

WEST OF ENGLAND COMBINED AUTHORITY COMMITTEE

31 January 2020

REPORT SUMMARY SHEET

COMBINED AUTHORITY BUDGET 2020/21 AND MEDIUM-TERM FINANCIAL FORECAST

Purpose

To consider and approve a Budget in respect of the WECA for 2020/21.

Summary

This report includes the following key information:

- The WECA Budget has been prepared on the basis that the separate Budget Proposals put forward in the Mayoral Budget (elsewhere on this agenda) are approved as presented;
- The proposed WECA Budget includes provision for the Governance, Management and Administration of the WECA's functions and responsibilities;
- Alongside the previously approved WECA budgets of Business Rates Retention and Mayoral Capacity Fund there are a number of other specific delegations and grants that have been awarded to WECA including the Adult Education Budget and Housing Capacity Fund;
- The 2020/21 WECA Revenue budget takes account of the £350m WECA Investment Programme as approved by Committee in July 2019;
- The base income budget for generating returns from cash balances held, (Treasury Management), is £520k. It is estimated that this figure will be significantly exceeded in 2020/21 but will start to reduce as progress accelerates on delivering the £350m investment programme;
- Budget approvals have now been phased over the period up to March 2023 to provide an indicative Medium-Term Financial Forecast, (MTFF), for WECA revenue budgets;
- The revenue transport levy for 2020/21 will incorporate the following new areas of responsibility that will transfer to WECA from April 2020
 - Bus Service Information
 - Supported Bus Services (whilst remaining a joint function)
 - TravelWest and
 - Metrobus operations
- Revenue budgets from constituent Unitary Authorities that will be included in the levy for the new transport services will reflect direct costs only with no initial allocation for overheads;
- WECA has improved its reporting of 'corporate and democratic core' and 'overhead' costs – collating spend by cost centre as opposed to charging each individual staff member across various budget headings;

- In terms of new projects and workstreams, WECA is aiming to adopt a standard overhead rate of 36.4% for each Full Time Equivalent (FTE) front line staff post to account for the cost of overheads.

Recommendations

Members of the Combined Authority Committee are asked to approve:

1. The following new drawdowns against the WECA Investment Fund:
 - (a) £1.465m Feasibility and Development Funding Application for: the Regional Operations Capability – Phase 1 project (£75,000); Strategic Planning Shared Evidence Base (£250,000); North Fringe of Bristol Masterplanning (£500,000); South West Bristol Masterplanning (£500,000); Building Employment and Enterprise Skills (£20,000); Local CEIAG Action Research Activities (£20,000) and Apprenticeship Levy Maximisation (£100,000);
 - (b) The conditional approval of the South Bristol Enterprise Support project and award of £483,000;
 - (c) The conditional approval of the Centre for Digital Engineering Technology & Innovation and a funding award of £5m;
 - (d) The conditional approval of the LIS Productivity Challenge Delivery Programme and a funding award of £2.737m

These approvals are subject to the consideration of the detailed schemes within the Investment Fund report as detailed on this agenda. Recommendation (a) is included within the £53.0m WECA revenue budget for approval whereas (b) to (d) are not included until the relevant conditions (linked to the funding) have been met.

2. A Transport Levy to the constituent councils of **£18.8m** is applied for 2020/21, with a recharge of £1.9m applied to North Somerset Council, as detailed in Figure 6.
3. The following virements within the WECA budget:
 - (a) £200k from 2020/21 surplus Treasury Management income is allocated to create a transport 'smoothing reserve' to manage financial risks in relation to the operational transport services that are transferring to WECA from April 2020r;
 - (b) £100k from 2020/21 surplus Treasury Management income is allocated to design and deliver a new WECA website;
 - (c) £100k from 2020/21 surplus Treasury Management income is allocated to provide additional short-term capacity to financial services in order to deliver a fully automated financial system for the authority.
 - (d) £100k from 2020/21 surplus Treasury Management income is allocated to create a revenue fund in order to respond quickly to potential new grant bids and/or any other inward investment opportunities.

4. The detailed WECA budget for 2020/21 as per Appendix 1.

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REPORT TO: WECA COMMITTEE

DATE: 31 January 2020

**REPORT TITLE: COMBINED AUTHORITY BUDGET 2020/21 AND
MEDIUM-TERM FINANCIAL FORECAST**

**DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT AND
CORPORATE SERVICES**

AUTHOR: MALCOLM COE

Purpose of Report

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Recommendations

It is recommended that the committee approve:

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 - (d) £100k from 2020/21 surplus Treasury Management income is allocated to create a revenue fund in order to respond quickly to potential new grant bids and/or any other inward investment opportunities.
4. The detailed WECA budget for 2020/21 as detailed in Appendix 1.

