It is currently assumed that costs for subsidised bus services and concessionary fares will be at the levels previously set. However, proposals / considerations for future changes are under consideration.
- ix. No changes are proposed for the Minimum Revenue Provision (MRP) budget. The MRP is the charge to the revenue budget made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme. For the Combined Authority it is calculated using the asset life annuity method for new borrowing. Recent changes to the statutory guidance and accounting policies has limited the

Combined Authority's capacity to adjust the calculation to benefit the revenue budget.

- 2.13 The working assumption is that the devolution gainshare is not available to 'solve' revenue budget deficit and that the funding is for the region and its use to deliver economic growth programmes. It is currently expected that the early tranches of gainshare will be used to support the covid recovery plans for the region.
- 2.14 In the summary at paragraph 2.9, the mayoral combined authority costs (£2 million to £3 million in an election year) identified so far include estimated costs of a mayor's office, election costs etc. These would require funding and the devolution deal gainshare (revenue element) may be proposed as the most appropriate, and indeed only available funding stream. Whilst the devolution deal includes a small element of mayoral capacity funding for 2020/21 there is no indication of any further funds and this would in any case be insufficient to meet the costs of the election. Other MCAs have taken the same approach of using gainshare for this purpose.
- 2.15 The draft budget estimates include a high-level estimate of £2 million for the on-going impact of Covid-19 to the Combined. This figure has the potential to be much higher and will be reviewed further as the budget planning progresses.
- 2.16 Each directorate is developing its business plan and the budget required to deliver its prioritised activities.

Capital

- 2.17 Work continues on the capital budgets, with a particular focus on the challenges of achieving expenditure on key programmes – Leeds Public Transport Investment Programme and Growth Deal, both of which are due to spend in full by March 2021. The programmes are being reviewed to ensure all funding is maximised, any risks of not delivering by this date are mitigated and to understand the risks around the timing of individual projects which may result in commitments beyond the funding availability. A three year capital programme and any projected borrowing costs will be included as part of the budget process.
- 2.18 A full draft revenue and capital budget will be provided to the Combined Authority meeting in December 2020.

3. Clean Growth Implications

- 3.1 The proposed business plan and budget for 2021/22 will include actions and costs related to delivering against the corporate priority of clean growth.

4. Inclusive Growth Implications

- 4.1 The 2021/22 corporate plan will set out further details regarding the organisation's approach to enabling inclusive growth.

5. Financial Implications

- 5.1 The financial implications are covered in the body of the report and at the supporting appendices.

6. Legal Implications

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

7. Staffing Implications

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

8. External Consultees

- 8.1 Budget engagement with the public is scheduled to commence in early December.

9. Recommendations

- 9.1 That the Combined Authority notes and provides comment on the business planning and budget work underway.

10. Background Documents

- 10.1 None.

11. Appendices

None