

## Mayoral Combined Authority Board

25 July 2022

### 2022/23 Budget Revision 1

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Is the paper exempt from the press and public?	No
Purpose of this report:	Monitoring/Assurance
Is this a Key Decision?	Yes
Has it been included on the Forward Plan?	Yes

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#### Director Approving Submission of the Report:

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#### Executive Summary

This report provides revised Group budget forecasts to the end of the financial year 2022/23. The report recommends the adoption of the budget estimates, and adjustments to budgetary ceilings.

#### What does this mean for businesses, people and places in South Yorkshire?

This report seeks adjustments to the MCA's financial plan to ensure it has sufficient resource to deliver on its objectives. The report also seeks approval for the distribution of grant in support of business growth and skills aspirations.

#### Recommendations

The MCA Board:

1. Adopt the revised budget estimates.
2. Note the reduction in core income and the mitigations being considered.

#### Consideration by any other Board, Committee, Assurance or Advisory Panel

Not applicable

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## 1. Background

- 1.1 The MCA's capital and revenue budgets remain sensitive to a number of factors, notably the pace of programme activity and the ability to secure resources from a highly competitive labour market.
- 1.2 In order to ensure that the MCA's financial plans remain aligned to its corporate and business priorities, a budget revision exercise has been undertaken as at the end of May 2022 (Period 2). This exercise sought to re-test income and expenditure assumptions, and re-forecast budgets and programmes to the end of the financial year.
- 1.3 The results of this exercise highlight a number of key issues that will influence the MCA's financial position over the remaining ten months of the year, as well as planning for the medium term:
  - a) Government funding for bus and tram (the 'Local Transport Fund') is committed to the beginning of October 2022 with no prospect of an extension, and the risk that operators pre-emptively begin service reductions over the next few months is already beginning to crystallise.
  - b) Capital programme slippage from the previous financial year is now likely to hamper the ability to deliver the current financial year's planned capital programme, thus compounding the effect of existing pressures on the programme such as inflation and recruitment.
  - c) Since the 2022/23 budget was set in March, Government grant for LEPs and Growth Hubs have been cut nationally, thus reducing the MCA's core income by nearly £0.5m.
- 1.4 As we move closer to the mid-year point, transport operators' likely response to the cessation of government support in early October is becoming increasingly evident as we see an uptick in notifications of planned bus service reductions and withdrawals across the region. The MCA is working with operators to review the proposed shape of the public transport network after government support ends. This issue provides a key planning uncertainty for the medium-term financial strategy.
- 1.5 As reported previously, supply chain and labour market concerns continue to affect programme delivery, with saturated markets leading to cost inflation and delays to recruitment and the appointment of contractors.
- 1.6 This report notes that these issues are contributing factors to the slower than forecast pace of capital and revenue programmes. As a consequence, we can expect to see a knock-on impact of planned programme activity in 2022/23 being displaced by activity from 2021/22 being re-profiled into future financial periods.

## 2. Key Issues

### 2.1 Summary overview

The 2022/23 budget for the year was set at £472m, consisting of both revenue and capital expenditure. This expenditure was fully funded from a combination of grants, receipts, general income, and reserves:

<b>Funding</b>	<b>£k</b>	
<b>Gross Expenditure</b>	<b>£472,370</b>	
- Revenue	£182,960	39%
- Capital	£289,411	61%
<b>Funded by:</b>		
General Income	£4,774	1%
Release of Reserves and Provisions	£67,317	14%
Grants & Contributions	£400,279	85%
	<b>£472,370</b>	

2.2 The budget is structured around the MCA's thematic board areas, allowing for greater insight into how the MCA's investments are matched to its aspirations.