Background and Issues for Consideration

WECA Revenue Resources and Medium-Term Financial Outlook

- 2 The West of England Combined Authority (WECA) Budget relates to all functions with the exception of those relating specifically to the Mayor which are set out separately on the agenda for this meeting. The WECA Budget includes any specifically agreed contributions from the WECA to meet Mayoral costs.
 - 2.1 The funding for the WECA comes from five main sources:
 - Investment funding provided by the Government as part of the Devolution Deal;
 - A levy on the constituent councils for the costs of transport functions that transferred to the WECA;
 - A 5% share of business rates under the 100% Business Rates Retention Pilot;
 - Government funding for various functions, capacity and projects including:
 - Adult Education Budget;
 - Housing Capacity Fund;
 - Mayoral Capacity Fund
 - Future Bright
 - Treasury Management - Interest on balances

This budget proposal covers the financial year 2020/21 and provides a medium-term revenue outlook. It builds on the previous years of operation for the WECA and reflects all previous committee decisions and funding allocations made which have ongoing impacts.

- 2.2 The WECA Budget has been prepared on the basis that the separate Budget Proposals put forward in the Mayoral Budget (elsewhere on this agenda) are approved as presented.
- 2.3 The proposed WECA Budget is set out in detail at Appendix 1 and includes provision for the Governance, Management and Administration of the WECA's functions and responsibilities.
- 2.4 WECA staff capacity for the first couple of years of operation has been funded entirely through Business Rates Retention and short-term government capacity funding such as the Mayoral Capacity Fund. Being cash limited in nature, this funding has not accounted for any uplift in staffing costs through either national pay awards and/or increments with such costs having to be funded through using investment interest earned on cash balances.
- 2.5 All staff appointments have been made in compliance with committee approved allocations with an appropriate balance maintained of permanent vs fixed term appointments based on the specific duration of funding streams. Contracted staff are engaged, where relevant, primarily to support specific skill sets required to deliver approved Investment Fund projects.
- 2.6 Throughout 2019/20 WECA revenue funding has increased with the approval of various projects, and associated funding, as part of the £350m four-year investment programme (up to March 2023). Such approvals are incorporated within the 2020/21 WECA budget and Medium-Term Financial Forecast (MTFF). Our MTFF has been developed to be conterminous with the time period of the approved Investment Programme. Where new approvals have impacted on 2019/20 budgets, these changes are included within this report. Also included is the impact of the decision to award £682k of High Street funding to a capital project, thereby reducing the revenue budget to reflect the transfer to capital.
- 2.7 Figures in this report do not reflect any forecast slippage from 2019/20 as reported in the Revenue Outturn report elsewhere on this agenda. The actual slippage for 2019/20 will be added to the 2020/21 budget in the first monitoring report to Committee in 2020/21.
- 2.8 The 2019/20 WECA Revenue budget, as approved by Committee in February 2019, is detailed in *Figure 1*.

Figure 1: WECA 2019/20 approved revenue budget

	2019/20
Core Annual Revenue	<u>£000s</u>
Business Rate Retention	1,212
Mayoral Capacity Fund	1,000
Treasury Management income	820
Investment Fund for Mayoral Costs	607
Specific Grant Funding	

Adult Education Budget	11,907
Housing Capacity Fund	1,000
Future Bright	1,600
Investment Fund (WECA Management)	
Transport Integration transition	500
Mass Transit development	200
Housing Infrastructure development	500
Skills Project Development	261
Workforce for the Future (WFTF)	1,000
Investment Fund (Allocated to UAs)	
High Street Regeneration (initial revenue)	10,000
South Glos by-pass feasibility	600
Transport feasibility 2018/19 approvals	1,221
UA Transport Levy	14737
	47,165

Key Changes in Resources with effect from 2020/21

Core Revenue

- 2.9 The 'core' element of our revenue resources remains largely unchanged in 2020/21. The West of England 100% Business Rates Retention Pilot has been rolled forward for a further financial year at its existing value of circa £1.2m for WECA, (5% of the total increase in business rates retained in the region). However, the introduction of a new national 75% retention scheme from April 2021 places future year resources at risk. Similarly, government has confirmed a further £1m Mayoral Capacity Fund Grant for 2020/21 to meet with the core operating costs of the organisation with no certainty beyond this period.
- 2.10 Income received from our investments significantly exceeded budgeted levels in 2019/20 due to high cash balances held and longer-term interest rates attained through investing in approved property and mixed asset funds. High returns are again forecasted for 2020/21 although this will begin to taper down from 2021/22 onwards as significant construction costs will be drawn down in relation to the approved £350m WECA Investment Programme. From 2022/23 investment returns are forecast to return to the 2018/19 base budgeted levels of circa £520k per annum.
- 2.11 The revenue funding for running the mayoral function, alongside the annual funding put aside to fund four yearly election costs, is met through an approved drawdown from the WECA Investment Fund. This drawdown will increase slightly in 2020/21 as a result of the WECA Committee decision in October 2019 to approve changes to councillor allowances in response to an independent panel remuneration report.
- 2.12 The Medium-Term Financial Forecast, (MTFF), of our **core** revenue streams amounts to £14.4m over the four-year period as shown in *Figure 2*

