



WEST MIDLANDS
COMBINED AUTHORITY

Board Meeting

Date	17 February 2017
Report title	2017/18 Combined Authority Consolidated Budget
Cabinet Member Portfolio Lead	Councillor Izzi Seccombe – Finance & Investments
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Report to be/has been considered by	3 February 2017- Programme Board

The Combined Authority Board is recommended to:

1. Approve the balanced summary 2017/18 consolidated revenue budget for West Midlands Combined Authority detailed in section 3.
2. Approve the budget for the May mayoral elections set out in section 4.
3. Approve the 2017/18 Investment Programme detailed in section 5 subject to individual schemes complying with the assurance framework requirements.
4. Approve the use of the gainshare government grant, noting that this is primarily a funding source for the Investment programme.
5. Approve the three year advance payment of the transport deficit pension contribution as detailed in section 6.
6. Note the Combined Authority forecast available reserves position as at 31 March 2017 of only £1.58m.

1.0 Purpose

- 1.1 To approve the Combined Authority Investment Programme and overall consolidated budget for the 2017/18 financial year.
- 1.2 Note the current position on the mayoral budget requirements and that a further report approving a fully funded budget will be reported in due course.

2.0 2017/18 Summary West Midlands Combined Authority Revenue Budget

- 2.1 The 2017/18 latest Combined Authority Revenue Budget is presented below.
- 2.2 This consists of:
- The 2017/18 Combined Authority operating budget as detailed in Section 3
 - The 2017/18 emerging Mayoral Budget requirements in Section 4
 - The 2017/18 Combined Authority Investment Programme as detailed in Section 5
 - The 2017/18 Transport Revenue Budget as detailed in Section 6
- 2.3 Available general reserves held by the Combined Authority as at 31 March 2016 were £2,524,000. The 2016/17 forecast Transport deficit of £937,000 will reduce available reserves to £1,587,000 at March 2017. This represents less than 1% of the total income and is considerably lower than the 5% minimum contingency recommended by Audit.

3.0 2017/18 Combined Authority Consolidated Revenue Budget

- 3.1 The following table summarises the Combined Authority Consolidated Revenue budget, excluding any emerging costs for the mayoral office which are still to be defined and will be required to be approved at a later date.

3.2

WMCA Summary Revenue Budget 2017/18	£000	WMCA			Mayor
		Transport	Operational	Gain Share	
		£000	£000	£000	£000
INCOME					
General (un-ringfenced) resources:					
- Devolution Deal grant	36,500.0		1,936.3	29,563.8	5,000.0
- Membership Fees Constituent Members and Non-Constituent Members	1,848.8		1,848.8		
- Interest on Investments	883.5		493.5	390.0	
- Investment Fund earnings	402.8			402.8	
Specific resources:					
- Transport Levy	121,542.0	121,542.0			
Total Income	161,177.0	121,542.0	4,278.5	30,356.5	5,000.0
EXPENDITURE					
- Operational budget	4,278.5		4,278.5		
- Program control, management, Assurance and Risk	700.0			700.0	
- Mayoral Elections	5,000.0				5,000.0
- Mayoral Office	0.0				*
- Transport delivery	103,888.2	103,888.2			
Capital Financing:					
- Debt finance costs	16,153.8	16,153.8			
- Revenue finance of capital expenditure	31,156.5	1,500.0		29,656.5	
Total Expenditure	161,177.0	121,542.0	4,278.5	30,356.5	5,000.0
Net	0.00	0.0	0.0	0.0	0.0

- 3.3 Within the above budget is the WMCA Annual Operational Budget as requested by the responsible portfolio leads and as detailed for consideration in a separate report to this committee for approval. This is summarised below:

WMCA Operational Budget 2017/18	Responsible Councillor	2017/18 Base Bid	
		£	£
Constituent Member Contributions		1,750,000	
Non Constituent Member Contributions		425,000	
Discount for Early Payment		(326,250)	
Total Contributions			1,848,750
Gain Share Contribution			1,936,250
Investment Income			493,500
EXPENDITURE GRAND TOTAL			4,278,500
Portfolio			
Growth Company		700,000	
DEIM & EIU / SEP		240,000	
Culture & Tourism Commission		246,000	
Economic Growth	John Clancy		1,186,000
Mental Health Commission		230,000	
Health and Well Being	Peter Lowe		230,000
Public Sector Reform	Steve Eling		480,000
Skills and Productivity		544,000	
Innovation Fund		30,000	
Skills and Productivity	George Duggins		574,000
Housing and Land	Sean Coughlan		100,000
Collective Investment Fund		350,000	
Financing and Investment	Izzi Seccombe		350,000
Transport	Roger Lawrence		81,500
WMCA Leadership	Bob Sleigh		1,277,000
Total Expenditure			4,278,500
Net Surplus / (Deficit)			(0)

