

Report to: West Yorkshire Combined Authority

Date: 4 February 2021

Subject: **Budget and business plan 2021/22**

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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 2021/22, the indicative capital budget and programme and treasury management statement.
- 1.2 To consider the summary business plan for 2021/22 that sets out the services, activities and priorities for the organisation in the coming year.
- 1.3 To approve the revised forecast outturn revenue position for 2020/21.

2. Information

Background

- 2.1 The budget for 2021/22 will be the first for the Combined Authority as a mayoral combined authority. Subject to the final approval of the Order that was laid before Parliament in December the Combined Authority will soon take on a new range of functions and funding with a further set of functions and powers once the mayor is in post after the election on May 6 2021. At the same time the pressures and demands to support the region now the exit from the EU is concluded and to drive forward the economic recovery following the

pandemic are higher than ever. The future funding position for local authorities, combined authorities and LEPs remains unclear, with the COVID-19 response delaying a three year comprehensive spending review and the conclusion of the fair funding review. On top of this the challenges in balancing the 2020/21 budget as COVID-19 brings extra costs and loss of income make a balanced 2021/22 position harder to achieve.

- 2.2 The Combined Authority has received reports during the autumn setting out the work undertaken to balance this year's budget and reach a viable position for 2021/22. In-year expenditure has been scrutinised to identify savings opportunities and representations made to government to make good COVID-19 losses in the same way as local authorities have. This report sets out the conclusions of that work and proposes a balanced budget for both 2020/21 and 2021/22, with a standstill transport levy and a limited use of reserves but which is also mindful of the scale of the challenge ahead and the risks that come with that. The budget presented for approval relates to non-mayoral functions and funding.
- 2.3 The budget must be set within the context of an agreed business plan. At the last meeting Members considered the draft corporate plan on a page, setting out the priorities for the coming year. This was based on the continuation of the four key priorities – boosting productivity, enabling inclusive growth, delivering 21st Century transport and tackling the climate emergency. However these need to be considered within the challenging strategic factors impacting on the organisation, namely the ongoing preparatory work for the transition to the Mayoral Combined Authority (MCA) model, responding to the continued pressures brought about by the COVID-19 pandemic, preparing and responding to the EU exit and the ending of the current Growth Deal in March 2021.
- 2.4 The collective impact of these has made the definition of operational priorities more challenging. As such the detailed directorate level business plans for 2021/22 have clearly highlighted the assumptions on which they have been based and have also been designed with some scope for flexibility to enable iteration as strategic factors become clearer.
- 2.5 Despite the challenges of the current year, West Yorkshire Combined Authority has continued to focus on its ambitious plans, seeking to deliver good inclusive growth for the region and help shape the economic and transport recovery. As the Growth Deal programme reaches a conclusion in the coming months there has been a continued drive to get projects into delivery in COVID-safe ways, and to continue delivering all services, including business support at this critical time. Some key successes of the year include:
 - The establishment of the Economic Recovery Board and the production of ambitious recovery plans for both the economy and transport.
 - Good progress on West Yorkshire-plus Transport Fund schemes continues with the start of work on Harrogate Road New Line and the Castleford to Wakefield Greenway phase 3 and completion of the A650 Hard Ings Road, Rail Parking Package at Mytholmroyd and Glasshoughton Southern Link Road.

- Supported over 1,300 businesses by providing small grants to help them build resilience and mitigate the impact of COVID-19.
- Invested in the building of 15km of flood walls in Skipton, Mytholmroyd, Hebden Bridge and Leeds, safeguarding jobs and businesses from flood risk.
- Contributed to cleaner air by installing a further 44 ultra-low emission vehicle (ULEV) charging points for taxis, cars and vans.
- Improved energy efficiency in over 1,000 homes, saving more than 37,000 tonnes of carbon.
- Supported over 18,000 disadvantaged students with careers education.
- Upgraded over 1,750 real time displays to show passengers what space is on buses when they get to their stop.
- Attracted global investors to the region, creating 1,700 jobs.

2.6 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. The LEP was hugely successful in securing funding through the Growth Deal that has seen investments in new colleges, flood alleviation works, housing and regeneration and business support. The LEP ensured it was compliant with the requirements of the government's 'Strengthening LEPs' document, which led to a necessary redefinition of the LEP footprint within West Yorkshire. However, there remains a strong commitment to maintaining and further developing the close collaboration between those areas of the York, North Yorkshire and East Riding LEP that continue to form part of the LCR economic area. The previous funding programmes covering that functional economic area cease in March 2021 and the LEP will introduce formal and informal arrangements to ensure the best of joint working continues.

