

REPORT TO: WECA COMMITTEE

DATE: 29 January 2021

**REPORT TITLE: COMBINED AUTHORITY BUDGET 2021/22 AND
MEDIUM-TERM FINANCIAL FORECAST**

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

AUTHOR: MALCOLM COE

Purpose of Report

- 1 To consider and approve a Budget in respect of the WECA for 2021/22.

Impact of Covid-19 pandemic

- 2 The Combined Authority has actively reviewed its key activities and work programme to reflect changing priorities as a result of the Covid-19 pandemic. Specific issues relating to the Covid-19 situation that impact on, or are addressed through, this report are as follows:
 - (a) There will be an impact on 2021/22 revenue budgets as core activity, and investment funding, is re-prioritised and re-focused on supporting ongoing economic recovery;
 - (b) There is particular concern regarding the achievability of business rates growth targets which will directly impact on a proportion of WECA's core operating revenue through the 100% business rates retention pilot;
 - (c) Concessionary fare payments to bus operators have been made in line with budgeted profile throughout 2020/21 to maintain continuity of service, along with contract payments for supported bus services and payments to community transport providers.
 - (d) Payments to Adult Education providers have also been made in line with budgeted profile to maintain stability of the provider base.

Activity, and corresponding budgets, will be kept under regular review over the coming months with government advice and guidance taken into consideration.

Recommendations

It is recommended that the committee:

1. Approve a Transport Levy to the constituent councils of **£19.5m** for 2021/22, with a recharge of £2m applied to North Somerset Council, as detailed in Figure 6.
2. Approve the allocation of £200k from the 2020/21 surplus Treasury Management income to the delivery of the ICT Programme of works.
3. Approve the surplus above 2021/22 base budget on Treasury Management income to be transferred to a treasury management reserve to cover the risk of capital losses, volatility of future income returns and lower interest rates payable in future years.
4. Approve the detailed WECA budget for 2021/22 as detailed in Appendix 1.
5. Note the WECA revenue outturn Position for 2020/21 as detailed in Appendix 2.

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 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 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 2021/22 and provides a medium-term revenue outlook. It builds on the previous years of operation for 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 detailed in Appendix 1 and includes provision for the governance, management & administration of WECA's functions and responsibilities.
- 2.4 WECA staff capacity for the first couple of years of operation was 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 WECA revenue funding has increased over time 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 2021/22 WECA budget and Medium-Term Financial Forecast (MTFF).
- 2.7 Figures in this report do not reflect any forecast slippage of projects and workstreams from 2020/21, with any out-turn variations being added to the 2021/22 budget in the first monitoring report to the WECA Committee in 2021/22.
- 2.8 The 2020/21 WECA Revenue budget, as approved by Committee in January 2020, is detailed in *Figure 1*.

Figure 1: WECA 2020/21 approved revenue budget

	2020/21
	£000s
Core Annual Revenue	
Business Rate Retention	1,200
Mayoral Capacity Fund	1,000
Treasury Management income	1,020
Investment Fund for Mayoral Costs	640
Specific Grant Funding	
Adult Education Budget	14,739
Housing Capacity Fund	1,075
Cultural strategy	33
Combined Authority (M9) Grant	128
Brexit Grant	80
Investment Fund (WECA Management)	
Transport Integration transition	204
Mass Transit	300
Integrated Smart Ticketing	100
Strategic Park & Ride OBC	165
Bus Strategy Outline Business Case	86

Local Cycle and Walking feasibility	40
Strategic Master-Planning development	175
Regional Operations Capability	75
Strategic Shared Planning	250
Strategic Masterplanning North Fringe	500
Strategic Masterplanning South West Fringe	500
Future Bright extension of project	1,573
Workforce for the Future (WFTF)	1,540
WFTF European Match funding	1,540
Apprenticeship Levy Maximisation	100
Energy Strategy Action Planning	125
Investment Fund (Allocated to UAs)	
South Glos by-pass feasibility	213
Yate Park and Ride Outline Business Case	300
Yate Urban Living Master-Planning	350
Visitor Economy	100
Investment Fund to third parties	
South West Institute of Future Technologies	207
WE Work for Everyone	1,300
WE Work for Everyone European Match	2,230
Research & Innovation Challenge Fund	242
Modern Methods of Construction Pilot	150
Building Employment & Enterprise Skills	20
Local CEIAG Action Research	20
UA Transport Levy	20,716
	*53,036

*£53.036m was the approved budget ahead of the year. During the year this increased to £61.882m: £1.191m additional Specific Grant Funding and £7.655m movement in IF. See Appendix 3 for the full breakdown. Revised 2020/21 values will be used in the following MTFF Figures.

