

Report to: West Yorkshire Combined Authority

Date: 3 February 2022

Subject: **Business planning and budget 2022/23**

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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:	
Are there implications for equality and diversity?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

1. Purpose of this report

- 1.1 To consider and approve the proposed revenue budget and transport levy for 2022/23, the indicative capital budget and programme and treasury management statement.
- 1.2 To consider the summary business plans for 2022/23 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 2021/22.

2. Information

- 2.1 2021/22 has been a year of great challenges and also of great progress and success for the organisation. The Order to create the Mayoral Combined Authority was only laid a year ago and in that time Tracy Brabin has been elected in the first metro mayor elections in West Yorkshire and has quickly established clear commitments as set out in her pledges. Funding allocations and approvals have been made towards each of these pledges to ensure work progresses at speed on a range of vital interventions in the region and a separate paper on this agenda proposes further funding allocations to the agreed investment priorities.

- 2.2 The budget and transport levy set in February 2021 had to be approved ahead of the arrival of the Mayor, and were made at a time of significant unknowns, with COVID-19 impacting many areas of income and expenditure and delaying government decisions on future funding while at the same time the impact of Brexit and an understanding of the future Mayor's priorities were still unknown.
- 2.3 The budget for 2022/23 proposed in this paper is therefore the first budget for the Combined Authority since the election of the Mayor and seeks to build on the achievements delivered in the past year. The key successes of the past year include:

Creation of 1,000 Skilled Jobs / Skills

- Launch of an online portal allowing businesses to pledge green jobs and access relevant employment and skills support services.
- Delivery of the West Yorkshire Digital Skills Partnership, including development of a West Yorkshire Digital Skills plan, with focus on provision of digital skills to all residents.
- Delivery of the Adult Education Budget, managing £42 million of expenditure in 2021/22
- Creation of a Green Jobs Taskforce which oversees the delivery of 1000 Green Jobs in West Yorkshire).

Economy / Business Support

- Delivery of £6m Entrepreneurship Package of Support.
- £500k approved for business support pipeline development.
- Launch of Project Plan focusing on four key areas – economic recovery, supporting local businesses, innovation/R&D, and community wealth building.
- The formal launch of the Entrepreneurship programme and the West Yorkshire Innovation Network.

Creative New Deal

- £500k development funding for culture and the creative industries.
- Creation of the West Yorkshire Culture, Arts and Creative Industries Committee.
- Campaign against the privatisation of Channel 4.
- Launched the Creative Catalyst programme to drive growth in the creative sector.

Inclusivity

- Development of a 'Fair Work Charter' for West Yorkshire and creation of an expert steering group to deliver this.
- Recruitment of an Equality and Diversity Officer for the Combined Authority.

- Participation in West Yorkshire Police's LGBT committee network to discuss LGBTQ+ issues.
- Launch of the Inclusive Growth Framework.

Better local Bus Services

- Progressed the Enhanced Partnership Plan with bus operators
- Bus Service Improvement Plan submitted to the DfT in October, focusing on fares, ticketing, enhancing the bus network and more green buses.
- Supporting local bus services through £53 million of concessionary fare payments and £18 million of tendered services
- Progressing the Zero Emissions Bus Regional Areas bid
- Securing of £830m from Government for sustainable transport through the City Regional Sustainable Transport Settlement
- Launched the Fare Deal for Young People (Aug 2021).
- Launched the Leeds Core Bus Network, to be rolled out across the rest of West Yorkshire.
- Launched the M-Card iOS mobile ticketing app.

Construction of 5,000 Sustainable Homes

- Launch of first phase of Points Cross housing scheme including the creation of 300 new, sustainable homes in Leeds South Bank.
- £3.2m Housing Revenue Fund to support the development of the West Yorkshire Housing Pipeline.
- Creation of the Dementia Ready Housing Taskforce.
- Working with local authorities and housing associations through the West Yorkshire Housing Partnership to gear delivery toward the 5,000 homes target.

Tackling the Climate Emergency

- Launch of the Net Zero Region Accelerator Programme, running to March 2024.
- Launch of the Retrofit Hub pilot scheme
- Approval of £5 million contribution towards a Social Housing Decarbonisation fund.
- Attendance and participation in COP26 event in Glasgow.
- Commitment of support to the White Rose Forest (White Rose Action Plan 2021-25).
- Published the Climate and Environment Action Plan.
- Joined UK100, with a CA commitment to net-zero operations by 2038.

