

# Budget 2023/24

Audit, Risk and Assurance Committee

19<sup>th</sup> July 2023

# Purpose

To provide an overview of the 2023/24 budget, recently approved by the WMCA Board

## Budget in Summary

- WMCA is legally obliged to set a balanced, sustainable and robust budget for 2023/24, and has managed to do so, with the budget been approved by the WMCA Board on 10 February 2023.
- Similar to other public sector bodies, the WMCA has faced challenging economic circumstances in setting its 2023/24 budget, including cost of living pressures.
- All Directorates/Portfolios have focused on mitigating these pressures and ensuring that they can continue delivering across the breadth of the WMCA's commitments and ambitions. They have managed to set a relatively cash flat budget for the year ahead, absorbing the inflationary costs within existing resources and protecting front line services.
- The budget was developed using a bottom up approach, following series of engagement and consultation with the Mayor and Met Leaders and review by the Overview & Scrutiny Committee.
- The budget is reflective of the financial resources required to deliver the overarching business plan for the organisation to meet the priorities of the 6 Aims and Objectives of the WMCA.
- Total revenue expenditure planned for 2023/24 = **£345.0m**, an increase of £5.2m (1.5%) compared to 2022/23
- Total indicative capital budget of **£805.2m**. The actual capital budget for 2023/24 will be influenced by financial performance in 2022/23. As such, the final 2023/24 Capital Budget will be presented for approval to WMCA Board in June 2023 following confirmation of the 2022/23 outturn position

# Strategic context for Budget Setting

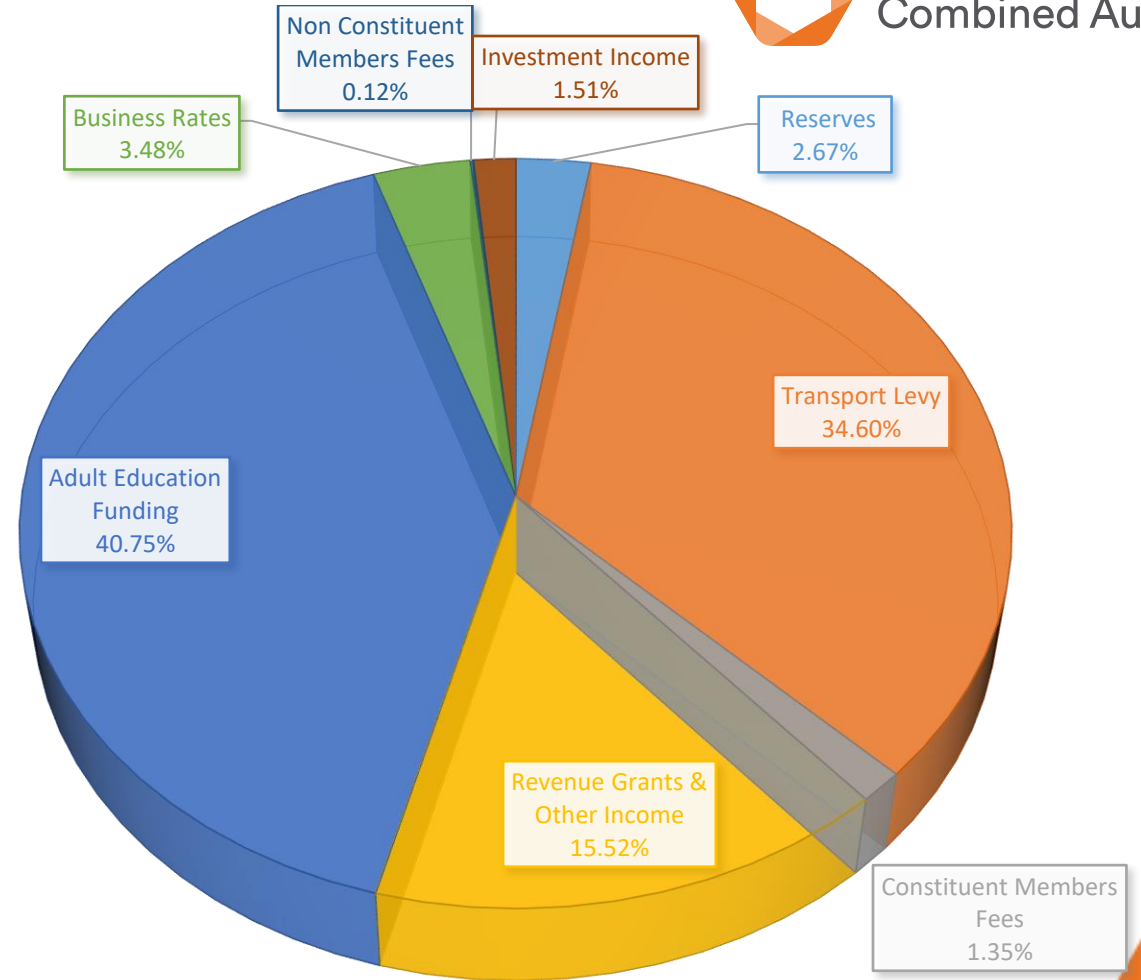
The Strategic context for WMCA was confirmed by WMCA Board, which agreed our Aims and Objectives at November 2021 Board meeting