Key Changes in Resources with effect from 2021/22

Core Revenue

- 2.9 The 'core' element of our revenue resources remains largely unchanged in 2021/22. 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, delivery of growth within the region, due to the impact of Covid, has slowed significantly which has been reflected in the need to draw down £403k from the WECA Business Rates Reserve in 2020/21 in order to underpin the budget. A further drawdown from reserves might be required again in 2021/22. The planned introduction of a new national 75% retention scheme from April 2022 places future year resources at risk.
- 2.10 Similarly, government has confirmed a further £1m Mayoral Capacity Fund Grant for 2021/22 to meet with the core operating costs of the organisation with no certainty beyond this period.
- 2.11 Income received from our investments has significantly exceeded budgeted levels in the last two financial years 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 2021/22 although this will begin to taper down as significant construction costs are drawn down in relation to the approved £350m WECA Investment Programme. The historically low national interest rates will also place strain on this income source over the coming months. From 2022/23 onwards, investment returns are predicted to reduce to circa £670k per annum.

- 2.12 There is a forecasted underspend of £349k Mayoral Capacity grant in the 2020/21 financial year which has been carried forward and will be fully utilised within 2021/22.
- 2.13 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.
- 2.14 The Medium-Term Financial Forecast, (MTFF), of our **core** revenue streams amounts to £18.7m over the four-year period as shown in *Figure 2*

Figure 2: MTFF (Forecast) for Core Revenue Streams

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Core Revenue Budgets	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Business Rate Retention	1,200	1,200	*1,200	*1,200	*1,200	6,000
Mayoral Capacity Fund	1,000	1,000	*1,000	*1,000	*1,000	5,000
Mayoral Capacity Fund - 18/19	0	349	0	0	0	349
Treasury Management income	1,020	1,030	700	670	670	4,090
Investment Fund for Mayoral Costs	640	644	652	661	670	3,267
Sub Total:	3,860	4,222	3,552	3,531	3,540	18,706

* *Business Rates Retention and Mayoral Capacity funding are high risk from 2022/23.*

- 2.15 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 transferring any end of financial year surpluses.

Specific Revenue Grant Funding

- 2.16 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. WECA received a modest increase to the core grant for the 2020/21 academic year and also received some additional funding in 2020, specifically targeted at learning outcomes to help individuals through the Covid pandemic.
- 2.17 Currently, 2021/22 will be the last year of three financial years where WECA will receive £1m through the Housing Capacity Fund which provides additional capacity both within WECA and the constituent councils for stimulating housing growth plans across the region.
- 2.18 The Mayoral Combined Authority, (M9), Group annually contribute funding to WECA for co-ordinating various activities and responses to government representing the

views of the entire group. For 2021/22 onwards, this is estimated to be £142k per annum.

- 2.19 At this stage, there is a commitment for WECA to be the accountable body for the 'Western Gateway Sub-National Transport' Board. Relevant funding has been allocated for 2021/22 financial year which will be kept under review.
- 2.20 Emergency Active Travel grants of circa £3.8m for the region were approved from the Department for Transport in late 2020. The majority of this spend is capital and therefore detailed within the WECA Capital Report, with the revenue element of £959k detailed within this revenue budget report.
- 2.21 *Figure 3* details the medium-term resource forecast across the various specific grant income streams which amounts to £81.7m over the five-year period:

Figure 3: MTF for Specific Revenue Grants

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Specific Grant Funding	£000s	£000s	£000s	£000s	£000s	£000s
Adult Education Budget	14,739	15,215	14,739	14,739	14,739	74,171
Business Innovation - ERDF	0	375	675	400	0	1,450
Housing Capacity Fund	1,075	1,043	1,056	226	0	3,400
Cultural Strategy	33	0	0	0	0	33
Combined Authority (M9) Grant	128	142	142	142	142	696
Brexit Grant	80	49	0	0	0	129
Western Gateway Sub-National Transport	600	180	20	20	20	840
Emergency Active Travel	591	368	0	0	0	959
Sub Total:	17,246	17,372	16,632	15,528	14,902	81,678

Investment Fund Revenue (WECA managed)

- 2.22 The WECA committee have approved a number of revenue allocations throughout the last couple of years 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.
- 2.23 In some cases, approvals provided through WECA Committees have resulted in further budget being allocated, and spend being incurred, within the 2020/21 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 is reflected in an updated medium-term resource forecast as detailed in **Appendix 3**.
- 2.24 *Figure 4* details all of the approved Investment Fund revenue allocations that will be managed by WECA which have been indicatively allocated over a five-year period.

