

Report to: West Yorkshire Combined Authority

Date: 8 December 2022

Subject: **Business planning and budgets**

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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 checked="" type="checkbox"/> Yes <input type="checkbox"/> No

1. Purpose of this report

- 1.1 To consider and seek agreement to revisions to the current year (2022/23) business plans.
- 1.2 To consider the revised budget forecast for 2022/23 and proposals for the 2023/24 budget in the context of a three year financial strategy.
- 1.3 To consider and input to preparations for 2023/24 business plans in light of the move to an outcome led organisation.

2. Information

Business Planning 2022/23

- 2.1 2022-23 Business Plans are being reshaped to allow for factors impacting on delivery such as the economic and financial situation across the West Yorkshire partnership as a result of the cost of living crisis, rising energy costs, and new and emerging areas of work. Re-visiting the plans based on what can be delivered in this new fiscal environment with the existing establishment, will help to inform the budget and business planning process for 2023-24.
- 2.2 Directorate business plans were formulated in late 2021 and approved in spring 2022. These plans were developed to meet the organisation's corporate objectives and make progress on delivering the Mayor's pledges. Since that time good progress continues to be made on delivery of objectives and the Business Plan components e.g., securing external funds such as the City Region Sustainable Transport Settlement. There are areas of challenge though which impact on the full delivery of the 2022/23 business plan, namely:

- Inflationary pressures driving costs up beyond committed budgets;
- The cost of living crisis and broader fiscal environment for the West Yorkshire partnership requiring a shift in priority; and
- The Authority's ability to successfully recruit and reach a full staffing contingent.

2.3 As a result of the challenges outlined above, Directors have identified business plan components that need to be stopped or paused. These areas have been considered by members of the Finance, Resources and Corporate Committee and are as follows:

Corporate and Commercial Services

2.4 Of the headlines presented in the Corporate and Commercial Services 2022/23 Plan on a Page, the following activities have been identified as delayed due to a combination of lack of resource or increasing complexity. It has been noted that successful recruitment to current vacancies would allow for faster progress to be made towards completing this year's business plan:

- Progression of the review of the terms and conditions of employment across the workforce (HR);
- Further development of contract management outcomes (Commercial);
- Create and implement a plan for further Commercialisation of the organisation (Commercial);
- Websites technical management is continued; however, the development of the website and online strategy has been delayed (IT); and
- Further digital transformation via MCA Digital programme (IT).

2.5 Additional activities for 2022/23 have been identified for Human Resources:

- Reviewing the organisational design principles and business operating model, making recommendations on the organisational structure; and,
- Developing a programme of organisational change to be carried out across directorates, supporting the agreed operating model or organisational priorities.

Policy and Development

2.6 Progress has been made across most of the Policy and Development priorities. Some areas have been delayed due to capacity, a delay in Government guidance and the need to respond to new areas of work. Many areas of the policy and development work were already scheduled to run into next year.

Place and Environment

2.7 This is an area where the CA had agreed to increase capacity and whilst we have had some new recruits, they have only just joined and there remain several vacancies. We are awaiting guidance on the Nature Recovery Strategy and so propose to delay this into next year. We are taking longer to develop the Housing Strategy as we prioritise the work to support site development. We are delaying the refresh of the flood policy position and

digital infrastructure action plan. We also have a different assurance pathway for the wave one climate actions and housing revenue fund next steps.

Transport Policy

- 2.8 All of the transport policy business plan priorities are continuing, however timeframes for some policies and plans have been reviewed to fit with the timeframe for the development of a new Local Transport Plan which falls into the new year.

Mass Transit

- 2.9 Mass Transit are maintaining the 2022/23 business plan commitments and will continue to grow the team as per the plan to support this delivery of the development workstreams.

Policing, Strategy and Communications

Media, Marketing and Comms

- 2.10 The Combined Authority's function has undergone a substantial restructure and been subject to an LGA peer review. It has taken time to recruit into revised roles. The majority of plans will be delivered in line with expectations against the current business planning cycle. Sharp prioritisation will be required into 2023-24. New priorities on organisational evolution and colleague communications will require focussed resource. The output and impact of the team has increased exponentially since before devolution.

