

Report to: Overview and Scrutiny Committee

Date: 14 September 2018

Subject: **Business Planning and Budgets**

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1. Purpose of this report

- 1.1 To advise the Overview and Scrutiny Committee of the work underway to progress business and budget planning for 2019/20.

2. Information

Budget Process

- 2.1 The Combined Authority approved the 2018/19 budget at its meeting in February. The revenue budget was set in the context of a three year financial strategy that included a commitment to reduce the transport levy each year and seeks to reduce the use of reserves to provide a balanced position by 2020/21. The challenges of achieving this were set out in the report and a number of supporting actions were agreed.
- 2.2 In setting its budget the Combined Authority recognised the challenging financial position faced by its local authority partners and its need to respond to this. The largest element of income for the Combined Authority is the transport levy which is paid across by the five West Yorkshire authorities on a per capita basis. A commitment was therefore made to continue to reduce the transport levy by £1 million each year.
- 2.3 The need to achieve and demonstrate efficiency and effectiveness and demonstrate value for money from the organisation's activities is core to the approach being taken. The budget setting process for 2019/20 will seek to demonstrate how expenditure delivers against the objectives and priorities of the Combined Authority and its partners. This information will be provided to members and partners for their scrutiny and input at different stages of the process. The 2018/19 corporate plan will be updated to form the basis of the business plan for 2019/20 and is expected to retain at its centre the three main

priorities of productivity, inclusive growth and a modern, accessible transport network.

- 2.4 **Appendix 1** sets out the timetable for the development of the financial strategy and budget that includes regular papers to the Combined Authority, the continuation of the member budget working group and the involvement of the Overview and Scrutiny and Governance and Audit Committees. The final budget for 2019/20 will need to be approved at the Combined Authority meeting of 14 February 2019 to enable the transport levy to be set in accordance with legislative requirements. The timetable includes an initial report to this Committee in September 2018 with a further report scheduled for the November 2018 meeting and confirmation of the final proposed budget in January 2019.
- 2.5 **Appendix 2** sets out the position that was agreed in February 2018. It is proposed that this is extended to cover the next three year period ie through to 2021/22 and that the figures for 2021/22 include the ongoing commitment to a reduction in the transport levy. Any changes that have occurred since the figures were agreed in February and any changes to the underlying assumptions and projections will be addressed in the revision to the strategy which is now underway. The following paragraphs set out some of these key issues, assumptions and changes to be taken into consideration in updating both the medium term financial strategy and budget. Members are asked to consider any further matters to be considered.
- 2.6 **Bus strategy** – the Transport Committee in July 2018 considered the issues around the effectiveness of expenditure on bus services in supporting mobility and approved revised policy guidelines together with a process of district level bus network reviews. The Transport Committee in May 2018 approved for consultation revised policy guidelines in respect of home to school services. A 20% savings target has been set for all bus service procurement over the period 2018/19 to 2020/21. To date, contract awards and amendments are delivering the necessary savings for 2018/19.
- 2.7 **Concessionary travel** – a significant part of the Combined Authority’s budget is spent on the discretionary and statutory elements of the concessionary travel scheme. The costs of the statutory English National Concessionary Travel Scheme for 2018/19 are £46 million and are calculated using a spreadsheet model prescribed by the Department for Transport. This model includes a number of factors, including bus operating costs, so in effect will change each year as inflation affects fuel and salary costs of bus operators. Accordingly, an increase for 2019/20 of £1.4 million is forecast with a further £1.5 million in 2020/21. These increases will need to be managed alongside the reduction in the transport levy and therefore increase the pressure to reduce expenditure and increase income in other areas of the budget.
- 2.8 A further £10 million per annum is spend on discretionary concessions, predominantly for young people. This enables young people to travel at half fare up to the age of 19. Further work will be undertaken to clearly set out

how this is contributing to policy objectives and to compare it against any alternative schemes in operation in other areas.