Figure 4: Investment Fund Revenue allocations managed by WECA

	2020/21	2021/22	2022/23	2023/24	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	204	273	273	0	750
Integrated Smart Ticketing	90	180	0	0	270
Strategic Park & Ride OBC	300	150	0	0	450
Bus Strategy	1,425	200	0	0	1,625
Regional Operations Capability	50	0	0	0	50
Strategic Rail Investment	150	100	0	0	250
Metrobus consolidation package	300	0	0	0	300
Mass Transit Options *	320	0	0	0	320
Local Walking and Cycling	75	0	0	0	75
Emergency Active Travel Fund	0	0	0	0	0
Step Free Stations	0	100	0	0	100
Future Transport Zone	85	396	1,720	1,454	3,655
SDS - Transport (TAF, WERTM)	961	576	63	0	1,600
Housing Infrastructure / Enabling	1,429	320	0	0	1,749
SDS - Housing	657	1,414	766	313	3,150
Strategic Master-Planning development	75	75	75	0	225
Strategic Master-planning North Fringe	400	90	0	0	490
Strategic Master-planning SW Fringe	250	225	0	0	475
Strategic Green Infrastructure	130	170	0	0	300
Future Bright extension of project	1,200	1,200	0	0	2,400
Workforce for the Future (WFTF)	1,167	1,300	1,000	400	3,867
WFTF European Match funding	1,167	1,300	1,000	400	3,867
Apprenticeship Levy Maximisation	80	0	0	0	80
Talent Institutes	8	0	0	0	8
LIS Productivity Challenge	1,334	721	669	0	2,724
Cultural Strategy	14	0	0	0	14
Research & Innovation Challenge Fund	86	107	34	16	243
Visitor Economy	8	0	0	0	8
Regional Tourism	70	0	0	0	70
Energy Strategy Action Planning	120	130	0	0	250
Sub Total:	12,154	9,028	5,600	2,582	29,365

*£1.5m total award with spend in earlier years. Potential reprofile of £241k to 21/22 subject to a change request

2.25 The items in Figure 4 represent revenue approval to commit spend, and progress with the respective projects to their next Gateway stage. Full capital allocations are only approved subsequent to a viable, assessed, full business case.

Investment Fund Revenue (UA managed and third parties)

2.26 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 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.

2.27 Most of these approvals will be spent by the end of the 2021/22 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 is likely to be phased up to 2023/24. Spend will mainly be managed by UAs, subject to approved financial drawdowns linked to business cases.
- (b) WE Work for Everyone. Where there is a £1.3m Investment Fund Revenue approval which attracted 50% of European match funding for this programme which is scheduled to run up to 2022/23.
- (c) Reboot West. This programme specifically supports young people leaving care to access and sustain education, training and paid employment, supported by Coaches offering long term support of at least two years.
- (d) Digital Engineering Tech & Innovation (DETI). Phase 1 is a two-year programme delivering a series of research and innovation work packages, alongside skills and workforce training, to develop and accelerate digital engineering across multiple sectors for future generations of engineers and engineering products. It will be managed by the National Composites Centre (NCC).

2.28 A summary of all Unitary Authority and Third-Party revenue approvals which amounts to £22.8m, as at January 2021, is detailed in *Figure 5*.

