
Report to: Corporate Scrutiny Committee

Date: 23 September 2022

Subject: **Budgets, inflation and corporate performance**

Director: Angela Taylor, Director of Corporate & Commercial Services

Author: Katie Hurrell, Head of Finance

1. Purpose of this report

- 1.1 To advise the Committee of the approach being taken to budget and business planning for 2023/24.
- 1.2 To advise the Committee of the emerging budget pressures on revenue and capital budgets.
- 1.3 To consider the Q1 Key Performance Indicators.

2. Information

Approach to budget and business planning

- 2.1 Initial work on the budgets has now started and will need to be undertaken in the context of a revised medium term financial strategy. Work will take place over the autumn in order to present budgets, the transport levy and business plans for formal approval to the Combined Authority meeting in February 2023. 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 and other committees at key points during the year. The budget timeline is attached as **Appendix 1** for consideration.
- 2.2 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. **Appendix 2** provides the latest position with gainshare allocations and approvals.
- 2.3 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

July 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. Reports prepared for the July and September meetings of the Combined Authority sought approval to vire budget from the concessionary travel budget to the bus tendered services budget to meet additional costs arising from inflation, operator actions and the business failure of local operator CT Plus.

Budget pressures

- 2.4 In year budget pressures are emerging on bus tendered services as set out above with an additional £3 million of costs incurred to date. This pressure will continue as inflation on fuel and salaries continues to rise and bus operators reflect this in their tender prices. Inflation is also starting to affect contracts in other areas but the impact is staggered depending on the timing of the renewal of contracts or the anniversary date on which annual inflation is applied. Energy costs are determined by a flexible contract with YPO that can vary in year with the price being affected by their forward trades. It is currently anticipated that there will be an additional in-year pressure of between £500k and £1 million on energy costs and increased costs will continue into next year.
- 2.5 Salary costs are also expected to exceed budget this year as in line with the other West Yorkshire local authorities an allowance was made for a 2% pay award. The current local government offer is nearer 4% and it is expected that the Combined Authority pay award will therefore also be at a higher level than that budgeted, giving rise to an additional pressure of a further £500k.
- 2.6 The challenges continue into setting the budget for the financial year 2023/24 which 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 and inflation on bus, the need to address the economic downturn, inflationary pressures on business and contracts, cost of living crisis and to support residents. 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 priorities of the new government may also influence where funding is directed.
- 2.7 The budget forecast for 2022/23 is currently being updated and this will then inform the three-year medium term financial strategy, noting that there are currently budget funding gaps in the next two years. This will also need to consider any changes in expected income, particularly where this is funding people and services and is not guaranteed to continue. For example the Growth Service team had its annual 2022/23 BEIS grant funding cut by 50% compared to last year and there are 10 further programmes where funding is due to end in 2022/23.

Capital Programmes Inflation - Overview

- 2.8 Construction costs have been escalating on our transport projects due to a number of reasons, including Brexit, covid and other external factors, such as the Ukraine crisis which is driving high inflation rates. As a result of these, we are collectively experiencing significant rises in inflation costs on our capital programmes and projects. Previously inflation was roughly 2%, but it increased to 9.6% (June 2022) and is still rising. This is having a significant impact on project costs, resulting in pressure on our allocated funding to meet these increasing costs.
- 2.9 The West Yorkshire Transport Fund (WY+TF) is a £1billion programme which is currently overprogrammed by £151 million. Transforming Cities Fund (TCF) has similar issues with overprogramming and the City Region Sustainable Transport Settlement (CRSTS) inflation figure in the bid is already lower than current inflation costs, and delivery has yet to commence on most of these schemes.
- 2.10 Assuming continuing high inflation costs there is insufficient funding to deliver all the schemes in the current programmes at this time. There is a need therefore to reduce the commitment on current programmes by pausing schemes, or by delivering schemes in phases or over longer timeframes and ensure that projects nearing delivery can go into delivery and successfully complete. This is exacerbated by staffing challenges, with all partner authorities and the Combined Authority facing difficulties in filling staff vacancies.
- 2.11 In June the Finance, Resources and Corporate Committee agreed that a process should be undertaken to pause some schemes and/or include later delivery phases onto the transport pipeline, where they will seek funding from other sources.
- 2.12 An exercise is therefore underway to assess all projects within the WY+TF and TCF based on the following criteria:
- Affordability – are these projects affordable within their allocated funding?
 - Deliverability – are projects deliverable within the timescales agreed? Do they have resource pressures?
 - Strategic Fit – are projects promoting sustainable transport (bus and active travel)?
- 2.13 Officers from the Combined Authority and partner councils are considering each project against the criteria above and to gain an understanding of which projects are the highest priority.
- 2.14 Initial review meetings have taken place with each partner and the Combined Authority and these will be brought to a conclusion for the November meeting of the Finance, Resources and Corporate Committee.