2.3 The weighting of expenditure reflects, in part, the MCA's local transport authority responsibilities as well as recently devolved responsibilities such as the Adult Education Budget. It is also heavily shaped by the grants that are available from government:

	<b>Revenue £k</b>	<b>Capital £k</b>	<b>Total £k</b>
Transport and Environment	£84,497	£182,605	£267,102
Housing, Infrastructure, Planning	£754	£81,012	£81,766
Skills and Employment	£56,664	£0	£56,664
Business Growth and Recovery	£4,485	£12,826	£17,311
	<b>£146,400</b>	<b>£276,443</b>	<b>£422,843</b>
MCA Executive	£32,421	£4,410	£36,831
Mayoral Office	£3,137	£0	£3,137
Uncommitted	£1,001	£8,558	£9,559
<b>Total</b>	<b>£182,959</b>	<b>£289,411</b>	<b>£472,370</b>

2.4 At budget revision 1, a number of adjustments to the budget ceiling are proposed. Revenue expenditure is now expected to outturn at £197.83m, £14.87m above the opening budget. Capital expenditure is now forecast to outturn at £236.74mm, £52.68m under the base budget forecast as activity across a number of programme areas has been re-profiled to future periods.

2.5 In total, as at the end of May 2022 (Period 2), expenditure is expected to outturn at £434.73m:

<b>Gross expenditure</b>	<b>Base £k</b>	<b>Mvt £k</b>	<b>Rev 1 £k</b>
Revenue	£182,959	£15,039	£197,998
Capital	£289,411	-£52,675	£236,736
	<b>£472,370</b>	<b>-£37,636</b>	<b>£434,734</b>

2.6 These adjustments are reflected in changes to the weighting of expenditure across the thematic areas. Capital programme re-profiling has varied down the level of expenditure within most areas except for Business Growth & Recovery, where

several business investment schemes approved in 2021/22 have now been re-profiled to spend this year.

- 2.7 Revenue expenditure relating to Adult Education Budget activity within the Skills and Employment area is forecast to fall below the original budget, although this is offset by new programme activity in the same area of Skills and also the extension to the 18-21 travel concession and other measures to protect at-risk bus services in the Transport and Environment area.

<b>Consolidated</b>	<b>Base £k</b>	<b>Revision 1 £k</b>	<b>Variance £k</b>
Transport & Environment	£267,102	£223,302	-£43,801
Housing & Infrastructure	£81,766	£78,375	-£3,390
Skills & Employment	£56,664	£64,003	£7,338
Business Growth & Recovery	£17,311	£19,515	£2,204
	<b>£422,843</b>	<b>£385,195</b>	<b>-£37,649</b>
MCA Executive	£36,831	£36,913	£83
Mayoral Office	£3,137	£3,067	-£70
Uncommitted Resource	£9,559	£9,559	£0
<b>Total</b>	<b>£472,370</b>	<b>£434,734</b>	<b>-£37,637</b>

- 2.8 This report proposes to adjust the funding applied to meet the revised expenditure forecasts. Slippage within the capital programme reduces the need to apply capital grants, whilst additional revenue expenditure increases the need for both in-year grant and reserves and provisions:

<b>Funding</b>	<b>£k</b>	
<b>Gross Expenditure</b>	<b>£434,734</b>	
- Revenue	£197,998	46%
- Capital	£236,736	54%
<b>Funded by:</b>		
General Income	£5,282	1%
Surplus transferred to Reserves	-£507	0%
Grants	£429,959	99%
	<b>£434,734</b>	

- 2.9 In most instances funding received in-year which is not immediately deployed will flow to the balance sheet to be held in reserves or as grant unapplied. However, in a number of instances grant conditionality requires that funding be used in the year in which it is received or, for certain capital programmes facing delays, be returned to government. This is the case for Transforming Cities Fund (TCF) and Brownfield funding. Government have been engaged on this issue.
- 2.10 Since the 2022/23 budget was approved in March 2022, there was a risk that the Government would cut LEP core funding and Growth Hub funding. This risk has now crystallised; the overall reduction in funding equates to £0.475m. In terms of mitigation, a combination of capital programme slippage and interest rate rises

means that the MCA is forecasting a significant increase in investment income. The proposed strategy is to deploy a proportion of the additional investment income to offset losses in core funding and inflationary pressures (such as energy costs) in-year, and to transfer the remainder to the income resilience reserve where it can be held as a means of smoothing any further income loss and inflationary pressures in future years.