Infrastructure

- Approval of £45 million of the Getting Building Fund, delivering projects including 'Wakefield Warm Homes' to tackle fuel poverty and work to provide improved cycling and walking along the Leeds/Liverpool Canal.

- Delivery of Dewsbury Rail Station Access as part of the Transforming Cities Fund, with other projects including Halifax Bus Station on site.
- Continuing delivery of West Yorkshire plus Transport Fund schemes, including CityConnect Phase 3 cycling in Leeds and Harrogate Road New Line.
- Completion of the six year Growth Deal delivering £235 million of projects across the region, creating jobs, new homes, new learning space and leveraging in over £800 million of private sector funding.

Business planning and corporate priorities

- 2.4 The annual budget should be set in the context of the priorities and activities identified in the business planning process. Work has been undertaken to produce a detailed business plan for the Combined Authority for 2022/23, which sets out how services will deliver value for money and meet the key objectives of the Combined Authority and its partners.
- 2.5 **Appendix 1** sets out the draft overarching corporate plan for the organisation, supported by a draft summary business plan for each of the Combined Authority's directorates. These plans set out the priorities and objectives for the coming year, but are still draft documents which require some refinement over the coming weeks. In particular, a further review will be undertaken to ensure that equality, diversity and inclusion implications are fully embedded within the plans to achieve the best outcomes for the people, communities and businesses of West Yorkshire. This is in line with the Combined Authority's EDI vision, statement and framework to meet the standards set out in the Local Government Equality Framework. Following further review, final versions of the business plans will be presented to the March Combined Authority meeting for approval.
- 2.6 Each year the business plan is developed within the framework of the Combined Authority's five corporate priorities:
- Boosting productivity
 - Enabling inclusive growth
 - Tackling the climate emergency
 - Delivering 21st century transport
 - Securing money and powers
- 2.7 These corporate priorities were adopted four years ago and have been used to promote the work of the Combined Authority, are part of the Strategic Economic Framework and have been used to shape directorate and team priorities as part of the business planning process.
- 2.8 As part of this year's business planning process, discussions have been ongoing regarding the corporate priorities and whether the time is right to consider revising these to take account of the significant change that has taken place to the powers, functions and governance of the Combined Authority over 2021 as well as the organisation's expanded remit as a result of the devolution deal, pandemic and incorporation of the Police and Crime Team. These changes are not adequately reflected in the current priorities and

therefore it is proposed that the corporate priorities are reviewed to ensure they are fit for purpose and positively drive forward the future of the region and the organisation.

- 2.9 It is important that there is alignment between the revised corporate priorities and the outcomes we are trying to achieve, the committees, the investment priorities and our business planning, reporting, and performance management framework. Any revised priorities should therefore take into account the following:
- The new governance and committee structure
 - New powers and functions, and particularly policing and crime
 - The investment priorities that were agreed as part of the West Yorkshire Investment Strategy
 - A focus on equality, diversity and inclusion
 - Health and well-being outcomes
 - The state of the region indicators
- 2.10 This proposal was tabled at Finance Resources and Corporate Committee in December 2021 with broad support received. The next stage is to develop the proposal further in consultation with Members and Combined Authority staff. If agreed, further detail will be brought back to the March Combined Authority meeting for consideration as part of the overall review of the draft corporate plan. Separate work is also planned to work in partnership to revise the West Yorkshire vision, which was last developed as part of the Strategic Economic Framework, and further detail will be brought forward on this in due course.

Revenue budget position 2021/22

- 2.11 The budget set for the current financial year sought to maximise the available funding whilst maintaining general reserves at a minimum level of £8.1 million. Since the onset of the COVID-19 pandemic budgets have been difficult to set, with uncertainty over recovery grants to meet falls in income and difficult assumptions particularly around the funding model for the bus industry. At the time of setting the budget in February 2021 there was an expectation that public transport might be 'returning to normal' by 2022 but this is clearly not the case and 2022 looks even more difficult to forecast as government funding changes.
- 2.12 Monitoring of the budget throughout the year (and shaping the budget for future years) is now a clear part of the work of the Finance, Resources and Corporate Committee which was established at the Annual Meeting in June 2021. Regular meetings continue to be held with the West Yorkshire Directors of Finance where information is shared on a range of finance matters.
- 2.13 The final outturn for 2020/21 delivered some savings, mainly as a result of in year savings against staffing costs and concessionary travel reimbursement. Against the background of huge uncertainties of the sustainability of the bus industry the Combined Authority has already agreed to set aside any savings arising from public transport expenditure to a ring fenced reserve. It is

proposed that £1 million from the 2020/21 results is transferred to this reserve, alongside £1.5 million from the 2021/22 outturn and that these amounts are confirmed by the Finance, Resources and Corporate Committee once the year end figures are closed down in May 2022.

