

REPORT TO: COMBINED AUTHORITY COMMITTEE

DATE: 28 January 2022

**REPORT TITLE: MAYORAL AND COMBINED AUTHORITY BUDGET
2022/23 AND MEDIUM-TERM FINANCIAL FORECAST**

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Purpose of Report

- 1 To consider and approve a Budget in respect of the Mayoral Functions and the West of England Combined Authority for 2022/23.

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 2022/23 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 the Combined Authority's core operating revenue through the 100% business rates retention pilot;
 - (c) The sustainability, and cost, of commercial bus routes will be kept under regular review as patronage numbers remain lower than anticipated as a result of the pandemic. Although an underspend, (against transport levy), is forecast within the 2021/22 financial year this is mainly attributable to the government's Bus Services Operator Grant, (BSOG), which will not be available for 2022/23

Activity, and corresponding budgets, will continue to be reviewed in compliance with government advice and guidance.

Recommendations

It is recommended that the committee:

1. Approve a Transport Levy to the constituent councils of **£19.5m** for 2022/23, with a recharge of £2m applied to North Somerset Council, as detailed in Figure 6.
2. Approve 50% of surplus investment income achieved in 2021/22 to be transferred to the Treasury Management Reserve to cover the risk of capital losses and/or lower financial returns in future years.
3. Approve the Combined Authority budget for 2022/23 as detailed in Appendix 1.
4. Notes the Combined Authority forecasted revenue outturn for 2021/22 as detailed in Appendix 2.
5. Approve the Mayoral Budget for 2022/23 together with the funding contribution from the Combined Authority, (Investment Fund), budget of £645k as set out in Appendix 4.
6. Notes the Mayoral Fund 2021/22 forecasted revenue outturn as detailed in Appendix 5.
7. Notes the Financial Reserves Policy as set out in Appendix 6.
8. Approve 'opting in' to the Public Sector Audit Appointment Framework for the commissioning of external audit services for the period 2023/24 to 2027/28.
9. Approve a transfer of £384k from the 2021/22 Transport Levy to the Transport Smoothing Reserve.
10. Approve the creation, and transfer, of £950k from the 2021/22 Transport Levy to a specific earmarked reserve to fund anticipated additional costs of maintaining continuity of bus services prior to the re-tender of major bus routes in August 2022.

Background and Issues for Consideration

Combined Authority Revenue Resources and Medium-Term Financial Outlook

- 2 The West of England Combined Authority, (CA), revenue budget relates to all functions with the exception of those relating specifically to the Mayor which are set out separately within this report. The CA budget includes any specifically approved contributions from the CA to meet Mayoral costs.
 - 2.1 The funding for CA comes from five main sources:
 - Investment funding provided by the Government as part of the Devolution Deal (revenue funding for feasibility and development of approved schemes);
 - A levy on the constituent councils for the costs of operating transport functions that transferred to the CA in 2020/21;

- A 5% share of business rates growth, (above a defined baseline), under the 100% Business Rates Retention Pilot;
- Government funding for specific functions, capacity and projects including:
 - Adult Education Budget;
 - Housing Capacity Fund;
 - Mayoral Capacity Fund
 - Future Bright
- Treasury Management - Interest received from cash balances held

This budget proposal covers the financial year 2022/23 and provides a medium-term revenue outlook. It builds on the previous years of operation for the CA and reflects all previous committee decisions and funding allocations made which have ongoing impacts.

- 2.2 The CA budget has been prepared on the basis that the separate budget proposals put forward in the Mayoral budget are approved as presented. The proposed CA budget is detailed in Appendix 1 and includes provision for the governance, management & administration of the CA's functions and responsibilities.
- 2.3 CA core staff capacity, since 2017/18, has been funded 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.
- 2.4 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.
- 2.5 CA revenue funding has increased over time with the approval of various projects, and associated funding, as part of the CA Investment Programme (£450m up to March 2026). Such approvals are incorporated within the 2022/23 CA budget and Medium-Term Financial Forecast (MTFF).
- 2.6 Figures in this report do not reflect any forecast slippage of projects and workstreams from 2021/22, with any out-turn variations being added to the 2022/23 budget in the first monitoring report to the CA Committee in 2022/23.
- 2.7 The 2021/22 CA Revenue budget, as approved by Committee in January 2021, is detailed in *Figure 1*.

Figure 1: CA 2021/22 approved revenue budget

	2021/22
	£000s
Core Revenue Budgets	
Business Rate Retention	1,200
Mayoral Capacity Fund	1,000
Mayoral Capacity Fund - 18/19	349
Treasury Management income	1,030
Investment Fund for Mayoral Costs	644
Specific Grant Funding	
Adult Education Budget	15,215
Business Innovation - ERDF	375
Housing Capacity Fund	1,043
Combined Authority (M9) Grant	142
Brexit Grant	49
Western Gateway Sub-National Transport Body	180
Emergency Active Travel	368
Investment Fund managed by WECA	
Transport Integration – strategic capacity	273
Integrated Smart Ticketing	180
Strategic Park & Ride Outline Business Case	150
Bus Strategy	200
Strategic Rail Investment	100
Step Free Stations	100
Future Transport Zone	396
SDS - Transport (TAF, WERTM)	576
Housing Infrastructure additional allocation	320
SDS - Housing	1,414
Strategic Master-Planning development	75
Strategic Master-planning North Fringe	90
Strategic Master-planning South West Fringe	225
Strategic Green Infrastructure	170
Future Bright extension of project	1,200
Workforce for the Future (WFTF)	1,300
WFTF European Match funding	1,300
LIS Productivity Challenge	721
Research & Innovation Challenge Fund	107
Energy Strategy Action Planning	130
Investment Fund to UAs	
Yate Urban Living Master-Planning	60
Realising Talent [NEET]	197
South Bristol Enterprise Support	171
North Keynsham Master-planning	150
Charfield Station	72
WE Work for Everyone	491

WE Work for Everyone European Match	491
Reboot West	121
Investment Fund managed through third parties	
South West Institute of Future Technologies	162
Centre for Digital Engineering Tech & Innovation	2,720
Unitary Authority Transport Levy	<u>21,455</u>
	56,712