2.11 This report provides further detail by thematic area.

### Analysis by Theme: Transport and Environment

2.12 The Transport and Environment area includes the local transport authority activity of the South Yorkshire Passenger Transport Executive along with the strategic planning activity undertaken within the MCA Executive. The area captures a significant part of the capital programme, representing the scale of the Transforming Cities Fund and Active Travel funding. 2022/23 also marks the first of a five-year City Region Sustainable Transport Settlement (CRSTS) programme.

2.13 This report proposes new budget estimates for this area that will lead to a net reduction in activity of £43.80m from the base budget of £267.1m. This movement largely reflects the deferral and reprofiling of capital schemes:

Transport and Environment	Original budget £k	Mvt £k	Revision R1 £k
Capital	£182,113	-£46,664	£135,448
Revenue	£84,990	£2,864	£87,853
<b>Total</b>	<b>£267,102</b>	<b>-£43,801</b>	<b>£223,302</b>

2.14 Adjustments are required across most directorates within the thematic area:

Transport and Environment	Original budget £k	Revision 1 £k	Variance £k
Strategic Transport	£192,999	£146,049	-£46,950
Public Transport	£54,284	£57,434	£3,149
Debt & Finance	£19,819	£19,819	£0
<b>Total</b>	<b>£267,102</b>	<b>£223,302</b>	<b>-£43,801</b>

2.15 Underspend in the Strategic Transport Directorate (£46.95m) largely relates to capital activity across the Transforming Cities (TCF) and Active Travel programmes, all of which have slipped over the course of the past year, largely reflecting the scale of activity and supply chain pressures.

2.16 At Revision 1, the most notable change is that around £43m of Active Travel themed capital activity has been re-profiled to 2023/24.

2.17 A net forecast overspend in the Public Transport Directorate of £3.15m comprises two main elements. On the one hand £2.23m forecast underspend in the Public Transport Development management area, which is primarily responsible for capital programme delivery, recognises slippage across a range of schemes all of which have been re-profiled to reflect that activity will continue in 2023/24.

2.18 On the other hand, the latest forecasts reflect that the Public Transport Operations management area will outturn over budget by £5.38m. This takes into account the

decisions taken by the MCA in June 2022 to extend the 18-21 travel concession (also known as 'Zoom Beyond') and to support at-risk services. Funding has been set aside from gainshare and reserves to address these additional commitments.

- 2.19 Further analysis of the Public Transport Directorate (formerly SYPTE) forecast position is presented in Appendix 1.

### Analysis by Theme: Skills and Employment

- 2.20 At Revision 1, forecast revenue expenditure for this theme at outturn is expected to total £64.0m, £7.34m above the base budget:

Skills and Employment	Original budget	Mvt	Revision 1
	£k	£k	£k
Capital	£0	£0	£0
Revenue	£56,664	£7,338	£64,003
<b>Total</b>	<b>£56,664</b>	<b>£7,338</b>	<b>£64,003</b>

- 2.21 The opening budget (£56.66m) has been adjusted at Revision 1 for re-profiled Adult Education Budget expenditure (£1.84m reduction in forecast expenditure in 2022/23). The table below highlights this and other variations at Revision 1:

Skills and Employment	Original budget	Revision 1	Variance
	£k	£k	£k
Skills & Employment	£56,664	£64,003	£7,338
<b>Total</b>	<b>£56,664</b>	<b>£64,003</b>	<b>£7,338</b>

- 2.22 Other than AEB, the other principal variance relates to the inclusion of new programmes which have emerged since the budget was set. Totalling £8.08m, these include UK Shared Prosperity Fund (£5m), Multiply Year 1 (£2.19m) and Bootcamps (£0.89m). The revised forecasts also reflect the extension of several revenue programmes such as Working Win which, at the time of writing the 2022/23 budget report, had been assumed to cease in the early stages of the current financial year.
- 2.23 There are marginal forecast underspends on staffing and development activity across the directorate, also reflecting a review of the resourcing model for the pool of Skills Bank advisers.
- 2.24 The Adult Education Budget approaches its first anniversary of delivery, and its mid-year performance was reported to the Education Skills & Employability (ESE) Board in March 2022. Remedial action to address specific performance concerns will be discussed and agreed at future ESE Board meetings.

