
Report to: Finance, Resources and Corporate Committee

Date: 06 September 2022

Subject: **Financial Performance Report**

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Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	
Are there implications for equality and diversity?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

1 Purpose of this report

- 1.1 To provide an updated position at Q1 reforecast for both Revenue and Capital budgets for 2022/23.
- 1.2 To outline the approach to the 2023/24 Business Planning & Budget Setting process.
- 1.3 To provide an update on emerging inflationary and other financial pressures identified in the coming year with specific reference to Transport Services.

2 Information

Q1 2022/23 Financial Update

- 2.1 The 2022/23 financial year continues to present challenges for the Combined Authority. The longer term impact of Covid-19 is apparent in its impact on bus usage and impacting on bus patronage recovery. Impacts of inflation have already become apparent during budget monitoring particularly in areas where there are RPI, or CPI linked contracts renewing in-year.

- 2.2 Key areas of inflationary pressure are where there are contracted costs. For the revenue budget this is impacting initially on bus services and property costs, and across ICT contracts although due to the timing of contract renewal dates it appears that much of the impact will be deferred to next year. There is a slight positive in improved rates of return for cash balances on deposit but the increase in interest rates will increase the costs of future planned borrowing.
- 2.3 Other key cost pressures are within staffing budgets where proposals regarding pay awards will have ongoing budgetary impacts. The Combined Authority has a separate negotiating process for pay awards to that of local government but in practice the pay award implemented is usually aligned to the local government offer. The present proposals equate to an additional cost of up to £1 million on the revenue budget, which exceeds the 2% provision made in the budget and work continues to seek to contain this within the revised forecast for the year. At present there are a significant number of movements in the 2022/23 budget and it is intended to seek to minimise the use of reserves in year to keep the budget in balance.

2022/23 Approach to Budgeting

- 2.4 The financial year 2023/24 presents another challenging year for budget setting for public bodies. The development of next year's budget, which runs in parallel with developing the business plan, will again be particularly impacted by a number of strategic factors where there still remains significant uncertainty. These include the continued impact of the Covid-19 pandemic on bus, the need to address the economic downturn, inflationary pressures and cost of living crisis and to support residents whilst the future funding uncertainties continue and at the same time the future funding model for combined authorities remains unclear. There is uncertainty on other funding sources, including bus recovery funding (recently extended to March 2023 only) and Combined Authority and LEP core funding. The implications of the recently announced process for the City Region Sustainable Transport Settlement (formerly the Intra-City Transport Fund) also need to be considered.
- 2.5 Initial work on the budgets has now started and will need to be undertaken in the context of a revised medium term financial strategy, with further work continuing between now and the Combined Authority meeting in February 2023, where budgets, the transport levy and business plans will be formally approved. It is proposed that the work to deliver the required balanced budget, alongside an agreed business plan, will be overseen by FRCC, with formal updates provided to the Combined Authority meeting at key points during the year.
- 2.6 The budget will also need to take into account the approved use of gainshare and how this supports the delivery of the Combined Authority's priorities and future borrowing and investment plans.
- 2.7 The business planning and budgeting timetable is attached at **Appendix 1** to this report and further detailed work on budgets is proposed to be held in

October which will address the emerging issues identified and incorporate some scenario planning to allow for further scrutiny and decisioning.

- 2.8 Significant variances emerged at 21/22 year-end in relation to expenditure on bus tendered services and concessionary travel and this was reported to the last meeting of the Combined Authority. A thorough review conducted by Internal Audit and supported by Finance is now reaching a conclusion, and is expected to make recommendations to ensure budgetary monitoring within the function is suitably robust and to address any weaknesses or gaps in current controls.
- 2.9 In line with the decision at the last Combined Authority meeting to provide a regular update on expenditure in this area **Appendix 2** sets out the position prior to the Q1 reforecast, outlining the agreed budget virement between Concessions and Tendered Services of £2.1m. It includes an update on the position since Q1 and a brief explanation of the variances for July payments, most of which arise from timing differences and which therefore do not give rise to a change in the forecast outturn at this stage. At the time of writing a further report is in preparation for the Combined Authority to outline further pressures and challenges that have emerged over the summer and to seek a further in year budget virement.

