Report to:	West Yorkshire Combined Authority
Date:	6 February 2020
Subject:	**Budget and business plan 2020/21**
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Is this a key decision?	☒ Yes ☐ No
Is the decision eligible for call-in by Scrutiny?	☒ Yes ☐ No
Does the report contain confidential or exempt information or appendices?	☐ Yes ☒ No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	N/A

1. Purpose of this report

1.1 To consider and approve the proposed revenue budget and transport levy for 2020/21, the indicative capital budget and programme and treasury management statement.

1.2 To approve the detailed business plan for 2020/21 that sets out the services, activities and priorities for the organisation in the coming year.

2. Information

Background

2.1 West Yorkshire Combined Authority continues to focus on its ambitious plans, seeking to deliver good inclusive growth for the region Building on its progress in recent years which has seen the organisation reshaped and streamlined in order to best support this aim, the current year has seen good progress on a number of fronts with successes including:

- Good progress on West Yorkshire-plus Transport Fund schemes continues with the start of work on a £2.8 million transformation of Castleford rail station, the creation of an additional 83 free car parking spaces at Garforth rail station bringing the total to 333 spaces and major improvement work on Keighley's Hard Ings Road, which, by reducing congestion, will also improve air quality for road users and residents alike, and consultations on proposals for a new railway station at Elland.

- Supported 3,025 businesses in the region to grow and become more productive.
- Declared a Leeds City Region climate emergency and launched a programme of work to determine how to transition to a net zero carbon economy by 2038.
- Invested £10.19 million in the next phase of flood alleviation across seven projects in the Leeds City Region safeguarding 23,177 jobs and 500 businesses from flood risk.
- Contributed to cleaner air by installing 88 ultra-low emission vehicle (ULEV) charging points for taxis, cars and vans.
- Published the interim Future Ready Skills Commission report which identified 10 priorities that must be addressed in order to create a devolved skills system that works for employers, individuals and training providers.
- Launched one of the UK's first special educational needs and disability Careers Hub where 29 schools and multiple major employers have been linked to help transform careers education for pupils.
- Worked with 60 businesses and 24 schools through the CityConnect programme to help more people to travel by bike and on foot.
- Added 18.5km of high quality, segregated routes, to the region's growing cycling and walking network, including Bradford's Canal Road Cycleway, Leeds City Centre Cycle Superhighway and a series of towpath improvements on the Rochdale Canal around Hebden Bridge.

2.2 The Combined Authority works alongside the Leeds City Region Enterprise Partnership (LEP) in delivering its aims, with the LEP providing strong and strategic links to business across the region. The LEP has been hugely successful in securing funding through the Growth Deal that has seen investments in new colleges, flood alleviation works, housing and regeneration and business support. Over the past year it has taken action to ensure it will be compliant with the requirements of the government's 'Strengthening LEPs' document issued in 2018. To do this it has been necessary to redefine the formal footprint of the LEP, but there is a strong commitment to maintaining and further developing the close collaboration between those areas of the York, North Yorkshire and East Riding LEP that continue to form part of the LCR economic area. Current funding programmes covering that functional economic area continue to at least March 2021 and the LEP will introduce formal and informal arrangements to ensure the best of joint working continues.

2.3 The current Growth Deal funding – the largest Growth Deal in the country – comes to an end in March 2021 and the size and shape of funding beyond this date is unknown. Short term funding streams supporting skills and business interventions also come to an end during this time period, creating a huge gap in the Combined Authority and LEP's ability to respond in these critical areas. Negotiations continue with government on a devolution deal that would bring significant benefits for the region to build on the successes to date but it is not yet known how and when this will be finalised. A range of areas and issues have been identified for which funding is required to support interventions to address historic underinvestment in the region, to drive up quality of life and productivity and to respond to the climate emergency.