2.7 The current Growth Deal funding – the largest Growth Deal in the country – comes to an end in March 2021. At the time of writing it is understood that there is no similar successor fund and details of access to funds announced in the budget such as the Levelling up Fund are awaited. The lack of any such successor fund for LEPs continues to be brought to the attention of government officials and is a serious concern for LEPs in their support of the regional economic recovery.

2.8 The West Yorkshire “minded-to” Devolution Deal, the biggest ever of its kind, was announced as part of the Budget on 11 March 2020. Subject to the conclusion of the statutory processes, expected this month, this will lead to the adoption of an MCA model which will devolve a range of powers and responsibilities and will unlock significant long-term funding and give the region greater freedom to decide how best to meet local needs. Previous meetings have received full details of the deal, which include control of £38 million per year flexible allocation of gainshare investment funding over 30 years, to drive growth and take forward our priorities.

- 2.9 Once the Order is made then gainshare for 2020/21 will be due for payment by the end of March. The Combined Authority has acknowledged the need to respond urgently to the pandemic and has already approved in principle the use of £13.5 million of this gainshare for projects to support the recovery. Other projects are under consideration and will be brought forward to the next meeting.
- 2.10 The devolution and MCA preparations have already had a positive impact on access to funding and increased opportunities for the region. These have been sought and secured through:
- £317 million Transforming Cities Fund, the largest allocation to any region, to deliver transformational walking and cycling schemes across West Yorkshire and creating jobs
 - £67 million funding for new homes on Brownfield sites
 - £52 million funding for Getting Building projects
 - Over £12 million for Active Travel projects
 - A seat at the national table on economic recovery
- 2.11 In parallel with these is the challenge in securing the appropriate revenue budget for the core operations of the Combined Authority. The Combined Authority's revenue comes through income generation, a small element of specific government grants, but with the majority coming via the transport levy paid by the constituent local authorities – Bradford, Calderdale, Kirklees, Leeds and Wakefield. Local authorities are facing a difficult funding position themselves as they await key funding announcements and respond too to the national pandemic impact.
- 2.12 In setting its revenue budget the Combined Authority, whilst mindful of these issues on its partners, is proposing no change to the transport levy contribution paid in 2021/22, following a £1 million reduction in each of the previous three years. The majority of the transport levy is paid to bus operators for the reimbursement of concessionary travel and the provision of tendered bus services which support the commercial network operated. During the pandemic the Combined Authority has been required to continue to pay bus operators at pre COVID-19 levels as part of the support package for the bus industry. This has been supplemented by COVID-19 Bus Services Support Grant (CBSSG) paid to both bus operators and to combined authorities to replace the loss of fares revenue. Whilst a commitment has been made to continue CBSSG until the end of March 2021 it is still unclear what the future bus funding model will be. At this stage the Combined Authority is committing to maintaining its current levels of payments to bus operators but cannot commit further than these levels.
- 2.13 The budget assumes a similar level of bus operator payment will be required next year, but there is a high risk that costs will actually increase. The transition from the current emergency funding into the recovery arrangements is highly likely to result in a shortfall in revenue which could force bus operators to reduce costs to meet the suppressed income. This could precipitate service withdrawals which would impact on connectivity for communities. Equally the outcome of the Department for Transport's Bus

Strategy and what this means for the future funding of the bus industry is still awaited. The previous report on this agenda sets out these issues in more detail but the level of risk and consequent financial demand upon the authority remains a serious operational and financial challenge for the coming year.