Key Changes in Resources with effect from 2022/23

Core Revenue

- 2.8 Overall, the 'core' element of our revenue resources remains largely unchanged in 2022/23. The West of England 100% Business Rates Retention Pilot has been rolled forward for a further financial year. The value for the CA's 5% of the total business rates growth retained in the region was, in previous years, circa £1.2m per year. However, delivery of growth within the region, due to the impact of Covid, has slowed significantly and the CA's share in 22/23 is expected to drop to £0.6m. This shortfall will be covered by the higher interest earnings by our Treasury function in 2022/23.
- 2.9 The Business Rates deficit has also been reflected in the 21/22 forecast, where in the worst case scenario the income could be as low as £0.1m (i.e. £1.1m short against budget). The CA are currently holding £0.77m in a Business Rates earmarked reserve which can be utilised to partially, or fully, offset the current year deficit if required. Also, it should be noted that the planned introduction of a new national 75% business rates retention scheme from April 2023 places future year resources at more risk.
- 2.10 A £1m annual Mayoral Capacity Fund Grant has been made available to fund core staff capacity costs of running the CA since 2017. Confirmation of this government grant is received on a rolling year by year basis with 2022/23's allocation only recently being confirmed in mid-December 2021.
- 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 2022/23 although this will begin to taper down as significant capital construction costs are drawn down in relation to the approved CA Investment Programme.
- 2.12 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 CA Investment Fund with the level proposed for 2022/23 being consistent with the approved drawdown for 2021/22.
- 2.13 The Medium-Term Financial Forecast, (MTFF), of our **core** revenue streams amounts to £17.8m over the five-year period as shown in *Figure 2*

Figure 2: MTF (Forecast) for Core Revenue Streams

	2021/22	2022/23	2023/24	2024/25	2025/26	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 *	579	600	300	300	300	2,079
Mayoral Capacity Fund *	1,000	1,000	1,000	1,000	1,000	5,000
Mayoral Capacity Fund - 18/19	349	167	0	0	0	516
Treasury Management income	1,020	1,600	1,600	1,600	1,300	7,120
Investment Fund for Mayoral Costs (IF)	640	645	652	660	670	3,267
Sub Total:	3,588	4,012	3,552	3,560	3,270	17,982

* Business Rates Retention and Mayoral Capacity funding are high risk from 2023/24.

2.14 The CA will continue to put forward a case to government to establish sustainable core funding for Combined Authorities beyond the current annual allocations. In addition, to mitigate risk, the CA 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

2.15 The largest specific grant that the CA 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 CA received a modest increase to the core grant for the 2021/22 academic year and also received some additional funding specifically targeted at learning outcomes to help individuals through the Covid pandemic.

2.16 The Business Innovation (ERDF) funding is used to provide grants to help progress research and development activity within small business. This will stimulate economic development and create jobs.

2.17 2021/22 was the last of three financial years where the CA received £1m through the Housing Capacity Fund which provided additional capacity, both within CA and the constituent councils, for fulfilling statutory housing duties alongside stimulating housing growth plans across the region. From 2022/23, the cost of maintaining the CA core housing planning team will be met through approved drawdown of investment funding for the Spatial Development Strategy work

2.18 The Mayoral Combined Authority, (M10), Group annually contribute funding to the CA for co-ordinating various activities and responses to government representing the views of the entire group. For 2022/23 onwards, this is estimated to be £160k per annum.

2.19 At this stage, there is a commitment for the CA to be the Accountable Body for the 'Western Gateway Sub-National Transport' Board. Relevant funding has been allocated for 2022/23 financial year which will be kept under review.

2.20 A City Region Sustainable Transport Settlement of £540m was confirmed for the West of England CA region in late 2021. This capital funding covers a five-year period commencing in 2022/23. In order to adequately prepare for the delivery of this major transport investment, the government has awarded £4.1m of revenue funding which will also be utilised to start preparations for the following five-year Settlement.

2.21 *Figure 3* details the medium-term resource forecast across the various specific grant income streams which amounts to **£89m** over the five-year period:

Figure 3: MTFF for Specific Revenue Grants

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Specific Grant Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Adult Education Budget	15,215	16,364	16,364	16,364	16,364	80,671
Business Innovation - ERDF	375	836	0	0	0	1,211
Housing Capacity Fund	1,043	0	0	0	0	1,043
Combined Authority (M9) Grant	142	160	160	160	160	782
Western Gateway Sub-National Transport	605	180	20	20	20	845
Emergency Active Travel	368	0	0	0	0	368
CRSTS	0	1,025	1,025	1,025	1,025	4,100
Sub Total:	17,748	18,565	17,569	17,569	17,569	89,020

Investment Fund Revenue (CA managed)

2.22 The CA committee have approved a number of revenue allocations throughout the last couple of years for progressing strategic business cases and 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 Climate Emergency strategy.

2.23 In some cases, approvals provided through the CA Committee have resulted in further budget being allocated, and spend being incurred, within the 2021/22 financial year over and above the original budget which is detailed in **Appendix 3**.

2.24 *Figure 4* details all of the approved Investment Fund revenue allocations that will be managed by the CA which have been indicatively allocated across the five-year period.

Figure 4: Investment Fund Revenue allocations managed by the CA

	2021/22	2022/23	2023/24	2024/25+	Total
Investment Fund managed by the CA	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Transport Integration – strategic capacity	273	273	0	0	546
Integrated Smart Ticketing	205	0	0	0	205
Strategic Park & Ride Outline Business Case	150	0	0	0	150
BTQ JDT	55	0	0	0	55
Bus Strategy Infrastructure Programme	200	600	0	0	800
Strategic Rail Investment - 10y	32	59	0	0	90
Strategic Rail Investment - 25y	32	59	0	0	90
Mass Transit Options	910	186	0	0	1096
Local Walking and Cycling	80	0	0	0	80
Step Free Stations	97	0	0	0	97
Future Transport Zone	63	2138	1454	0	3,655
SDS - Transport	860	279	105	0	1,245
Bristol to Bath Strategic Corridor	320	0	0	0	320

10 Year Rail Delivery Plan	340	130	0	0	470
Step Free Stations Phase 2	100	50	0	0	150
Spatial Dev Strategy – Housing & Planning*	1,694	1,181	208	0	2,451
Strategic Master-Planning development	150	0	0	0	150
Strategic Master-planning North Fringe	309	112	0	0	421
Strategic Master-planning South West Fringe	219	196	0	0	415
Strategic Green Infrastructure	129	171	0	0	300
Future Bright extension of project	1,220	1,200	1,100	0	3,520
Workforce for the Future (WFTF)	1,102	1,485	915	0	3,502
WFTF European Match funding	1,102	1,485	915	0	3,502
LIS Productivity Challenge	1,430	1,089	0	0	2,519
Cultural Strategy	4	0	0	0	4
Business Innovation Fund	92	69	23	0	184
Energy Strategy Action Planning	201	0	0	0	201
Small Business Resilience Grant Programme	934	15	0	0	949
West of England Talent Retention Platform	144	56	0	0	200
Post-16 Education and Skills Delivery analysis	50	0	0	0	50
Innovation for Renewal and Opportunity	817	3,411	2,266	222	6,716
Digital Skills Investment Programme CQ	1,279	721	0	0	2,000
Culture and Creative Economic Fund CR	2,000	0	0	0	2,000
5G Logistics	158	0	0	0	158
Community Recovery Fund	840	660	0	0	1,500
WoE Visitor Economy Recovery	181	73	0	0	254
Bus Service Improvement Plan	0	537	0	0	537
Sub Total:	17,771	16,235	6,986	222	41,214

* Includes £631k to fund CA Housing and Planning staff, which is subject to Committee approval

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 and approved, Full Business Case.