- 2.9 **Pay award** – the 2018/19 pay award is still being negotiated. At the time of setting the budget in February an assumption of an annual increase of 1% had been made, in line with the assumptions made by the West Yorkshire local authorities. The local government pay award was then made at 2% and it is expected therefore that the Combined Authority pay award is likely to be higher than that budgeted, potentially by between £100,000 and £150,000. The final award will also affect the expected level of future year pay awards that need to be built in to the strategy.
- 2.10 **Staffing structures** – the Combined Authority has over recent years been undergoing a review of its staffing structures and budgets and forecasts have been based on estimates in some cases. Now that revised structures are largely agreed and in place work will be done to finalise expected staffing costs and reflect these in the strategy. Further information on staffing budgets and headcount will be provided to the next meeting.
- 2.11 **Pension** – the triennial pension valuation will take place in 2020 and will have an impact on ongoing employer contributions. Assumptions on the likely impact of this will need to be agreed.
- 2.12 **Commercialisation** – the Combined Authority owns a portfolio of operational property assets (including bus stations) and some land and property acquired for previous transport schemes. Opportunities are being sought to maximise commercial rents from the portfolio and to identify the longer term scope to realise any redevelopment potential.
- 2.13 **Enterprise Zones** – the income stream from the Enterprise Zones (EZ) that accrues to the LEP and is received by the Combined Authority is one of the key income streams that has the capacity to grow. At present there is income from the business rates on the EZ in Leeds but with potential for significantly more from the second M62 multi-site EZ. Actions to increase this income are underway, including a capital programme to remediate some of the sites to enable new business to invest.
- 2.14 **Other income streams** – the Combined Authority has been awarded further funding since February 2018, including from the business rates pool, which needs to be factored into the three year strategy. Certain funding streams, particularly for economic services supporting business and skills, come to an end over the life of this strategy and opportunities to replace this need to be considered.
- 2.15 **Capitalisation** – the level of capitalisation ie charging eligible revenue costs to capital schemes has been increased for 2017/18, reflecting the growing capital programme in comparison to the revenue expenditure. Work on the size and shape of the future capital programme will assist in identifying whether there is an opportunity to further increase this capitalisation of revenue costs.

- 2.16 **Capital programme** – a significant number of new schemes have achieved decision point 2 of the assurance framework and have therefore passed the eligibility threshold for inclusion in the Growth Deal programme. The overall capital programme is being reviewed to identify the likely need for borrowing and the profile and costs of this. Much of the current Growth Deal funding which makes up the largest element of the capital funding available concludes in 2021. There is an ongoing income stream of £30 million per annum for the West Yorkshire plus York Transport Fund, to be supplemented by borrowing in accordance with the original Growth Deal, but it is expected there will still be a requirement beyond 2021 for a broader capital programme that would need to be supported by borrowing or yet to be identified funding streams. The costs of borrowing will need to be factored into the revised financial strategy.
- 2.17 **Living wage foundation accreditation** – the Combined Authority ensures no employee is paid less than the real living wage. As part of its work on social inclusion consideration will be given as to whether to pursue the full Living Wage Foundation accreditation. This would require the Combined Authority to ensure its contractors and sub-contractors all pay their employees no less than the real living wage. Further work will be undertaken to establish the potential financial costs of doing this, alongside the wider inclusive growth benefits of doing so.
- 2.18 **Benchmarking** – the Combined Authority is seeking comparator information from other combined and local authorities to assist in decision making and will provide this information in the next report. This will include information on the costs of bus services and concessionary travel as well as comparatives on back office and support functions where possible.
- 2.19 The closing position for 2017/18 required a reduced level of reserves needed in the year. The 2018/19 budget proposes a use of reserves of £1.5 million, which would leave closing general reserves at around £4 million, which is below the minimum required. It was proposed at the February budget meeting that an element of the reserve set up to support the West Yorkshire plus Transport Fund borrowing costs be transferred to general reserves. The next iteration of the strategy will consider the required level of reserves both for the general reserve and for the Transport Fund reserve.
- 2.20 Members are asked to provide any further areas for consideration and confirm if there is any information they would like to have provided to the next meeting.

3. Financial Implications

- 3.1 As set out in the report.

4. Legal Implications

- 4.1 None arising directly from this report.

5. Staffing Implications

5.1 None arising directly from this report.

6. External Consultees

6.1 None.

7. Recommendations

7.1 That the Overview and Scrutiny Committee provide any input to business planning and budgets and the issues raised in the report.

8. Background Documents

None

9. Appendices

Appendix 1 – Budget and planning 2019-20 timetable

Appendix 2 – Final Budget 2018/19