Figure 2: MTFF (Forecast) for Core Revenue Streams

	2019/20	2020/21	2021/22	2022/23	Total
Core Revenue Budgets	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Business Rate Retention	1,212	1,200	*1,200	*1,200	4,812
Mayoral Capacity Fund	1,000	1,000	*1,000	*1,000	4,000
Treasury Management income	820	1,020	700	520	3,060
Investment Fund for Mayoral Costs	607	640	645	653	2,545
Sub Total:	3,639	3,860	3,545	3,373	14,417

* Business Rates Retention and Mayoral Capacity funding are high risk from 2021/22

- 2.13 WECA will continue to put forward a case to government to establish sustainable core funding for Combined Authorities beyond year on year allocations. In addition, to mitigate risk, WECA will continue to review its holding of financial reserves and aim to increase the current level of reserves through any end of year, (2019/20), surpluses.

Specific Revenue Grant Funding

- 2.14 The largest specific grant that WECA receives is in relation to the Adult Education Budget, (AEB), that was formally devolved to the Combined Authority with effect from the 2019/20 academic year. The first year's funding of £11.9m reflects that this responsibility transferred part way through the financial year (in August 2019). Full year funding of £14.7m is reflected within the 2020/21 financial year with the assumption that government will continue to honour funding at this level.
- 2.15 2020/21 will be the second of three financial years where WECA will receive £1m through the Housing Capacity Fund which is distributed to provide additional capacity both within WECA and the constituent councils for stimulating housing growth plans across the region.
- 2.16 The Department for Work and Pensions, (DWP), grant of £3.6m for the **Future Bright** project was due to come to an end on 31 March 2020. The project, which provides free career coaching, training and support to help develop skills and confidence to progress individual's careers within the region, has been very successful. In order to maintain momentum, a business case was submitted to, and approved by, the WECA committee to continue the programme into 2020/21 through a specific investment fund allocation of £3.6m.
- 2.17 *Figure 3* details the medium-term resource forecast across the various specific grant income streams which amounts to £60.9m over the four-year period:

Figure 3: MTFF for Specific Revenue Grants

	2019/20	2020/21	2021/22	2022/23	Total
Specific Grant Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Adult Education Budget	11,907	14,739	14,700	14,700	56,046
Housing Capacity Fund	1,000	1,075	925	0	3,000
Future Bright	1,600	0	0	0	1,600
Cultural Strategy		33	0	0	33
Combined Authority (M9) Grant		128	0	0	128
Brexit Grant		80	0	0	80
Sub Total:	14,507	16,055	15,625	14,700	60,887

Investment Fund Revenue (WECA managed)

- 2.18 The WECA committee have approved a number of revenue allocations throughout 2019 for progressing strategic business cases, feasibility and development work. These vary from big strategic projects that span over several years, such as research into mass-transit options, to smaller, time limited, work such as developing an action plan to support the region's emerging energy strategy.
- 2.19 In some cases, approvals provided through the June, July and October 2019 WECA Committees have resulted in further budget being allocated, and spend being incurred, within the 2019/20 financial year over and above the original budget as detailed in *Figure 1*. In other cases, the approvals given by committee cover a period up to the full duration of the investment programme, (March 2023), which needs to be reflected in a realistic medium-term resource forecast.
- 2.20 *Figure 4* details all of the approved Investment Fund allocations that will be managed by WECA which have been indicatively allocated over a four-year period.

Figure 4: Investment Fund Revenue allocations managed by WECA

	2019/20	2020/21	2021/22	2022/23	Total
Investment Fund managed by WECA	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Transport Integration – strategic capacity	250	204	273	273	1,000
Mass Transit development	200	0	0	0	200
Mass Transit additional allocation	4	300	500	496	1,300
Integrated Smart Ticketing	0	100	100	100	300
Strategic Park & Ride OBC	0	165	165	170	500
Bus Strategy Outline Business Case	0	86	89	25	200
Local Cycle and Walking feasibility	7	40	37	16	100
Housing Infrastructure development	500	0	0	0	500
Housing Infrastructure additional allocation	1,200	0	0	0	1,200
Strategic Master-Planning development	0	175	100	0	275
Regional Operations Capability	0	75	0	0	75
Strategic Shared Planning	0	250	0	0	250
Strategic Masterplanning North Fringe	0	500	0	0	500
Strategic Masterplanning South West Fringe	0	500	0	0	500

Skills Project Development	261	0	0	0	261
Future Bright extension of project		1,573	1,573	454	3,600
Workforce for the Future (WFTF)	150	1,540	1,540	770	4,000
WFTF European Match funding	150	1,540	1,540	770	4,000
Apprenticeship Levy Maximisation	0	100	0	0	100
Energy Strategy Action Planning	125	125	0	0	250
Sub Total:	2,847	7,273	5,917	3,074	19,111

2.21 All of the items in Figure 4 represent full revenue approval to commit spend, and progress with the respective projects, with the exception of 'Workforce for the Future' which is a £4m Investment Fund allocation that is conditional on securing £4m of European match funding. In the unlikely event of not securing the match funding, a separate business case will be presented to committee for a 'stand-alone' Investment Fund supported scheme.