Investment Fund Revenue (UA managed and third parties)

2.26 Similar to Investment Fund revenue approvals that will be managed by the CA, 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, the CA 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 2022/23 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 will 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. 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 2023/24.
- (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) Bottle Yard Studios - Hawkfield Business Park. The total award of £11.9m includes both, capital and revenue. The revenue element has been profiled up to 23/24.
- (e) Bristol City Centre & High Streets. Full business case of £2.725m was approved by the Committee in June 21. Bristol City Council have estimated the spend in a profile to the end of 2023/24.
- (f) Bath City Centre High Streets Renewal Project. £1.235m funding was conditionally approved by Committee in June 21 with £240k relating to revenue.

2.28 A summary of all Unitary Authority and Third-Party revenue approvals, which amounts to **£19m** as at January 2022, is detailed in *Figure 5*.

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

Investment Fund managed through UAs	2021/22	2022/23	2023/24	2024/25+	
	£000s	£000s	£000s	£000s	£000s
High Street Regeneration (initial revenue)	0	0	1,461	0	1,461
South Glos by-pass feasibility	73	0	0	0	73
Yate Urban Living Master-Planning	225	0	0	0	225
Bristol High Streets - Bedminster	179	0	0	0	179
B&NES High Streets - Pilot	63	85	0	0	148
SGC High Streets - Kingswood	64	0	0	0	64
Freezing Hill Lane: A420 to Bath	25	0	0	0	25
Temple Meads Masterplan	1,860	0	0	0	1,860
Realising Talent [NEET]	197	118	0	0	315
South Bristol Enterprise Support	154	194	0	0	348
Working Well Institute	500	0	0	0	500
Manvers Street Regeneration	250	0	0	0	250
North Keynsham Master-planning	123	0	0	0	123
Charfield Station	334	0	0	0	334
Bath Riverline	122	0	0	0	122
WE Work for Everyone	491	381	17	0	889
WE Work for Everyone European Match	491	381	17	0	889
Reboot West	121	330	233	36	720
East Fringe Master Plan	300	50	0	0	350
Sevenside Master Plan	200	100	0	0	300
Parkway Station Master Plan	250	0	0	0	250
Frome Gateway & City Centre	800	0	0	0	800

Western Harbour	155	0	0	0	155
High Street Catalyst	690	120	0	0	810
North Fringe Public Infrastructure Package	300	0	0	0	300
Bottle Yard Studios - Hawkfield Business Park	75	25	25	0	125
Milsom Quarter Masterplan	434	0	0	0	434
SEND Careers Information and Guidance					
Collaboration Pilot	20	0	0	0	20
Bristol City Centre & High Streets	865	1,837	23	0	2,725
Thornbury High Street Public Realm	200	0	0	0	200
Bath City Centre High Streets Renewal Project	83	268	48	96	495
Investment Fund managed through 3rd parties					
South West Institute of Future Technologies	162	0	0	0	162
Centre for Digital Engineering Tech & Innovation	2,832	727	0	0	3,559
The Coach House BAME Enterprise and Social Enterprise Hub	40	57	0	0	97
Sub Total:	12,678	4,673	1,824	132	19,307

Revenue Transport Levy (Transport Integration)

- 2.29 From 2020/21 the CA took on responsibility for managing and delivering the operational transport functions pooling the budget accumulated from the Unitary Authority levies, (and recharge from North Somerset Council). A transport smoothing reserve was created to help manage the peaks and troughs of regional service costs. After the net-underspend in 2020/21 the balance of the smoothing reserve increased to £616k.
- 2.30 The 2021/22 principal transport operations budgets funded from the Transport Levy are currently forecasting an overall underspend, largely due to lower expenditure on concessionary travel and community transport grant funding, but with a forecast overspend on supported bus services.
- 2.31 The forecast underspend on concessionary travel reimbursement to operators is due partly to the pre-Covid decline in concessionary travel being projected through into the current financial year and partly to the lower bus mileage operated in recent months reducing repayments on a pro-rata basis in line with Government guidance. The underspend on community transport is due to reduced mileage being operated by the providers during the Covid pandemic and very little call on us to fund publicity or training for the schemes.
- 2.32 The supported services situation has arisen due largely to the need to maintain service levels on contracted services to meet Government requirements whilst farebox revenue income has remained well below pre-Covid levels. Whilst the Government has provided some support through Covid Bus Service Support Grant (CBSSG) and latterly Bus Recovery Grant (BRG) this has not covered lost revenue or the full costs to the Combined Authority of running contracted services.

- 2.33 The short-term situation is that several commercial bus services across the region require revenue support in order to continue, both within the current financial year and at the start of the 2022/23 financial year. This is in part due to continuing low levels of patronage and the fact that direct Government support to bus operators through BRG for commercial services is expected to end in April 2022. Should this happen and services are withdrawn or reduced, the Combined Authority will need to consider the merits of whether these services should be financially supported if funding is available. Government is holding to its position that the new Bus Transformation Fund - to which we have bid for revenue funding to deliver our Bus Service Improvement Plan – may not be used to maintain existing bus services that are at risk.
- 2.34 Retention of any overall underspend on Transport Levy budgets as a reserve would give us the capacity to protect services from a cliff-edge fall in funding, at least for a period. The opportunity is being taken to invite tenders for new contracts covering these services from late summer 2022 when longer term decisions can be taken on which services can be supported.
- 2.35 The medium-term prospects of bus passenger numbers returning to pre-Covid levels are very slim, with the expectation that even in the spring of 2023 it will still only be around 85%. This is due to long term structural changes to working patterns reducing commuting, although this may be offset somewhat by increases in leisure trips by public transport. Whilst the picture will become clearer once the Government support funding position is known and tender prices are received for those services needing financial support, the reality may be that in overall terms there is insufficient funding available to maintain all services that currently operate and some rationalisation will be required. This would form the focus of a report to Committee at the appropriate time.
- 2.36 Given the uncertainty that will continue into the 2022/23 financial year, and the anticipated increases in costs, it is appropriate to continue to build a sufficient transport smoothing reserve. In light of holding this reserve, along with current year underspending in Concessionary Services, no uplift in the levy is proposed for 2022/23. The 2022/23 levy, (along with the relevant recharge that will be applied to North Somerset Council), for integrated transport services is detailed in **Figure 6**.