Capital Programme Update

- 2.10 The table below summarises the total expenditure on the Combined Authority's capital programme as at quarter 1 2022/23. This includes a revised in year forecast of expenditure on each funding programme in comparison with the budget forecast reported to the Combined Authority in February 2022 and to the Finance Resources and Corporate Committee in March 2022.

Capital Programme Expenditure	Indicative Forecast Combined Authority February 2022	Revised In-Year Forecast as at June 2022	Quarter 1 Expenditure 2022/23	% of in-year Forecast
Transport Programmes				
City Region Sustainable Transport Settlement		£68,280,000	£0	0.00%
Transforming Cities Fund (inc. Tranche 1) (non CRSTS)	£129,518,965	£64,467,093	£5,746,745	8.91%
West Yorkshire plus Transport Fund	£102,395,761	£59,726,739	£12,315,451	20.62%
Zero Emissions Bus Regional Areas		£3,818,701	£0	0.00%
Leeds Public Transport Investment Programme	£368,755	£2,870,000	£247,210	8.61%
Integrated Transport Block (CA legacy projects)	£4,281,941	£5,288,676	£610,618	11.55%
Active Travel		£7,489,580	£1,293,551	17.27%
New Station Fund	£10,000,000	£3,687,541	£2,251,228	61.05%
Economic Development Programmes				
Getting Building Fund		£11,377,575	£4,728,949	41.56%
Brownfield Housing Fund	£29,178,719	£29,178,719	£34,873	0.12%
Social Housing Decarbonisation Fund		£5,061,627	£0	0.00%
British Library North	£3,803,586	£3,803,586	£0	0.00%
Corporate Projects	£2,609,900	£2,609,900	£325,386	12.47%
Broadband	£2,429,409	£1,525,169	£0	0.00%
Growth Deal - Economic Development		£123,300	3000	2.43%
Business Accelerator Fund	£3,070,000	£3,070,000	0	0.00%
Total Capital Spend	£284,587,036	£272,378,206	£27,554,011	10.12%

- 2.11 The in-year forecast now includes the following programmes which had not received formal approval from Government at the time of the Combined Authority meeting in February 2022: City Region Sustainable Transport

Settlement (CRSTS); Zero Emissions Bus Regional Area (ZEBRA); Active Travel (Tranche 3); and the Social Housing Decarbonisation Fund.

- 2.12 It also includes expenditure on the Getting Building Fund which at the time of budgeting was expected to spend in full by the end of 2021/22. However, as reported to this Committee in July 2022 the Combined Authority used its freedoms and flexibilities to allow seven GBF projects to continue to spend into 2022/23. Some residual spend on the Growth Deal Economic Development projects has also been identified, this will support a further evaluation and impact assessment of the programme.
- 2.13 Expenditure of 10% in the first quarter of the year is in line with prior years and seasonality of the Combined Authority's annual capital spend. The majority of spend, often over 60%, tends to be achieved in the final quarter.
- 2.14 86% of the Combined Authority's forecast expenditure in 2022/23 is concentrated across five major programmes: the new City Region Sustainable Transport Settlement; the Transforming Cities Fund (TCF); the West Yorkshire plus Transport Fund; Getting Building Fund (GBF); and the Brownfield Housing Fund (BHF). The following summarises the performance of these programmes.

City Region Sustainable Transport Settlement

- 2.15 Now that the revised CRSTS programme has been agreed with Government activity is ongoing to identify detailed spend forecasts for each project within the programme. This work will need to be finalised before the initial forecast of spend of £68.28 million for this financial year can be confirmed. To date an approval of £30.30 million has been agreed (covering the five years of the CRSTS programme). This is broken across three main activities: programme management and Combined Authority overheads, monitoring and evaluation and communications and engagement. Further approvals of individual projects are beginning to progress through the assurance process.

