



Report to:	Corporate Scrutiny Committee
Date:	24 November 2023
Subject:	Budgets and Finance
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1. Purpose of this report

- 1.1 To provide to Members information in support of the budget work underway for 2024/25.

2. Information

Introduction

- 2.1 The Committee has requested a range of information to support the ongoing work on developing the budget for 2024/25. This paper covers last year's and this year's budget position on revenue and capital, gainshare approvals, transport levy, reserves and borrowing.

Budget 2022/23 and 2023/24

- 2.2 The revised forecast for 2022/23 approved by the Combined Authority in February set out the expectation that the final position for the year would be within the original budget set with two exceptions. There was the potential for some further bus funding from government, which, if received, would be set aside to the transport reserve along with the expected savings against concessionary travel reimbursement. This would then be used to offset the costs of bus services from 2023/24 onwards. There was also an expected surplus on bank interest due to the high interest rates and the level of cash balances due to the timing of receipt of government grants. It was agreed that this would help to offset the increased costs of capital projects as a result of inflation. **Appendix 1** sets out the revised forecast for 2022/23 with the unaudited final figures for the year alongside.
- 2.3 The extract below also confirms the final position for 2022/23 which is still subject to external audit. The Governance and Audit Committee will be considering the audited accounts in due course but there are currently significant delays nationally with concluding the audits for 2021/22 of local government bodies, and little progress on auditing 2022/23 accounts. Bank interest earned in the year was higher than forecast due to the continuing increase in interest rates which continued throughout the year and

this will be applied to future years' capital programme as part of the budget setting process.

	Approved forecast Feb-23 £000	Draft final position Mar-23 £000
Transfer to bus reserve	3,194	5,788
Transfer to capital	4,870	5,275
Transfer to general reserve	145	525
	<u>8,209</u>	<u>11,588</u>

2022/23 Capital Programme Outturn

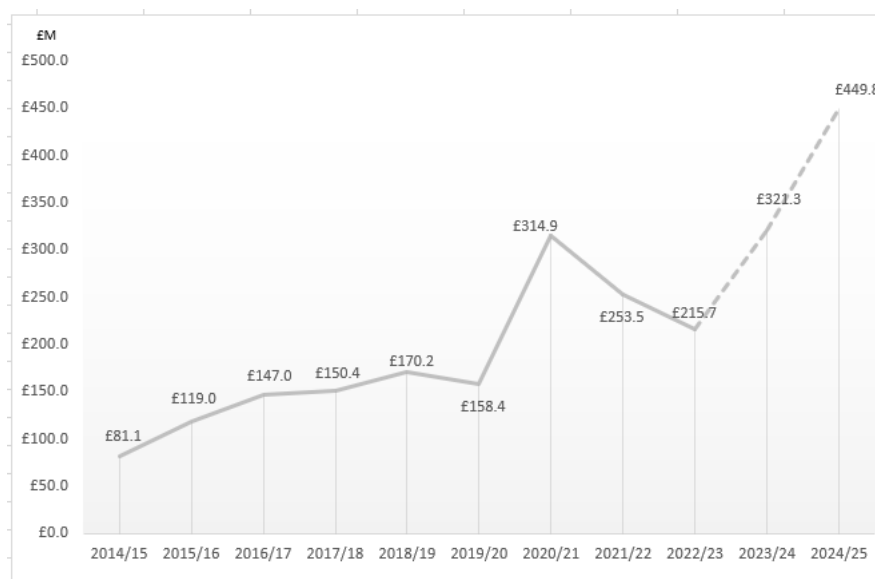
- 2.4 The table below summarises the total expenditure on the Combined Authority's capital programme in 2022/23 against the revised forecasts reported to the Combined Authority in February 2023.