- 2.14 **Appendix 2** sets out the revised forecast outturn for 2021/22, showing the expected savings on concessionary reimbursement and some savings on staff costs. The latter have arisen as a result of the difficulties in recruiting in the current job market, and whilst savings are welcome in financial terms, there is a real impact of not being able to recruit to these posts in the form of work not being able to progress at the pace required.

Proposed Revenue Budget 2022/23

- 2.15 The proposed revenue budget for 2022/23 is set out in **Appendix 3**. This reflects in both the contents and presentation the input and feedback from the Finance, Resources and Corporate Committee and the Corporate Scrutiny Committee.
- 2.16 The Combined Authority has received reports over the years setting out the challenges that arise from the unique funding model for combined authorities. This sees transport costs met by a transport levy on the constituent local authorities but funding to meet all other priorities is heavily dependent on bidding into government or, formerly, European funding opportunities, supplemented by any earned income from banking activities, sales of services or business rates from the Enterprise Zones.
- 2.17 The mayoral devolution deal came with annual funding of £38 million – gainshare - the continuation of which is subject to regular review by government to ensure it has been properly expended in line with agreed priorities and properly assured. A separate report on this agenda considers the indicative allocation of a further tranche of gainshare in addition to a number of approvals that have progressed over the past year. This includes the continuation of the £1.75 million approved in 2021 as part of the 2021/22 budget to support a wide range of additional pressures and demands upon the developing mayoral combined authority. This included funding the Mayor's office, an additional director post and a range of supporting resource for policy and strategy teams, HR learning and development and recruitment, additional scrutiny support, ICT security and an Equality and Diversity Officer.
- 2.18 The budget is shown as balanced but it should be noted that this position is based on a number of assumptions and in recognition of significant risk and will therefore need to be kept under close review as the year progresses. The most significant of these are set out in the following paragraphs.

Bus services

- 2.19 Transport – Members will be aware from previous reports of the approach taken to supporting the bus industry during the past two years of the pandemic. This saw the Combined Authority complying with the Government

request to make concessionary fare and tendered service payments to operators at pre pandemic rates. Specific conditions were attached to these payments ensuring bus operators work collaboratively with the Combined Authority and financial and patronage data is shared. These conditions have been amended at each stage in the pandemic with this arrangement continuing until March 2022.

- 2.20 The Combined Authority has faced additional costs in the provision of tendered bus services during the pandemic. Initially this arose from lost revenue due to reduced patronage and was offset by the Government CBSSG award. However, in 2021 operating costs have increased and some operators have already reduced service levels resulting for example in the Combined Authority funding the continuation of socially necessary services including service 205 (Dewsbury- Morley- Pudsey).
- 2.21 At the time of writing, bus patronage and revenues continue to be below what could normally be expected. Whilst patronage rose steadily between July to October following the easing of COVID restrictions the growth levelled out in November at around 75%. While this figure is now slowly increasing it is unlikely to return to 2019 levels during 2022. In addition, a national shortage of drivers has impacted on service delivery locally with a consequential impact on service delivery which has been considered by the Transport Committee.
- 2.22 Bus Recovery Grant (BRG) is in place until end March 2022. Unless patronage and revenue recover to 2019 levels a potential funding gap will emerge for bus operators and the Combined Authority in April. This is leading to operators considering service reductions to reduce costs to meet the reduced revenue. Government is considering continuation of BRG beyond March but this is unknown at this stage. The Mayor has written to Baroness Vere, Buses Minister, urging her to confirm adequate funding to maintain a stable network.
- 2.23 Members agreed at the meeting in December therefore to maintain the Transport Levy at the current rate to ensure a level of continuity in the Authority's expenditure on buses in 2022/23 given the ongoing financial uncertainty. The transport levy funds both transport services and provides the funding for the borrowing costs to meet the local contribution for the West Yorkshire plus Transport Fund. A commitment to keeping it at the existing level is a strong statement that recognises the importance of improving the public transport provision in West Yorkshire It had been expected earlier in the year that the funding announced by government for the Bus Services Improvement Plan (BSIP) would provide revenue support for the bus initiatives required to strengthen the industry but the scale of this is likely to fall short of need.
- 2.24 The levy is then to be further supported by retaining in an earmarked reserve any short term savings achieved against concessionary reimbursement or bus tendered services. The outcome of the bid for the Bus Services Improvement Plan is expected in the next month. The original 'pot' announced by Government of £3 billion nationally was reduced to £1.2 billion in the October

Comprehensive Spending Review. It is anticipated that the award will fall short of expectations and is unlikely in itself to provide the scale of funding needed to meet the ambition for the region.