Strategy

- 2.11 Capacity has been diverted to Equality, Diversity and Inclusion, and the Cost of Living crisis has demanded that we resource the development of the Mayor's Voluntary and Community Sector fund and coordinate the CA / LEP activity. Therefore, some priorities have changed. The development and implementation of the West Yorkshire Plan has progressed well but over a slightly longer timescale than originally envisaged. Work on the Inclusivity Champion and Fair Work Charter is progressing but to a longer timescale than planned. Work on tourism and destination management will require reprioritisation of resources.
- 2.12 The Strategy team is also responsible for the UK Shared Prosperity Fund. Meeting the Government requirements for this fund has required resource to be focussed on this work rather than wider strategic finance development. Recruitment is underway to support the CA's role as Lead Authority,

Research and Intelligence

- 2.13 Key priorities are continuing but require rescoping, including carbon appraisal and decarbonisation, and Strategic Assessment appraisal (which will be managed through a reduction in the level of appraisal required at this stage). A key priority for the team is the modelling and data collection work to support the development of business cases for Mass Transit and Bus Reform. There have been some delays to data collection, but this will not affect the critical path.

Policing and Crime / Violence Reduction Unit

- 2.14 Policing & Crime and VRU have separate budgets and all business as usual activity is continuing as planned – including accountability, complaints, precept, commissioning and engagement, and the delivery of the Violence Reduction Response Strategy.

Delivery

- 2.15 Economic Implementation has seen growth in activity in year in the following work areas: climate and environment, Retrofit Booster, Investment Zones, flood resilience. There has also been an unexpected continuation of the Broadband Contract 3.
- 2.16 Transport Implementation and Transforming Cities Fund have undertaken the inflation review which will add £270m to the pipeline with schemes that are working to outline and/or full business cases.

Transport and Property Services

- 2.17 Most of Transport and Property Services comprises continuing interconnected business as usual activities which do not lend themselves to a simple stop/start/ continue choice. In year options for 2022/23 are largely limited as much of the TPS activity is established in contracts which would require amendment or it takes the form of directly employed staff providing front line services such as bus stations.

Inclusive Economy, Skills and Culture

- 2.18 Many programmes across Economic Services are externally funded with contract requirements; overall, funding for this year has been allocated for many programmes and monitoring requirements allow little flexibility (if any) to be allocated elsewhere.
- 2.19 Business, Innovation, Skills, and Culture Policy work is on track to meet all five of their business plan objectives with the exception of two areas. The progress on manufacturing task force has taken longer which means that the work on the delivery will begin later in the year. Work on community wealth building and alternative business models has also been delayed but will continue next year, working with growth service to promote new models.
- 2.20 It is also noted across the directorate that the timing of recruitment for several programmes, and in recruitment/not backfilling more senior roles within the CA, have provided modest savings.

Revenue budget re-forecast and in-year review 2022/23 and budget 2023/24

- 2.21 Work has been progressing to establish a revised forecast for the current year and prepare a budget for 2023/24 and indicative budgets for the subsequent two years. This is challenging in the context of a volatile external economic environment, with assumptions made in February 2022 when setting the budget on inflation and funding for example being subject to significant change over the last eight months.
- 2.22 When the 2022/23 budget was presented for approval in February 2022 confirmation was still awaited on certain funding streams including the mayoral capacity fund which is determined annually by government. While this was subsequently confirmed for the current year it is unclear if it will continue.

Funding to support LEP activities for this year was cut, and again it is not clear what will happen next year. Further detail on these funding streams was not forthcoming at the fiscal event on 17 November.

- 2.23 Planning and managing expenditure on bus has been particularly difficult over the past two years, and this challenge will continue into the future as cost pressures continue. In 2021/22 expenditure on bus tendered services increased as a result of changes in the operating environment and the consequences of the pandemic. This was at a time when government required transport authorities and bus operators to work together to provide a viable bus service, with some support from government in the form of bus recovery grants which met some of the additional costs.
- 2.24 Costs have continued to increase in the current year, driven by inflation and the consequences of bus operators actions and failure of CT Plus. At the same time expenditure on concessionary travel has remained at pre-pandemic levels and this has enabled the transfer of budget from concessions to bus tendered services in year. This has enabled the current network to broadly be maintained but means that continuing inflationary increases in future years will not be able to be contained within current budgets.
- 2.25 Bus service provision including concessionary fares is an area funded by the transport levy which is paid by the five constituent authorities. The levy has remained largely cash flat (ie real term reduction) over the last ten years and local authority partners have already indicated that they do not expect to be able to fund any increase given the pressures on their budgets. While the levy is assumed to remain cash flat the collection mechanism is based on population so any changes in relative population between the local authorities will change the cost to them. This figure has been provided to the local authority Finance Directors for budget purposes, and shows moderate variation compared to last year (please see **Table 1** below).