Corporate Key Performance Indicators (KPI's) 2022-23 (Quarter 1)

- 2.15 The budget process will progress alongside the development of business plans for 2023/24. The current year business plans are being reviewed to consider if any in year changes are required, particularly from the perspective of needing to respond to the cost of living and cost of doing business crisis. A key mechanism through which performance against each annual business plan is monitored is via corporate key performance indicators. The 2022/23 KPIs received approval at the Finance, Resources and Corporate Committee on 5th April 2022.
- 2.16 These strategic KPIs are intended to provide a summary level overview of organisational performance against overarching corporate objectives. They therefore measure the specific contribution of the Combined Authority to achieving these corporate objectives through its day-to-day activities, rather than measuring wider performance against shared regional ambitions.
- 2.17 The region's progress against a range of economic, social and environmental indicators is reported through the annual State of the Region report, which is due to be published this autumn, and through regular reports to each of the Combined Authority's thematic committees.
- 2.18 In order to measure performance against the Combined Authority's business plans and strategic priorities, a detailed set of KPIs for 2022/23 has been developed for each directorate and is being routinely monitored throughout the financial year.
- 2.19 The 2022-23 Quarter 1 performance dashboard is provided in **Appendix 3**. A commentary on achievement to date is included against each KPI and a RAG rating applied. While good progress has been made on certain KPIs others are at risk of underachieving and a focus on mitigations to address this will continue, with a further update to be produced each quarter.
- 2.20 Particular efforts have been made to ensure that equality, diversity and inclusion is the golden thread running through our business planning cycle and these are outlined in the performance dashboard.
- 2.21 The 2022-23 Quarter 1 performance dashboard has been considered by the Finance, Resources and Corporate Committee on 6 September 2022. It welcomed progress and recommended that subsequent dashboards should incorporate a 'direction of travel' arrow to indicate if delivery and performance is improving or declining. The Committee is asked to consider the progress to date and whether they require any further information.

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 Furthering Inclusive Growth objectives is a core aim of the business plan, as are taking all opportunities to improve EDI outcomes for the organisation and

for the delivery of its policies. This will be explicitly included in all business plans, in Directorate objectives, and in the KPIs. Corporate KPIs will include EDI targets and actions.

5. Financial Implications

5.1 There are no financial implications directly arising from this report.

6. Legal Implications

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

7. Staffing Implications

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

8. External Consultees

8.1 No external consultations have been undertaken.

9. Recommendations

9.1 That the Committee notes and comments on the approach being taken to budget and business planning for 2023/24.

9.2 That the Committee notes and comments on the emerging budget pressures on revenue and capital budgets.

9.3 That the Committee notes and comments on the 2022/23 Q1 Key Performance Indicators.

10. Background Documents

None.

11. Appendices

Appendix 1 – Budget timetable

Appendix 2 – Gainshare position

Appendix 3 – 2022-23 Quarter 1 performance dashboard