Income – transport levy

- 2.25 The largest single source of revenue income for the Combined Authority is the transport levy. As previously discussed members have already supported maintaining the levy at its existing amount, with the only difference compared to last year being to reflect the changes in relative population, the levy being paid on a per capita basis across West Yorkshire.
- 2.26 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.
- 2.27 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 2022/23.
- 2.28 **Table 1** 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 June '20 for 2022/23	Net 2021/22 £	Gross 2022/23 £	% of levy By District %	Refund 2022/23 £	Net 2022/23 £
Bradford	542,128	22,921,244	23,809,633	23.12%	906,110	22,903,523
Calderdale	211,439	8,759,653	9,286,156	9.02%	561,025	8,725,131
Kirklees	441,290	17,923,697	19,380,945	18.82%	1,483,846	17,897,099
Leeds	798,786	33,083,203	35,081,754	34.06%	1,960,125	33,121,629
Wakefield	351,592	15,212,791	15,441,513	14.99%	188,305	15,253,207
	2,345,235	97,900,588	103,000,000	100.00%	5,099,411	97,900,588

- 2.29 In accordance with the regulations local authorities will be notified of the transport levy by mid-February and will make payments to the Combined Authority in ten monthly instalments from 1 April 2022.

Other income

- 2.30 The Combined Authority seeks to generate income from its properties, with income from tenants at bus stations contributing to reduce the costs of operating these facilities, and advertising income earned from bus shelters. The pandemic has affected the level of earnings and while some government compensation has been successfully applied for and received in the past year it is unlikely that this will continue into the future. This emphasises the need to focus on ways to increase income from the Authority's assets and an asset plan is being created. The recently approved Business Accelerator Fund will generate income but in the initial years this is reinvested in the Fund and supports its running costs so is not included in the medium term projections.
- 2.31 Income is also shown for business rates received from the occupiers of the enterprise zones established through the LEP. This income is slowly increasing with a number of the M62 sites being developed out but the speed of increase of the income reflects the challenging conditions of the sites and the significant costs required to bring them into use.
- 2.32 The Combined Authority also receives investment interest on the funds that are placed out for short term deposit as part of the cash management arrangements that are considered later in this report as part of the treasury management strategy and statement. The recent increase in bank base interest rates has resulted in a revision to the forecast level of income next year and in future years. It is widely anticipated that there will be further increases in the bank base rate but a prudent position has been taken at this stage and revisions will be made as the Bank of England actually makes these changes.
- 2.33 Reports to previous meetings have set out the expectations with regard to other funding streams and at the time of writing and proposing a budget there is still no confirmation of a continuation of LEP core funding and Growth Hub funding, nor is there information on the UK Shared Prosperity Fund (UKSPF). This is intended to replace previous European funding that has been used to deliver a range of interventions, and particularly with a focus on business and skills. Some services and projects therefore have no confirmed funding from April 2022 (some funding continues to 2023). At this stage, and in anticipation of projects to be funded from either UKSPF or gainshare, it is intended to underwrite through reserves the staff costs for those posts where funding ceases in March 2022. Decisions on future LEP funding are expected by the end of March and similarly further information on UKSPF is expected soon. A separate paper on this agenda considers the potential early use of gainshare to fund similar activities and the staffing position will be kept under review over the next few months to determine how it matches available funding.

Staffing

- 2.34 The proposed budget includes the costs for the approved establishment with an estimated pay award of 2% for this year and next. It is noted that the job market and recruitment is challenging, with the Combined Authority unable to match the pay available from other organisations in the region and this will put pressure on future pay. The pay award for 2021/22 is not yet agreed, as the

Combined Authority pay award usually follows after local government has settled. At the time of writing an offer of 1.75% was yet to be accepted by local government and discussions are underway with trade unions to seek to agree and implement the pay award before the end of March 2022. It is also recognised that the increases in the cost of living as reflected in inflation may put pressure on a pay award above the 2% allowed for in the 2022/23 budget. Any increase above 2% would need to be managed through in year savings or, initially, use of reserves.