	Relevant Population Rebasing mid year population following 2021 census	Net 2022/23 £	Gross 2023/24 £	% of levy By District %	Refund 2023/24 £	Net 2023/24 £
Bradford	546,400	22,903,523	23,932,301	23.24%	946,599	22,985,703
Calderdale	206,600	8,725,131	9,049,073	8.79%	482,771	8,566,302
Kirklees	433,300	17,897,098	18,978,525	18.43%	1,351,020	17,627,506
Leeds	812,000	33,121,629	35,565,572	34.53%	2,119,818	33,445,754
Wakefield	353,300	15,253,207	15,474,528	15.02%	199,203	15,275,325
	2,351,600	97,900,588	103,000,000	100.00%	5,099,411	97,900,589

- 2.26 Modelling has been undertaken on the likely range of costs for both bus tendered services and concessionary travel. This indicates that savings in concessionary travel this year and the unexpected continuation of bus recovery funding from government will enable the costs of tendered services to be met this year and provide a small surplus that may meet the expected costs next year but not beyond. This would enable the current network review to be concluded, and for options to be developed to determine a sustainable affordable network for subsequent years. This would cover all aspects of tendered services, including the complex funding arrangements in place for

schools travel. It should be noted that the provision of the English National Concessionary Travel Scheme is a statutory requirement, currently costing almost £40 million per annum.

- 2.27 BSIP funding has now been confirmed and this will provide funding for both additionality to the network as well as the ongoing funding for the Mayor's Fares initiative which is seeking to make bus travel more affordable and encourage more use of the network.
- 2.28 Inflationary pressures have impacted on other areas of the budget, including energy and ICT costs. Utilities forecast outturn for 22/23 is 50% above budget with further inflationary increases across utilities anticipated at 27% in 23/24 (18% in 24/25 & 25/26), representing on average £250k increase per annum. The costs of planned works and repairs for bus stations and shelters is showing a 10% increase in the current year, with increases expected at 5-10% in 24/25 onwards, an average £100k increase p.a. ICT contract costs are also increasing at levels reflecting the increase in inflation. The pay award for this year has just been settled at a level higher than the 2% budgeted, so in line with all other local government organisations this has put pressure on this year's budget and future years.
- 2.29 For 2022/23 the other main budget movements arise from savings on staffing due to the time taken to fill certain vacancies. Tighter vacancy management arrangements have been put in place to ensure all posts released for recruitment have been scrutinised and confirmed as essential. Recent changes in interest rates have also increased the return on cash balances held but as they are largely related to capital grants unspent it is proposed that this income is used to support the capital programmes that are severely impacted by inflationary increases.
- 2.30 The forecast for 2022/23 is therefore a break-even position, with transfers to be made to a capital reserve and the transport reserve. **Appendix 1** sets out the draft position for 2023/24 and indicative figures for the next two years, showing a small budget deficit for next year but an increasing problem in subsequent years. The detailed budget presentation is being reviewed to align with the new directorate structures presented for approval in a later item on this agenda.
- 2.31 As set out in above there is a position where, based on current assumptions, it may be possible to meet bus tendered services costs in 2023/24 but not beyond and action will be required in year to manage expectations and determine what is affordable on a longer-term basis. The financial challenge faced beyond 2023/24 is likely to be significant, given the real terms cut in levy and expected increasing cost of tendered service provision as commercial services are withdrawn. Delivery of the Bus Service Improvement Plan will drive change in the Combined Authority's role in bus service provision, fares and in its customer facing services
- 2.32 There are a number of cost increases in 2023/24 arising from inflation on ICT and maintenance contracts, energy and pay and challenges in funding the staffing position. A review is underway of the opportunity to utilise more capital recharges to reflect the increasing scale of work being undertaken across the organisation in support of the growing capital programme.