Figure 6 – Adjusted Revenue Transport Levy (inc North Somerset) 2022/23

	2022/23 Levy Charges					NSC £000s	Total £000s
	B&NES £000s	BCC £000s	SGC £000s	First £000s	Total LEVY £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	280	148	26	603	9	612
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	10,235	4,014	26	19,469	1,958	21,427

2.37 The 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

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Unitary Authority Levy	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
B&NES	5,194	5,194	5,298	5,404	5,512	26,602
BCC	10,236	10,235	10,440	10,649	10,862	52,422
SGC	4,014	4,014	4,094	4,176	4,260	20,558
First	26	26	26	27	27	132
NSC	1,706	1,958	1,997	2,037	2,078	9,776
Sub Total:	21,176	21,427	21,855	22,293	22,739	109,490

Total Combined Authority Revenue Funding Forecast

2.38 Combining all of the approved funding streams, as detailed in this section, the overall proposed CA revenue budget for the 2022/23 financial year is **£64.9m** with a total resource allocation of **£277m** up to March 2026 (including 2021/22)

Figure 8: Summary of all approved CA Revenue (as at January 2022)

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Core Revenue Funding	3,588	4,012	3,552	3,560	3,270	17,982
Specific Grant Funding	17,748	18,565	17,569	17,569	17,569	89,020
Investment Fund (managed by WECA)	17,771	16,235	6,986	222	0	41,214
Transport Levy (and NSC Recharge)	21,176	21,427	21,855	22,293	22,739	109,490
CA Managed Revenue Budgets	60,283	60,239	49,962	43,644	43,578	257,706
Investment Fund (UA and third parties)	12,678	4,673	1,824	84	48	19,307
Total CA Revenue Budget	72,961	64,912	51,786	43,728	43,626	277,013

Spend Analysis and Overheads

3.1 The CA's costs in the first few years were 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 is now 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 2022/23 is detailed in **Figure 9**

Figure 9: CA Revenue Spend Analysis 2022/23

	Staffing £000s	Supplies/ Services £000s	3rd Party Payments £000s	Overheads £000s	Recharge Income £000s	To Reserves £000s	Total £'000s
CA Managed	9,646	9,127	44,313	-677	-2,382	212	60,239
Unitary Auth & 3rd Party			4,673				4,673
Totals :	9,646	9,127	48,986	-677	-2,382	212	64,912

3.3 In terms of staffing, overall numbers have increased which reflects the increased number of grants and service areas that the CA is now operating. In particular there will be spending, and corresponding staffing, growth in 2022/23 in areas such as:

- Business and Skills Directorate regarding various new funding allocations such as the Innovation programme;
- Continuing to build, and deliver, the Future Transport Zone programme;
- Revenue feasibility and development preparing for delivery of the City Region Sustainable Transport programme;
- Delivery of the Bus Services Improvement Programme

3.4 Salary budgets continue to be 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 £49m third party payments are:

- £15.7m payments to adult education providers;
- £20.6m payments for transport services (£14.9m of Concessionary Fares);
- £4.7m of Investment Fund payments to Unitary Authorities for schemes that they are leading on;
- £2.5m in relation to the Workforce for the future (conditional on European match funding)
- £1m City Region Sustainable Transport Settlement (part of overall £4.1m)
- £0.9m payments made from the continuing 'Future Bright' initiative.

3.6 Recharge income reflects the proportion of time spent by CA 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 CA, LEP and Mayoral functions. From 2020/21 onwards, to improve transparency of reporting, all costs have been collated against CA cost centres and recharged out on an annual basis.

3.7 In terms of overheads, the CA 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: Combined Authority – Corporate and Democratic Core Costs

CA Corporate & Democratic Core Costs	2021/22 £000s	2022/23 £000s	2023/24 £000s
Statutory Officer Costs	324,612	330,099	336,701
Legal and Democratic	231,193	235,165	239,869
Policy and Strategy	350,971	372,744	380,199
Marketing and Communication	132,583	126,737	129,272
Central Overheads	94,418	107,500	109,650
	1,133,777	1,172,245	1,195,691

- 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 CA Committee. Policy and Strategy and Marketing and Communications both have a 'core' element of costs alongside a variable element with activity linked to the growing number of services directly delivered by the CA.
- 3.9 As the organisation has continued to grow over the last 12 months, relevant support services have also had to 'flex' to ensure that we maintain professional back-office services and arrangements to support a maturing CA. These increased costs, in the main, have been funded through applying a relevant overhead 'charge' on new and additional front-line staff alongside levying appropriate support costs against the growing suite of CA delivered projects such as the Future Transport Zone. Accounting arrangements require the full Support Service costs, (as detailed in *Figure 11*), to be spread across the range of CA services and projects delivered.

Figure 11: CA Support Services (overhead) Costs

CA Support Services (Overheads)	2021/22 £000s	2022/23 £000s	2023/24 £000s
Financial Services	347,151	369,789	377,184
ICT Services	581,419	821,463	837,893
Accommodation and Property	506,234	500,579	500,579
Human Resources	245,817	298,743	304,718
Business Support	106,860	113,919	113,919
Grant Assurance Function	155,601	204,955	209,054
Policy and Strategy	315,394	322,289	328,735
Marketing & Communication	202,120	178,187	181,751
Central Overheads	94,418	107,500	109,650
	2,555,014	2,917,424	2,963,483

3.10 The Key Changes in Overheads with effect from 2022/23:

- (a) ICT Services. The CA'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 the CA 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 2022/23 include costs relating to an essential ICT future programme of work, aiming at equipping the CA with common digital tools to better meet our stakeholder needs and work more efficiently. Supporting key projects within the programme include corporate websites and customer relationship management systems (CRM), 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

- (b) Grant Assurance. Despite taking on the assurance function for many new funding streams over recent years such as Workforce for the Future, Future Transport Zones and Business Innovation, the Grant Assurance team has remained static in terms of staffing capacity. The 2022/23 budget introduces one new junior post to complement the proportionate increase in the team's workload.
- (c) Policy and Strategy. This support service has been increased to reflect a growing demand for clearer regional policy setting and strategic visioning which is being led by the Combined Authority
- (d) Marketing and Communications. The team has continued to grow throughout 2021/22 however, new staff, in the main, have been charged directly to the services areas and projects that they are directly supporting. There has been growing demand for campaigns for business recovery, skills and regional innovation as well as ongoing promotion of key initiatives and website redevelopment.
- (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.

3.11 The increase in support services spend is proportionate with the increase in overall CA activity over the previous 12 months through applying the standard **36.4%** overhead, (per FTE), rate as approved by the CA Committee in January 2021. 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 the CA.

3.12 £2.917m overheads represents **4.5%** of the £64.9m 2022/23 CA revenue budget for the CA which is a similar rate compared with other Combined Authorities.