Revenue Budget position - 2020/21

- 2.14 The approved revenue budget for 2020/21 was a balanced position at the start of the year. During the year the impact of the national pandemic has been reported and has been showing an emerging deficit position throughout, though the forecasts have been improving as support grants have been received from government and other managed savings achieved.
- 2.15 As at November 2020 the forecasted deficit was £3 million, but this situation has been improved through the successful representation to government for a support grant of £650k relating to lost income on sales, fees and charges for the period April to July 2020. Further bids will be submitted for the remainder of the year and a prudent estimate of a further £500k is expected. In addition, following a review of patronage data and application of government guidance regarding concessionary fare reimbursement to operators, further savings are forecast to be made with a current prudent estimate of £1.25 million expected. During the year other savings have been made across the other directorate budgets, such as managing staff vacancies and savings in supplies and services. These cost savings will be kept under regular review and the aim remains to achieve a balanced outturn as at 31 March 2021. On this basis the general reserves would be retained at the current level of £8.1 million.
- 2.16 The final forecast position is set out in **Appendix 1**. This budget also includes, as previously approved, some use of gainshare to support the costs of transition to becoming a mayoral combined authority, including early election costs and legal and project resources.

Business plan 2021/22

- 2.17 Work has been undertaken to produce a detailed business plan for the Combined Authority for 2021/22, maintaining the focus on the corporate objectives agreed for the current corporate plan: Productivity, inclusive growth, a 21st century transport system and tackling the climate emergency. These must all be considered against the backdrop of COVID-19 recovery and the move to becoming a mayoral combined authority.
- 2.18 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.
- 2.19 **Appendix 2** sets out the overarching business plan for the organisation in 2021/22 at a summary level. In addition to this, draft versions of each Directorate's summary level business plan can also be found [here](#). These

individual plans, which are still in development, set out how each directorate will deliver against the organisation's corporate priorities and objectives and, at this summary level, the resources required to do so. Each directorate is also developing a number of key performance indicators (KPIs) that will enable performance to be monitored throughout the year. These indicators will build on current levels of achievement to provide an element of stretch, as well as demonstrating efficiency and value for money. The detailed business plans and KPIs will be finalised and published in March with regular reporting to be undertaken on achievement throughout the year.

- 2.20 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. In line with the current year a LEP Delivery Plan will be presented alongside this.

Revenue budget 2021/22

- 2.21 The draft baseline revenue budget is attached as **Appendix 3** and following the work of recent months now shows a proposed balanced position for 2021/22. It sets the transport levy at the same level as 2020/21 (following a series of three year cuts) as previously proposed. It also acknowledges the difficulty of setting a budget in the current context of the national pandemic, ongoing preparatory work and the transition to the MCA model, preparing and responding to the EU exit and the ending of the current funding streams and delayed funding announcements. Recent budget discussions with members have confirmed the approach of ensuring front line services are maintained and that any use of the newly secured gainshare to support revenue budgets should be minimised.
- 2.22 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 achieve more for less. In line with the previous medium term financial strategy and taking into account changes that have occurred since the strategy was agreed, the budget for 2021/22 is balanced without the need to use general reserves, although there remains a high risk that reserves will be required to respond to emerging pressures in the year.
- 2.23 A balanced position has been achieved on the basis that both the gainshare and Mayoral Capacity Fund are utilised to fund the additional capacity and new costs arising from being an MCA. In addition, the limited renegotiation of the English National Concessionary Travel Scheme (ENCTS) arrangements will deliver £1.25 million additional savings, through negotiation and paying operators in line with government guidance stemming from the COVID-19 response. Further, the £400k target of efficiency / transformation savings planned for the previous year 2020/21 are baselined within the transport

functions. These savings will contribute to protecting front line services to the travelling public in the form of bus tendered services and the concessionary travel schemes. However, the budget as set is not without its risks and challenges and these are set out in the following paragraphs.