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

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Investment Fund to UAs	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
High Street Regeneration	0	0	4,035	4,035	0	8,070
South Glos by-pass feasibility	181	0	0	0	0	181
Yate Urban Living Master-Planning	400	60	0	0	0	460
Bristol High Streets - Bedminster	230	0	0	0	0	230
B&NES High Streets - Pilot	122	0	0	0	0	122
SGC High Streets - Kingswood	148	0	0	0	0	148
Freezing Hill Lane: A420 to Bath	96	0	0	0	0	96
Temple Meads Masterplan	1,416	0	0	0	0	1,416
STEAM Centre SGS WISE	175	0	0	0	0	175
Realising Talent [NEET]	126	197	118	0	0	441
South Bristol Enterprise Support	132	171	180	0	0	483
Working Well Institute	300	0	0	0	0	300
Manvers Street Regeneration	250	0	0	0	0	250
North Keynsham Master-planning	100	150	0	0	0	250
Charfield Station	986	72	0	0	0	1,058
Improving Access to Bath from the East	200	0	0	0	0	200
Bath Riverline	150	0	0	0	0	150
WE Work for Everyone	391	491	381	17	0	1,280
WE Work for Everyone European Match	391	491	381	17	0	1,280
Building Employment & Enterprise Skills	10	0	0	0	0	10

Local CEIAG Action Research	10	0	0	0	0	10
Reboot West	0	121	330	233	36	720
Investment Fund managed through third parties						
SW Institute of Future Technologies	262	162	0	0	0	424
Digital Engineering Tech & Innovation	1,830	2,720	450	0	0	5,000
Sub Total:	7,906	4,635	5,875	4,302	36	22,754

Revenue Transport Levy (Transport Integration)

- 2.29 A 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
- 2.30 From 2020/21 WECA took on responsibility for managing and delivering these operational transport functions pooling the budget accumulated from the Unitary Authority levies, (and recharge from North Somerset Council). A smoothing reserve of £200k was created to help manage the peaks and troughs of regional service costs which was reduced to £123k following a net over-spend on transport activities at the end of the 2019/20 financial year.
- 2.31 The core objectives behind regional transport integration remain, meaning that we can plan and manage public transport across council boundaries, supporting our Joint Local Transport Plan and Bus Strategy alongside having a stronger negotiating position with public transport providers and more opportunities to work together to advance sustainability and climate change agendas.
- 2.32 In addition to Concessionary Travel, Real Time Information and Community Transport, the main additional functions delivered directly by WECA are:
- Bus Service Information
 - Supported Bus Services (whilst remaining a joint function)
 - TravelWest and
 - Metrobus operations
- 2.33 Relevant Section 151 Officers agreed the transfer of revenue funding, with effect from the 2020/21 financial year, on a 'no worse off basis'. The intention was for WECA to receive, through the levy, the budget to meet the direct costs of service provision but not to receive any overhead allocation to meet additional indirect staffing costs such as accommodation, ICT and relevant support services.
- 2.34 As the 2020/21 financial year has progressed, various oversights in the calculation of the base levy figure have been identified. In particular, the Bristol Park & Ride budget was not previously incorporated into the Supported Services element of the levy as was intended and the B&NES Supported Services levy amount did not cover a full year's contract expenditure. These figures have now been corrected and are shown in **Figure 6** which re-sets the base levy for 2020/21, upon which the 2021/22 and subsequent years' levy figures are calculated.

- 2.35 WECA will continue to engage with the constituent Unitary Councils to explore options for minimising the operating costs of the integrated transport service. However, the effects of the Covid pandemic has severely reduced the demand for bus travel across the region and this has led to increased pressure on contract prices brought by the knowledge that passenger numbers will not quickly recover to pre-Covid levels. As part of the overall Government-led funding package for the bus industry, WECA has needed to continue to reimburse operators at 2019/20 levels for concessionary travel and bus service contracts even while passenger numbers have been suppressed and services have not been fully operating. These costs will continue to be incurred into 2021/22 unless, or until, a new funding arrangement is introduced.
- 2.36 Experience from around the country suggests that retendering for new service contracts could generate significantly higher tender prices. Whilst WECA is proposing to extend many existing bus service contracts through to September 2021 in order to reduce the financial impact to some extent, it is likely that additional contract costs will be incurred during the coming year and WECA will need to consider how best to use the funding available to maintain essential services. Given the uncertainty that will continue into the 2021/22 financial year, and the anticipated increases in costs, it is appropriate to apply the previously agreed 2% uplift in the Transport Levy to WECA.
- 2.37 The 2021/22 levy, (along with the relevant recharge that will be applied to North Somerset Council), for integrated transport services is detailed in **Figure 6**. It is possible that actual costs and demands could rise beyond the budgeted 2% uplift with the region's Section 151 Officers keeping the situation under regular review.