Investment Fund Revenue (UA managed and third parties)

2.22 Similar to Investment Fund Revenue approvals that will be managed by WECA, there have been a number of Committee approvals for feasibility and development funding during 2019/20 that will be managed directly by the constituent Unitary Councils and third parties. Whereas responsibility for development has been delegated for such spend, WECA will retain overall control in terms of ensuring that spend is delivering the required progress and outcomes.

2.23 Most of these approvals will be spent within the 2020/21 financial year with the main exceptions being:

(a) High Street Regeneration. Whereas the original approval of £10m formed part of the 2019/20 revenue budget, the timing of actual spend, beyond initial research and business case development, has yet to be determined although likely to be phased across three years up to 2021/22. Spend will mainly be managed by UAs, subject to approved financial drawdowns linked to business cases. The first drawdown of £682k relates to Whitfield Tabernacle stabilisation (which is detailed within the Investment Fund report on this agenda). Assuming approval, this funding will revert into capital spend hence the reduction in High Street revenue funding from £10m to £9.318m;

(b) WE Work for Everyone. Where there is a £1.3m Investment Fund Revenue approval which is conditional on attracting £2.23m of European match funding. Whereas the funding is currently allocated to 2020/21 spending is likely to be phased over a longer time period.

2.24 A summary of all Unitary Authority and Third-Party revenue approvals which amounts to £16.7m, as at January 2020, is detailed in *Figure 5*.

Figure 5: Investment Fund Revenue Approvals delegated to UAs and Third Parties

	2019/20	2020/21	2021/22	2022/23	Total
Investment Fund to UAs	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
High Street Regeneration (initial revenue)	9,318	0	0	0	9,318
South Glos by-pass feasibility	600	213	0	0	813
Transport feasibility 2018/19 approvals	1,221	0	0	0	1,221
Yate Park and Ride Outline Business Case	0	300	0	0	300
Yate Urban Living Master-Planning	0	350	150	0	500
Visitor Economy	0	100	0	0	100
Investment Fund to third parties					
South West Institute of Future Technologies	228	207	65	0	500
WE Work for Everyone	0	1,300	0	0	1,300
WE Work for Everyone European Match	0	2,230	0	0	2,230
Research & Innovation Challenge Fund	0	242	0	0	242
Modern Methods of Construction Pilot	0	150	0	0	150
Building Employment & Enterprise Skills	0	20	0	0	20
Local CEIAG Action Research	0	20	0	0	20
Sub Total:	11,367	5,132	215	0	16,714

Revenue Transport Levy (Transport Integration)

- 2.25 An annual revenue transport levy has been in place for each year between the constituent Unitary Councils and WECA to reflect the cost of the core transport services of:
- Concessionary Travel
 - Real Time Information for bus services and
 - Community Transport
- 2.26 For 2019/20 this levy amounted to £14.7m, which has been fully returned to the UAs to cover their costs of delivering these functions until WECA is in a position to deliver them directly through the Transport Integration project. An arrangement is in place for any over or under spending by individual councils to be rectified through either an in-year repayment or a relevant adjustment made to the following year's levy.
- 2.27 Through the Transport Integration project, these and certain additional transport functions will be delivered directly by the West of England Combined Authority from April 2020. This will mean we can plan and manage public transport across council boundaries, supporting our Joint Local Transport Plan and Bus Strategy and we will have a stronger negotiating position with public transport providers and more opportunities to work together to advance sustainability and climate change agendas.
- 2.28 In addition to Concessionary Travel, Real Time Information and Community Transport, the main additional functions to be delivered directly by WECA are:
- Bus Service Information
 - Supported Bus Services (whilst remaining a joint function)
 - TravelWest and
 - Metrobus operations

- 2.29 Relevant Section 151 Officers have agreed the transfer of revenue funding that will apply from 2020/21 on a 'no worse off basis'. WECA will receive, through the levy, the budget to meet the direct costs of service provision but will not receive any overhead allocation to meet additional indirect costs such as accommodation, ICT and relevant support services.
- 2.30 WECA will continue to negotiate with the constituent Unitary Councils to explore options for minimising the operating costs of the new integrated service. However, should any short-term additional costs be incurred within the first year of operation, these will be met through creating a 'transport smoothing reserve' from WECA Treasury Management surpluses in 2020/21.

It is recommended that £200k of WECA Treasury Management surplus is used to create a transport 'smoothing reserve' to manage financial risks in relation to the operational transport services transferring to WECA from April 2020

- 2.31 The 2020/21 levy, (along with the relevant recharge that will be applied to North Somerset Council), for integrated transport services are detailed in *Figure 6*. It should be noted that the final levy from April 2020 might differ slightly as we continue to refine the detail of the budget transfer with the relevant Section 151 Officers.

