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**Report to:** Corporate Scrutiny Committee

**Date:** 10 March 2023

**Subject:** **Business Plans and Budgets 2023 - 2024**

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**Director:** Angela Taylor, Director, Finance and Commercial Services

**Author:** Angela Taylor

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## **1. Purpose of this report**

- 1.1 To advise the Committee of the approved business plan and budget for 2023/24.

## **2. Information**

- 2.1. A working group of the Corporate Scrutiny Committee met in December to consider the emerging position on the business plan priorities and the emerging budget that is required to support that delivery. The January meeting of the Committee considered the conclusions of this workshop and provided further scrutiny of the emerging budget proposals.
- 2.2. At its meeting on 2 February 2023 the Combined Authority approved the outcome focussed business plans on a page, budget, transport levy and treasury management statement. These are attached/linked to this paper.
- 2.3. Since the last meeting of the Committee the business plans have been further developed to show planned outcomes for each team within each directorate, and ensuring a focus on equality, diversion and inclusion. These will be actively monitored during the coming year.
- 2.4. The final budget as approved by the Combined Authority is in line with proposals presented to the Corporate Scrutiny Committee. A balanced budget has been set, with the transport levy held at current levels, in recognition of the financial challenges facing local government. Non recurring savings achieved in the current year have been approved to be set aside to support the cost of bus services and to support the increased capital costs of projects that have arisen due to current inflation rates. Work will be required early in the year to seek to close projected budget deficits in subsequent years, and to establish a sustainable basis on which to support bus tendered services.

### **3. Tackling the Climate Emergency Implications**

3.1 The proposed business plans include actions to support climate change.

### **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 considers the final approved business plans and budget.

### **10. Background Documents**

None.

### **11. Appendices**

Appendix 1 – Combined Authority business plan and budget paper 2 February 2023

**Report to:** West Yorkshire Combined Authority

**Date:** 2 February 2023

**Subject:** Business Planning and Budgets

**Director:** Angela Taylor, Director of Finance and Commercial Services

**Author:** James Nutter, Corporate Planning and Performance Manager

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 approve the 2023/24 outcome led business plan.
- 1.2 To consider and approve the proposed revenue budget and transport levy for 2023/24, the revised position for 2022/23, the indicative capital budget and programme and treasury management statement.

## 2. Information

### Introduction

- 2.1 2022/23 has been a challenging year for everyone. The war in Ukraine, rampant inflation, pay and local government funding pressures have combined to create a very difficult period in which to plan and budget. At the same time the climate emergency and levelling up agenda continue to necessitate a comprehensive response by the region over the short, medium and long terms.
- 2.2 The resultant cost of living and cost of doing business crisis has prompted a refocussing of some activity within the Combined Authority and the overall focus has been on continued delivery of services and projects to turn the Mayor's pledges into action in the regions. Some of the successes achieved during this difficult period include:

### **Creating a safer West Yorkshire**

- Safety of women and girls strategy launch
- £14 million fund for victim services secured

- Police and Crime plan launch
- Mayors' safer community fund supported over 23,000 people
- Stalking advocacy service launch
- Bradford Interchange has been awarded 'station of sanctuary' status for the work it does to help asylum seekers and refugees.

### **Business and skills**

- Over 1,000 tech jobs secured
- Supported over 60,000 adult learners
- Supported 542 start-ups to develop and grow
- £3.4million in Apprenticeship levy transfer funding
- Launched a £1 million fund to help businesses struggling with energy bills
- Hosted the West Yorkshire Innovation Festival.