2.4 Coupled with this are the challenges in securing the appropriate revenue budget. The Combined Authority is largely funded by a combination of government grants and the transport levy paid by the constituent local authorities – Bradford, Calderdale, Kirklees, Leeds and Wakefield. Local authorities are facing a difficult funding position as they continue to await the outcome of the fair funding review and the comprehensive spending review later in 2020. Meanwhile their funding continues to fall and the demand for their services continues to increase.

2.5 In setting its revenue budget the Combined Authority is mindful of these constraints on its partners and is proposing a continuing reduction in the levy contribution paid to it for 2020/21, as well as a short term reprofiling of one of the earmarked reserves (the Transport Fund reserve). In support of the levy reduction the Combined Authority is also seeking to ensure that it has maximised its opportunities to increase income, reduce expenditure and demonstrate that it is operating as efficiently and effectively as possible. The business plans set out later in this report seek to demonstrate clearly how and where the revenue budget is spent and what services and outcomes are achieved as a result.

2.6 The focus for 2020/21 will reflect the climate emergency challenge whilst continuing to achieve inclusive economic growth, through improving the number of good quality jobs on offer, improving connectivity and increasing opportunities for young people to progress and for businesses to move to and grow within the region.

Business plan 2020/21

2.7 Work has been undertaken to produce a detailed business plan for the Combined Authority for 2020/21, maintaining the focus on the corporate objectives agreed for the current corporate plan: Productivity, inclusive growth and a 21st century transport system. The fourth objective of clean growth has now been repositioned as tackling the climate emergency.

2.8 In producing their business plans all directorates have been required to demonstrate how their expenditure delivers against the objectives and priorities of the Combined Authority and its partners, demonstrating efficiency and effectiveness and value for money for the services delivered. A clear link through to the four priorities must also be made clear.

2.9 **Appendix** 1 sets out the summary business plan for each directorate, demonstrating how they deliver against the organisation's corporate priorities and objectives and, at this summary level, the resources required to do so. Each directorate is also developing a number of key performance indicators (KPIs) that will enable performance to be monitored throughout the year. These indicators will build on current levels of achievement to provide an element of stretch, as well as demonstrating efficiency and value for money. The detailed business plans and KPIs will be finalised and published in March with regular reporting to be undertaken on achievement throughout the year.

2.10 A public facing corporate plan is being produced for April, drawing on the information in the business plans and presenting this in an accessible way to demonstrate what the Combined Authority and LEP intend to deliver for people in the region in the coming year. In line with the current year a LEP Delivery Plan will be presented alongside this.

Revenue budget 2020/21

2.11 The draft baseline revenue budget is attached as **Appendix 2** and shows a balanced position for 2020/21. It assumes the transport levy is cut by a further £1 million (the third in a series of three year cuts) as previously agreed. It also acknowledges the difficulty of setting a budget in the current context when devolution negotiations are not yet concluded, the new government and its policies are unknown and both the budget and the spending review are still to happen later in the year. Recent budget discussions with members have shown little opportunity or appetite to add to current spending in this situation and that the focus should be on maintaining existing front line services.

2.12 In putting together budget submissions directorates within the Combined Authority are tasked with minimising costs and maximising income. Senior manager challenge sessions are used to scrutinise the funding requirements put forward, with this information then informing discussions with Members on options to present a balanced budget. These actions have resulted in a range of efficiencies and savings each year that have contributed to the Combined Authority being able to reduce the transport levy and achieve more for less. In line with the medium term financial strategy approved in February 2018 and taking into account changes that have occurred since the strategy was agreed, the budget for 2020/21 is balanced without the need to use general reserves.

2.13 A balanced position has been achieved on the basis that the renegotiation of the English National Concessionary Travel Scheme (ENCTS) arrangements will deliver £0.5 million additional savings, and that £400k of efficiency / transformation savings can be found within transport functions. These savings will contribute to protecting front line services to the travelling public in the form of bus tendered services and the concessionary travel schemes. However the budget as set is not without its risks and challenges and these are set out in the following paragraphs.