Figure 6 – Adjusted Revenue Transport Levy (inc North Somerset) 2020/21

	2020/21 Levy Charges				NSC £000s	Total £000s
	B&NES £000s	BCC £000s	SGC £000s	Total LEVY £000s		
Integrated Transport Team	156	297	105	558	0	558
Concessionary Travel	3,626	7,062	2,130	12,818	1,816	14,634
Bus Service Information (RTI)	146	300	145	591	36	627
Community Transport	360	825	436	1,621	0	1,621
Supported Bus Services	667	1,089	952	2,708	34	2,742
Metrobus	0	131	81	212	14	226
Travelwest	10	25	15	50	12	62
Bus Strategy / Integ Ticketing	29	111	71	211	35	246
Sub Total:	4,994	9,840	3,935	18,769	1,947	20,716

- 2.32 The above figures account for a modest increase of 2% to reflect increases in demand and / or operator costs. However, it is possible that actual costs and demands could rise beyond the budgeted 2% uplift. Section 151 Officers will continue to review these indicative costs before finalising a formal baseline budget for the transferring budgets in advance of April 2020.
- 2.33 The breakdown of the 2020/21 WECA budget into its component parts includes each element of the Levy by authority and function. This will dictate how the funding is spent on the transferred functions, with any changes to this needing to be approved by the WECA Committee on the advice of the Transport Board. For example, should WECA need to consider supporting a bus service that is not able to be operated commercially, then the funding for this will need to be found from existing allocations or an increase in the Transport levy for the relevant authority.
- 2.34 The intention, beyond 2020/21, is to manage the transport levy as one overall budget provision with any potential balances remaining at the end of the financial year being

placed into a 'smoothing reserve' to account for subsequent peaks in costs and/or demand. WECA will make best endeavours to manage the transferring revenue budgets in this manner. However, the management of financial risk will need to be clearly articulated within the formal transfer agreement for the relevant services to manage any material variations from the baseline and assumptions as transferred on 1 April 2020. Such occurrences could include:

- Withdrawal / reduction of bus operating grants;
- Material changes to Section 106 (developer contributions) arrangements and funding that is held within constituent Unitary Authority revenue budgets;
- Significant increases in demand

2.35 The four-year MTFF figures for the revenue transport levy, (and North Somerset recharge), assuming direct service costs only, with no further changes in demand, are reflected in *Figure 7*

Figure 7 – Adjusted Revenue Transport Levy (inc North Somerset) - MTFF

	2019/20	2020/21	2021/22	2022/23	Total
Unitary Authority Transport Levy	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
ITA Team	0	558	569	580	1,707
Concessionary Travel	12,445	14,634	14,927	15,226	57,232
RTI	601	627	640	653	2,521
Community Transport	1,691	1,621	1,653	1,686	6,651
Supported Buses	0	2,742	2,798	2,854	8,394
Metrobus, Travelwest & Int Ticketing	0	534	544	555	1,633
Sub Total:	14,737	20,716	21,131	21,554	78,138

Total WECA Revenue Funding Forecast

2.36 Combining all of the approved funding streams, as detailed in this section, the overall proposed WECA revenue budget for the 2020/21 financial year is **£53.0m** with a total resource allocation of **£189.27m** up to March 2023 (including the 2019/20 budget)

Figure 8: Summary of all approved WECA Revenue (as at January 2020)

	2019/20	2020/21	2021/22	2022/23	Total
	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Core Revenue Funding	3,639	3,860	3,545	3,373	14,417
Specific Grant Funding	14,507	16,055	15,625	14,700	60,887
Investment Fund (managed by WECA)	2,847	7,273	5,917	3,074	19,111
Transport Levy (and NSC Recharge)	14,737	20,716	21,131	21,554	78,138
WECA Managed Revenue Budgets	35,730	47,904	46,218	42,701	172,553
Investment Fund (UA and third parties)	11,367	5,132	215	0	16,714
Total WECA Revenue Budget	47,097	53,036	46,433	42,701	189,267

Spend Analysis and Overheads

- 3.1 WECA's costs, to date, have mainly majored on the staffing required to operate the business. However, with a growing momentum on developing long term strategic master planning and transport solutions, coupled with more services being transferred to the authority such as the Adult Education Budget and integrated transport services, spend will be spread across a wider range of areas such as payments to third parties, supplies and services and engagement of specialist contractors.
- 3.2 A subjective analysis of revenue spend for 2020/21 is detailed in *Figure 9*

Figure 9: WECA Revenue Spend Analysis 2020/21

	Staffing £000s	Supplies & Services £000s	Third Party Payments £000s	Project Spend £000s	Overheads £000s	Recharge Income £000s	To reserves £000s	Total £000s
WECA Managed	7,058	3,811	35,108	3,814	-(451)	-(1,640)	204	47,904
Unitary Auth & 3 rd Party led	30	110	4,992	0	0	0	0	5,132
TOTAL:	7,088	3,921	40,100	3,814	-(451)	-(1,640)	204	53,036