- 2.33 Work is also underway to re-visit the position on gainshare to ensure it is being utilised to best effect across the partnership to support shared priorities and capacity needed. Scenarios on using gainshare to fund a capital programme have also been developed to enable a strategic decision to be made on the point at which there is better value in using the funding to pay for borrowing but balanced against the flexibility of having revenue available to respond to emerging requirements.
- 2.34 Any decisions made on the revenue budget will need to be mindful of the forecast budget gaps in subsequent years, some of which is driven by continued increases in the cost of bus services with no increase in the transport levy, and some of which is driven by inflation in other areas of activity.
- 2.35 A closer focus on income generation opportunities will be prioritised. The Combined Authority does not generally provide services for which it can make a charge but an Asset Development Strategy seeks to identify if and where more money can be earned from the existing asset base. The recent launch of the Foresight West Yorkshire SME Investment Fund is expected in time to generate returns of 15% and exploratory conversations with the UK Investment Bank and the West Yorkshire Pension Fund have been held, seeking opportunities for investment or co-investment.

Capital programme

- 2.36 Work is underway to prepare an indicative three year capital programme based on known funding sources. A separate paper on this agenda considers the outcome of a review of the impact on inflation on the capital programme. This makes recommendations for pausing some of the current projects to enable a more affordable programme to be delivered in the short to medium term. It is likely that these actions will slow down expenditure particularly on the Transport Fund, and the impacts of any decisions made as a result of that paper will need to be incorporated in the capital programme forecast in the February 2023 budget report.
- 2.37 The current forecast spend for the City Region Sustainable Transport Settlement is high for the next three years, reflecting the profiles originally provided to the Department for Transport and in line with milestone targets set by sponsors. Forecasts are being reviewed with partners to ensure they are resilient and robust.
- 2.38 The indicative capital programme will be further shaped by the continuing discussions on future use of gainshare. Work is underway on the development of pipelines of projects for each investment priority and to what extent these could form part of a future capital programme with borrowing costs met by gainshare.

Reserves

- 2.39 The Combined Authority, in the same way as other local government organisations has a number of statutory reserves which arise from accounting requirements relating to capital grants and pensions. In addition the Combined Authority holds a general reserve and a small number of specific earmarked reserves which are considered in the paragraphs below.

2.40 Reserves policy for general reserve

Any budget proposal 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 both the after-effects of the pandemic and the current economic crisis 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 living costs crisis. In previous years Members have been 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 General Reserve Policy - DRAFT

Reserves Policy	Budget 2023-24 £m	Reserves 2023-24 £m
Risk on Concessions	46.18	
5% contingency for volatility of payments and bus operator landscape risks		2.31
Risk on Subsidised Bus services (gross)	26.88	
10% contingency due to inflationary and market conditions due to Covid19		2.69
Risk (general) on other areas of spend		
Passenger & Bus Station Services (net)	9.60	
Trade and Inward Investment	1.39	
Policy, Strategy and Communications	7.13	
Financing (net)	7.19	
Corporate Services	9.98	
	35.28	
Risk of inflation increases/capacity demands etc at 10% (previously 5%)		3.53
Other Risks 2023/24 (Covid19, cost of living crisis, operational matters)		2.00
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 recession		1.50
Total reserves required		13.02

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 WY+TF was established as part of the City Deal forerunner to the Mayoral Combined Authority and required a £250 million local contribution to match Government's £750 million. 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 A specific transport reserve of £2 million was created at the end of the last financial year to support future transport cost pressures following the expected

as government funding comes to an end. The current year budget forecast identifies a further £3 million of non-recurring savings on concessionary transport reimbursement costs that it is proposed is transferred in the transport reserve to meet future demand, with this sum then utilised in 2023/24.

- 2.43 Capital reserves - the Combined Authority also has a number of capital reserves - usable capital reserves can only be used to fund capital expenditure including capital grants unapplied and capital receipt reserve, and 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.