### **Creativity**

- Invested over £11 million for Creative new deal
- Launched a creative showcase celebrating West Yorkshire's £2 billion powerhouse creative sector
- Working with partners on Leeds Year of Culture 2023 and Kirklees Year of Music 2023

### **Inclusivity**

- £3 million for charities to provide food and warmth to those most in need during colder months
- Recruitment of an Equality and Diversity Champion has begun
- Celebrating the women and girls of West Yorkshire with a festival of events for International Women's Day in 2022 and another programme of events is being planned for 2023
- Creation and upcoming launch of an EDI strategy and plan to create a more inclusive West Yorkshire

### **Transport**

- Secured a further funding boost of £2.5 million to develop cycling and walking network after Active Travel England recognised the region as 'Top Tier'
- Launched £2 Mayors Fares for bus journeys across West Yorkshire
- £640,000 to boost active travel
- Launched the MCard safer travel tool

### **Tackling the Climate Emergency**

- 1,000 green skilled jobs have been pledged
- 111 zero emission buses

- £40 million fund identified to tackle the climate and environment emergency
- £1 million for businesses to go green and save on bills
- Launched a £10,000 Mayors innovation prize to tackle the climate emergency

### Investing in infrastructure

- Start of White Rose rail station construction
- Construction moves forward on the new Halifax bus station
- Stourton Park and Ride won Transport Project of the Year in the 2022 in the British Construction Industry Awards and the Major Project Award in the 2022 Highways UK Excellence Awards

### Business Plan 2023/24

- 2.3 Building on the challenges and successes of 2022/23 an emerging draft 2023/24 business plan and budget were considered by the Combined Authority on 8th December 2022. Members were informed that the plan will align to the new, outcome-led directorate operating model and organisational structure, and consider the immediate and emerging financial environment.
- 2.4 The outcome led business plan has the seven key priorities formulated by the Combined Authority and its partners (see Figure 1) at its heart. These are the ultimate long term impacts that the business plan and the resources marshalled to achieve it, are being directed to deliver. These are consistent with the emerging West Yorkshire Plan which will be brought to the Board for consideration later this year;

**Figure 1: Overview of impacts**

Creating an accessible, clean and customer focussed transport system	Building a sustainable, nature rich and carbon neutral region	Enabling a diverse, skilled workforce and accessible learning for all	Empowering our communities, towns and cities to thrive	Championing culture, sport and creativity	Driving economic growth and innovation to enable good jobs	Supporting community safety and accountable, proactive policing
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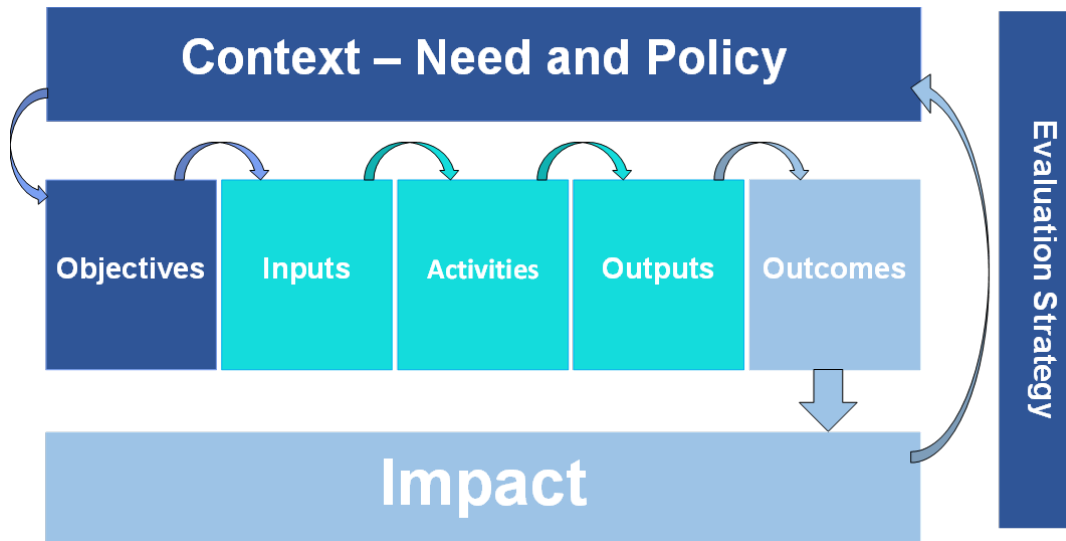
- 2.5 As the above priorities are underpinned by three cross-cutting aims listed below, so is the outcome led business plan. Directors and their teams have been asked to develop their activities and plan for delivery of outcomes with these themes running through them;
- Tackling the climate emergency;
  - Growing an inclusive economy; and
  - Embedding equality, diversity and inclusion.
- 2.6 Examples of how Directors have done this are provided below:

EDI	Applicable to all Directorates - targets from the EDI Action Plan have been worked into each Plan on a Page and will be monitored through the Corporate KPIs.
	A HR outcome is to deliver the HR elements of the EDI objectives and plan, and have various outputs embedded within that which will enable this.
	PMA will strengthen the assessment of EDI and Inclusive Growth to ensure decision makers have the appropriate information to hand when making decisions on project approvals.
	Within Business, Innovation, Skills and Culture policy, all work will be underpinned by EDI principles to ensure that EDI is embedded on their agenda.
	Policing, Crime and VRU will implement the Mayor's Police and Crime Plan through which EDI is a cross-cutting theme, which includes (for example) the Women and Girls Strategy.
	Strategy and Corporate Performance will support the delivery of the organisations EDI vision, through the EDI Action Plan and associated reporting.
	Communications will evolve their approach to inclusive consultations and engagement, and will also support the organisation's ambition to be an inclusive and exemplary employer.
	Passenger Experience will deliver more comprehensive and inclusive services, to make frontline services more inclusive.
	Mobility Services will ensure the Access Service meets customer needs and delivers value for money (this service supports vulnerable adults in West Yorkshire).
	Within Transforming Cities Fund, teams will fully support the diverse communities of West Yorkshire by ensuring decisions are developed based on inclusive decision making.
	An outcome for 2023-24 is to begin exploring and developing a Corporate Environmental Sustainability Plan.
	PMA will embed the assessment of carbon and wider climate change impacts to ensure promoters take account of sustainability when developing schemes.

Tackling the Climate Emergency	Commercial will deliver more social value in the supply chain to support Net Zero ambitions. Carbon impact considerations will form part of all strategies over £60K.
	Within Business Support, SME's will be supported to make meaningful contributions to the climate emergency whilst reducing their footprint. Various outputs embedded within will support this.
	Employment and Skills will develop and implement actions to achieve targets identified in the Digital Skills Plan and from the Mayor's Green Jobs Task Force, including a delivery plan for the creation of 1000 Green Jobs and skills transition from Net Zero.
	Mass Transit will develop a sustainability strategy for mass transit which sets out an approach to carbon reduction measures, Net Zero approaches and climate adaption and biodiversity measures.
	Across Place and Environment Policy and Economic Implementation there are various outcomes related to sustainable housing, flood resilience and solar power.
	Communications will promote actions on climate, culture and place, including campaigns to drive behaviour change.
	Research and Intelligence will enhance tools and evidence used to assess how projects support the 2038 climate ambition for Net Zero.
	Facilities and Assets will focus on reducing carbon and energy emissions through installing solar panels at seven bus stations across West Yorkshire.

- 2.7 The outcomes that will be delivered by the Combined Authority through this coming year's business plan are heavily influenced by the cost of living crisis and tight fiscal environment that the West Yorkshire partnership is operating in. Consideration has been given to the ability to deliver the activities with the budget and people affordable in this tough fiscal climate.
- 2.8 Business plans have been formulated using a 'logic mapping' approach (see Figure 2). Adopting this approach as an integral part of the organisational evolution programme should enable a more effective application of the Combined Authority's principal resources, namely its people and its budgets.