Capital Programme Expenditure	Forecast as at Combined Authority February 2023	Expenditure as at Year End 2022/23	% of CA Forecast
Transport Programmes			
City Region Sustainable Transport Settlement	£66,059,941	£63,358,672	95.91%
Transforming Cities Fund (inc. Tranche 1) (non CRSTS)	£37,940,399	£32,771,129	86.38%
West Yorkshire plus Transport Fund	£58,626,946	£69,401,743	118.38%
Zero Emissions Bus Regional Areas*	£3,818,701	£0	0.00%
Leeds Public Transport Investment Programme	£2,870,000	£1,961,965	68.36%
Integrated Transport Block (CA legacy projects)	£4,666,883	£4,871,529	104.39%
Active Travel	£6,856,529	£4,845,573	70.67%
New Station Fund	£3,687,541	£3,687,541	100.00%
Economic Development Programmes			
Getting Building Fund	£11,377,575	£11,377,575	100.00%
Brownfield Housing Fund	£9,000,000	£2,730,673	30.34%
Social Housing Decarbonisation Fund	£4,661,627	£2,967,488	63.66%
British Library North	£6,000	£5,311	88.51%
Corporate Projects	£1,897,281	£1,475,256	77.76%
Broadband	£1,204,119	£1,217,592	101.12%
Growth Deal - Economic Development	£123,300	£3,000	2.43%
Business Accelerator Fund	£2,301,895	£2,428,655	105.51%
Flood Alleviation Scheme	£12,565,000	£12,565,000	100.00%
Total Capital Spend	£227,663,737	£215,668,701	94.73%

* Note all expenditure transferred to CRSTS in 22/23

- 2.5 Total expenditure achieved by the Combined Authority's capital programme in 2022/23 is £215.67 million representing almost 95% of the revised budget. In general, the programme continues to perform well but is not as high as total expenditure in 2020/21

and 2021/22. This reflects the early stages of development of some of the biggest programmes. For example, 2022/23 is first year of the City Region Sustainable Transport Settlement (CRSTS) and the majority of projects are at a very early stage. The graph below shows the annual capital spend of the Combined Authority since its inception.



- 2.6 The majority of Combined Authority's capital spend continues to be on the transport related activity, with 84% of the total on the transport funding programmes. Actual expenditure in 2022/23 is concentrated on four major programmes: CRSTS, the Transforming Cities Fund (TCF), the Transport Fund and the Getting Building Fund (GBF). The following summarises the performance of these programmes.

City Region Sustainable Transport Settlement

- 2.7 Expenditure on the CRSTS programme is in line with forecast and relates principally to the Network and Assets Improvements sub-programme (which covers activity by partner councils previously funded under Highways Maintenance, Pothole funding and the Integrated Transport Block) and Mass Transit which spent just over £7 million on development activities, over £1 million higher than forecast.

Transforming Cities Fund

- 2.8 The TCF and Transport Fund inflation review was undertaken during quarters 2 and 3 of 2022/23. Whilst it was necessary to undertake this review to ensure that both programmes could deliver in full within the budget available it did have an impact in year on progress and spend in particular on the TCF programme, with activity being delayed or paused during this period. The review introduced uncertainty around if and how the schemes would progress leading to delays in decision making in several areas including, procurement initiations and contract awards, progression of planning, land purchase and

other statutory processes and consents as well as diverting resource away from project and programme management to undertake the review process itself. It is unlikely that this delay can be 'caught up' during the remainder of the programme's duration. However, the programme is now in a more viable financial position which has enabled prioritised schemes to continue with increased financial certainty and therefore there is renewed confidence in delivery in the future.

- 2.9 Despite these delays more projects are heading into delivery phases and expenditure will escalate in future years. There are now six projects in delivery, across the three thematic areas, and a further 11 are due to commence delivery in 2023. The following projects are due to complete in 2023/24: Halifax Bus Station, Leeds City Centre Cycle Improvements, Leeds City Bikes, Tadcaster Road and White Rose Station.