2.14 **Bus strategy** – The commitment made in the medium term financial strategy required a 20% reduction in the cost of bus tendered services over a three year period. This is on top of actions already taken over the last 10 years which have seen the cost of providing bus services reduce by 50% in real terms. Significant savings have been achieved through smarter procurement, bus network reviews that minimise impact on customers, retendering of some school services and a continued focus on value for money. The proposed budget seeks to maintain the expenditure on bus services at its current level. Work is taking place to understand different models for improving connectivity within this envelope, including demand responsive services. It should also be noted that the proposed sale of First Group later this year brings both opportunities and challenges including a very real risk of actions by new owners that could increase pressure on this budget. The work taking place to understand how and where the Combined Authority could be involved in or influence the sale process is considered as part of agenda item 10.

2.15 **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 current costs of the statutory English National Concessionary Travel Scheme 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. In order to mitigate the potential volatility of these costs arrangements with the major bus operators are in place. The assumption in the 2020/21 budget is a small reduction forecast for 2020/21 as agreements are due for renegotiation and are based on the smarter travel data now available.

2.16 A further £9.5 million per annum is spend on discretionary concessions, predominantly for young people and enables them to travel at half fare up to the age of nineteen. This clearly supports the inclusive growth aims of the Combined Authority and discussions are taking place with bus operators to ensure that maximum benefits are derived from this expenditure. A further £650k is spent on discretionary concessions for seniors on rail.

2.17 **Transport Services** – as well as the position set out above with regard to bus tendered services and concessionary travel other areas of spend continue to be examined within the transport services directorate. On top of the savings achieved previously a further target of £400k has been set for efficiency / transformational changes across the directorate..

2.18 **Enterprise Zones** - the LEP has established two Enterprise Zones (EZ), one in Leeds and a multi site one that consists of eight sites along the M62. The business rates earned from these sites accrue to the LEP and are received by the Combined Authority as the accountable body. This continues over the 25 year period since they were established (2013 for Leeds and 2016 for the M62) and is one of the key income streams that has the capacity to grow and assist in establishing a viable revenue budget in future years.

2.19 The Leeds EZ has been established for some years and is due to pay over £1.8 million in 2020/21 (£1.2 million budgeted in 2019/20). Detailed scrutiny of the pipeline of future development continues to enable a more robust position to be established. Significant growth in this income could for example provide a means by which to fund business and skills projects, or further trade and investment activities, and remove some of the dependence on short term government funding.

2.20 The M62 EZ consists of eight sites, only two of which are forecast to make any payments this financial year – Lindley Moor West and South Kirkby. The budget estimates £0.5 million for 2020/21. Collectively the sites needed significant investment and further development before they can become income generating. A number of sites are currently progressing using Growth Deal capital funds.

2.21 **Capitalisation** - the level of capitalisation ie charging eligible revenue costs to capital schemes is included in the revenue budget and reflects the significant capital programme in comparison to the revenue expenditure. All opportunities to maximise this are being taken and the capacity to extend this will be re-visited should the bid for funding from the Transforming Cities Fund be successful.

2.22 **Policy, Strategy and Communications–** a number of posts in the team continue to be held vacant in the 2020/21 budget in order to manage costs. This will clearly limit the capacity of the team to deliver across the full range of policy areas for the Combined Authority and its district council partners and a number of policy items. Additional funds have been made available by government in the current year to support the work on developing the Local Industrial Strategy (LIIS) and ensuring it is underpinned by robust evidence. A compelling strategy will be key to unlocking future funding for the region.

2.23 **Trade and Investment** – external funding is being sought to continue the Key Account Manager posts currently provided through external funding and if this bid is unsuccessful these costs would need to be met from revenue budgets. There is a clear need to ensure post Brexit that there is sufficient resource to continue to build on the successes of recent engagements with China and India for and that the team is able to respond on behalf of the region to opportunities.

2.24 **Pay and pension** – the triennial pension valuation undertaken during 2019 is due to report the ongoing employer contributions for the next three years from 2020/21. At this stage it has been assumed that contributions will be cost neutral.