**Figure 2: Logic mapping approach**



- 2.9 The approach also enables a more integrated approach to corporate performance monitoring and management through a regular assessment of the KPIs (outputs), budget (inputs) updates and people (inputs) through performance reviews. A greater integration of the corporate approach to risk management is also enabled through this approach. Governance and Audit Committee considered this at the January 2023 meeting.
- 2.10 Embedded in each directorate business plan and at a corporate level are the corporate equality, diversity and inclusion targets agreed recently at Strategic Leadership Board. These multi-year targets have been applied so they are relevant for delivery in 2023/24.
- 2.11 The business plan for 2023/24 is presented in the form of nine 'Plans on a Page'. These can be found at **Appendix 1** and there is one for each directorate (noting that the structure of the Corporate Core is still evolving) as well as a summary, corporate one. Subject to the Board approving the 2023/24 business plan and budget, work will then commence on development of the Corporate Plan.
- 2.12 The outcome led approach to business planning will be developed further during the course of 2023 to enable a fully aligned and integrated, outcome led, business plan, budget and resource plan for 2024/25. This will also be strongly linked to the Combined Authority's role in delivery of the West Yorkshire Plan.

Revised outturn for 2022/23 and proposed budget 2023/24

- 2.13 Members considered the emerging position on the proposed budget at the meeting on 8 December. At that time work was close to completion on a revised forecast for the current year and the position for 2023/24 presented a



funding gap of £462k, with work underway to close that position in order to present a balanced budget to this meeting for approval.

- 2.14 Indicative budgets for the subsequent two years have also been prepared to help inform a three year medium term financial strategy. 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.
- 2.15 While inflation generally has caused significant pressure points in this year and subsequent years the most difficult area to manage has been bus tendered services. The impact of COVID-19 on bus operations since 2020 has fundamentally altered the operating environment, with a requirement from government that transport authorities and bus operators 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.
- 2.16 The costs of supporting the current bus tendered services 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.
- 2.17 The transport levy which is paid by the five constituent authorities is set at a level to meet the costs of providing the statutory and other services provided across West Yorkshire. It is required to be set by 15 February in the year preceding that to which the levy applies.
- 2.18 As transport costs are rising due to inflation it would be appropriate to increase the transport levy to reflect this increase. Taking 5% as the benchmark, reflecting the expected increases in council tax nationally, this would generate an additional £4.9 million for 2023/24, rising by £5.2 million the year after.
- 2.19 In practice however the levy has remained largely cash flat (ie real term reduction) over the last ten years, in recognition of the funding challenges facing local authorities. There has been a clear direction provided by local authority partners and confirmed at the last meeting that the Combined Authority should seek to avoid any increase to the transport levy. The budget proposal has therefore been prepared on that basis.
- 2.20 While the levy remains cash flat at a total level, 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 only a small variation for each partner authority 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

- 2.21 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 2023/24.
- 2.22 Members may recall that agreement has previously been made for a portion of the annual transport levy to be set aside to fund the West Yorkshire plus Transport Fund reserve. This was created as a means of meeting the required local contribution to the WY+TF for which £750 million was provided by government. Further information is set out in paragraph 2.50 below.
- 2.23 In the absence of additional funding via the levy to meet the pressures on bus tendered services Members endorsed at the last meeting an approach whereby savings achieved on concessionary travel reimbursement are ringfenced to support increasing costs on bus tendered services in 2023/24 and possibly to an extent in 2024/25. This will enable further work to be undertaken during 2023/24 on the network review, with the development of options to determine a sustainable level of service for future years. This will also include an examination of schools services, with a focus on ensuring clarity on the different elements of the provision and how they are funded. Some changes have already had to be made to schools services since the start of the school year which have increased pressure on next year's budget by £279k.
- 2.24 The budgeted position on bus expenditure is set out in the appendix, with net costs on tendered services expected to increase from £19.9 million in the current year to £25.2 million in 2023/24. Assumptions have been made as to the likely level of inflation on bus tendered services, based on current patterns and intelligence from bus operators. This is also impacted by the government funding being provided to both bus operators and local transport authorities which is expected to come to an end in March 2023. Whilst additional funding received from government in 2022/23 has been beneficial in offsetting increased costs in year this creates a significant problem going forward as costs remain at higher levels but the subsidy falls away.