Transport Fund

- 2.10 In its eighth year of delivery, the Transport Fund continued to perform well, and expenditure exceeded the forecast for the year. This is down to 15 projects being in delivery. At delivery state there is less risk of expenditure slipping as projects are less likely to experience significant delays than those in development. In total the Transport Fund has now spent £398 million of the £1 billion of funding available.
- 2.11 Schemes completed in 2022/23 include:
- Harrogate Road - New Line
 - East Leeds Orbital Route (ELOR)
 - Rail Parking Package - Hebden Bridge
 - CityConnect Phase 3 Canals – Huddersfield Narrow Canal Phase 2 and Leeds Liverpool Canal - Shipley
 - Leeds City Centre Network and Interchange Package - Regent Street
- 2.12 These schemes take the total number of completed Transport Fund projects to 24 with a total value of £229 million.
- 2.13 A further 10 schemes are currently on site and are expected to be completed in 2023/24:
- A629 (Phase 1B) - Elland Wood Bottom to Jubilee Road
 - Corridor Improvement Programme - Calderdale - A646 - A6033 Corridor
 - Corridor Improvement Programme - Kirklees - A62 Smart Corridor
 - Corridor Improvement Programme - Leeds - Dyneley Arms
 - Corridor Improvement Programme - Leeds - Fink Hill
 - Corridor Improvement Programme - Wakefield - A650 Newton Bar
 - Leeds City Centre Network and Interchange Package
 - Leeds City Centre Network and Interchange Package - Armley Gyratory
 - Rail Parking Package - Steeton and Silsden
 - West Yorkshire Integrated Urban Traffic Management Control

Other Programmes

2.14 Brownfield Housing Fund

Actual spend was lower than anticipated primarily due to the forecast including spend on projects scheduled to secure approval to proceed in the late stages of the financial year. During 2022/23 progress was made towards finalising key areas such as security, due diligence, spend profiles, match funding arrangements and draft grant funding agreements. However, fulfilment of all conditions associated with approval was not practical for some projects by March 2023. Due to significant numbers of internal vacancies, there is also limited capacity within the programme team to support multiple partners and projects.

2.15 Getting Building Fund

In 2022/23 the GBF programme successfully achieved full spend of the funding awarded (£52.60 million). A number of project sites including Knottingley Business and Services Hub, Dewsbury Arcade, Huddersfield George Hotel, Bradford One City Park and Bradford City Village continue with delivery utilising match funding contributions. All others have now progressed to output monitoring only and closure reports either have, or are, in the process of being completed. Post delivery activities are still ongoing although recent project updates and draft closure reports have highlighted successes particularly for Wakefield Warm Homes, Holbeck Phase 2 Victorian Terrace Retrofit and Business Growth Programme where in some cases the actual outputs declared exceed target values agreed with government. Outputs achieved by the programme will continue to be monitored and will be reported to Government every six months until the end of 2024/25.

2.16 Whilst funding was forecast on the **Zero Emissions Bus Regional Area** programme this activity is joint funded by CRSTS and consequently all spend to date has been transferred to that programme. The **Social Housing Decarbonisation Fund** was originally due to complete by the end of March 2023 and was expecting to spend the majority of funding. However due to performance across the country the programme has been extended until June 2023 and the Combined Authority is on track to achieve spend of the full grant allocation.

2023/24 Q1 Reporting

2.17 **Appendices 2 and 3** set out the revenue and capital budgets as approved in February 2023. These are being reviewed and refreshed as part of the budget work underway and a revised outturn for the year will be presented to the Combined Authority in February 2024. This is kept under regular review in the year with quarterly updates being provided to the Finance, Resources and Corporate Committee.



- 2.18 The Combined Authority is reporting a Quarter 1 overall revenue position materially in line with budget, with the net revenue position being expenditure of £6k. This compares to a budgeted position of net income of £23k.
- 2.19 The variations in both income and expenditure are predominantly driven by the project portfolio, where the incidence of income and expenditure varies throughout the financial year, in contrast to budgets which are phased equally across 12 months. The significant variances have been reviewed in detail and all arise from timing differences, for example where expenditure is recovered from third parties and this is only invoiced after expenditure occurs. It is expected that the introduction of the new finance system will facilitate improved phasing of budgets and thereby reduce temporary timing differences.