- 3.3 In terms of staffing, overall numbers have increased which reflects the increased number of grants and service areas that WECA is now operating. The initial core WECA revenue budgets of Business Rate Retention (£1.2m) and Mayoral Capacity Fund (£1m) did not account for any uplift in staffing costs through national pay awards and staffing increments. These have been funded to date through a Treasury Management Income budget of £520k which reflects the base annual returns that WECA receives through investing cash balances.
- 3.4 Salary budgets have been funded at 96% of the full cost of the staff salaries and related on-costs. This reflects the anticipated turnover rate throughout the year with inevitable time lags between individuals leaving and new starters commencing.
- 3.5 The main elements of the £40.1m third party payments are:
- £14.2m payments to adult education providers;
 - £19.2m payments for transport services (£14.6m of Concessionary Fares);
 - £3.5m in relation to the WE Work for Everyone initiative (conditional on European match funding) and
 - £1.3m payments made from the continuing 'Future Bright' initiative.
- 3.6 Recharge income reflects the proportion of time spent by WECA funded staff on Local Enterprise Partnership, (LEP), and Mayoral activities. Prior to 2020/21, each individual staff member had their salary coded to various cost centres to reflect the time that they spend on WECA, LEP and Mayoral functions. From 2020/21 onwards, to improve transparency of reporting, all costs are collated against WECA cost centres and recharged out on an annual basis.
- 3.7 In terms of overheads, WECA, has split its core costs between those that is required to govern and operate the business, 'corporate and democratic core', and those

support costs that flex with the actual demands and services delivered by the organisation, (overheads). The WECA overhead figure of (£451k) reflects the proportion of overheads that are applicable to supporting LEP and IBB activities, the charge for which being reported in the Joint Committee budget report. The Corporate and Democratic Core costs are detailed in *Figure 10*

Figure 10: WECA – Corporate and Democratic Core Costs

WECA Corporate & Democratic Core	2020/21	2021/22	2022/23
	£000s	£000s	£000s
Statutory Officer Costs	319,403	328,985	338,855
Legal and Democratic Services	215,045	221,496	228,141
Policy and Strategy	373,724	384,936	396,484
Marketing and Communications	138,953	143,122	147,415
Central Overheads (inc contracts)	76,350	78,641	81,000
Total Core Costs:	1,123,475	1,157,179	1,191,895

- 3.8 The Statutory Officer Costs reflects the salary and related on-costs for the required Chief Executive Officer, (Head of Paid Service), and Director of Investment and Corporate Services (Statutory Finance Officer). Legal and Democratic Services includes the cost of the Statutory Monitoring Officer role alongside the relevant costs for administering and governing the WECA Committee. Policy and Strategy and Marketing and Communications both have a 'core' element of costs alongside a variable element with certain activity linked to the services directly delivered by WECA.
- 3.9 Support Service costs, which need to be spread across the WECA services and projects delivered, is detailed in *Figure 11*

Figure 11: WECA Support Services (overhead) Costs

WECA Support Services (Overheads)	2020/21	2021/22	2022/23
	£000s	£000s	£000s
Financial Services	346,749	357,151	367,866
ICT Services	297,397	306,319	315,508
Accommodation and Property	402,236	414,303	426,732
Human Resources	234,314	241,343	248,584
Business Support	171,519	176,665	181,965
Grant Assurance Function	209,878	216,174	222,660
Policy and Strategy	314,217	323,644	333,353
Marketing & Communications	171,401	176,543	181,839
Central Overheads (inc contracts)	76,350	78,641	81,000
Total Support Services	2,224,061	2,290,783	2,359,506

- 3.10 When apportioning the total overhead costs of **£2.224m** across the entire range of staff working on direct services, project delivery and grant administration delivered by WECA, the calculated percentage attributable to each full time equivalent front-line delivery staff member amounts to **36.4%**. As the organisation expands, (or contracts), this will be the standard overhead percentage that will be applied to all services delivered and capital projects led and managed by WECA.
- 3.11 £2.224m overheads represents **4.2%** of the £53.0m 2020/21 WECA revenue budget for WECA which is a similar rate compared with other Combined Authorities. Applying overhead costs to the combined activities of WECA and LEP, this rate reduces to **3.7%**. If the combined budget for 2020/21 is increased to reflect expected slippage from 2019/20, the overhead rate reduces further to **3.3%**.