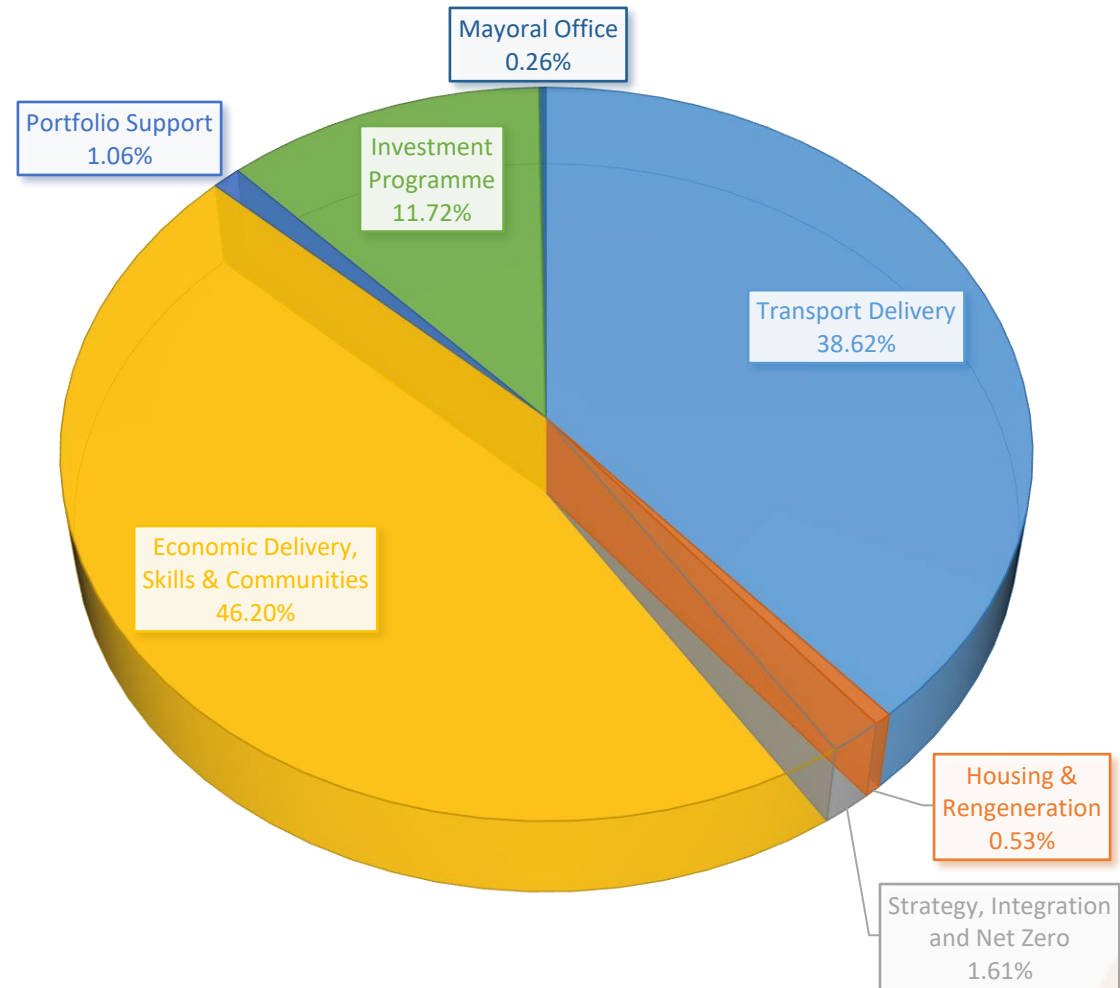
# Revenue Budget

2023/24

# Where Does Our Income Come From?



# What Do We Spend our Money On?



## Key underlying budget assumptions 2023/24

Transport Levy increase by 2% which generates an additional £2.3m to apply to the transport gap

Member and Non-Member contributions to remain at 2022/23 levels, but LEP contributions removed

Inflationary uplifts applied to the following areas:

- Pay
- Non- pay
- Energy costs
- Contracts

Concessions budget assumes similar levels of patronage as in 2022/23, so has been set at similar level

Energy Capital grants expire in March 2023 and activity requires c.£0.7m per annum to continue

Continued subsidy of Midlands Metro operation

Capital Financing and Investment Income based on latest view, including **£3.0m** MRP charge following the end of the MRP holiday

No provision has been made for Mayoral Election costs in 23/24, with the estimated full cost of £4m being provided in 2024/25

For prudence, no assumptions have been made about the outcome of discussions with Government around greater fiscal devolution (i.e. Trailblazer Devolution Deal)



# Constituent Member Contributions

A 2% increase in Transport Levy generates an additional £2.3m of income to fund Transport pressures in 2023/24.

Allocations	2022/23 £m	2023/24 £m	Net Change
Birmingham	46.48	47.89	(1.41)
Coventry	15.74	14.76	0.98
Dudley	13.44	13.83	(0.39)
Sandwell	13.71	14.59	(0.88)
Solihull	9.20	9.38	(0.18)
Walsall	12.00	12.20	(0.20)