2.25 In line with our constituent authorities, it has been assumed that future year pay awards will be around 2% average rate.

2.26 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 is being undertaken to establish the potential financial costs of doing this, alongside the wider inclusive growth benefits of doing so, looking at this issue in line with our constituent authorities. No contingency has been built into the current budget assumptions to enable this accreditation to be pursued

2.27 The proposed budget includes a savings target of £1.5 million against staffing costs. This is based on savings against budget that will arise as a result of the timing gap between employees leaving and their replacements starting work, as well as the savings secured by purposefully not filling the full establishment of the policy and strategy teams. The Combined Authority keeps its staffing structures under regular review to ensure that they continue to best meet current and emerging needs.

2.28 **Commercialisation** – the Combined Authority owns a portfolio of operational property assets, largely the bus stations in West Yorkshire and some land and property acquired for previous transport schemes. An asset management strategy is in development. In parallel with this opportunities are being sought to maximise commercial rents from the portfolio and to identify the longer term scope to realise any redevelopment potential. The proposed revenue budget includes targets for tenant income at the main premises, as well as income from toilet charging which has been introduced at the larger bus stations.

2.29 **Other income streams** – the Combined Authority continues to seek and be awarded further funding, much of which is short term and only confirmed on an annual basis. All of this confirmed funding has been built into the 2020/21 budget. At this point the continuation of this funding beyond 2020/21 is unclear and gives rise to a revenue budget gap of up to £3 million should the Combined Authority and LEP wish to continue providing the services funded in this way. This ‘cliff edge’ scenario of short term funding coming to an end for business support programmes in particular continues to cause ongoing challenges in planning the delivery of these key programmes.

2.30 **Borrowing costs** – An indicative three year capital programme and statement of available funding have been prepared and are considered in more detail later in this paper. 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 capital programme. Much of the current Growth Deal funding which makes up the largest element of the capital funding available concludes in March 2021. There is an ongoing income stream beyond this date of between £30-£40 million per annum for the West Yorkshire plus York Transport Fund (WY+TF), to be supplemented by borrowing in accordance with the original City Deal agreed in 2012, 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.

2.31 The detailed WY+TF programme is verified by local authority partners delivering the individual projects and highlights a future borrowing requirement. The estimated revenue costs of supporting this borrowing are reflected in the final proposed budget in today's report, and are to be funded from the Transport Fund reserve. It is intended to utilise the Transport Fund reserve to support these costs but once these are applied it must be noted that there will be an ongoing long term commitment to meet the costs of the borrowing entered into. The Transport Fund reserve currently has sufficient funds to meet these initial borrowing costs and it is therefore proposed that the previously agreed 2020/21 rebate of £2 million back to local authority partners be increased to £3 million. Ongoing review of the capital budget and borrowing requirements will continue and the scale of contributions to the reserve will be reconsidered each year as part of the annual budget discussions.

Reserves policy

2.32 Any budget proposals 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 workings for this year's reserves policy are set out in **Table 1** below and are based on the approach taken in previous years with an updated assessment of the relative risks currently facing the Combined Authority.

Table 1 - Reserves Policy	Budget 2020-21 £m	Reserves 2020-21 £m
Risk on Concessions	55.16	
5% contingency for volatility of payments and bus operator landscape risks (previously 3% but increased to 5% until more information known)		2.76
Risk on Subsidised Bus services (gross)	25.86	
5% contingency due to inflationary and market conditions		1.29
50% Risk of not reducing budget/unintended reactions from operators		0.50
Risk (general) on other areas of spend		
Passenger & Bus Station Services (net)	6.99	
Trade and Inward Investment	1.03	
Policy, Strategy and Communications	5.49	
Financing (net)	5.28	
Corporate Services	6.12	
	24.91	
Risk of inflation increases/capacity demands etc at 3%		0.75
Other Risks 2020/21 (Brexit, devolution, operational matters)		1.50
Risk on income		
Risk that income falls short of expectations (eg Enterprise Zone receipts)		0.50
Total reserves required		**7.30**

2.33 The closing general reserves position for 2019/20 is currently forecast to be £7.2m. For 2020/21 the budgeted assumption does not require a further release from the general reserve. It is proposed to protect maintain the general reserve at this level in line with the above assumptions for 2020/21. The general reserves policy will be kept under review to ensure it is kept at an optimum level to best meet the needs of both the Combined Authority and the West Yorkshire local authorities.