- 2.35 The gainshare funding allows for some headroom to complete the staffing restructures required in a number of teams following the arrival of the Mayor and the taking on of new functions and funding.
- 2.36 The triennial pension evaluation will take place during 2022/23 and will set the employer pension contribution rates for the subsequent three year period. At this stage it is assumed that the rates will not change significantly and work will be undertaken with the local authorities and West Yorkshire Pension Fund during the year to understand the implications of any changes.
- 2.37 The policy towards capitalisation of staffing costs continues in line with previous years. The costs of the Delivery Directorate, which is fully engaged in the delivery of capital programmes and projects, are funded from capital either charged directly to the project or through a small topslice of capital funding across the programme. A proportion of the costs of the supporting teams ie corporate and commercial, research and intelligence, policy, strategy and communications are also funded in this way. The model of charging individual posts to specific time limited projects is becoming more difficult to manage as the size and complexity of the programmes being delivered increases and it is intended over the coming year to review and simplify the way in which staff are funded to enable better longer term workforce planning and budgeting to take place.

Mayor's costs

- 2.38 As part of setting the current year budget approval was given to create a small team to directly support the Mayor. This is included unchanged in the coming year's budget, seeking to cover the costs of the Mayor and her immediate team. Ultimately all teams across the whole organisation are supporting the Mayor and the other members of the Combined Authority and teams have undergone some restructuring to enable more effective support of the priorities of the organisation.

Policing

- 2.39 The proposed budget excludes the income and expenditure relating to policing and crime. The setting of the policing budget is a Mayoral function, alongside setting the police precept and a separate process is drawing to a conclusion for these. All direct costs of policing are managed within the separate Police Fund and where services and support are provided from within the wider Combined Authority a recharge has been agreed on.

Reserves policy

- 2.40 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 2** 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. This approach has been considered by the members of the Governance and Audit Committee and it was supportive of these conclusions. Members were keen to understand how this compared to any national guidance and accepted that while a strategy of 5% is a prudent starting point, final decisions should reflect the extent of any earmarked reserves and the particular risk around different areas of income and expenditure.

Table 2

Reserves Policy	Budget 2022-23 £m	Reserves 2022-23 £m
Risk on Concessions	53.80	
5% contingency for volatility of payments and bus operator landscape risks		2.69
Risk on Subsidised Bus services (gross)	25.87	
10% contingency due to inflationary and market conditions due to Covid19		2.59
Risk (general) on other areas of spend		
Passenger & Bus Station Services (net)	8.83	
Trade and Inward Investment	1.37	
Policy, Strategy and Communications	6.53	
Financing (net)	5.82	
Corporate Services	7.77	
	<u>30.32</u>	
Risk of inflation increases/capacity demands etc at 5% (previously 3%)		1.52
Other Risks 2022/23 (Covid19, Brexit, operational matters)		1.00
Risk on income		
Risk arising due to lack of certainty on future funding		1.00
Risk that budgeted income falls short of expectations due to Covid -19		1.50
Total reserves required		<u>10.29</u>

Other reserves

- 2.41 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 2021/22 will be £47 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.

- 2.42 The creation of an earmarked reserve for future transport cost pressures has been set out earlier in this report, following the agreement at the last meeting that this approach would provide some capacity to meet the expected challenges of bus support when government funding comes to an end. It is proposed that the use of this reserve would be considered alongside the outcome of the Bus Services Improvement Plan bid.
- 2.43 The Combined Authority also has a number of other ‘unusable’ reserves, required for statutory purposes and which are not available for other purposes, including the pension reserve, capital adjustment account and revaluation reserve.

<u>Unusable Reserves</u>	
	£000's
Capital Adjustment Account	15,534
Financial Instruments Adjustment Account	-1,488
Pensions Reserve	91,346
Revaluation Reserve	14,507
Donated Asset Account	1,723
Total Unusable Reserves	121,622

Capital strategy

- 2.44 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.
- 2.45 The capital strategy was first adopted in May 2020 and has subsequently been absorbed into the West Yorkshire Investment Strategy which was approved at the meeting of the Combined Authority on 24 June 2021. The following section on the capital budget considers the capital plans in more detail.