Wolverhampton	11.10	11.35	(0.26)
Total	121.66	124.00	(2.24)

Note: Coventry's reduced contribution is due to population changes. 2022/23 allocations were calculated using the mid-year estimates; however, the latest census data indicates a lower population for Coventry.

# Budget Summary

- The revenue budget is split across 3 main areas:
  - Transport
  - Delivery Portfolios
  - Mayor's Office
- Further details on each can be found in Slides 11 - 13

# Transport budget breakdown

TfWM Budget Spending	2023/24 £m	Statutory	Local Policy	Network Operation	Planning for the Future	Business Support Costs	Funding
Concessions for elderly and disabled people	47.2	47.2					
Financing Costs	10.2	10.2					
Child Concessions	7.2		7.2				
Rail and Metro Concessions	4.6		4.6				
Accessible Transport	6.6		6.6				
Subsidised Bus Services	14.3		14.3				
Bus Services and Infrastructure	5.9			5.9			
Integration (inc Safety & Security and Passenger Information)	11.3			11.3			
Rail & Metro Services	15.8			15.8			
Network Resilience	3.2			3.2			
Strategic Development & Transport Democratic Services	5.0				5.0		
Business Support Costs	5.0					5.0	
<b>Total Expenditure</b>	<b>136.2</b>	<b>57.5</b>	<b>32.6</b>	<b>36.2</b>	<b>5.0</b>	<b>5.0</b>	<b>0.0</b>
		42.2%	24.0%	26.5%	3.7%	3.7%	
Use of Reserves	9.2						9.2
Business Rates Growth	4.7						4.7
Efficiency Target	3.0						3.0
Transport Levy	119.4						119.4
<b>Total Income</b>	<b>136.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>136.2</b>