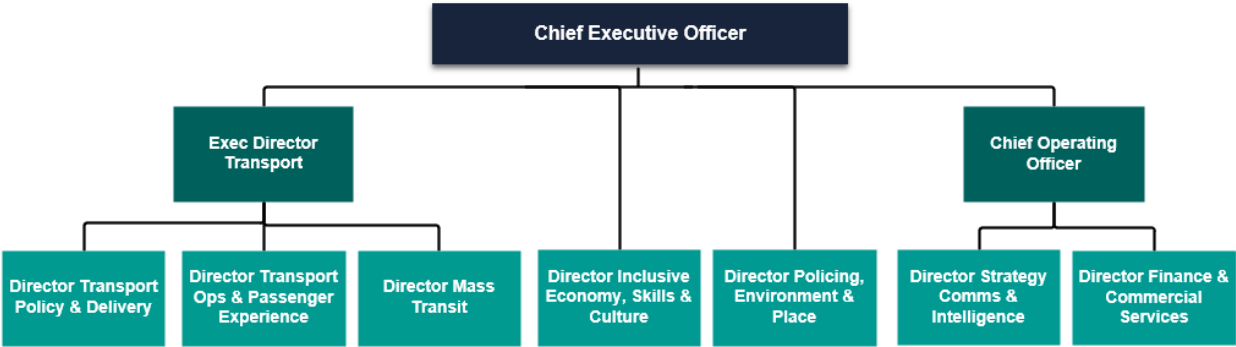
Other Reserves

Usable	£000
Transport Bus Reserve	2,000
West Yorkshire + Transport Fund Reserve	53,102
Capital Grant Unapplied	189,606
Usable Capital Receipt Reserve	27,519
Unusable	
Capital Adjustment Account	32,759
Financial instrument Adjustment Account	(1,215)
Pension Reserve	71,738
Revaluation Reserve	7,886
Donated Asset Account	1,787

Business Planning 2023/24

- 2.44 Final drafts of the 2023/24 Business Plan and Budget will be considered on 2nd February 2023. This plan will align to the new, outcome-led directorate structure and consider the immediate and emerging financial environment.
- 2.45 A detailed report on organisational evolution was considered at the Combined Authority meeting on 23 June. Recommendations included to shift the organisation's operating model to become outcome focussed, alongside a corresponding shift in the Director roles to embed this model. This is to give greater transparency of senior accountability across key areas and a greater read across from job roles to key performance outcomes for West Yorkshire.
- 2.46 It follows that business plans for 2023/24 be developed in line with the shift in operating model and structure. Figure 1 below sets out the revised Director role structure. Consideration of appointments to this new structure is the subject of a separate item on the agenda.

Figure 1: Draft Revised Senior Roles



2.47 Outcome led business plans are being developed with logic mapping at the heart of the process. The plans are being led and informed by the seven key priorities formulated by the Combined Authority and its partners (see Figure 2).

Figure 2: Overview of priorities



2.48 As the above priorities are underpinned by three cross-cutting aims listed below, so will the outcome led business plans be;

- Tackling the climate emergency
- Growing an inclusive economy
- Embedding equality, diversity and inclusion

2.49 The outcomes that will be delivered by the Combined Authority through this business plan will be heavily influenced by the cost of living crisis and tight fiscal environment that the West Yorkshire partnership is operating in.

2.50 A summary of the emerging plans for 2023/24 can be found at **Appendix 2**. These are a work in progress and input now from the Combined Authority to the planning process would be beneficial, particularly in light of the tight fiscal environment.

3. Tackling the Climate Emergency Implications

3.1 Tackling the Climate Emergency is a key organisational objective and details on how the organisation will contribute on an annual basis to our long-term commitment to lead by example in having net zero emissions by 2038 and have a positive impact on environment and nature through our work, investment, and funding, are referenced in the Corporate Plan, Directorate Business Plans and Corporate Performance reports.

4. Inclusive Growth Implications

4.1 Enabling Inclusive Growth is a key corporate objective and therefore measures on how the organisation aims to achieve this, are set out in our

Corporate Plan, Directorate Business Plans and Corporate Performance reports. One of our key objectives is to deliver our Inclusive Growth Framework in order to reduce inequalities in our communities. Inclusive growth will remain embedded throughout the corporate priorities on which the development of the Corporate KPI's and resulting business planning is based.

5. Equality and Diversity Implications

- 5.1 The Equality and Diversity aims of the organisation are embedded throughout our internal and external corporate objectives and our Corporate Performance Report will highlight the Equality and Diversity impact of each of our key performance indicators. Additionally, one of our key deliverables for the Strategy, Communications and Policing directorate for this financial year, is to develop and deliver the strategy and action plan for Equality, Diversity and Inclusion and aim towards achieving excellence against the Equality Framework for Local Government.

6. Financial Implications

- 6.1 There are no immediate financial implications directly arising from this 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 in relation to this report.

10. Recommendations

- 10.1 That changes to the 2022/23 business plans be approved.
- 10.2 That the Combined Authority consider the emerging budget for 2023/24
- 10.3 That input be provided and consideration be given to the emerging outcome led business plans for 2023/24.

11. Appendices

Appendix 1 Draft proposed revenue budget 2023/24

Appendix 2: Emerging proposals for the 2023/24 business plans.