Capital budget

- 2.46 The following paragraphs set out the capital funding available to the Combined Authority for 2022/23 and subsequent years and the indicative capital programme expenditure for which this funding will be used. The forecast this year is complicated by the change by Government to capture a number of established capital funding streams under the City Region Sustainable Transport Settlement (CRSTS). This now encompasses the integrated transport block, highways maintenance, the final instalment of the Transforming Cities Fund, active travel, mass transit and sustainable

transport. An indicative five year allocation of £830 million has been announced by Government but a further business case is required before a definitive decision will be given on phasing and relative allocations between the different components.

- 2.47 Additionally, work is underway to establish a pipeline of projects to support the agreed investment priorities. It is expected that this pipeline will include a mix of revenue and capital projects and that a proportion of future years revenue gainshare will be used to support a capital programme for these projects. The timing and scale of this is not yet known but will be established throughout the coming year and will be the subject of further reports to the Combined Authority.
- 2.48 In previous years, 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 2021/22 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 applied for both the Growth Deal and the Getting Building Fund for example.
- 2.49 **Appendix 4** sets out the capital expenditure and funding budget estimates for the period 2021/22 to 2024/25. 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 future use of gainshare and it is expected that further capital projects will need to be included in the capital programme at a later date, with the borrowing costs met from gainshare. Updates will be provided to the Authority and the Finance, Resources and Corporate Committee as plans progress and the capital estimates and funding can be established.

Minimum revenue provision policy (MRP)

- 2.50 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.
- 2.51 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.

- 2.52 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.
- 2.53 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.
- 2.54 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

- 2.55 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. The statement has been updated from that approved last year to reflect the change brought about by the This was considered and endorsed by the Governance and Audit Committee at its meeting on 13 January 2022 and is set out in full in **Appendix 5**.

Summary and conclusions

- 2.56 The proposal set out in this report is to agree a budget for 2022/23. Early indicative figures for subsequent years are included in **Appendix 3** for information and it should be noted that these currently present a funding gap of £2 million and then £4 million. Assumptions for these years are likely to change over the year and work will be undertaken to refine these forecasts and reach a position on a three year financial strategy.
- 2.57 Members are asked to consider the proposed budget and business plan for 2022/23 and accompanying recommendations. Further reports on budgets will be brought throughout the year, with the Finance Resources and Corporate Committee providing an opportunity for more detailed review ahead

of providing information to the full Combined Authority. The revised arrangements for scrutiny also provide opportunity for ongoing review and challenge through the Corporate Scrutiny Committee. 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. Tackling the Climate Emergency Implications

- 3.1 The draft business plan contains 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.

4. Inclusive Growth Implications

- 4.1 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 1**.

5. Equality and Diversity Implications

- 5.1 Equality and diversity are considered throughout the design and delivery of services and projects funded through this budget.
- 5.2 An equality impact assessment on the budget proposals has been undertaken and concludes that there are none.

6. Financial Implications

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

7. Legal Implications

- 7.1 The Combined Authority is required by the levying regulations to set the transport levy for 2022/23 by 15 February 2022.

8. Staffing Implications

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

9. External Consultees

9.1 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.

10. Recommendations

10.1. That approval be given to the Combined Authority proposed revenue budget for 2022/23.

10.2. That approval be given to the indicative capital programme and budget for 2021/22 – 2024/25.

10.3. That progress on the 2022/23 business plan be noted and that the proposal to review the Combined Authority's corporate priorities is endorsed.

10.4. 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 2023.

10.5. That the Director, Corporate and Commercial Services be authorised to issue the levy letter in respect of the financial year ending 31 March 2023 to the five District Councils in West Yorkshire.

10.6. That a payment of £5.09 million be made to the five District Councils in accordance with Table 1 of the report.

10.7. That authorisation be given to the Director, Corporate and Commercial Services to arrange appropriate funding for all expenditure in 2021/22 and 2022/23 subject to statutory limitation, including the most appropriate application of capital funding as set out in the report.

10.8. 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 2022/23 the estimated total value is £12 million.

10.9. That the adoption of the CIPFA Code of Practice for Treasury Management in Public Services be reaffirmed.

10.10. That the treasury management policy as set out in **Appendix 5** be approved.

10.11. That the prudential limits for the next three years as set out in **Appendix 5** be adopted.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

Appendix 1 – 2022/23 draft business plans on a page

Appendix 2 – 2021/22 revised revenue budget

Appendix 3 – 2022/23 proposed revenue budget

Appendix 4 – Indicative capital budget 2021/22– 2024/25.

Appendix 5 – Treasury management statement