- 2.24 **Mayoral Combined Authority (MCA)** – Members are reminded that becoming an MCA brings with it a range of additional capacity costs, including costs of holding / running an election, a Mayor's Office running costs and other corporate / support costs to deliver new and expanded functions including for example overview and scrutiny.
- 2.25 Government has recently confirmed that mayoral capacity funding of £1 million will be made available to the Combined Authority for 2021/22. MHCLG has made this sum available to other mayoral combined authorities on an annual basis with no guarantee of successive years funding. It is proposed that this sum for 2021/22 supports additional capacity for a mayoral office and other policy and support posts as set out in the paragraphs below.
- 2.26 The size and shape of a mayoral support office cannot be fully determined until the mayor is in post. It is however clear that there will be a need for a new team to be in place and it is proposed that a provision of £500k be included within the budget to enable the establishment of the mayor, a support team and associated costs. This budget would cover the Mayor's salary and salary costs of any posts directly appointed to support them. It is further proposed that these costs are funded from the mayoral capacity fund.
- 2.27 Additional costs will be incurred as new functions and powers are taken on by the MCA. The budget proposals provide for additional resource to support the wider policy responsibilities, including health, culture and climate change and the increasing strategic work on bus reform. The recent termination by government of the Transport for the North Integrated Ticketing Programme is likely to mean additional resources will be needed in the Combined Authority to develop and deliver a ticketing strategy. Additional capacity would support all these activities across the region, as identified in the partnerships work undertaken with local authority partners. A separate report on this agenda on MCA Ready proposes organisational changes that would enable these and other capacity gaps to be progressed. This additional resource is funded in part by the Mayoral Capacity Fund, along with a further £750k proposed topslice of the 2021/22 gainshare.
- 2.28 It is estimated that in normal times the election would cost the CA/MCA in the region of £3 million, with costs for the first election estimated to fall in both 2020/21 (£2 million) and 2021/22 (£1 million). Members will recall that a Mayor Readiness budget of £3 million had previously been approved from the 2020/21 gainshare indicative allocation and the £2 million election costs to the 31 March 2021 will be funded from this approval. For the costs falling into 2021/22 it is proposed that a topslice of the 2021/22 gainshare be approved. There is a high risk of an increase in the costs of the election as a result of the extra measures required to be put into place to make the arrangements COVID-19 safe; these emerging additional costs are being kept under review

with partner authorities and whilst representations will be made to government to meet these there is a high risk that they would need to be funded locally through further gainshare or reserves.

- 2.29 The Order allows for a mayoral precept to be set as part of the annual budget setting process. There is a process for doing this which includes a review by scrutiny and consideration and agreement by the Combined Authority. In order for this to happen proposals for both expenditure and funding must be made by the mayor and therefore the earliest this can happen in West Yorkshire will be in February 2022 for inclusion in the 2022/23 budget. The mayors in Greater Manchester and Merseyside have set mayoral precepts to fund their priorities including free travel for young people and addressing homelessness.
- 2.30 **Adult Education Budgets (AEB)** – The AEB budget devolved to the MCA is £63 million per annum, commencing from July 2021 onwards and secured for five years as part of the devolution deal – this will total £42 million for the part of the academic year that falls into 2021/22. This is included indicatively in the attached budget but further approvals to spend will be brought forward prior to July 2021. An element of this funding will be topsliced to support the costs of managing this service meaning a net nil impact on revenue budgets.
- 2.31 **Policing and crime functions** – the revenue budget excludes any financial proposals for the policing and crime functions currently exercised by the Office of the Police and Crime Commissioner. The OPCC / West Yorkshire Police are currently setting their 2021/22 budgets in the usual way. These budgets will not have a direct impact on the Combined Authority revenue budget as OPCC/Police budgets are funded via the police precept. Once the functions transfer across after the May election the appropriate funding will transfer across to support those functions. Funding for policing is required to be kept separate from other combined authority funds and each must keep separate records and reserves.
- 2.32 **Reducing bus operational costs** – Members are reminded that in previous years expenditure on bus services have been driven down by over 50% in real terms, with significant savings achieved through smarter procurement, bus network reviews that minimise impact on customers, retendering of some school services and a continued focus on value for money. The current year has proved challenging to make further savings and the proposed budget for 2021/22 seeks to contain expenditure on bus services at its current level, whilst work continues to understand different models for responding to the national pandemic and consideration of alternative delivery models for future bus services.
- 2.33 **Concessionary travel** – a significant part of the Combined Authority’s budget is spent on the discretionary and statutory elements of the concessionary travel scheme. Prior to the national pandemic the costs of the statutory English National Concessionary Travel Scheme were approximately £45 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. Prior to the pandemic arrangements were in place with the major bus operators to manage the volatility of these costs. As set out previously payments have been made at pre-pandemic levels as part of the support to the bus industry. The updated guidance from the Department for Transport on reimbursement has enabled the Combined Authority to capture the small decrease in passenger numbers identified early in 2020 and reduce the reimbursement to operators to give a small saving on the current year budget. The same level of reimbursement is carried through to the 2021/22 budget but the risk of claims from operators for increased costs and lost revenue remains high.