Statutory expenditure relating to concessions for the elderly and disabled and capital financing costs make up **42.2%** of the Transport budget. Local Policies related to Child, Rail and Metro concessions, Accessible Transport and Subsidised Bus services make up a further **24%** of expenditure.

Bus, Rail and Metro Services and Infrastructure and Integration, including the provision of Passenger information and safety and security are included within Network Operation which makes up a further **26.5%** of the budget.

Business support accounts for only 3.7% of the Transport budget.

6.75% of the budget is funded by use of reserves.

# Delivery Portfolio Budgets

Category	Health & Communities £	Inclusive Communities £	Housing & Regeneration £	Employment & Skills £	Economy and Innovation £	Environment and Energy, HS2 £	Levelling Up £	Culture & Digital £	Central Funding & Recharges £	Total £
Grants	363,972	469,828	1,843,764	152,176,084	1,360,154	-	-	-	86,648	156,300,450
Investment Income	-	-	-	-	-	-	-	-	1,293,500	1,293,500
Business Rates Growth Income	-	-	-	-	-	-	-	-	7,326,431	7,326,431
Constituent & Non-Constituent Member Fees	-	-	-	-	-	-	-	-	5,063,814	5,063,814
Use of reserves	-	-	-	77,681	-	-	-	-	-	77,681
Contributions from Third Parties	-	-	-	141,649	-	-	-	-	-	141,649
Investment Programme Funding	-	-	-	-	-	739,175	-	272,050	-	1,011,225
<b>Total Income</b>	<b>363,972</b>	<b>469,828</b>	<b>1,843,764</b>	<b>152,395,415</b>	<b>1,360,154</b>	<b>739,175</b>	<b>-</b>	<b>272,050</b>	<b>13,770,393</b>	<b>171,214,751</b>
Staff Costs	1,137,136	674,995	2,154,784	4,021,838	772,848	934,033	981,913	193,904	-	10,871,451
Contributions to Third Parties	-	315,656	-	-	1,931,074	360,474	625,000	-	-	3,232,204
Training & Development	-	-	-	149,055,848	-	-	-	-	-	149,055,848
Promotions, Information and Initiatives	28,000	28,628	-	126,860	77,325	-	-	-	-	260,813
External Advice	233,123	285,000	676,080	803,966	845,314	790,474	543,988	534,050	-	4,711,995
Utilities	-	-	211,369	-	-	-	-	-	-	211,369
Travel & Subsistence	600	-	2,758	17,151	-	-	-	-	-	20,509
Other	-	-	-	-	-	-	-	-	105,000	105,000
Direct Recharges	-	10,000	(1,201,227)	82,105	50,000	-	-	-	-	(1,059,122)
Indirect Recharges	-	-	-	250,000	-	-	-	-	3,554,684	3,804,684
<b>Total Expenditure</b>	<b>1,398,859</b>	<b>1,314,279</b>	<b>1,843,764</b>	<b>154,357,768</b>	<b>3,676,561</b>	<b>2,084,981</b>	<b>2,150,901</b>	<b>727,954</b>	<b>3,659,684</b>	<b>171,214,750</b>
<b>Net Expenditure</b>	<b>1,034,887</b>	<b>844,451</b>	<b>-</b>	<b>1,962,353</b>	<b>2,316,407</b>	<b>1,345,806</b>	<b>2,150,901</b>	<b>455,904</b>	<b>(10,110,709)</b>	<b>(0)</b>