Transforming Cities Fund

- 2.16 The TCF programme is included as part of the CRSTS programme. However, the remaining balance of TCF from previous years income and expenditure totals £142 million. Spend against this remaining balance will be monitored until it has been fully delivered, the programme will then be reported as part of CRSTS.
- 2.17 Forecasting expenditure on projects that are still in development is always difficult because budgets are not formally contracted with project sponsors until the full business case has been agreed. The majority of projects within the TCF are still pre full business case therefore forecasts for 2022/23 are likely to fluctuate.

Transport Fund

- 2.18 The £1 billion Transport Fund is now in its 8th year of delivery, it is a mature programme with around a third of projects either already completed or on site.

A full review of the programme is currently taking place. The aim of this is to address concerns regarding the viability of delivering future projects given the funding available, the existing level of overprogramming (£151 million) and the ongoing levels of inflation making some projects unviable. A report on the conclusions of this review is expected to be considered by this Committee in November 2022.

Getting Building Fund

- 2.19 All of the seven remaining projects within the Getting Building Fund are now on site or in delivery. This is reflected in that 41.50% of the remaining funding has been spent in the first quarter.

Brownfield Housing Fund

- 2.20 A memorandum of understanding has now been agreed for the additional £22.26 million of BHF monies taking the total funding awarded to £89.04 million. Nine projects are fully approved (eight at full business case and one with agreed development costs) with a further four currently progressing through the assurance process and a further eight in the pipeline. The majority of the expenditure on approved projects in the programme in 2021/22 was accrued at year end as funding agreements and outputs need to be achieved before payment is made. It is likely that this will also be the case for 2022/23 with limited spend in year (mainly staff costs) and the majority of expenditure accrued at year end.

Gainshare Update

- 2.21 The Combined Authority has agreed six investment priorities and the gainshare will be prioritised against those priorities where no other funding source has been identified and that initial expenditure will be on revenue activities, either specific projects and interventions or developing capacity and building a project pipeline.
- 2.22 The Combined Authority considered a paper on gainshare at its last meeting, identifying indicative funding envelopes for each of the investment priorities over the next three years, and indicatively approved capacity funding for all the partners. **Appendix 3** is an update on most recent approvals on Gainshare to date, and a forecast of spend for the next three years.
- 2.23 There are currently 21 live projects. The overall value, complexity and number of projects that will evolve is anticipated between 30 and 50. It is intended that over the medium term, a pipeline of overarching programmes/projects for each investment priority will be developed across the region. In order to enable this initial revenue funding envelopes have been agreed as set out, however pipelines will be developed to respond to wider funding streams, including future funding such as UK Shared Prosperity Fund and any other funding within the SIF. The budget work planned over the coming months will consider when and how further allocations of gainshare funding should be determined.

3 Tackling the Climate Emergency Implications

3.1 There are no climate emergency implications directly arising from this report.

4 Inclusive Growth Implications

4.1 There are no inclusive growth implications directly arising from this report.

5 Equality and Diversity Implications

5.1 There are no equality and diversity implications directly arising from this report.

6 Financial Implications

6.1 These are contained in the main body of the report.

7 Legal Implications

7.1 There are no legal implications directly arising from this report.

8 Staffing Implications

8.1 There are no staffing implications directly arising from this report.

9 External Consultees

9.1 No external consultations have been undertaken.

10 Recommendations

10.1 That the Committee notes the financial position as reported.

11 Background Documents

11.1 There are no background documents referenced in this report.

12 Appendices

Appendix 1 – 2023/24 Business Planning & Budget Setting Timetable

Appendix 2 – Bus services update

Appendix 3 – Gainshare Summary