Figure 6 – Adjusted Revenue Transport Levy (inc North Somerset) 2021/22

	2021/22 Levy Charges					
	B&NES	BCC	SGC	Total LEVY	NSC	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Integrated Transport Team	159	303	107	569	0	569
Concessionary Travel	3,699	7,203	2,173	13,075	1,852	14,927
Bus Service Information (RTI)	149	306	148	603	37	640
Community Transport	367	842	445	1,654	0	1,654
Supported Bus Services	780	1,334	971	3,085	35	3,120
Metrobus	0	134	83	217	14	231
Travelwest	10	26	15	51	12	63
Bus Strategy / Integ Ticketing	30	113	72	215	36	251
Sub Total:	5,194	10,261	4,014	19,469	1,986	21,455

- 2.38 The breakdown of the 2021/22 WECA budget into its component parts includes each element of the Levy by authority and function. This will influence 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.
- 2.39 The intention, over the coming months, is to manage the transport levy as one overall budget provision with any potential balances remaining at the end of the financial year

transferring into the transport 'smoothing reserve'.

- 2.40 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

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Unitary Authority Transport Levy	£000s	£000s	£000s	£000s	£000s	£000s
B&NES	5,048	5,194	5,298	5,404	5,512	26,456
BCC	10,060	10,261	10,466	10,676	10,889	52,352
SGC	3,935	4,014	4,094	4,176	4,260	20,479
NSC	1,947	1,986	2,026	2,066	2,107	10,132
Sub Total:	20,990	21,455	21,884	22,322	22,768	109,419

Total WECA Revenue Funding Forecast

- 2.41 Combining all of the approved funding streams, as detailed in this section, the overall proposed WECA revenue budget for the 2021/22 financial year is **£56.7m** with a total resource allocation of **£261.9m** up to March 2025 (including 2020/21)

Figure 8: Summary of all approved WECA Revenue (as at January 2021)

	2020/21	2021/22	2022/23	2023/24	2024/25	Total
	£000s	£000s	£000s	£000s	£000s	£000s
Core Revenue Funding	3,860	4,222	3,552	3,531	3,540	18,705
Specific Grant Funding	17,246	17,372	16,632	15,528	14,902	81,680
Investment Fund (managed by WECA)	12,154	9,028	5,600	2,582	0	29,364
Transport Levy (and NSC Recharge)	20,990	21,455	21,884	22,322	22,768	109,419
WECA Managed Revenue Budgets	54,250	52,077	47,668	43,963	41,210	239,168
Investment Fund (UA and third parties)	7,906	4,635	5,875	4,302	36	22,754
Total WECA Revenue Budget	62,156	56,712	53,543	48,265	41,246	261,922

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 2021/22 is detailed in *Figure 9*

Figure 9: WECA Revenue Spend Analysis 2021/22

	Staffing £000s	Supplies & Services £000s	Third Party Payments £000s	Overheads £000s	Recharge Income £000s	To reserves £000s	Total £000s
WECA Managed	8,098	6,830	39,189	-464	-1,727	151	52,077
Unitary Auth & 3 rd Party led	0	0	4,635	0	0	0	4,635
TOTAL:	8,098	6,830	43,824	-464	-1,727	151	56,712

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.

3.4 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 £670k which reflects the base annual returns that WECA receives through investing cash balances.

3.5 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.

3.6 The main elements of the £43.8m third party payments are:

- £14.7m payments to adult education providers;
- £20.6m payments for transport services (£14.9m of Concessionary Fares);
- £4.6m of Investment Fund payments to Unitary Authorities for schemes that they are leading on;
- £2.25m in relation to the Workforce for the future (conditional on European match funding) and
- £0.9m payments made from the continuing 'Future Bright' initiative.

3.7 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.

3.8 In terms of overheads, WECA, has split its core costs between those that are 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). There are a proportion of overheads that are applicable to supporting LEP 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	324,612	337,730
Legal and Democratic Services	215,045	231,193	249,284
Policy and Strategy	373,724	350,971	355,706
Marketing and Communications	138,953	132,583	135,235
Central Overheads (inc contracts)	76,350	94,418	96,306
Total Core Costs:	1,123,475	1,133,777	1,174,261