Note: Training & Development includes £140.6m to be spent on Adult Education

# Mayoral Expenditure

Category	Mayor's Office £
Grants	913,352
Other Revenue Income	51,667
<b>Total Income</b>	<b>965,019</b>
Staff Costs	822,119
Mayoral Events	51,667
Promotions, Information and Initiatives	621
Travel & Subsistence	43,114
Other	1,773
Direct Recharges	45,726
<b>Total Expenditure</b>	<b>965,019</b>
<b>Net Expenditure</b>	<b>0</b>

The main funding for the Mayor's Office is the Mayoral Capacity Fund. The majority of the budget (85%) is spent on staffing.

# Capital Budgets

2023/24

# WMCA Indicative Capital Programme

WMCA CAPITAL PROGRAMME (£M)		2022 / 2023	2023 / 2024	2024 / 2025	2025 / 2026	2026 / 2027	TOTAL
Expenditure	TfWM Expenditure	295.8	356.9	170.4	115.8	65.2	1,004.1
	Housing and Regeneration Expenditure	43.5	68.0	61.9	61.1	23.6	258.1
	Investment Programme Grants to Local Authorities	65.8	142.5	161.2	167.5	104.0	641.0
	City Region Sustainable Transport Settlement	63.8	236.7	277.2	205.8	168.3	951.8
	Other	10.1	1.1	0.4	-	-	11.6
<b>TOTAL EXPENDITURE</b>		<b>479.0</b>	<b>805.2</b>	<b>671.0</b>	<b>550.1</b>	<b>361.2</b>	<b>2,866.5</b>
Funding	Investment Programme Debt	115.4	238.3	20.0	18.9	-	392.6
	TfWM Debt	3.9	59.5	67.2	71.9	0.2	202.7
	Grants	359.7	442.6	372.0	266.9	192.5	1,633.7
	Other	-	64.8	211.8	192.4	168.5	637.5
<b>TOTAL FUNDING</b>		<b>479.0</b>	<b>805.2</b>	<b>671.0</b>	<b>550.1</b>	<b>361.2</b>	<b>2,866.5</b>
<p>* Provisional expenditure estimates for Investment Programme and other projects which are subject to WMCA raising additional income or yet to have the funding package fully secured.</p>							

- The latest view of the WMCA Capital Programme is presented above, based on the 2022/23 Quarter 2 forecasts.
- 44% of planned capital investment in 2023/24 consists of expenditure directly incurred by Transport for West Midlands in pursuance of the Investment Programme and Transforming Cities Programme
- Another 18% is concerned with the reimbursement of Local Authorities as part of the West Midlands Investment Programme
- 8% will be spent in delivering the Housing and Regeneration objectives using funds secured by WMCA from Central Government
- Just over 30% of the Combined Authority's total planned capital investment in 2023/24 consists of delivering the City Region Sustainable Transport Settlement, the allocation of which was approved by WMCA Board and DfT earlier this financial year
- The final 2023/24 Capital Budget will not be confirmed until June 2023, following confirmation of the 2022/23 outturn.

# Beyond 2023/24



# Medium Term Financial Position

Whilst the budget is balanced for 2023/24, the latest forecast is for financial pressure in the medium term, ranging from **£28.8m** in 2024/25 to **£49.7m** by 2027/28

The position will be impacted by any announcements on the Trialblazer Devolution Deal (TDD). For prudence, the figures above made no assumptions about possible outcomes.