2.34 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 reserve at the end of 2019/20 will be £38.2 million and 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.

Transport levy

2.35 The Combined Authority is required to set the transport levy annually and in accordance with the regulations meaning that the levy must be set by 15 February in the year preceding that to which the levy applies.

2.36 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 2020/21.

2.37 **Table 2** below sets out the net and gross levy by population, in accordance with the regulations, showing the effect of the decrease of £1 million and the change in the population base which this year is relatively insignificant.

Table 2 - District Council levies

	Relevant Population June '18 for 2020/21	Net 2019/20 £000	Gross 2020/21 £000	% of levy By District %	Refund 2020/21 £000	Net 2020/21 £000	Proposed Rebate 2020/21 £
Bradford	537,173	23,180,271	23,846,429	23.15%	918,255	22,928,174	702,596
Calderdale	210,082	8,859,560	9,326,056	9.05%	574,195	8,751,861	268,186
Kirklees	438,727	18,177,594	19,476,169	18.91%	1,515,277	17,960,893	550,382
Leeds	789,194	33,434,036	35,034,261	34.01%	1,944,449	33,089,812	1,013,982
Wakefield	345,038	15,249,127	15,317,085	14.87%	147,235	15,169,849	464,855
	2,320,214	98,900,588	103,000,000	100.00%	5,099,411	97,900,588	3,000,000

2.38 Also included in **Table 2** is the proposed part rebate of previously received contributions towards the Transport Fund reserve. The proposal is to rebate £3 million for 2020/21 only, an increase of £1 million on the amount agreed last year, whilst the requirement for borrowing against the capital programme is building up. A proportionate rebate will also be made for City of York Council which is a contributor to the Transport Fund reserve.

2.39 In accordance with the regulations District Councils will be notified of the transport levy by mid-February and will make payments to the WYCA in ten monthly instalments from 1 April 2020.

Capital strategy

2.40 The Treasury Management Code of Practice and the Prudential Code requires authorities to have in place a capital strategy. This should set out the long term context in which capital expenditure and investment decisions are made, giving due regard to both risk and reward and impact on the achievement of priority outcomes. This capital strategy should form a part of an authority’s integrated revenue, capital and balance sheet planning.

2.41 The strategy was approved in April 2019 and is currently being reviewed / revised and will be brought to a future meeting of the Combined Authority for approval. This will also be aligned to the investment strategy under development to support the emerging loans programme. The following section on the capital budget considers the capital plans in more detail.

Capital budget

2.42 The following paragraphs set out the capital funding available to the Combined Authority for 2020/21 and subsequent years and the indicative capital programme expenditure for which this funding will be used. It reflects the impact of the way in which the Department for Transport (DfT) provides capital funding, most notably the devolution of the major scheme funding and the topslice of Local Transport Plan Integrated Transport (LTP) block funding to the WY+TF element of the regional Growth Deals.

2.43 2020/21 is the final year of the six year Growth Deal and also the final year of funding for the Leeds Public Transport Investment Programme. The requirement to complete spending on these programmes brings a number of challenges, not least the need to ensure sufficient capacity to deliver the remaining funding whilst also potentially gearing up to deliver the Transforming Cities Fund (TCF) programme. A successful bid to the TCF bid would see a significant increase in resources required to deliver a complex programme in tight timescales – at a scale double that of the Growth Deal. Early work has been undertaken to ensure a rapid start can be made once the bid outcome is announced but there will be increased pressure to deliver the early stages of this whilst concluding Growth Deal and LPTIP.