- 3.9 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.
- 3.10 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	347,151	394,395
ICT Services	297,397	581,419	593,047
Accommodation and Property	511,236	506,236	506,234
Human Resources	234,314	245,817	254,966
Business Support	171,519	106,860	113,041
Grant Assurance Function	209,878	155,601	158,713
Policy and Strategy	314,217	315,394	332,413
Marketing & Communications	171,401	202,120	206,162
Central Overheads (inc contracts)	76,350	94,418	96,306
Total Support Services	2,333,061	2,555,016	2,655,277

- 3.11 The Key Changes in Overheads with effect from 2021/22:

- (a) ICT Services. WECA's staffing base has increased significantly during the current financial year as a result of approved investment fund activity and regional economic recovery. The rate of growth WECA has experienced is a longer-term trend as the organisation continues to grow, deliver more programmes of work and attract further funding. Investment and development in IT Infrastructure will continue to be required in order to meet the growing demand.

The budget for 2021/22 include costs relating to an essential ICT future programme of work, aiming at equipping WECA with common digital tools to better meet our stakeholder needs and work more efficiently. Some key one-off projects within the programme include the consolidation of our corporate websites and customer relationship management systems (CRM), the development of a data warehouse and geospatial infrastructure to leverage our corporate data more effectively.

IT Infrastructure costs tend to be substantial initial outlays however the spend on equipment, such as laptops and mobile phones, have a useful life than span across more than one financial year. For budgeting purposes we will spread the cost of relevant equipment over the period in which it is used by charging depreciation over three years.

It is recommended that £200k from the 2020/21 Treasury Management income surplus is allocated to create an ICT 'smoothing reserve' to support the delivery of the ICT Programme of works.

- (b) Business Support. The budget for a specific ICT post was previously allocated to the Business Support budget and has been re-allocated to the ICT Services area from 2021/22 onwards.
- (c) Grant Assurance. While the 2021/22 recharge to the Adult Education Budget is in line with the previous year, additional recharges have been introduced in the 2021/22 budget which reflects the growing diversification of the Grant Assurance Team. These include £22k for Workforce for the Future and £29k to the Economic Development Fund Management.
- (d) Marketing and Communications. With growing campaigns for business recovery, skills and regional innovation as well as ongoing promotion of key initiatives and website redevelopment, additional resource is required to meet the growing organisational needs in the area of marketing campaign planning and execution.
- (e) Central Overheads. There has been an increase in the Insurance ratings and premiums as a result of the current hard insurance market. Rising reinsurance costs, low interest rates, COVID-19 impacts, Property Rates Reviews, capacity and reduced competition in the Insurance market are all contributing factors resulting in the increase in costs.
- 3.12 The increase in support services spend is proportionate with the increase in overall WECA activity over the previous 12 months through applying the standard **36.4%** overhead, (per FTE), rate as approved by the WECA Committee in January 2020. As the organisation expands, (or contracts), this will continue to be the standard overhead percentage that will be applied to all services delivered and capital projects led, and managed, by WECA.
- 3.13 £2.555m overheads represents 4.5% of the £56.7m 2021/22 WECA revenue budget for WECA which is a similar rate compared with other Combined Authorities.

Treasury Management

- 3.14 For the last three 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.
- 3.15 The base Treasury Management income budget for achieving returns in a standard year is now set as £670k per annum. However, financial returns in the short term remain well in excess of this budget due to a number of 'forward deals', (prior to interest rate reductions) and high returns through long term, strategic investments.
- 3.16 The 2020/21 Treasury Management income budget was set at £1,020k, with a similar income level expected for the 2021/22 financial year. However, as the approved £350m WECA Investment Programme, (covering the period up to March 2023), gathers momentum, spend will increase and cash balances correspondingly reduce. This, coupled with the existing, historically low, interest rates will cause challenges for investment returns over the short to medium term.
- 3.17 With this in mind, long term spend can only be planned against the current £670k base income budget. For 2021/22, WECA is anticipating actual income returns of £360k above this base figure. With so much uncertainty over future income returns from WECA investment, it is proposed that this 2021/22 budget surplus is transferred to an earmarked, Treasury Management smoothing reserve.

It is recommended that surplus income achieved above 2021/22 budget levels is transferred to a treasury management reserve to cover the risk of capital losses, volatility of future income returns and lower interest rates payable in future years.

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 was, up to 2019/20, funded through the Economic Development Fund (EDF) at £1m per annum with the funding source transferring to the Revolving Infrastructure Fund (RIF) from 2020/21 onwards as part of an approved five-year deal.
- 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.