The WMCA commits to working with the Mayor and Leaders to discuss future funding for the WMCA during 2023, including the need to review Local Choice Transport policies

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Transport Levy	119.4	119.4	119.4	119.4
Investment Programme	36.5	36.5	36.5	36.5
Adult Education Budget	140.6	140.6	140.6	140.6
Share of Business Rates	11.6	10.6	14.7	11.1
Revenue Grants & Other Income	3.7	2.1	2.2	2.3
Constituent Membership	4.6	4.6	4.6	4.6
Non Constituent Members	0.4	0.4	0.4	0.4
Investment Income	1.4	1.4	1.4	1.4
Mayoral Precept	0.0	1.0	1.0	1.1
Use of Reserves	0.7	0.7	0.7	0.7
<b>Total Funding</b>	<b>318.9</b>	<b>317.3</b>	<b>321.6</b>	<b>318.1</b>
Transport for West Midlands	148.8	154.8	172.5	171.1
Housing & Rengeneration	1.3	1.4	1.4	1.4
Strategy, Integration and Net Zero	4.8	4.5	4.7	4.9
Economic Delivery, Skills & Communities	147.6	147.7	147.9	148.1
Portfolio Support	3.6	3.6	3.6	3.7
Investment Programme	36.6	36.6	36.6	36.6
Mayoral Office	0.9	1.0	1.0	1.1
Mayoral Election	4.0	1.0	1.0	1.0
<b>Total Expenditure</b>	<b>347.7</b>	<b>350.6</b>	<b>368.7</b>	<b>367.8</b>
<b>Net Expenditure</b>	<b>-28.8</b>	<b>-33.3</b>	<b>-47.2</b>	<b>-49.7</b>

# Pensions risk

# Context

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- WMCA is an employer member of the West Midlands Pension Fund (WMPF)
- WMPF is one of the largest funds in the Local Government Pension Scheme (LGPS)
- The fund's total value as at 31 March 2022 was £20.2bn
- Employer contributions received in 21/22 amounted to £287m
- WMPF is a **defined benefit fund**. This means the amount paid to members is based on the number of years service and the salary earned when members leave or retire
- Defined benefit funds could have been particularly impacted by the market turmoil in the autumn of 2022 as they need to ensure the value of their investments move in line with the value of their liabilities to ensure they can meet them.

# WMPF Risks associated with employers

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- **Financial** – market fluctuations, investment returns, pay and price inflation, funding levels and contributions required to meet future benefit costs
- **Demographic** – increased longevity and the cost of early retirements/ death in service
- **Regulatory** – changes to LGPS regs and pensions entitlements and/or wider legislative change impact benefit and/ or administration costs
- **Governance** – administering authority unaware of structural changes in employer's membership
- **Employer strength and cashflow** – sustainability of an employer to meet their liabilities within the agreed funding strategy

# Market volatility September 2022

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- On 23 September 2022, the then Chancellor Kwasi Kwarteng announced a 'mini budget' which unfortunately led to significant short-term market volatility and an immediate steep increase in government borrowing costs
- The Bank of England then intervened in the bond market to restore orderly market conditions
- When he became Chancellor in October 2022, Jeremy Hunt reversed the majority of the tax measures in the mini budget and also announced the formation of a new Economic Advisory Council to advise the government on UK and international economics and financial markets
- The pound then rose and gilt yields fell in response to the Bank's and the government's interventions

# WMPF Market Volatility Risk Management

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WMPF manages its risks including market volatility within its strategic risk register which is reported regularly to the WMPF Pensions Committee.

**Risk Driver:** Global markets reacting to geopolitical issues and **short-term market volatility** impacting the longer-term outlook for the fund.

**Risk Mitigations:** WMPF is a long-term investor taking a strategic approach to asset performance building in resilience to its overall allocation strategy with the aim of withstanding short-term market impacts. The Fund also actively monitors and is engaged in global market and industry reaction to the current environment which saw some steadying over the quarter to December 2022.

*Source: WMPF Strategic Risk Register December 2022*

# Conclusion

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Whilst significant volatility was seen in markets as a result of the mini budget announcements in September 2022, the Bank of England's market operations and the government's intervention served to stabilise them.

The primary objective of WMPF is to ensure that it is able to meet its pension liabilities for scheme members. The Fund therefore manages market volatility risk closely and its strategic approach to long-term investment performance is designed to withstand short-term market impacts.