2.44 In previous years, following discussions with the Investment Committee, and 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 2019/20 and that this be kept under review as part of the year end closedown work.

2.45 **Appendix 3** sets out the capital expenditure and funding budget estimates for the period 2019/20 to 2022/23. These figures are indicative at this stage and include the costs and funding for the Transforming Cities Bid and Future Mobility Zone bid, both of which are awaiting government confirmation. The attached provides sufficient headroom to enable expenditure to be accelerated where possible.

2.46 At the time of writing this report the 2020/21 settlement letter is still awaited from DfT with regards to the Integrated Transport Block, the Highways Maintenance Block (both incentive and needs element) and the Pothole Action Fund. The Combined Authority is determined by DfT to be the accountable body in West Yorkshire and funding will be allocated and paid to it.

2.47 The Highways Maintenance allocations and Pothole Action Fund are made in full to District Councils with the funding received by the Combined Authority paid over to the Districts via quarterly payments, as determined by the DfT's formulaic allocation. Given this money is effectively simply passported through to the local authorities it is not required to be progressed through the assurance framework and it is proposed that approval is given via this report for the expenditure to be incurred via the usual quarterly payments. The values (though indicative) are set out in **Table 3**. It is proposed, as in previous years, that the Director, Corporate Services as s73 Officer, be authorised to approve revised payments should final confirmed sums by DfT differ from those indicative ones set out below.

Table 3

	Pothole Action Fund	Highways Maintenance Needs Based	Highways Maintenance Incentive	Integrated Transport Block
	2020/21 £m Indicative	2020/21 £m Indicative	2020/21 £m Indicative	2020/21 £m Indicative
West Yorkshire	1.594	23.506	4.897	13.104
Bradford	0.305	4.940	1.036	-
Calderdale	0.198	3.151	0.661	-
Kirklees	0.323	4.890	1.025	-
Leeds	0.508	6.956	1.458	-
Wakefield	0.260	3.569	0.717	-

2.48 Ongoing financial monitoring and planning will enable updates to be provided on the affordability of the programme and the appetite to support the required level of borrowing which is envisaged to be required. In accordance with the City Deal, funding for schemes is partly through government grant but is also required to be supported through local contributions, which has previously been agreed as a levy supporting borrowing costs. The mismatch between the funding and expenditure will therefore be addressed through borrowing.

Indicative borrowing costs have been shared with the West Yorkshire Directors of Finance and they have noted the lower level of borrowing expected for 2020/21 and have proposed that the previously agreed £2 million rebate from the Transport Fund reserve (set up to fund the impact of future borrowing costs) next year is increased to £3 million. During 2020/21 a longer term proposal for meeting the borrowing costs in the medium and longer term will be developed with the Directors of Finance to be reflected in the updated medium term financial strategy

2.49 The release of funding through the Growth Deal to support the WY+TF from 2020/21 onwards is dependent on the outcome of regular independent reviews. The first of these is underway and expected to be concluded in the next few months. This initial review is focussing on expenditure against forecast, with later reviews considering whether the stated aims and objectives have been achieved. Early indications are that the review will be positive and should enable the next tranche of funding to be released.

2.50 The release of funding to progress projects is subject to the Combined Authority's assurance process. The assurance process is updated annually to reflect latest government guidance and any changes within the LEP and Combined Authority. The Investment Committee will continue to be a key part of the process whereby Growth Deal and other projects are considered and recommended for progression from initial idea through to delivery / construction. Additionally, in December 2018 the Combined Authority agreed certain approval powers for the Investment Committee. It is also proposed continuing the arrangements in place whereby Transport Committee approve Integrated Block funded projects up to a value of £3 million, with reporting to the Combined Authority of such decisions, as with the Investment Committee.

2.51 The attached capital budget includes indicative figures for the Transforming Cities Fund and Future Mobility Zones bids, to highlight the potential scale of growth to the capital budget in the coming year, if the bids are successful. The appendix also clearly demonstrates the impact of current funding coming to an end, for both Growth Deal and Leeds Public Transport Implementation Plan. Whilst it is anticipated that government will provide successor funds to these and other European funds, at present there is no indication of the likely scale and extent of these. It is likely that a pipeline of projects may need to be developed at risk in anticipation of future funding, so that there can be a seamless transition from current programmes after March 2021.