- 2.34 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, again also considering the impact of the national pandemic. A further £650k is spent on discretionary concessions for seniors on rail.
- 2.35 **Transport Services** – as well as the position set out above with regard to bus tendered services and concessionary travel other areas of spend continue to be examined within the transport services directorate. A range of budgets have been directly affected by COVID-19, including bus station tenant income, advertising / commercial income and commission from the sale of the MCard. The budget assumes this continuing into 2021/22, with an estimated financial impact of £1 million being managed within total resources. This area of spend includes the frontline staff supporting bus stations and bus stops and shelters as well as the provision of information. As set out above, a target of £400k of savings/additional income has been set, to be sought as part of updating the ways of working with bus operators and the transformation of the services provided.
- 2.36 **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 accrue to the LEP and are 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. An expected increase in receipts of £900k is included in the budget for 2021/22, but again, there is some risk with these figures as the pandemic continues.
- 2.37 The Leeds EZ has been established for some years and is due to pay over £2.2 million in 2021/22 (£1.8 million budgeted in 2020/21). Detailed scrutiny of the pipeline of future development continues to enable a more robust position to be established. Significant growth in this income could for example provide a means by which to fund business and skills and other projects dependent on short term government funding, or to invest in some of the remaining sites.

- 2.38 The M62 EZ consists of eight sites, with four (previously two) now forecast to make payments this financial year – Lindley Moor West, Moor Park, Gain Lane and South Kirkby. The budget estimates £0.96 million for 2021/22 (£0.5 million budgeted in 2020/21). Collectively the sites needed significant investment and further development before they can become income generating. A number of sites are currently progressing using both Growth Deal and Getting Building Fund capital funds.
- 2.39 **Capitalisation** - the level of capitalisation ie charging eligible revenue costs to capital schemes is included in the revenue budget and reflects the significant capital programme in comparison to the revenue expenditure. All opportunities to maximise this are being taken and the capacity to extend this will be re-visited as part of the work underway on the Single Investment Fund / WY Investment Strategy.
- 2.40 **Trade and Investment** – external funding is being sought to continue the Key Account Manager posts currently provided through external funding. These have been underwritten in the 2021/22 budget until these funds are reconfirmed. There is a clear need to consider the focus of activities for the team post Brexit and in the light of the pandemic, to ensure that the team is able to respond on behalf of the region to inward investment opportunities.
- 2.41 **Pay and pension** – the triennial pension valuation undertaken during 2019 set the rates for 2020/21 to 2022/23 and these are included in the revenue budget estimates. Though the Pension Fund have not announced any plans to undertake an early review of the employer rate due to the national pandemic (next one is planned for 2022), this remains a potential risk in the short term.
- 2.42 In line with our constituent authorities, a provision has been made for future year pay awards and in consideration of the government’s recent announcements around public pay increases.
- 2.43 The Combined Authority ensures no employee is paid less than the real living wage. As part of its work on social inclusion and in support of the inclusive growth priority work is being progressed to seek Living Wage Foundation accreditation. This would require the Combined Authority to ensure its contractors pay their employees no less than the real living wage. This is being considered in line with the approaches taken by our constituent authorities and may lead to a further budget pressure for the coming year.
- 2.44 The proposed budget includes a savings target of £1.5 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. The Combined Authority keeps its staffing structures under regular review to ensure that they continue to best meet current and emerging needs and the separate paper on this agenda considers the future organisational needs of the MCA in more detail.
- 2.45 **Commercialisation** – the Combined Authority owns a portfolio of operational property assets, 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 targets for tenant income at the main premises, as well as income from toilet charging which has been introduced at the larger bus stations. Both these estimates for 2021/22 are estimated to be lower than previous years due to the ongoing impact of COVID-19.

- 2.46 **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 2021/22 budget. At this point the continuation of this funding beyond 2021/22 is unclear and gives rise to a revenue 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.
- 2.47 **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 has previously made up the largest element of the capital funding available concludes in March 2021. There is an ongoing income stream beyond this date of between £30-£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.
- 2.48 It is expected, as part of a West Yorkshire Investment Strategy and a commitment to fund the higher Transforming Cities scenario for the WY schemes, that 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.
- 2.49 The detailed WY+TF programme is verified by local authority partners delivering the individual projects and highlights a future borrowing requirement. The estimated revenue costs of supporting this borrowing 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.
- 2.50 A future meeting will consider the means of allocating gainshare to priority projects and interventions. Gainshare can be used as cash revenue or capital funding, including to support the costs of borrowing. At this stage the draft capital and revenue budgets do not include the application of gainshare other than as set out previously to support additional mayoral combined authority

costs. The budget will be updated and reviewed as the use of gainshare is approved.