2023/2024 Quarter 1 Revenue Summary

	Actual to 30-Jun-23 £000s	Budget to 30-Jun-23 £000s	Difference 30-Jun-23 £000s	Difference 30-Jun-23 %
Income				
Transport Levy	23,050	23,050	-	0%
AEB Income	18,884	17,338	1,547	9%
Pre Paid Ticket Income	6,723	5,500	1,223	22%
Income - Operational	4,404	3,680	724	20%
Funding - Grants	2,540	15,694	(13,154)	(84%)
Tendered Services Income	1,952	1,580	371	24%
Total Income	57,552	66,841	(9,289)	(14%)
Expenditure				
AEB costs	18,854	17,307	(1,547)	(9%)
Concessions	11,191	11,544	353	3%
Consultancy and Professional Services	(210)	613	823	134%
Employee Costs	8,618	9,924	1,306	13%
Financing Charges	557	1,797	1,239	69%
ICT Related Costs	1,136	918	(218)	(24%)
Indirect Employee Costs	326	432	106	25%
Members Allowances & Expenses	58	93	35	37%
Non-staffing Project costs	2,400	13,020	10,620	82%
Premises Costs	1,028	1,846	818	44%
Prepaid Tickets Costs	5,863	5,500	(363)	(7%)
Supplies and Services	715	890	175	20%
Tendered Services	9,297	8,393	(904)	(11%)
Travel, Subsistence & Transport Costs	42	57	14	25%
Total Expenditure	59,874	72,333	12,458	17%
Indirect Contribution* (Capitalisation/ Internal recharges)	2,316	5,515	3,199	(58%)
Net Income / (Expenditure)	(6)	23	(29)	
Net Income / (Expenditure) as a % of Income	(0.01%)	0.04%		

2.20 The Combined Authority's capital programme at Quarter 1 shows expenditure of nearly 13% of the February 2023 forecast, with the majority concentrated across the City Region Sustainable Transport Settlement (CRSTS), the Transforming Cities Fund (TCF), the West Yorkshire plus Transport Fund and the Brownfield Housing Fund (BHF).

2023/2024 Quarter 1 Capital Summary

Capital Programme Expenditure	Indicative Forecast Combined Authority February 2023	Revised In-Year Forecast as at June 2023	Quarter 1 Expenditure 2023/24	% of in- year Forecast
Transport Programmes				
City Region Sustainable Transport Settlement	100,000,000	103,868,641	14,313,156	13.8%
Transforming Cities Fund (inc. Tranche 1) (non CRSTS)	78,618,210	76,561,367	10,317,227	13.5%
West Yorkshire plus Transport Fund	74,296,599	80,599,518	13,423,262	16.7%
Zero Emissions Bus Regional Areas	15,364,384	3,818,701	-	0.0%
Leeds Public Transport Investment Programme	-	875,007	35,000	4.0%
Integrated Transport Block (CA legacy projects)	3,628,138	3,671,222	168,106	4.6%
Active Travel	7,763,008	9,773,845	1,090,820	11.2%
New Station Fund	7,000,000	7,000,000	-	0.0%
Levelling Up Fund		1,100,863	-	0.0%
Economic Development Programmes				
Getting Building Fund	£0	£0	£0	n/a
Brownfield Housing Fund	£29,579,359	£22,427,115	£0	0.00%
Social Housing Decarbonisation Fund	£0	£7,292,727	£1,646,645	22.58%
British Library North	£100,000	£963,000	£0	0.00%
Corporate Projects	£1,805,649	£2,387,640	£182,043	7.62%
Broadband	£77,425	£25,000	£0	0.00%
Growth Deal - Economic Development	0	£120,000	0	0.00%
Business Accelerator Fund	£3,070,000	£3,070,000	£2,070,169	67.43%
Total Capital Spend	£321,302,772	£323,554,646	£41,176,259	12.73%