- 2.25 No real changes have been made to concessionary travel reimbursement since the start of the pandemic but a return to the usual method of calculation for the statutory English National Concessionary Travel Scheme (ENCTS) has been anticipated in the budget planning for next year. The reimbursement calculations are based on a model from which a rate per passenger is determined and this is applied to the number of passengers carried. It is expected that bus operators will assert an increase in operating costs that would drive up the cost per passenger, but with patronage only slightly lower than pre-pandemic levels the overall cost is likely to increase. This reversion to the model increases the volatility of this budget area and the bus team will be keeping this under tight review to ensure value for money is achieved.
- 2.26 BSIP funding has now been confirmed and will be added to the budget as final approvals are made through the assurance framework. 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. The prospect of future Government support for the bus network more generally ie a continuation of the bus recovery grant, is looking unlikely, and with no confirmation of this at the time of writing it is assumed for budget planning purposes that this will not happen. Should funding be forthcoming a report will be brought back to Members to consider the implications and opportunities this would bring.
- 2.27 Inflation is the key factor impacting other areas of the current year and future years' budgets. Increases in energy costs in particular have doubled costs in the current year with a further 15% increase expected in future years. Costs of materials and labour are affecting the planned works and repairs budgets for bus stations and shelters, with allowance having to be made for a 10% increase both this year and next. Similar increases are being forecast for ICT contract costs.
- 2.28 The pay award finally settled for 2022/23 was in line with that made in local government and at 4% was twice the level the Combined Authority (and local partner authorities) had allowed for in budget planning. An assumption of a further 4% has been built in to the 2023/24 proposed budget.
- 2.29 The triennial pension revaluation is due this year and preliminary figures show a slight decrease in the employer contribution rates for 2023/24 and subsequent years. This is helpful in partially offsetting the increase assumed for salary costs.
- 2.30 Staffing levels have been a cause for concern in the year with a number of savings arising due to delays in filling 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 and the vacancy target has been increased from £2.1m to £3 million next year to reflect this.
- 2.31 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.

- 2.32 The forecast outturn for 2022/23 shows a net position of a small surplus, with transfers to be made to a capital reserve and the transport reserve as explained above and this is set out in **Appendix 2**. The budget as originally agreed last February has been restated to reflect the current directorate structures and responsibilities and there are a number of in year movements to conclude the position shown in the appendix. These largely relate to expenditure on bus services which has been considered throughout the year, staff vacancies and additional funding and expenditure for projects that have been approved during the year.
- 2.33 The proposed budget for 2023/24 is presented in **Appendix 3**, showing a very small surplus for the year. Alongside this is the indicative position for the next two years, both of which still include a budget gap. While the use of the transport reserve assists in managing the immediate pressures on bus tendered services urgent work is required in the coming year to manage future demand. 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.
- 2.34 In addition to the work on bus set out above further work will be needed on all areas of the budget to develop a sustainable position for the three year medium term position. This will include a focus on income generation opportunities, to consider if the existing asset base can provide further income and if further schemes similar to the Foresight West Yorkshire SME Investment Fund should be explored. This is expected in time to generate returns of 15%. Opportunities for investment or co-investment also need to be explored to support the delivery of the investment priorities.
- 2.35 The policy towards capitalisation of staffing costs continues in line with previous years. The costs of the Delivery teams within directorates, which are 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 and deployed to enable better longer term workforce planning and budgeting to take place. The review will also consider 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.

#### Mayor's costs

- 2.36 The current budget includes the costs of a small team to directly support the Mayor. This is included largely 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 recent organisational changes have been made to enable more effective support of the priorities of the organisation and ensure a firm focus on outcomes.

#### Policing

- 2.37 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 an appropriate level of recharge has been agreed on.