- 3.4 The separate report on the operational requirements to this committee considers and requests approval to this 2017/18 budget. A brief outline of each income and expenditure area is below:
- 3.5 Annual membership fees of £250,000 per constituent member and £25,000 per non-constituent/Associate/Observers have been included in the above. It is assumed that all districts will take advantage of the 15% discount available for payment in advance by 31st March 2017. Please note that any fees received after this date will be asked for in full, as the discount will be strictly applied.
- 3.6 Investment outcome represents interest earned on the gainshare cash deposits.
- 3.7 A £700,000 contribution from this budget is assumed towards the establishment of the growth company.
- 3.8 Budget requirements relating to the various workstreams reflect the onward progression of programme and commission recommendations.

- 3.9 Transport costs of £81,341 cover the key route network post resulting from the WMCA specific transport responsibilities.
- 3.10 Office leadership costs are estimated at £300,000 for a revised corporate structure including a Chief Executive and associated senior posts.
- 3.11 Advisor fees of £400,000 have been incorporated to provide for additional activities that may arise during the year for example professional support for Devo 2 which will be managed by the chief Executive.
- 3.12 Corporate support costs of £113,000 reflects two specific posts of Cyber security and a Finance officer with all other general support being provided from the organisational support structure funded through the transport Levy.
- 3.13 The budget also assumes that other related District Officer support continues to be supplied at no cost.
- 3.14 Funding for the WMCA is by agreement of all constituent members. If agreement cannot be reached then the default position is to allocate funds in proportion to population.

Mayoral Budget

- 4.1 A budget of £5 million will be set aside to fund the mayoral election. The election report approved by this Committee on 20 January indicated a figure of £4m although concerns were raised regarding the promotion and publicity requirements. In response to this an additional £1m has been included to ensure appropriate publicity and promotion of the election takes place. It is proposed to fund this one-off cost from the £36.5 million devolution grant. This can be accommodated due to re timing of the programme delivery estimates and hence revised funding requirements as shown in section 5 below.
- 4.2 A budget will also be required to fund the first 11 months of the Mayor's office, this is yet to be finalised and will be brought to this committee in March. For 2017/18 this will be funded from the gainshare contribution but for future years, under the devolution proposals, the Mayor will raise a precept on the constituent members in order to fund their office.
- 4.3 Any expenditure above the 2017/18 budget will be recovered by the Mayor through the subsequent precepts raised during their first term of office.

5.0 Combined Authority Investment Programme

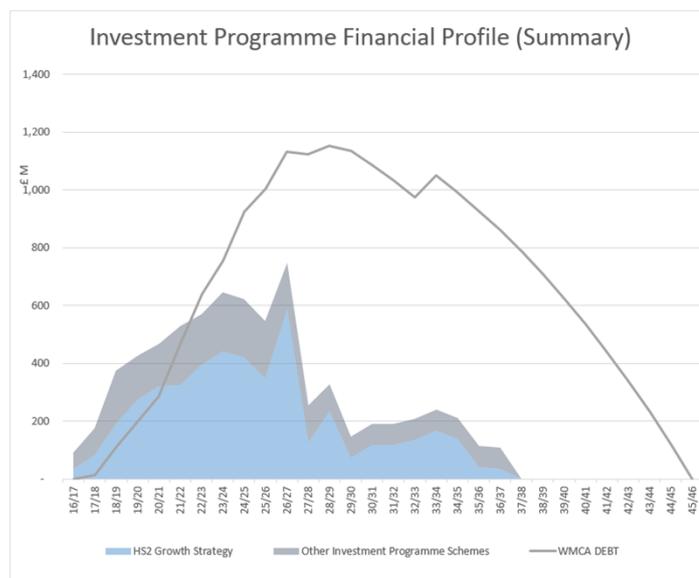
- 5.1 The WMCA Investment Programme consists of an £8bn package of measures designed to stimulate and grow the West Midlands economy. The programme is funded through a broad range of sources, including a substantial borrowing commitment from West Midlands Combined Authority. A summary of the measures and associated funding is shown below.