Mayoral Costs

- 5.1 The WECA will make a proposed contribution of £645k in 2021/22 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 WECA has started to build a General Fund reserve to manage future financial risk however, this remains at a relatively low level being circa 2.1% of the 2021/22 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 2022;
 - Direct service delivery risk regarding the transferred transport services – particularly with regard to the financial pressures faced by bus operators due to falling patronage, and income, throughout the Covid pandemic.

Reserves

- 7.1 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 £1.2m.
- 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 £56.7m in 2021/22, would amount to circa £2.8m.
- 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 residue surplus at the end of the 2020/21 financial year will be prioritised to be allocated into the WECA general reserve.

WECA Revenue Outturn Position

- 8 **Appendix 2** details WECA's estimated outturn revenue position for the 2020/21 financial year based on actual information to the end of December 2020, which overall, is projecting an end of year surplus of **£1,053k**.

The main two items contributing to the positive forecast variance are interest received through investing cash balances (£800k) and ITA Levy staffing underspend (£207k).

- 8.1 An income budget of £1.02m was set in relation to the interest that WECA earns from investing cash balances held. Whereas interest rates have dropped to record low levels over recent months, through a number of 'forward deal' investments and longer-term placements in property and equity funds, WECA continue to significantly outperform this income target. The current out-turn position for 2020/21 is a forecasted treasury surplus of £800k.
- 8.2 The forecasted underspend in ITA is due to budgeted staffing vacancies not fully filled. The budget assumed 18 Full Time Equivalent, (FTE), staff in post, while there were 16 FTE until September 2020 and 17 FTE thereafter. In compliance with the committee approval made in June 2020, B&NES will be refunded up to 100% of the surplus of £227k that they returned in 2019/20. Any residue surplus beyond this amount would be paid back into the WECA transport smoothing reserve to address future variations in demand and/or costs. The current balance of the smoothing reserve is £123k.

Consultation

- 9 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

- 10 WECA and the constituent Unitary Authorities have considered various options in terms of appropriate levels for the transportation levy and UA contributions towards the LEP operating costs.

Public Sector Equality Duties

- 11 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.
- 11.1 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.

11.2 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:

12 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:

13 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

14 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

14.1 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.

14.2 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

- 15 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)
- 15.1 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:

- 16 The funding for the staff establishment for WECA functions is provided for within the proposed budget in line with the resourcing requirements.

Advice given by: Alex Holly, Head of Human Resources

Appendices:

Appendix 1: WECA Revenue Budget 2021/22

Appendix 2: WECA Forecasted Revenue Outturn 2020/21

Appendix 3: WECA Revenue budget 2020/21 – revised schemes

Background papers:

Combined Authority (Revenue) Budget 2020/21 – WECA Committee 31 January 2020;

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

Investment Fund update reports – WECA Committee 19 June 2020, 9 October 2020, 4 December 2020, 29 January 2021

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 on 07436 600313; or by email:

democratic.services@westofengland-ca.gov.uk

WECA Revenue Budget 2021/22

	Budget 20/21 £000s	Budget 21/22 £000s	Variance £000s
<u>Expenditure</u>			
Staff	7,088	8,098	1,010
Supplies and Services	3,921	6,830	2,909
Third Party Payments	40,100	43,824	3,724
Projects	3,814	0	-3,814
Overhead	-451	-464	-13
Recharge Income	-1,640	-1,727	-87
Reserve	204	151	-53
Total Expenditure	53,036	56,712	3,676
<u>Income</u>			
Levy transport Function	20,716	21,455	739
Business Rate Retention	1,200	1,200	0
Government Grants	17,055	18,720	1,665
Investment fund	13,045	14,307	1,262
Interest on balances	1,020	1,030	10
	53,036	56,712	3,676