### Analysis by Theme: Business Growth and Recovery

- 2.25 At Revision 1 forecast expenditure in the Business Growth and Recovery directorate is expected to be £19.52m, £2.2m higher than the base budget £17.31m:

BGRB	Original budget	Mvt	Revision1
	£k	£k	£k

Capital	£11,180	£2,116	£13,296
Revenue	£6,131	£88	£6,219
<b>Total</b>	<b>£17,311</b>	<b>£2,204</b>	<b>£19,515</b>

2.26 The increase in forecast capital expenditure within this directorate reflects the re-profiling of approved business investment schemes where activity has slipped from 2021/22 into 2022/23.

2.27 Forecast increases in capital expenditure are offset in part by revenue underspends in the Development and Business Support management area where activity will be curtailed in order to remain within the available funding envelope which has been reduced by BEIS:

<b>BGRB</b>	<b>Original budget £k</b>	<b>Revision 1 £k</b>	<b>Variance £k</b>
Development and Business Support	£4,759	£4,569	<b>-£190</b>
Business Investment	£11,180	£13,296	£2,116
Trade & Investment	£560	£622	£62
Innovation	£812	£1,027	£215
<b>Total</b>	<b>£17,311</b>	<b>£19,515</b>	<b>£2,204</b>

### Analysis by Theme: Housing & Infrastructure

2.28 At Revision 1 forecast expenditure in the Housing and Infrastructure thematic area is expected to be £78.38m, £3.39m lower than the base budget of £81.77m. This area includes a significant part of the capital programme that is funded by the Brownfield grant programme (£24.22m in 2022/23). It is supplemented with gainshare capital funding (c.£6m) for two major town and city centre regeneration schemes, and the revenue grant made available by government to prime the Brownfield activity. The 2022/23 budget for Infrastructure includes for the first time £22.24m of CRSTS funding to fund transport network asset maintenance as well as local and neighbourhood transport complementary programmes across the region.

2.29 The budget estimates in this report are dominated by the reductions in forecast capital expenditure against the budget, largely identified and reflected in the mid-year budget revision:

<b>Housing and Infrastructure</b>	<b>Original budget £k</b>	<b>Mvt £k</b>	<b>Revision R1 £k</b>
Capital	£81,012	<b>-£3,880</b>	£77,132
Revenue	£754	£490	£1,243
<b>Total</b>	<b>£81,766</b>	<b>-£3,390</b>	<b>£78,375</b>

2.30 Since the original budget was set, there has been a net decrease in the forecast capital activity in the infrastructure area, resulting in a net forecast underspend of £3.51m:

Housing and Infrastructure	Original budget £k	Revision 1 £k	Variance £k
Infrastructure	£48,542	£45,032	-£3,510
Flooding	£4,550	£4,550	£0
Net Zero	£304	£454	£150
Housing	£27,920	£27,831	-£89
Place	£449	£508	£58
<b>Total</b>	<b>£81,766</b>	<b>£78,375</b>	<b>-£3,390</b>

- 2.31 The variation in the capital forecast reflects the fluidity of programme planning and delivery caused by supply chain delays and labour market shortages. The main changes affecting the forecast are the acceleration of spend on the MCA's EV charging points scheme in 2021/22 (£1.85m), offset by slippage on major road schemes from 2021/22 into 2022/23 and beyond.
- 2.32 It should be noted that gainshare is not subject to the government-imposed deadline of 31 March which applies to other grants such as Brownfield. Gainshare funding not deployed in-year will be earmarked for use in future periods.