WORK STREAM NAME	INVESTMENT PROGRAMME EXPENDITURE £Bn	FUNDED BY (£Bn):									TOTAL £Bn
		WMCA Debt	WMCA Grants	BCC Enterprise Zone	Local Contributions from Business	Major Partner Contributions (e.g. Network Rail/Highways England)	European Structural Investment Fund	Collective Investment Vehicle Fund	Revolving Housing Fund	Productivity Investment Fund (Loans to Business by Banks)	
1 HS2 Growth Strategy comprising - Growth around the 2 station sites, Curzon Street and Interchange - Metro extensions in Bham City Centre, Dudley and between the 2 HS2 stations - HS2 Supply Chain Investment Programme - High Speed College - West Midlands Wide HS2 Connectivity/Transport Schemes	2.0	0.68	0.22	0.56	0.14	0.40					2.0
	1.1	0.10	0.84	0.18							1.1
	0.4			0.01		0.01				0.33	0.4
	0.03			0.02	0.01						0.03
	0.9	0.57	0.10			0.27					0.9
2 Coventry to HS2 Improved Connection	0.4	0.25	0.09		0.03	0.01					0.4
3 Devolved Transport Schemes	1.3		1.30								1.3
4 Collective Investment Funds – Industrial and Commercial	1.0							1.00			1.0
6 Land Reclamation Fund	0.2	0.20									0.2
7 Coventry City Centre Regeneration	0.2	0.15									0.2
8 Revolving Housing Fund	0.5								0.50		0.5
9 Other Smaller Programmes	0.1	0.05		0.02							0.1
TOTAL INVESTMENT PROGRAMME EXPENDITURE	8.0	2.0	2.5	0.8	0.2	0.7	0.01	1.0	0.5	0.3	8.0

5.2 Each of the projects above will be required to pass through the WMCA assurance process which provides a consistent path for Strategic, Outline and Full Business Cases to be adequately evaluated before capital funding is awarded. To date commitments of £98m have been made through this process for Coventry City Centre Regeneration. There are projects, however, detailed above where WMCA is currently funding the initial development works whilst the Business Cases are being assembled. These are identified in the table in 5.8.

5.3 Whilst all stakeholders are currently focused on delivery of the Investment Programme, it should be noted that there is a risk that the funding source assumptions contained within the programme shown above may not materialise at the levels expected. This is both in relation to the direct funding the WMCA is expected to provide and the assumptions made in relation to 3rd Party (i.e. DfT / Network Rail) support.

5.4 The WMCA financing requirement consists broadly of £2bn investment and £0.9bn of interest charges over the 30 year period. The maximum debt liability the WMCA will hold during this time is £1.2bn as loans are intended to be paid off throughout the duration of the programme where WMCA has the cash available to do so. The debt liability to be undertaken by WMCA together with the Investment profile is illustrated in the chart below.



5.5 The WMCA funding is predicated on its ability to raise the necessary income to service the debt required to deliver the schemes. This income is expected to come from a variety of sources as follows:

- An annual grant (fixed at £36.5m per annum for 30 years) from DCLG.
- Business Rate uplift within the West Midlands, initially projected in the base financial model to be approximately £35m per annum
- Business Rates increases, initially projected within the base financial model to be an additional £1.5m per annum increasing cumulatively year on year by this amount.
- Mayoral Precept levied on Band D and above properties within the region to fund the Mayoral Office and elements of the Investment Programme
- Income from the Collective Investment Vehicle

5.6 The WMCA will be required to carefully manage the commitments it makes against debt funded financing to ensure that these commitments are made against firm income streams which will be realised; this methodology is consistent with the manner in which the LEPs administer Enterprise Zone funding.

5.7 Should there be any shortfall in the amounts the WMCA is forecast to raise, the programme may need to be flexed accordingly.