Treasury Management

- 3.12 For the last two years of operation WECA has exceeded the set income budget for returns on investments in terms of cash balances held. This has primarily been due to the relatively low cost of feasibility and development funding activities in the early years versus the high construction costs as projects move into capital delivery.
- 3.13 The base Treasury Management income budget for achieving returns in a standard year is £520k per annum. However, the timing of government grants being received compared against the spend cost of approved projects has resulted in WECA holding high cash balances and, coupled with the placing of a few longer-term investments such as property and multi assets funds, (both returning 4% plus), actual returns in 2019/20 are forecasted to be circa £1.2m.
- 3.14 The 2019/20 Treasury Management income budget was set at £820k, anticipating larger than average returns and actual performance throughout the year has exceeded this budget. Again for 2020/21, WECA are forecasting income returns in excess of the £520k base however, as the approved £350m Investment Programme, covering the period up to March 2023, gathers momentum spend will increase and cash balances correspondingly reduce.
- 3.15 With this in mind, long term spend can only be planned against the original £520k base income budget. For 2020/21, WECA is anticipating actual income returns of £500k above this base figure. Having considered a number of current time-limited spend demands, it is recommended that this additional, short term surplus is allocated to the following areas:
- As detailed within Section 2 of this report, it is likely that there will be some initial additional costs incurred through the first year of operating a new fully integrated regional transportation service. In addition, there are operational service risks in terms of potential increases in costs and/or demands over and above the 2% growth that is accounted for within the 2020/21 revenue budget.

It is recommended that £200k from 2020/21 surplus Treasury Management income is allocated to create a transport 'smoothing reserve' to manage financial risks in relation to the operational transport services that are transferring to WECA from April 2020;

- As WECA has grown, the organisation's websites – including business-facing sites Invest Bristol and Bath and the West of England Growth Hub - have not kept pace with the range of activities and services delivered. It is vital that we are able to meet the needs of local businesses, residents, key stakeholders and government through a new platform which combines information and access to all our services;

It is recommended that £100k from 2020/21 surplus Treasury Management income is allocated to design and deliver a new WECA website.

- WECA is embarking on a fundamental upgrade of its financial systems, processes and governance. Current financial support is heavily spreadsheet reliant often reliant on inefficient manual processes as opposed to electronic transaction processing. With the switch to a new ICT provider in April 2020, WECA is looking to adopt a fully automated Agresso Financial System which will enable direct access to financial information for budget holders and automate routine transactions such as Purchase Orders and payments. To fully benefit from the potential benefits of an automated financial system, WECA require additional short-term financial capacity in order to design, document and implement the new long-term financial solution for the authority.

It is recommended that £100k from 2020/21 surplus Treasury Management income is allocated to provide additional short-term capacity to financial services in order to deliver a fully automated financial system for the authority.

- A Development and Feasibility budget was created within the 2019/20 revenue budget in order for WECA to be able to respond quickly and efficiently to any potential external investment opportunity into the region. With the future capital finance landscape remaining uncertain, it is again recommended that WECA set aside £100k in 2020/21 for such opportunities.

It is recommended that £100k from 2020/21 surplus Treasury Management income is allocated to create a revenue fund in order to respond quickly to potential new grant bids and/or any other inward investment opportunities.

Accountable Body Functions

- 4.1 The WECA acts as the Accountable Body for the West of England Local Enterprise Partnership (LEP) and Invest in Bristol & Bath (IBB). The LEP and associated accountable body functions are funded from existing grants and contributions with no costs falling on the WECA. The LEP and IBB Budgets are approved and monitored by the West of England Joint Committee.
- 4.2 Invest in Bristol & Bath is currently funded via the Economic Development Fund (EDF) at £1m pa, and therefore subject to reporting via the Joint Committee. 2019/20 is the final year of EDF funding, and a review of the IBB concluded with a refocused service at an estimated cost of £1m per year going forward. The future funding of the IBB from

2020/21 onwards will be funded through Revolving Infrastructure Fund, (RIF), which will be monitored through the Joint Committee.

- 4.3 The staffing structures of the LEP and WECA teams have been organised to provide the most efficient and effective delivery and support structure to meet the respective functions and responsibilities. However, the need to furnish, and support two separate committee arrangements still remains.

Mayoral Costs

- 5.1 The WECA will make a proposed contribution of £640k in 2020/21 to the Mayoral Budget to meet the Mayoral Election provision and annual Mayoral Office Costs. Further details are set out in the Mayoral Budget report which is on the agenda for this meeting.

Risk Management/Assessment

- 6 The WECA has started to build a General Fund reserve to manage future financial risk however, this remains at a relatively low level being circa 2% of the 2020/21 revenue budget. The specific financial risks that we currently face include:
- Drop in government funding – the Mayoral and Housing Capacity Funding of £1m each pa will soon come to an end, and funding to replace these grants will need to be found;
 - Business Rate Retention funding – The sustainability of this funding will need to be reviewed as the government moves to a national 75% business rates retention system from April 2021;
 - Direct service delivery risk regarding the newly transferred transport services.

Reserves

- 7.1 The WECA was established without any general or earmarked reserves or balances transferring from the constituent councils. Over time it is intended to establish an appropriate risk assessed level of reserves based on the specific activity and financial risks to the WECA.
- 7.2 At the close of 2017/18 a general reserve was established of £308k. Over the last couple of financial years, this reserve has been added to and now stands at circa £1m.
- 7.3 There is no 'hard and fast' rule as to the level of reserves that needs to be retained by an operational authority. Industry practice suggests that somewhere in the region of 5% of total turnover would be appropriate which, for WECA, with a revenue budget of £53.0m in 2020/21, would amount to circa £2.6m.
- 7.4 With continued uncertainty surrounding the region's Business Rates Retention Pilot, (worth £1.2m per annum for WECA), and Mayoral Capacity Fund, (£1m short term annual grant funding), WECA will strive to maintain an appropriate level of financial

reserves. Any surplus at the end of the 2019/20 financial year, (currently forecast as £204k), will be prioritised to be allocated into the WECA general reserve.