Devolution Gainshare

- 2.21 Details of the projects funded through the Devolution Gainshare monies of £38 million per annum have previously been shared with the Finance, Resources and Corporate Committee. Attached as **Appendix 4** is the full details of all approved projects under each of the Combined Authority's Investment Priorities along the value of proposed projects currently in pipeline.
- 2.22 The share of monies for each Investment Priority includes all of the funding for 2020/21 to 2024/25 (£38 million x five years = £190 million) plus £35 million overprogramming which totals £225 million.
- 2.23 To date 42 projects have received approval for funding totalling £142.23 million. Whilst a number of these projects are in full delivery others have approval for development spend and will require approval of further funding before progressing into full delivery. Allocation of a further £78.62 million is currently in the pipeline.
- 2.24 A total of £13.44 million was spent in 2022/23 with Gainshare expenditure to date of £24.88 million. The budget work will include consideration of the use of future years of gainshare to support the agreed organisational priorities. A separate report later on this agenda considers the regular gateway review, the outcome of which determines whether further tranches of gainshare will be received.

Transport levy repayment

- 2.25 The Committee has requested information on the repayment of the transport levy that was approved at the last meeting of the Combined Authority. The Combined Authority has the legal powers to set a transport levy to meet its transport costs, with the costs of the levy being funded by each constituent local authority based on population. The transport levy has been at £97.9m for a number of years.
- 2.26 The West Yorkshire plus Transport Fund (WY+TF) was established as part of the City Deal forerunner to the Mayoral Combined Authority and required a £230 million local contribution to match Government's £770 million. An annual contribution of £5.6 million is being transferred from the annual levy into this reserve each year to create a revenue sum that can meet the borrowing costs that are required to support the capital sum required of £230 million. The reserve was established to enable effective management of the borrowing costs of the WY+TF and to avoid the need for sudden increases and fluctuations in levy funding.
- 2.27 The predecessor organisation to the Combined Authority, the Passenger Transport Authority (PTA), agreed that the creation of this reserve would be the means by which the PTA and now the Combined Authority would manage the timing issues of delivery of the WY+TF and the funding available. The intent was to deliver at pace and potentially ahead of the pace of government funding. In reality competing priorities, and the need to meet other funding deadlines, has meant the expenditure against profile is lower than originally envisaged. The earmarked reserve created has reached a higher level than anticipated, as current programme delivery costs have until now been met by the annual government funding of £30 million per annum, and no drawdown has been required.
- 2.28 The WY+TF includes City of York Council (CoYC). These arrangements are covered by a separate legal agreement that ensures funding and expenditure for York's projects are ring-fenced within the programme and there is no cross subsidisation of schemes between West Yorkshire and York. CoYC is making a regular contribution to the reserve.
- 2.29 A reforecast profile of expected capital spend on the WY+TF and the resultant drawdown of the reserve required to support borrowing costs from 2024/25 onwards highlights that the current reserve could be rebased, with the continuing contributions in future years providing sufficient funding to meet expected borrowing costs in the short to medium term.
- 2.30 The balance in the WY+TF at 31 March 2023 was £53.577 million. Of this £2.428 million relates to City of York Council and is held there in line with the legal agreement entered into with it. The balance of £51.148 million represents an agreed topslice of the annual transport levy paid by the five West Yorkshire local authorities to meet the transport costs of the Combined Authority.
- 2.31 Recognising the critical funding pressures facing the five West Yorkshire local authorities, the Combined Authority approved the repayment of the £51.148 million to them as

unspent transport levy. This is a one-off opportunity arising from a unique set of circumstances that enables the West Yorkshire Combined Authority to support the local authorities in a timely way as they progress their medium term financial strategies. Provisions within the Transport Act 1968 provide for the refund of transport levy reserves to the constituent authorities.