5.8 The projected Investment Programme expenditure over the next 5 years is shown below along with the projected Combined Authority funding requirements:

Summary of Investment Programme Costs and Funding	FINANCIAL YEAR					
	16/17	17/18	18/19	19/20	20/21	21/22
	£000	£000	£000	£000	£000	£000
UKC HS2 Interchange	1,337	7,684	7,435	3,225	2,220	12,800
Curzon Street Station Masterplan	-	-	27,200	17,300	18,900	14,100
Adderley St Digbeth Metro Extension	2,699	3,521	21,000	41,000	32,000	28,000
Metro Birmingham Interchange	1,021	1,500	2,000	7,600	17,000	27,500
UK Central Infrastructure	2,369	16,158	52,000	56,500	68,500	68,300
HS2 Connectivity Programme	16,175	40,331	61,105	79,863	88,376	69,907
Brierley Hill Metro Extension	1,460	2,000	10,000	58,000	85,000	90,000
High Speed Supply Chain	7,000	4,000	-	-	-	-
HS2 College	13,152	9,482	-	-	-	-
HS2 Programme Team	248	599	433	437	442	446
HS2 Growth Strategy	45,461	85,275	181,173	263,925	312,438	311,053
Coventry UK Central	4,435	11,422	57,399	58,634	38,294	84,459
Coventry City Centre Regeneration	438	11,274	54,131	19,002	27,463	27,535
Collective Investment Vehicle	3,185	10,415	15,000	15,000	15,000	25,000
Land Reclamation	-	10,000	15,000	15,000	20,000	20,000
Devolved Transport Investment	35,260	35,260	35,260	35,260	35,260	35,260
EXPENDITURE GRAND TOTAL	88,779	163,645	357,963	406,821	448,455	503,307
FUNDED BY						
WMCA Funding	6,964	67,271	171,265	149,563	196,016	263,668
Other Project Funding	81,816	96,375	186,698	257,257	252,439	239,639
FUNDING GRAND TOTAL	88,779	163,645	357,963	406,821	448,455	503,307

5.9 The £6.9m WMCA funding in 2016/17 consists mostly of payments in relation to the Collective Investment Vehicle. Other Project Funding is provided into the Investment Programme by the project delivery bodies and consists mostly of commercial investments

(in the case of HS2 Supply Chain), Enterprise Zone, DfT and other Central Government grants.

- 5.10 Overall schemes and project estimates remain unchanged at this early stage however the phasings of individual programme delivery have been updated as part of the financial monitoring and reporting process introduced in September 2016.
- 5.11 The government have announced that they will allow the mayor to have borrowing powers, in addition to transport but subject to agreeing a cap with government. No details are available on how this will be applied, but for the purposes of this report it is assumed that the WMCA will be able to undertake all necessary borrowing. If this is not possible agreements will need to be put in place with the Constituent members to enable borrowing to be undertaken through their own arrangements.
- 5.12 The Investment Programme revenue budget includes £0.5m for the costs of Programme Management and Programme Assurance, along with £0.2m for identified HS2 college posts. In addition £29.656m transfer for the initial creation of a balance sheet reserve required to repay WMCA financing costs over the duration of the Investment Programme

6.0 2017/18 Transport Revenue Budget

- 6.1 The proposed transport budget and levy for 2017/18 was approved by the Combined Authority on 20th January 2017.
- 6.2 The levy paper included a three year forecast from 2017/18 to 2019/20 which included the annual cost relating to the deregulated pension fund deficit.
- 6.3 Throughout the revaluation process the West Midlands Pension Fund had offered the opportunity to all councils to pay the full three year deficit amount in March 2017 in order to take advantage of an advance payment discount.
- 6.4 The 2017/18 levy and corresponding three year forecast was prepared upon the assumption that the discount (approximately £100,000) would be taken and the lower figures included.
- 6.5 The WMCA Auditors have requested that this decision to take advantage of the discounted payment is formally approved by the full board.
- 6.6 Had this requirement been identified at the time that the levy was approved this request would have been included within that report. As it was not, we have included the request for approval in this report.

7.0 Reserves Position

- 7.1 As per the Transport Levy Report presented to WMCA Board on 20th January the usable reserves were as follows as at 31 March 2016:

31-Mar-16	£'000
General fund balance	2,522
Earmarked reserves	9,093
Capital grants unapplied reserve	247

Total	11,862
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7.2 The anticipated use of reserves in 2016/17 will reduce the general fund balance by £924,000 to £1,598,000.

7.3 The forecast general fund balance of £1.6m represents only 1.3% of the proposed 2017/18 levy. The Audit Commission recommend that general fund reserves should be between 5% and 7.5% of expenditure.

7.4 The proposed balance is significantly below this recommended level.

8.0 Financial implications

8.1 These are included in the body of the report.

9.0 Legal implications

9.1 The Authority is required to approve a funded and balanced revenue budget and investment programme.

10.0 Equalities implications

10.1 There are no equalities implications of this specific report.