#### **Capital programme**

- 2.38 An indicative three year capital programme and proposed funding is set out in **Appendix 4**. This reflects the recent decisions made on the main transport programmes in response to the pressures of inflation. This saw a number of projects paused to enable a more affordable programme to be delivered in the short to medium term.
- 2.39 The programme is indicative, and sets out the known funded programmes. It is fully expected to be increased by projects that are being developed as pipelines for the investment priorities, with borrowing costs to be funded by gainshare. Updates on changes to the capital programme will be brought to the Finance, Resources and Corporate Committee during the year as well as monitoring reports on the current programmes.
- 2.40 The most significant programme at this stage is the transport interventions funded by the City Region Sustainable Transport Settlement (CRSTS) which has a significant spend profile escalating over the coming three years. The figures included in the appendix reflect the outcome of the recent decisions to revise both the CRSTS and the Transforming Cities Fund projects in the light of the increases in inflation over the past year.
- 2.41 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 2022/23 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 previously applied for both the Growth Deal and the Getting Building Fund for example.

#### Minimum revenue provision policy (MRP)

- 2.42 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.

- 2.43 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.
- 2.44 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.
- 2.45 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.
- 2.46 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**

- 2.47 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 changes required as a result of changes to the Prudential Code. This was considered and endorsed by the Governance and Audit Committee at its meeting on 13 January 2023 and is set out in full in **Appendix 5**.

### **Reserves**

- 2.48 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.

#### Reserves policy for general reserve

2.49 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 –

Reserves Policy	Budget 2023-24 £m	Reserves 2023-24 £m
<b>Risk on Concessions</b>	46.18	
5% contingency for volatility of payments and bus operator landscape risks		2.31
<b>Risk on Subsidised Bus services (gross)</b>	26.88	
10% contingency due to inflationary and market conditions due to Covid19		2.69
<b>Risk (general) on other areas of spend</b>		
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
<b>Other Risks 2023/24 (Covid19, cost of living crisis, operational matters)</b>		2.00
<b>Risk on income</b>		
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
<b>Total reserves required</b>		<b>13.02</b>

### Other reserves

2.50 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. An annual contribution of £5.x million is being made into this reserve each year to smooth the expected spike in borrowing costs that will shortly commence - 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.

- 2.51 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.
- 2.52 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. It is proposed that the non recurring interest income surplus identified in 2022/23 and 2023/24 is transferred to the usable capital reserve.

Other Reserves

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

**Summary**

- 2.53 The proposed budget for 2023/24 is recommended for approval. It is not without its challenges and while robust estimates have been included and prudent assumptions have been made close monitoring of income and expenditure will be needed to ensure the budget is achieved. Regular reporting to Finance, Resources and Corporate Committee will continue throughout the year, as well as updates to the West Yorkshire Directors of Finance.
- 2.54 The new directorate structure that seeks to ensure greater focus on outcomes will also support greater accountability for financial decision making and focus on value for money in all activities. The introduction of a new integrated finance system by the start of the financial year will provide much improved reporting capabilities with a fully embedded budgetary management system.
- 2.55 Work will continue early in the new financial year to close the budget gap in future years, with each directorate tasked with reviewing current income and expenditure and identifying costed savings plans and actions to review ahead of the formal budget setting process in the autumn.



### **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 hence our business plan. Each directorate has corporate targets to meet as part of the business plans. These have been defined through the Equality, Diversity and Inclusion Strategy and Action Plan through which we are aiming towards achieving excellence against the Equality Framework for Local Government.

### **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 2023/24 by 15 February 2023.

### **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 external consultations have been undertaken in relation to this report.

### **10. Recommendations**

- 10.1 That the Combined Authority approves the outcome led business plans for 2023/24.

- 10.2 That approval be given to the Combined Authority revised outturn budget for 2023/24.
- 10.3 That approval be given to the indicative capital programme and budget for 2021/22 – 2024/25.
- 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 2024.
- 10.5 That the Director, Finance 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, Finance and Commercial Services to arrange appropriate funding for all expenditure in 2022/23 and 2023/24 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.
- 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 Appendices**

Appendix 1 - 2023/24 business plan 'Plans on a Page'.

Appendix 2 – 2022/23 revenue budget forecast outturn

Appendix 3 – 2023/24 proposed revenue budget

Appendix 4 – Indicative capital budget 2022/23– 2025/26.

Appendix 5 – Treasury management statement