2.32 Refunds of transport levy have now been made as follows:

	Population	Levy refund
Bradford	546,400	11,884,363
Calderdale	206,600	4,493,611
Kirklees	433,300	9,424,404
Leeds	812,000	17,661,242
Wakefield	353,300	7,684,380
	<u>2,351,600</u>	<u>51,148,000</u>

Reserves

2.33 The Combined Authority has, like all local government bodies, a number of unusable statutory reserves which are only available for specific limited use – this includes for example the pension reserve and capital adjustment account. The Combined Authority holds £13 million as its general reserve, with the position regarding other reserves, as approved in February 2023 by the Combined Authority, as follows:

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

2.34 The position on reserves is considered as part of the budget setting process and the Governance and Audit Committee comment on the proposed use of reserves before the full budget is taken to the Combined Authority in February for approval.

2.35 The reserves strategy is a risk based one. There is no guidance nationally from auditors or other industry specialists, with the position being that it is for each organisation to consider its particular activities and related risks in order to determine the appropriate

reserves position. Previously a figure of 4% to 5% has been put forward as a generally accepted minimum position but this does not allow for the complexities and budget volatility of different services provided.

- 2.35 The reserves strategy forms part of the wider medium term financial strategy which is required to ensure there is sufficient funding available when needed to meet organisational need. The reserves strategy must be mindful of both expected future pressures on funding as well as providing some capacity for the unknown but being mindful of building up funds too far when there is demand for delivery now.

Borrowing

- 2.36 In the same way as local authorities the Combined Authority has the powers to borrow, subject to adhering to the legislation that is in place to ensure borrowing is affordable and for the right purposes. A treasury management strategy is agreed annually alongside the budget and **Appendix 5** sets out the position as agreed in February 2023.
- 2.37 The Combined Authority has powers to borrow for transport and economic functions. The current level of debt is included in Appendix 5 and has been on the books for many years, the borrowing having been undertaken at a point when the former West Yorkshire Passenger Transport Authority funded infrastructure via borrowing approvals. A policy change led this to be replaced by grant funding and subsequently no borrowing has been undertaken although it is planned. The requirement to borrow has been reflected in the medium term financial strategy, initially in support of the West Yorkshire plus Transport Fund, but also as a means of getting better value out of the gainshare income (which is not linked to inflation) and this will be further developed as part of the budget discussions.

Scrutiny of the budget and programmes

- 2.38 In terms of scrutiny of the budget and the programmes within, the other two scrutiny committees (Economy and Transport/Infrastructure) do not look at the budget as a whole. They approach their work programming and agendas by focusing on overarching/cross-cutting topic areas, and then scrutinise any programmes/projects which fall under that area on a case-by-case basis including the relevant financials. The exception is the large programmes such as bus reform, mass transit, and the Adult Education Budget.
- 2.39 The overall budget remains within the remit of the Corporate Scrutiny Committee which scrutinises the budget in individual meetings and through workshops which allows Members to remain briefed on the latest version of the draft budget as it develops.

3. Tackling the Climate Emergency Implications

- 3.1 Support for climate emergency projects is considered within the business planning and budget work but there are no implications directly arising from this report.

4. Inclusive Growth Implications

4.1 Support for inclusive growth is considered within the business planning and budget work but there are no implications directly arising from this report.

5. Equality and Diversity Implications

5.1 Equality and diversity implications are considered as part of the development of the business plan and budget, and individual programmes, but there are no implications directly arising from this report.

6. Financial Implications

6.1 Financial information is included throughout the but no decisions are sought as part of this paper.

7. Legal Implications

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

8. Staffing Implications

8.1 Staffing numbers and costs are considered as part of business planning and budget process.

9. External Consultees

9.1 No external consultations have been undertaken.

10. Recommendations

10.1 That the Corporate Scrutiny Committee notes the report and provides any comments or feedback.

11. Background Documents

There are no background documents referenced in this report.

12. Appendices

Appendix 1 – Forecast revenue outturn 2022/23

Appendix 2 - Original revenue budget 2023/24

Appendix 3 – Indicative capital budget 2023/24 to 2025/26

Appendix 4 – Gainshare

Appendix 5 – Treasury management strategy