Appendix 2

WECA Revenue Outturn 2020/21

<u>Expenditure</u>	Budget £000s	Forecast £000s	Variance £000s
Core staff	4,896	4,852	-44
ITA Team	892	650	-242
Project Staff	1,300	1,411	111
Total Staff	7,088	6,913	-175
Premises Services	464	351	-114
Support Services	44	30	-14
Supplies & Services	760	985	225
Total Supplies & Services	1,268	1,366	97
Total Project spend	25,808	31,746	5,938
ICT Implementation	297	656	359
Community Transport	1,621	1,621	0
Concessionary Fares	14,325	14,494	170
Real Time Information	453	404	-49
Supported Bus Services	2,743	6,771	4,028
Metrobus	226	85	-141
Bus Information	149	336	187
Travelwest	61	11	-50
Integrated Ticketing	247	247	0
Total Transport Functions	19,824	23,969	4,145
Contribution to Mayoral Fund	640	629	-11
Overhead (Central Support Recharges)	-451	-738	-287
Departmental recharges	-1,644	-1,562	82
Payment to Reserves	204	204	0
Total Expenditure	53,036	63,183	10,148
Income			
Levy transport Function	20,716	20,692	-24
ITA additional funding	0	4,135	4,135
Business Rate Retention	1,200	797	-403
Government Grants	17,055	19,242	2,187
Investment fund	13,044	16,738	3,694
Interest on balances	1,020	1,820	800
Payment from Reserves	0	813	813
	53,036	64,236	11,201
NET TOTAL	0	1,053	1,053

WECA Revenue budget 2020/21 – revised schemes

	ORIGINAL 2020/21	REVISED 2020/21	DIFF 2020/21
Specific Grant Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Adult Education Budget	14,739	14,739	0
Business Innovation - ERDF		0	0
Housing Capacity Fund	1075	1,075	0
Cultural Strategy	33	33	0
Combined Authority (M9) Grant	128	128	0
Brexit Grant	80	80	0
Western Gateway Sub-National Transport Body		600	600
Emergency Active Travel		591	591
Sub Total:	16,055	17,246	1,191

	ORIGINAL BUDGET 2020/21	REVISED 2020/21	DIFF 2020/21
Investment Fund managed by WECA	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Transport Integration – strategic capacity	204	204	0
Integrated Smart Ticketing	100	90	-10
Strategic Park & Ride Outline Business Case	165	300	135
Bus Strategy	86	1,425	1,339
Regional Operations Capability	75	50	-25
Strategic Rail Investment		150	150
Metrobus consolidation package		300	300
Mass Transit Options	300	320	20
Local Walking and Cycling	40	75	35
Future Transport Zone		85	85
SDS - Transport (TAF, WERTM)		961	961
Housing Infrastructure additional allocation		1,429	1,429
SDS - Housing		657	657
Strategic Master-Planning development	175	75	-100
Strategic Shared Planning	250	0	-250
Strategic Master-planning North Fringe	500	400	-100
Strategic Master-planning South West Fringe	500	250	-250
Strategic Green Infrastructure		130	130
Future Bright extension of project	1,573	1,200	-373
Workforce for the Future (WFTF)	1,540	1,167	-373
WFTF European Match funding	1,540	1,167	-373
Apprenticeship Levy Maximisation	100	80	-20
Talent Institutes		8	8
LIS Productivity Challenge		1,334	1,334
Cultural Strategy		14	14
Research & Innovation Challenge Fund	242	86	-156

Visitor Economy	100	8	-92
Regional Tourism		70	70
Energy Strategy Action Planning	125	120	-5
Sub Total:	7,615	12,154	4,539
Investment Fund to UAs	£000s	<u>£000s</u>	<u>£000s</u>
South Glos by-pass feasibility	213	181	-32
Yate Park and Ride Outline Business Case	300	0	-300
Yate Urban Living Master-Planning	350	400	50
Bristol High Streets - Bedminster		230	230
B&NES High Streets - Pilot		122	122
SGC High Streets - Kingswood		148	148
Freezing Hill Lane: A420 to Bath		96	96
Temple Meads Masterplan		1,416	1,416
STEAM Centre SGS WISE		175	175
Realising Talent [NEET]		126	126
South Bristol Enterprise Support		132	132
Working Well Institute		300	300
Manvers Street Regeneration		250	250
North Keynsham Master-planning		100	100
Charfield Station		986	986
Improving Access to Bath from the East		200	200
Bath Riverline		150	150
WE Work for Everyone	1,300	391	-909
WE Work for Everyone European Match	2,230	391	-1,839
Building Employment & Enterprise Skills	20	10	-10
Local CEIAG Action Research	20	10	-10
Investment Fund managed through third parties			
South West Institute of Future Technologies	207	262	55
Modern Methods of Construction Pilot	150	0	-150
Centre for Digital Engineering Tech & Innovation		1,830	1,830
Sub Total:	4,790	7,906	3,116
TOTAL IF	12,405	20,060	7,655