Treasury Management

- 3.13 For the last four years of operation, the CA has exceeded the set income budget for returns on investments in terms of cash balances held. We have maintained significantly high cash balances over this period which is primarily 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.
- 3.14 The base Treasury Management income budget for achieving returns in a standard year is set as £670k per annum. However, financial returns in the short term remain well in excess of this base budget due to a number of 'forward deals', (prior to interest rate reductions) and high returns through long term, strategic investments.
- 3.15 The 2021/22 Treasury Management income budget was set at £1.03m and it is proposed to increase this further to **£1.6m** for the 2022/23 financial year. Longer term income targets will need to be kept under review as the £450m CA Investment Programme, (covering the period up to March 2026), gathers momentum with overall spend increasing and cash balances correspondingly reducing. The existing, historically low, interest rates also need to be considered with regards to the sustainability of future returns.
- 3.16 A further risk to Treasury management in the medium term is the potential change in accounting treatment for investments in 'pooled funds'. Such funds, which include CA investments in property and mixed (equity) assets, deliver an annual revenue return through dividends. These investments are made for a long-term duration with the difference between the cost of purchasing the investment, and the notional sale price of that investment, often fluctuating due to specific market conditions. For example, the notional capital value of our CA pooled asset holdings dropped by circa £2m during the first national lockdown due to the Covid pandemic in March 2020 (they have subsequently recovered in line with market recovery). As there are no immediate, or medium term, plans to sell our pooled investment assets, any changes in notional sale value are not material in our considerations. However, there is a risk that, upon the expiry of a national 'over-ride' arrangement in March 2023, any notional changes in capital value of our holdings would have to be accounted for annually within our revenue budget. We therefore need to build our Treasury Management reserve to manage the potential risk of this national accounting change in practice.
- 3.17 With so much uncertainty over future income returns from, and notional value of, CA investments, it is proposed that 50% of any 2021/22 treasury management income surplus, is transferred to the earmarked, Treasury Management smoothing reserve.

It is recommended that where investment income exceeds budget, 50% of the surplus will be transferred to the Treasury Management reserve to cover the risk of capital losses or lower financial returns in future years.

Accountable Body Functions

- 4.1 The CA 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 CA. 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 the CA 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 CA will make a proposed contribution of £645k in 2022/23 to the Mayoral Budget to meet the Mayoral Election provision and annual Mayoral Office Costs. This drawdown is consistent with the drawdown applied for the 2021/22 financial year. The 2022/23 Mayoral Budget is detailed in Appendix 4.

Risk Management/Assessment

- 6.1 Ultimately, the risk and governance arrangements for the Combined Authority are assessed, and reported by our appointed external auditors. Grant Thornton were appointed as External Auditors for the West of England Combined Authority under the Public Sector Audit Appointments, (PSAA), process for the Statements of Accounts period up to, and including, the 2022/23 financial year.
- 6.2 The PSAA are now inviting public sector bodies to 'opt in' for a further audit period from 2023/24 to 2027/28. Should the Combined Authority wish to take up this offer, we will require a formal decision through the Combined Authority Committee by the deadline of 11 March 2022. A report was presented to the CA Audit Committee, in December 2021, detailing the pros and cons of 'opting in' to the framework vs the costs of running our own independent procurement process for appointing external auditors. The firm view of the Audit Committee was to support the 'opt in' option due to efficiencies through economies of scale, minimised costs of commissioning and end quality of the external audit service.

It is recommended 'opting in' to the Public Sector Audit Appointment Framework for the commissioning of external audit services for the period 2023/24 to 2027/28

- 6.3 The CA has been building a General Fund Reserve, in line with recommended best practice, to manage / mitigate any future financial risks. However, the Reserve remains at a relatively low level being circa **2.9%** of the 2022/23 revenue budget. Most of the Combined Authority core capacity and operating costs have been funded on a year-by-year basis through short-term funding streams equating to circa £5m per annum. Over recent months, the certainty of such funding for 2022/23 and beyond has become more volatile with government yet to disclose the full future of CA revenue resources. The specific financial risks that we currently face include:

- Housing Capacity Fund has expired which leaves an unfunded spend commitment, for the CA share, of circa £660k per annum;
- Uncertainty or drop in government funding on the £1m Mayoral Capacity Funding beyond 2022/23;
- Business Rate Retention funding – although the current 100% Business Rates Retention pilot will roll forward for a final year to 2022/23, we will not be able to accumulate £1.2m of budgeted revenue business rate growth;
- 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.

Should any of these financial risks materialise in 2022/23, we would need to develop an action plan to accompany the structured use of financial reserves. It is likely that such an action plan would include:

- Exploring further legitimate recharging to projects;
- Reviewing internal staffing and resources;
- Exploring options for further increasing the Treasury base income budget;
- Reduce the contribution to the Elections Reserve (based on May 21 spend).

Reserves

- 7.1 The CA 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 CA.
- 7.2 At the close of 2017/18 a general reserve was established of £308k. Over the last few financial years, this reserve has been added to and now stands at circa **£1.9m**.
- 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 the CA, with a revenue budget of £64.9m in 2022/23, would amount to circa **£3.25m**.
- 7.4 As the authority continues to grow, and whilst the volatility of revenue funding streams remains a significant issue, a Financial Reserves Policy has been drafted, (detailed in Appendix 6), as part of the 2022/23 budget setting process which was endorsed at the Audit Committee meeting on 10th December 2021.

CA Revenue Outturn Position 2021/22

- 8 **Appendix 2** details the Combined Authority's estimated outturn revenue position for the 2021/22 financial year based on actual information to the end of December 2021, which overall, is projecting an end of year surplus of **£507k**.

The main items contributing to the positive forecast variance are interest received through investing cash balances (£500k), over-recovery on overheads (£225k) and other general underspends (£450k). However, the CA is anticipating to suffer in year losses regarding the Business Rates Retention pilot of £686k after drawing down £400k from reserves (as approved by January 21 committee).

- 8.1 As detailed in paragraphs 2.29 to 2.37, although there is a significant surplus projected against transport operations services, (funded through the annual levy), in 2021/22, there will be high one-off costs incurred in 2022/23 in order to maintain continuity of bus services in advance of the re-tender of major bus routes in August 2022. It is therefore proposed to:

(a) Transfer £384k of the 2021/22 levy to the established Transport Smoothing Reserve in line with the authority's reserves policy and;

(b) Create an earmarked reserve of £950k from the 2021/22 levy to specifically address the anticipated additional bus operation costs that will be incurred up to August 2022.

Demand against both of these reserves will be kept under regular review with updates provided to the region's Section 151 Officers accordingly.

- 8.2 An income budget of £1.03m was set in relation to the interest that the CA 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, the CA continues to significantly out-perform this income target. The current out-turn position for 2021/22 is a forecasted treasury surplus of £1m of which £500k will transfer into the Treasury Management Reserve in line with the authority's reserve policy.