Minimum Revenue Provision Policy (MRP)

2.52 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.

2.53 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.

2.54 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.

2.55 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.

2.56 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

2.57 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. This was considered and endorsed by the Governance and Audit Committee at its meeting on 23 January 2020 and is set out in full in **Appendix 4**.

Summary

2.58 Members are asked to consider the proposed budget and business plan for 2020/21 and accompanying recommendations.

3. Inclusive Growth Implications

3.1 Inclusive growth is one of the Combined Authority's corporate priorities. As such many of the activities funded by the proposed budget will support the inclusive growth agenda. This is set out in more detail in the business plans included at **Appendix 1.**

4. Clean Growth Implications

4.1 At its last meeting the Combined Authority agreed to strengthen its focus on carbon reduction by renaming the clean growth corporate priority "Tackling the Climate Emergency". The draft business plans contain objectives and priorities to tackle the climate emergency, and the budgets seek to include where possible resource to address this work. The capital budget includes some specific schemes relating to clean growth.

4.2 Enabling wider aspects of clean economic growth remains of the utmost importance to the Combined Authority. However, making "Tackling the Climate Emergency" a corporate priority means that carbon reduction becomes an explicit objective of the Combined Authority, consistent with the Climate Emergency Declaration in 2019.

5. Financial Implications

5.1 As this is a budget report all financial implications are set out throughout the main body of the report.

6. Legal Implications

6.1 The Combined Authority is required by the levying regulations to set the transport levy for 2020/21 by 15 February 2020.

7. Staffing Implications

7.1 The budget includes the costs and funding for current approved establishment and the associated employer on-costs.

8. External Consultees

8.1 No external consultations have been undertaken. However, information on the budget position has been shared with members of the public via an engagement campaign on the internet and via social media.

9. Recommendations

9.1 That approval be given to the Combined Authority proposed revenue budget for 2020/21.

9.2 That approval be given to the indicative capital programme and budget for 2019/20 – 2022/23.

9.3 That approval be given to the 2020/21 business plan.

9.4 That the Transport Committee be delegated to approve individual schemes within the integrated transport block of the 2020/21 capital programme up to a maximum cost of £3 million.

9.5 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 2021.

9.6 That the Director, Corporate Services be authorised to issue the levy letter in respect of the financial year ending 31 March 2021 to the five District Councils in West Yorkshire.

9.7 That a payment of £5.09 million and of £3 million be made to the five District Councils in accordance with Table 2 of the report.

9.8 That authorisation be given to the Director, Corporate Services to arrange appropriate funding for all expenditure in 2019/20 and 2020/21 subject to statutory limitation, including the most appropriate application of capital funding as set out in the report.

9.9 That approval be made to the indicative expenditure of highways maintenance funding of £28.403 million and the pothole action fund of £1.594 million, to be paid quarterly to the West Yorkshire local authorities in accordance with the DfT formula, and for Director, Corporate Services to vary these amounts should DfT revise the payments from those provisionally indicated.

9.10 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 Growth Deal, Leeds Public Transport Investment Programme and Local Transport Plan Integrated Transport. For 2020/21 the estimated total value is £9.6 million (2% - 3% of the total capital programme).

9.11 That the adoption of the CIPFA Code of Practice for Treasury Management in Public Services be reaffirmed.

9.12 That the treasury management policy as set out in **Appendix 4** be approved.

9.13 That the prudential limits for the next three years as set out in **Appendix 4** be adopted.

10. Background Documents

10.1 None.

11. Appendices

Appendix 1 – 2020/21 business plan

Appendix 2 – 2020/21 proposed revenue budget

Appendix 3 – Indicative capital budget 2019/20 – 2022/23.

Appendix 4 – Treasury management statement