#### Analysis by Theme: MCA Executive and Mayor's Office

- 2.33 This report proposes an adjustment to the MCA Executive budget of £0.08m. This adjustment reflects a net forecast increase in revenue and no change to capital expenditure:

MCA Executive	Original budget £k	Mvt £k	Revision R1 £k
Capital	£1,300	£0	£1,300
Revenue	£35,531	£83	£35,613
<b>Total</b>	<b>£36,831</b>	<b>£83</b>	<b>£36,913</b>

MCA Executive	Original budget £k	Revision 1 £k	Variance £k
Business Ops	£941	£950	£9
HR	£1,070	£822	-£248
IT	£2,641	£2,641	£0
Legal & Governance	£3,746	£3,674	-£72
Policy & Assurance	£18,592	£18,619	£28
Finance	£1,704	£1,669	-£35
PCPC	£1,625	£1,476	-£149
PMO	£743	£657	-£86
BSW	£963	£1,126	£163
Assets – former SYPT	£2,693	£3,075	£382
Assets – former MCA	£2,113	£2,204	£91
<b>Total</b>	<b>£36,831</b>	<b>£36,913</b>	<b>£83</b>



- 2.34 Expenditure adjustments have been made across the majority of the directorate areas but are most prominent within the three management areas related to Assets, i.e. BSW (Broad Street West) and the two former MCA and SYPTTE Assets budgets.
- 2.35 The principal pressure on the Assets budgets is energy price inflation. In some cases, these costs can be passed on to tenants, however the bulk of electricity and gas price increases affecting the transport interchanges and the AMP Technology Centre will have to be absorbed by the MCA.
- 2.36 Almost all areas have accrued savings related to staffing as labour market pressures have led to vacant posts taking longer to fill than expected and notable churn in the existing establishment. These savings reduce calls on recharges into programme funding and obviate the need to call on reserves as previously planned.
- 2.37 The latest forecasts indicate that the Mayor's Office will underspend by c.£0.07m, predominantly due to savings resulting from the aforementioned labour market pressures.
- 2.38 Finally there is an element of uncommitted gainshare resource: £9.56m, of which £8.56m is capital. There will be calls on this resource over the remainder of this financial year. Approval will be sought via the MCA or relevant thematic board for any schemes seeking funding from gainshare. A breakdown of all gainshare commitments can be found in Appendix A.

### **3. Options Considered and Recommended Proposal**

#### **3.1 Option 1**

Adopt the budget revisions presented in this paper.

#### **3.2 Option 1 Risks and Mitigations**

The budget estimate proposals within this report are fully funded and do not expose the MCA to any additional risk that has not been shared with the Board.

#### **3.3 Option 2**

The MCA could choose to not adopt the new budget estimates.

#### **3.4 Option 2 Risks and Mitigations**

Should the MCA choose not to adopt the new budget estimates, work on a number of the MCA's key priorities would have to cease or be deferred and any associated time limited grants may have to be returned to Government Departments.

#### **3.5 Recommended Option**

Option 1.

### **4. Consultation on Proposal**

None

### **5. Timetable and Accountability for Implementing this Decision**

The Group Finance Director will be responsible for implementing budget adjustments.

### **6. Financial and Procurement Implications and Advice**

This is a financial report, the details of which are in the main body of the document and supporting appendices.

**7. Legal Implications and Advice**

None.

**8. Human Resources Implications and Advice**

None

**9. Equality and Diversity Implications and Advice**

None.

**10. Climate Change Implications and Advice**

None.

**11. Information and Communication Technology Implications and Advice**

None

**12. Communications and Marketing Implications and Advice**

None

**List of Appendices Included**

A Appendix including:

- Gross expenditure by thematic area, directorate and management area
- Reserves update
- Gainshare update
- Investment programmes by constituent member authority

**Background Papers**

None