Mayoral Budget

- 9 The Mayoral Budget relates to those functions that fall under the specific responsibility of the Mayor in accordance with the West of England Combined Authority (CA) Order 2017.

- 9.1 As required by the Combined Authorities (Finance) Order 2017, the Mayor must keep a fund, (to be known as the Mayor's General Fund), in relation to receipts arising, and liabilities incurred, in the exercise of the Mayor's general functions.

- 9.2 The proposed budget includes the costs of the Mayor, related office expenses and support costs. There is also an annual allocation in respect of the four-yearly CA election costs. Supplies and Services have increased slightly in 2022/23 to reflect the more outward facing nature of the CA Mayor in terms of engagement with external businesses and stakeholders. This increase is funded through a reduced annual drawdown for the CA four yearly election costs which reflects the actual spend incurred in facilitating the May 2021 CA Election process.

- 9.3 The proposed 2022/23 Mayoral running costs are detailed in *Figure 12*, along with future year forecasts which reflect inflationary and anticipated pay increases. The bottom line figure for the 2022/23 budget remains the same as that set for 2021/22

Figure 12 – Mayoral Running Costs (Medium Term Forecast)

<u>Budget Heading</u>	2021/22 <u>£'000s</u>	2022/23 <u>£'000s</u>	2023/24 <u>£'000s</u>	2024/25 <u>£'000s</u>
Staffing	211	213	217	221
Premises	13	13	13	14
Supplies and Services	15	62	63	65
Support Service	10	11	11	11
	249	299	305	311
Mayoral Election Costs	396	346	346	346
Investment Fund Contribution	645	645	651	657

* 2% pay award assumed for 2022/23 and 2% thereafter.

- 9.4 The funding for the Mayoral budget comes from a contribution from the West of England Combined Authority (Investment Fund) as approved by the CA Committee. The proposed Mayoral budget for 2022/23 is set out at **Appendix 4**.
- 9.5 In previous years, the Highways Capital Maintenance Grants, which up to 2021/22 formed part of the West of England Business Rates Retention pilot, were accounted for, and administered, through the Mayoral budget. From 2022/23 this capital spend, which is managed through the constituent Unitary Authorities, is funded through the City Region Sustainable Transport Settlement, (CRSTS), and, as such, are included within the 2022/23 CA Capital Budget which is considered elsewhere on this Committee agenda.
- 9.6 Monitoring against the Mayoral budget is reported to each meeting of the CA committee. The current forecasted outturn position for the 2021/22 financial year is to deliver a balanced budget as detailed in **Appendix 5**.

Consultation

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

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 the CA to determine priority financial allocations from investment funding and transforming cities funding.

Land/property Implications

- 15 The CA do not currently own any land or material assets. The current CA 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 CA 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 the CA 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 2022/23**
- Appendix 2: WECA Forecasted Revenue Outturn 2021/22**
- Appendix 3: WECA Revenue Budget 2021/22 – Revised Schemes**
- Appendix 4: Mayoral Revenue Budget 2022/23**
- Appendix 5: Mayoral Fund Forecasted Revenue Outturn 2021/22**
- Appendix 6: Financial Reserves Strategy**

Background papers:

Combined Authority (Revenue) Budget 2021/22 – WECA Committee 29 January 2021;

Capital Strategy (including Treasury Management and Investment Strategies) – WECA Committee 29 January 2021;

Mayoral Budget Setting Report 2021/22 – WECA Committee 29 January 2021.

Investment Fund update reports to WECA Committee throughout 2021;

Mayoral and WECA Budget Monitoring reports as presented to each meeting of the WECA Committee.

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 writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6EW; email:

democratic.services@westofengland-ca.gov.uk

(West of England) Combined Authority Revenue Budget 2022/23

	Budget 21/22 £'000s	Budget 22/23 £'000s	Variance £'000s
<u>Expenditure</u>			
Staff	8,098	*9,646	1,548
Supplies and Services	6,830	9,127	2,297
Third Party Payments	43,824	48,986	5,162
Overhead	-464	-677	-213
Recharge Income	-1,727	-2,382	-655
Reserve	151	212	61
Total Expenditure	56,712	64,912	8,200
<u>Income</u>			
Levy transport function	21,455	21,427	-28
Business Rate Retention	1,200	600	-600
Government Grants	18,720	19,565	845
Investment Fund	14,307	*21,553	7,246
Interest on balances	1,030	1,600	570
Reserve	0	167	167
Total Income	56,712	64,912	8,200

* Includes £631k in SDS to fund Housing and Planning staff, subject to Committee approval

Appendix 2

(West of England) Combined Authority Revenue Outturn 2021/22

	Budget 21/22 £000s	Outturn 21/22 £000s	Variance £000s
<u>Expenditure</u>			
Staff	8,098	8,471	373
Supplies and Services	6,830	11,759	4,929
Third Party Payments	43,824	58,036	14,212
Overhead	-464	-607	-143
Recharge Income	-1,727	-1,720	7
Reserve	151	605	454
Total Expenditure	56,712	76,544	19,832
<u>Income</u>			
Levy Transport Function	21,455	21,176	-279
Business Rate Retention	1,200	514	-686
Government Grants	18,720	22,738	4,018
Investment Fund	14,307	31,093	16,786
Interest on Balances	1,030	1,530	500
	56,712	77,051	20,339
Surplus	0	507	507

CA Revenue budget 2021/22 – revised schemes

	ORIGINAL 2021/22	REVISED 2021/22	DIFF 2021/22
Specific Grant Funding	£000s	£000s	£000s
Adult Education Budget	15,215	17,404	2,189
Business Innovation - ERDF	375	170	-205
Housing Capacity Fund	1,043	1,096	53
Cultural Strategy	0	47	47
Combined Authority (M9) Grant	142	52	-90
Brexit Grant	49	58	9
Western Gateway Sub-National Transport Body	180	605	425
Emergency Active Travel	368	368	0
SME Grant and Talent Retention	0	118	118
BIF (non-ERDF)	0	100	100
Commercialising IP	0	72	72
Future Bright	0	356	356
WECA Grant Management & Assurance Team	0	11	11
Accommodation Project	0	22	22
Mayoral Capacity Fund 2018/19 Balance	349	0	-349
Mayoral Capacity Funding	1,000	1,000	0
Manifesto Implementation	0	250	250
Bus Services Improvements	0	100	100
E-Cycle Extension	0	248	248
Active Travel Revenue Fund	0	660	660
Sub Total:	18,720	22,738	4,017