- 2.51 A further requirement of the devolution deal is agreeing a debt cap with HM Treasury and this will not take place until the Order is made. Irrespective of this the Combined Authority is required to adhere to a range of prudential borrowing guidance and the planned borrowing is within this context. The treasury management strategy is considered later in this report.
- 2.52 **Brownfield Housing (Revenue Budget)** – the MCA has been granted a £3.2 million revenue budget in support of the related £67 million capital programme. The Combined Authority approved £250k spend against this approval at its meeting in December 2020. The further £2.95 million is to be spent during 2021/22 subject to receiving the final funding agreement from government. The spend and funding are included in the proposed revenue budget and a further report will set out how this funding will be spent by the Combined Authority and its partners to achieve agreed outcomes.

Reserves policy

- 2.53 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 impact of the pandemic is that risks are increased in terms of size and impact. 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 currently facing the Combined Authority from the national pandemic.

Table 1

Reserves Policy	Budget 2021-22 £m	Reserves 2021-22 £m
Risk on Concessions	53.80	
5% contingency for volatility of payments and bus operator landscape risks (up to 2020/21 had been 3% but increased to 5% until more information known)		2.69
Risk on Subsidised Bus services (gross)	25.86	
5% contingency due to inflationary and market conditions due to Covid19		1.29
50% Risk of not reducing budget/unintended reactions from operators & Covid19		0.50
Risk (general) on other areas of spend		
Passenger & Bus Station Services (net)	7.17	
Trade and Inward Investment	0.99	
Policy, Strategy and Communications	5.49	
Financing (net)	5.65	
Corporate Services	7.14	
	<u>26.44</u>	
Risk of inflation increases/capacity demands etc at 5% (previously 3%)		1.32
Other Risks 2021/22 (Covid19, Brexit, devolution, operational matters)		1.00
Risk on income		
Risk that income falls short of expectations (eg Enterprise Zone receipts, Covid19)		1.00
Total reserves required		<u>7.81</u>

- 2.54 The closing general reserves position for 2020/21 is currently forecast to be £8.1 million, assuming the balanced outturn as set out is achieved. For 2021/22 the budgeted assumptions do not require a further release from the general reserve. It is proposed to protect the general reserve at this level in line with the above assumptions for 2021/22. 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.
- 2.55 The West Yorkshire plus Transport Fund (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 levy funding. The reserve at the end of 2020/21 will be £41.2 million, this following over £5 million being rebated to partner authorities over the last two years. The current estimates on the capital programme forecast that this reserve starts to be utilised from 2023/24. The capital spend and use of this reserve for borrowing will be kept under annual review.

Transport levy

- 2.56 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.
- 2.57 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 2021/22.

- 2.58 **Table 2** below sets out the net and gross levy by population, in accordance with the regulations, showing the effect of the change in the population base which this year is relatively insignificant.

	Relevant Population	Net 2020/21	Gross 2021/22	% of levy By District	Refund 2021/22	Net 2021/22
	June '19 for 2021/22	£	£	%	£	£
Bradford	539,776	22,928,174	23,836,084	23.14%	914,840	22,921,244
Calderdale	211,455	8,751,861	9,337,687	9.07%	578,034	8,759,653
Kirklees	439,787	17,960,893	19,420,649	18.85%	1,496,951	17,923,697
Leeds	793,139	33,089,812	35,024,396	34.00%	1,941,193	33,083,203
Wakefield	348,312	15,169,849	15,381,184	14.93%	168,392	15,212,791
	2,332,469	97,900,588	103,000,000	100.00%	5,099,411	97,900,588

- 2.59 In accordance with the regulations local authorities will be notified of the transport levy by mid-February and will make payments to the WYCA in ten monthly instalments from 1 April 2021.

Capital strategy

- 2.60 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.
- 2.61 The strategy was approved in May 2020 and is currently being reviewed / revised in line with the work underway on the Single Investment Fund / WY Investment Strategy and will be brought to a future meeting of the Combined Authority for approval. The following section on the capital budget considers the capital plans in more detail.