- 7.5 This report recommends setting up a new specific 'smoothing reserve', (of £200k), to mitigate the financial risks linked to the new transport services that will be transferring to WECA from April 2020.

Consultation

- 8 The contents of this report have been shared, and discussed with, the Chief Executive Officers, finance leads and Section 151 Officers of BANES, South Gloucester and Bristol City Councils.

Other Options Considered

- 9 WECA and the constituent Unitary Authorities have considered various options in terms of the transfer of resources and management of the new integrated transportation service.

Public Sector Equality Duties

- 10 The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.
- 10.1 The Act explains that having due regard for advancing equality involves:
- Removing or minimising disadvantages suffered by people due to their protected characteristics.
 - Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
 - Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.
- 10.2 The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

Finance Implications:

- 11 The financial implications are contained in the specific Budget proposals as set out throughout this report.

Advice given by: Malcolm Coe, Director of Investment & Corporate Services

Legal Implications:

- 12 The Budget proposals have been developed in accordance with appropriate Local Government Regulations, including the specific funding and related governance requirements set out in the West of England Combined Authority Order 2017 and The Combined Authorities (Finance) Order 2017.

Advice given by: Shahzia Daya, Director of Legal

Climate Change Implications

- 13 On 19 July 2019, the West of England Combined Authority declared a climate emergency, recognising the huge significance of climate change and its impact on the health, safety and wellbeing of the region's residents. The Combined Authority is committed to taking climate change considerations fully into account as an integral part of its governance and decision-making process.

Each report/proposal submitted for Combined Authority / Joint Committee approval is assessed in terms of the following:

Will the proposal impact positively or negatively on:

- * The emission of climate changing gases?
- * The region's resilience to the effects of climate change?
- * Consumption of non-renewable resources?
- * Pollution to land, water or air?

Particular projects will also be subject to more detailed environmental assessment/consideration as necessary as part of their detailed project-specific management arrangements

- 13.1 Much of the WECA approved investment on building the infrastructure within the region will have a positive impact on climate change. Specifically, stepped change and improvements to rail and bus services along with an investment in cycling and walking facilities will help to reduce our carbon footprint.
- 13.2 Consideration of climate issues are incorporated within the assessed criteria that is used by WECA to determine priority financial allocations from investment funding and transforming cities funding.

Land/property Implications

- 14 The WECA do not currently own any land or material assets. The current WECA office at Rivergate is currently occupied under a short term lease up to December 2022 (which is accounted for within this budget)
- 14.1 Where WECA investment allocations concern any acquisition or disposal of land

and/or property, full consideration is given to relevant state issues, market valuation and the requirement to deliver best value.

Advice given by: Malcolm Coe, Director of Investment & Corporate Services

Human Resources Implications:

- 15 The funding for the staff establishment for WECA functions is provided for within the proposed Budget in line with the resourcing requirements. The main direct human resource implication from this report is the proposed transfer of staff into the new integrated transport service which will be subject to a specific consultation including the individuals that are impacted by the proposed change.

Advice given by: Alex Holly, Head of Human Resources

Appendices:

Appendix 1: WECA Budget 2020/21

Background papers:

Combined Authority (Revenue) Budget 2019/20 – WECA Committee 1 February 2019;

Capital Strategy (including Treasury Management and Investment Strategies) – WECA Committee 1 February 2019;

Investment Fund update reports – WECA Committee 14 June 2019, 19 July 2019, 4 October 2019, 31 January 2020

Capital Strategy (including Treasury Management and Investment Strategies) – WECA Committee 31 January 2020

Mayoral Budget Setting Report 2020/21 – WECA Committee 31 January 2020

West of England Combined Authority Contact:

Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6EW; email: democratic.services@westofengland-ca.gov.uk

WECA Revenue Budget 2020/21

<u>Expenditure</u>	Budget 19/20 £000s	Budget 20/21 £000s	Variance £000s
Staff	4,791	7,088	2,297
Supplies and Services	2,702	3,921	1,219
Third Party Payments	38,988	40,100	1,112
Projects	2,432	3,814	1,382
Overhead	-389	-451	-62
Recharge Income	-1,459	-1,640	-181
Reserve	100	204	104
Total Expenditure	47,165	53,036	5,871
<u>Income</u>			
Levy transport Function	14,737	20,716	5,979
Business Rate Retention	1,212	1,200	-12
Government Grants	15,447	17,055	1,608
Investment fund	14,949	13,045	-1,904
Interest on balances	820	1,020	200
	47,165	53,036	5,871