	ORIGINAL BUDGET 2021/22	REVISED 2021/22	DIFF 2021/22
Investment Fund managed by WECA	£000s	£000s	£000s
Transport Integration – strategic capacity	273	273	0
Integrated Smart Ticketing	180	205	25
Strategic Park & Ride Outline Business Case	150	150	0
Bus Strategy	200	200	0
Strategic Rail Investment	100	63	-37
Mass Transit Options	0	910	910
Local Walking and Cycling	0	80	80
Future Transport Zone	396	63	-333
SDS - Transport (TAF, WERTM)	576	860	284

Access for All - Step Free Stations	100	97	-3
BQT Joint Delivery Team	0	55	55
Bristol to Bath Strategic Corridor	0	320	320
Step Free Stations Phase 2	0	100	100
10 Year Rail Delivery Plan	0	340	340
Housing Infrastructure additional allocation	320	0	-320
SDS - Housing	1,414	1,694	280
Strategic Master-Planning development	75	150	75
Strategic Master-planning North Fringe	90	309	219
Strategic Master-planning South West Fringe	225	219	-6
Strategic Green Infrastructure	170	129	-41
Future Bright extension of project	1,200	1,220	20
Workforce for the Future (WFTF)	2,600	1,102	-1498
WFTF European Match funding	0	1,102	1102
LIS Productivity Challenge	721	1,396	675
Cultural Strategy	0	4	4
Research & Innovation Challenge Fund	107	126	19
Visitor Economy	0	181	181
Talent Retention Platform	0	144	144
SME Grant and Talent Retention	0	34	34
Business Growth Grants	0	900	900
Angel Research and Investment	0	144	144
Digital Hyper Hubs	0	25	25
Made Smarter/Supply Chain	0	250	250
Professional Innovation Zone	0	80	80
Emerging Sector	0	50	50
Mission Maker and Innovation Champion	0	80	80
Smart Alliance	0	45	45
I4R+O Staffing	0	143	143
Culture and Creative Economic Recovery Fund	0	2,000	2000
5G Logistics	0	158	158
Digital Skills	0	1,279	1279
Community Recovery Fund	0	840	840
Post-16 Education and Skills Del Infrastructure Analysis	0	50	50
Climate Change	130	201	71
Financing	644	644	0
Sub Total:	9,672	18,415	8,743
Investment Fund to UAs	£000s	£000s	£000s
South Glos by-pass feasibility	0	73	73
Yate Park and Ride Outline Business Case	0	0	0
Yate Urban Living Master-Planning	60	225	165
Bristol High Streets - Bedminster	0	179	179
B&NES High Streets – Pilot	0	63	63
SGC High Streets – Kingswood	0	64	64
Freezing Hill Lane: A420 to Bath	0	25	25
Temple Meads Masterplan	0	1,860	1,860
Realising Talent [NEET]	197	197	0
South Bristol Enterprise Support	171	154	-17

Working Well Institute	0	500	500
Manvers Street Regeneration	0	250	250
North Keynsham Master-planning	150	123	-27
Charfield Station	72	334	262
Bath Riverline	0	122	122
WE Work for Everyone	491	491	0
WE Work for Everyone European Match	491	491	0
FEAS BZ - Reboot West	121	121	0
Feas CF High Streets Renewal Catalyst Fund	0	690	690
FEAS CY East Fringe Master Plan	0	300	300
FEAS CZ Severnside Master Plan	0	200	200
FEAS DA Parkway Station Master Plan	0	250	250
FEAS DB Frome Gateway & City Centre	0	800	800
FEAS DC Western Harbour	0	155	155
North Fringe Public Infrastructure Package	0	300	300
Milsom Quarter Masterplan	0	434	434
SEND Careers Info. and Guidance Collaboration Pilot	0	20	20
Bottle Yard Studios - Hawkfield Business Park	0	75	75
Bath City Centre High Streets Renewal Project	0	83	83
Bristol City Centre & High Streets	0	865	865
Thornbury High Street Public Realm	0	200	200
Investment Fund managed through third parties			
South West Institute of Future Technologies	162	162	0
Centre for Digital Engineering Tech & Innovation	2720	2,832	112
The Coach House BAME Enterprise Hub	0	40	40
Sub Total:	4,635	12,678	8,043
TOTAL IF	14,307	31,093	16,786

Appendix 4

(West of England) Combined Authority Mayoral Budget 2022/23

	2021/22 Budget £'000s	2022/23 Budget £'000s	Increase (+)/ Decrease £'000s
Staff	211	213	2
Premises	13	13	0
Support Services	15	62	47
Supplies & Services	10	11	1
	249	299	50
Mayoral Election	396	346	-50
Mayoral Revenue Expenditure	645	645	0
<u>Contribution to Highway Grants *</u>			
Integrated Highway	5,183	0	-5,183
Highway Maintenance Grants	10,254	0	-10,254
Highway Incentive Grants	2,135	0	-2,135
	17,572	0	-17,572
Total Expenditure	18,217	645	-17,572
<u>Income</u>			
Business Rates Retention Pilot	17,572	0	-17,572
Contribution from CA Investment Fund	645	645	0
Total Income	18,217	645	-17,572

* From 2022/23 Highways Capital Maintenance Grants form part of the CRSTS funding and, as such, are approved through the CA Capital Budget Setting process

Appendix 5

Mayoral Fund 2020/21 Forecasted Outturn as @ December 2021

	2021/22 Budget £'000s	2021/22 Outturn £'000s	Increase / Decrease £'000s
Staff	211	155	-56
Premises	13	12	-1
Support Services	10	10	0
Supplies & Services	15	15	0
	249	192	-57
Election Costs including contribution to election reserve	396	1,089	693
Drawdown from Election Reserve	0	252	252
Mayoral Revenue Expenditure	645	1,533	888
<u>Contribution to Highway Grants</u>			
Integrated Highway	5,183	5,224	41
Highway Maintenance Grants	10,254	7,071	-3,183
Highway Incentive Grants	2,135	1,768	-367
	17,572	14,063	-3,509
Total Expenditure	18,217	15,596	-2,621
<u>Income</u>			
Business Rates Retention Pilot	17,572	14,063	-3,509
Funding Contribution from CA	645	645	0
Reserves	0	888	888
Total Income	18,217	15,596	-2,621

Appendix 6



WEST OF ENGLAND COMBINED AUTHORITY

FINANCIAL RESERVES STRATEGY – DECEMBER 2021

High Level Objectives:

- (a) Strive to achieve, and maintain, a Combined Authority, unearmarked, General Fund Reserve of at least 5% of net annual revenue spend;
- (b) Strive to achieve, and maintain, a Treasury Management Reserve of at least £2m to account for financial provisions that might have to be made in relation to any notional loss in value of our pooled fund holdings;
- (c) Maintain a West of England 'Transport Smoothing Reserve' to manage the peaks and troughs of operational transport demand and/or costs against the annual levy. This reserve should aim to be in excess of 5% of annual spend;
- (d) Maintain a Local Enterprise Partnership (LEP) Reserve at the equivalent sum of the annual government LEP Capacity Grant (£500k);
- (e) The appropriateness and adequacy of earmarked reserves, (to cover known and estimated future costs and liabilities), will be reviewed annually by the Combined Authority's Section 73 Officer.