Capital budget

- 2.62 The following paragraphs set out the capital funding available to the Combined Authority for 2021/22 and subsequent years and the indicative capital programme expenditure 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.

- 2.63 2020/21 is the final year of the six year Growth Deal and also the final year of funding for the Leeds Public Transport Investment Programme, though the latter has an extension into 2021/22 for those schemes in contract but not completed as at 31st March 2021. The requirement to complete spending on these programmes brings a number of challenges, not least the need to ensure sufficient capacity to deliver the remaining funding whilst also gearing up to deliver the Transforming Cities Fund (TCF), Getting Building Fund and Brownfield Housing programmes. Additionally any yet to be defined / new programmes stemming from the devolution deal investment programmes will need to be managed. All these will require a significant increase in resources required to deliver large and complex programmes to tight. Additional resources have been included within the delivery directorate, funded by capitalisation from the relevant programme.
- 2.64 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 2020/21 and that this be kept under review as part of the year end closedown work. This approach is supported by BEIS for the capital funding they provide, with freedoms and flexibilities available on both the Growth Deal and the Getting Building Fund for example.
- 2.65 **Appendix 4** sets out the capital expenditure and funding budget estimates for the period 2020/21 to 2023/24. These figures are indicative at this stage and include the costs and funding for the Transforming Cities Bid, Getting Building Fund and Brownfield Housing. Decisions are still to be made on the West Yorkshire Investment Strategy and future use of gainshare and these may identify further capital projects to be included in the capital programme at a later date.
- 2.66 At the time of writing this report the 2021/22 settlement letter is still awaited from DfT with regards to the Integrated Transport Block, the Highways Maintenance Block (both incentive and needs element) and the Pothole Action Fund. The Combined Authority is determined by DfT to be the accountable body in West Yorkshire and funding will be allocated and paid to it.
- 2.67 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. It is proposed that approval is given via this report that when the funding is confirmed the Director, Corporate Services should approve the appropriate funding to be paid to local authority partners via the usual quarterly payments.

- 2.68 Ongoing financial monitoring and planning will enable updates to be provided on the affordability of the capital 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.
- 2.69 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. The first of these was concluded and had a positive outcome and enabled the next tranche of funding to be released.
- 2.70 The release of funding to progress projects is subject to the Combined Authority's assurance process. The assurance process is normally updated annually to reflect latest government guidance and any changes within the LEP and Combined Authority. However, during 2020 a fuller review has been undertaken to ensure the assurance framework is MCA ready and the Combined Authority, at its meeting on 10th December 2020, approved the final version for submission to government. The Investment Committee will continue to be a key part of the process whereby programmes and 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. It is also proposed continuing the arrangements in place whereby Transport Committee approve Integrated Block funded projects up to a value of £3 million, with reporting to the Combined Authority of such decisions, as with the Investment Committee.
- 2.71 The attached capital budget includes indicative figures for the Transforming Cities (high scenario), capital gainshare and Local Transport / Highways Maintenance to highlight the potential scale of growth to the capital budget in the coming years. The appendix also demonstrates the impact of current funding coming to an end, for both Growth Deal and Leeds Public Transport Implementation Plan. Whilst it is anticipated that government will provide successor funds to these and other European funds, the November budget only confirmed the Levelling up Fund and details of the bidding process for this are unknown. A pipeline of projects is being developed at risk in anticipation of future funding, so that there can be a seamless transition from current programmes after March 2021.

Minimum Revenue Provision Policy (MRP)

- 2.72 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. MRP, which is largely defined by regulation, is aimed at ensuring that the Combined Authority does not have time expired/fully depreciated assets whilst still holding associated outstanding debt.
- 2.73 For borrowing prior to April 2019 annual MRP is calculated using 4% on debt outstanding. For capital expenditure incurred on or after 1 April 2019 and funded through borrowing, MRP is calculated using the asset life annuity method. Using this method MRP is calculated in a similar way as calculating the capital repayment element of a fixed rate repayment mortgage. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.
- 2.74 The asset life annuity method calculation requires estimated useful lives of assets to be input into the calculations. These life periods will be determined under delegated powers to the Chief Finance Officer, regarding the statutory guidance, and are detailed in the Accounting Policies. However, the Combined Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the asset life annuity method would not be appropriate. Any such cases will be referred to the Combined Authority by the Chief Finance Officer.
- 2.75 Where capital expenditure cannot be related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.
- 2.76 Recognising the impact of MRP on the revenue budget is an important element in determining the affordability and sustainability of borrowing to fund an asset. Essentially, if there is no on-going capacity within the revenue budget to afford the MRP then the borrowing should not be taken out in the first place. Therefore, a robust business case demonstrating a rate of return in excess of costs (including MRP) is important and to be considered as schemes progress through the Assurance Framework.