General Fund Reserve:

1. Unlike a single-tier or District Council, the Combined Authority, (CA), delivers very few front-line services and hence, with the exception of operational transport, does not maintain earmarked service risk reserves required to manage demand and/or cost volatility.
2. The main focus for managing financial risk, through a 'General Combined Authority Reserve' is with regard to the volatility of revenue which is used to fund the core staff and operating costs of the CA. The following funding streams are within the CA base budget, but only approved on a rolling annual basis:

- Mayoral Capacity Fund £1.0m;
- 100% Business Rates Retention Pilot £1.2m;
- Housing Capacity Fund £1.0m

3. These funding streams, along with income achieved through the investment of cash balances, (Treasury Management), fund the vast majority of operating activities and costs of running the CA.
4. There is an approved Committee decision to fund the running of the Mayoral office, alongside the costs of facilitating four yearly Mayoral Elections, from the Investment Fund at circa £660k per annum. But there are no other approvals in place from the Investment Fund should any of the above funding items discontinue.
5. The Housing Capacity Fund was a time limited deal of £3m over three years which expires in 2021/22 leaving unfunded revenue staff costs for 2022/23 and beyond.
6. The holding of General, unearmarked, reserves is forecast to be £1.9m at the end of the 2021/22 financial year which represents 3.3% of the Combined Authority net annual revenue budget of £56.7m. There are no 'hard and fast' rules to determine the exact level of reserves that should be retained by public sector bodies, but accepted practice indicates that this should be upwards of 5% (which is a reserves figure exceeded by the West of England Unitary Authorities)
7. Given the uncertainty of future revenue funding for Combined Authorities we are setting a high-level objective of ***striving to achieve and maintain a unearmarked General Fund Reserve of at least 5% of net annual revenue spend.***

Treasury Management Reserve:

8. Revenue returns through cash balances invested, in compliance with our Treasury Management Strategy, has been a much-needed regular source of revenue income since the Combined Authority formed in 2017.
9. For 2021/22 an income budget of £800k was set in relation to financial returns achievable. Despite maintaining reasonably high cash balances, it has become increasingly difficult to achieve rates of return in the current climate with interest rates for 12-month fixed investments being as low as 0.1%.
10. The CA Treasury Management Strategy enables the authority to place a proportion of its investments in long term 'pooled' funds such as property, equity and multi asset funds. We have utilised this flexibility and, as at November 2021, have circa £37m of our overall investment portfolio secured in pooled funds. Such funds are providing consistent revenue returns of between 3.5% and 4% per annum which clearly helps the CA achieve its overall revenue income targets.
11. Pooled funds are deemed as being long terms investments. The price of the funds at the point of acquisition is variable and, as such, could go down in value as well as up over time (often depending on economic factors and the condition of financial markets). To date, Local Authorities do not have to formally account for any fluctuation in prices of pooled funds held and would only have to do so in the event of selling a particular fund. However, there is a risk that legislation could change at the end of March 2023 which might require public sector bodies to make annual provision in their accounts for any notional losses incurred, through price fluctuation of funds held, over the 12-month accounting period.

12. The Combined Authority, like other public bodies who hold pooled funds, need to start planning for the eventuality of this legislative change now. The largest ‘swing’ in financial markets in recent years occurred at the beginning of the Covid pandemic in March / April 2020. Throughout these early months, the notional loss in value of the CA pooled fund holdings was circa £2m (which has subsequently recovered in line with corresponding market increases)
13. It is therefore recommended that ***we strive to achieve, and maintain, a Treasury Management Reserve of at least £2m to account for financial provisions that might have to be made in relation to any notional loss in value of our pooled fund holdings.***

Transport Smoothing Reserve:

14. The cost of running the region’s operational transport activities is circa £21m per annum which is funded through a transport levy provided by the region’s three constituent authorities along with a recharge from North Somerset Council.
15. A Transport Smoothing Reserve was created in 2020/21 to account for any regional variances in cost and / or service demand. Such variances are particularly volatile in areas such as commissioned bus services, concessionary fares and support for Community Transport. Previous practice would have required an end of year adjustment to the levy for each specific authority with the reserve now enabling a more holistic and pragmatic approach to budget management.
16. Throughout 2021/22 we have continued payments to bus operators at pre-Covid levels, to maintain stability of the provider base, with the support of ‘bus operating services grant’ from government. This grant was withdrawn in October 2021 and the future impact of the viability of existing bus routes needs to be kept under regular review accounting for reduced patronage, and associated lost income, since the pandemic outbreak. Bus operator costs have also risen over recent years which will put added pressure on budgets when retendering existing networks and routes across the region.
17. With volatility on future operational transports costs and demand, it would be prudent to maintain a ‘Transport Smoothing Reserve’ of at least 5% of the net annual cost of service delivery with the income to be generated through the levy system being reviewed on an annual basis through the budget setting process.

Local Enterprise Partnership (LEP) Reserve:

18. The operating costs of Local Enterprise Partnership, (LEP), activities are circa £1.1m per annum funded through:
- LEP Capacity Fund £0.5m;
 - Unitary Authority match funding for LEP Capacity £0.6m
19. It is a requirement of the LEP Capacity Grant to attract relevant match funding from the four regional Unitary Councils (including North Somerset). Similar to the Mayoral Capacity Fund, the future of the LEP Capacity Fund beyond 2021/22 is very uncertain. The £1.1m

operating costs primarily relate to the staffing establishment that support LEP activity hence withdrawal of the fund would result in significant cuts and potential redundancy costs.

20. It is therefore recommended that, at any time, a LEP General Reserve of at least £500k is maintained to smooth over, and manage, any potential transitional period in the event of the LEP Capacity Fund being withdrawn.

Earmarked Reserves:

21. At any point in time, the CA will retain a number of specific earmarked reserves to cover known or estimated future costs and liabilities. In several cases such reserves relate to the receipt of grant funding in advance of profiled spend over a defined period. The appropriateness, and adequacy, of such reserves will be reviewed annually by the CA Section 73 (Statutory Finance) Officer as part of the annual budget setting process.
22. Such reserves include an 'Elections Reserve', with annual contributions of circa £400k made to fund the estimated £1.6m costs of the four yearly Combined Authority Elections and a Business Rates Retention Reserve to manage the fluctuation of funding received and liabilities due through the region's 100% Business Rates (Growth) retention pilot.
23. An earmarked reserve will also be maintained for the Adult Education Budget service which will manage the timing between receipt of government grant and commissioning and spend of subsequent service delivery.