Treasury management

- 2.77 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 was considered and endorsed by the Governance and Audit Committee at its meeting on 14 January 2021 and is set out in full in **Appendix 5**. At the request of the Committee the statement now sets out

clearly upfront the approach to risk in treasury management which is a low risk one, valuing security of funds above returns.

Summary

2.78 Members are asked to consider the proposed budget and business plan for 2021/22 and accompanying recommendations. Further reports on budgets and changes arising as progress is made on introducing the mayoral powers and functions will be brought throughout the year. The information provided and the format used for both capital and revenue reporting will also be further developed through the year to enable better transparency, decision making and understanding of the costs and income of the new MCA. This will be facilitated by the planned introduction later this year of a new integrated finance and HR system.

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 plan included at **Appendix 2**.

4. Tackling the Climate Emergency Implications

4.1 The draft business plans contain objectives and priorities to tackle the climate emergency, and the budgets seek to include where possible resource to address this work. The capital budget includes some specific schemes relating to clean growth.

5. Financial Implications

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

6. Legal Implications

6.1 The Combined Authority is required by the levying regulations to set the transport levy for 2021/22 by 15 February 2021.

7. Staffing Implications

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

8. External Consultees

8.1 No formal external consultations have been undertaken. However, information on the budget position has been shared with members of the public via an engagement campaign on the internet and via social media.

9. Recommendations

- 9.1 That approval be given to the Combined Authority proposed revenue budget for 2021/22.
- 9.2 That approval be given to the indicative capital programme and budget for 2020/21 – 2023/24.
- 9.3 That progress on the 2021/22 business plan be noted.
- 9.4 That approval be given for £1.5 million of the 2021/22 gainshare to meet the costs of both the Mayor's Office and mayor readiness costs that are incurred in 2021/22, including final costs of the election process.
- 9.5 That approval be given to use the 2021/22 Mayoral Capacity Fund of £1 million to meet the additional capacity / support costs as set out in the report.
- 9.6 That the Transport Committee be delegated to approve individual schemes within the integrated transport block of the 2020/21 capital programme up to a maximum cost of £3 million.
- 9.7 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 £103 million be determined for the year ended 31 March 2022.
- 9.8 That the Director, Corporate Services be authorised to issue the levy letter in respect of the financial year ending 31 March 2022 to the five District Councils in West Yorkshire.
- 9.9 That a payment of £5.09 million be made to the five District Councils in accordance with Table 2 of the report.
- 9.10 That authorisation be given to the Director, Corporate Services to arrange appropriate funding for all expenditure in 2020/21 and 2021/22 subject to statutory limitation, including the most appropriate application of capital funding as set out in the report.
- 9.11 That once funding is received, that approval be given for the Director, Corporate Services to approve payment of highways maintenance funding and the pothole action fund, to be paid quarterly to the West Yorkshire local authorities in accordance with the DfT formula.
- 9.12 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 West Yorkshire plus Transport Fund, Transforming Cities, Getting Building Fund, Brownfield Housing, Local Transport Plan Integrated Transport and any schemes

developed in year. For 2021/22 the estimated total value is £9.6 million (2% - 3% of the total capital programme).

- 9.13 That the adoption of the CIPFA Code of Practice for Treasury Management in Public Services be reaffirmed.
- 9.14 That the treasury management policy as set out in **Appendix 5** be approved.
- 9.15 That the prudential limits for the next three years as set out in **Appendix 5** be adopted.

10. Background Documents

- 10.1 None.

11. Appendices

Appendix 1 – 2020/21 revised revenue budget

Appendix 2 - 2021/22 summary corporate plan on a page

Appendix 3 – 2021/22 proposed revenue budget

Appendix 4 – Indicative capital budget 2020/21– 2023/24.

Appendix 5 – Treasury management statement