Mayoral Combined Authority Board

18 October 2022

Budget and Business Planning 2023/24 Update

Is the paper exempt from the press and public?	No
Reason why exempt:	Not applicable
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan of Key Decisions?	Not a Key Decision

Director Approving Submission of the Report:
Gareth Sutton, Chief Finance Officer/s73 Officer

Report Author(s):
Gareth Sutton, Chief Finance Officer/s73 Officer
Gareth.sutton@southyorkshire-ca.gov.uk

Executive Summary
This report provides an update on the development of a business plan and accompanying budget for the forthcoming financial year. This report builds upon that received by the Board in July, containing the latest expenditure and income forecasts.

What does this mean for businesses, people and places in South Yorkshire?
The MCA's budget provides the resource for it to deliver upon its aspirations for creating a cleaner, greener, stronger, and more inclusive economy for South Yorkshire.

Recommendations
The Board is recommended to note the latest budget forecasts.

Consideration by any other Board, Committee, Assurance or Advisory Panel
Mayoral Combined Authority Board 25 July 2022

1. Background

1.1 In July a report was presented to the Board that kick-started the business planning and budget process for the new financial year.

1.2 This process commenced earlier than in previous financial years, reflecting the significant financial challenges in both the MCA and partners’ financial operating environments.

1.3 For the MCA key immediate and medium-term challenges lie ahead. In the near-term the MCA will continue to be exposed to the commercial viability of the public transport network, with a commitment to maintaining as many priority services as possible. This challenge is exacerbated by acute inflationary pressures that are now weighing on already stressed business models.

1.4 In the medium term the MCA and partners must also begin to address the structural deficit within the transport budget. This deficit has been met to-date via support from the Levy Reduction Reserve; a finite body of resource that will be exhausted within the next three years. To avoid a cliff-edge, decisions will be needed in this planning round on how to reduce the cost-base or increase funding.

1.5 The medium-term picture is further complicated by the move towards bus franchising and the likely repatriation of operational tram responsibilities at the end of the current tram concession in 2024. Whilst the former issue may provide the opportunity to better control bus services in search of a more efficient network, the latter issue will expose the MCA to transport operations that are currently running at significant losses.

1.6 This report provides an update on the latest forecasting and details the emerging cost saving proposals that could be implemented ahead of the new financial year. The report sets out some of the implications for the transport levy.

1.7 The report further sets out the challenges and opportunities across the MCA’s broader remit, including the potential for loss of core grant streams but also the significantly better than forecast performance on the MCA’s cash management activity.

2. Key Issues

South Yorkshire Transport Budget

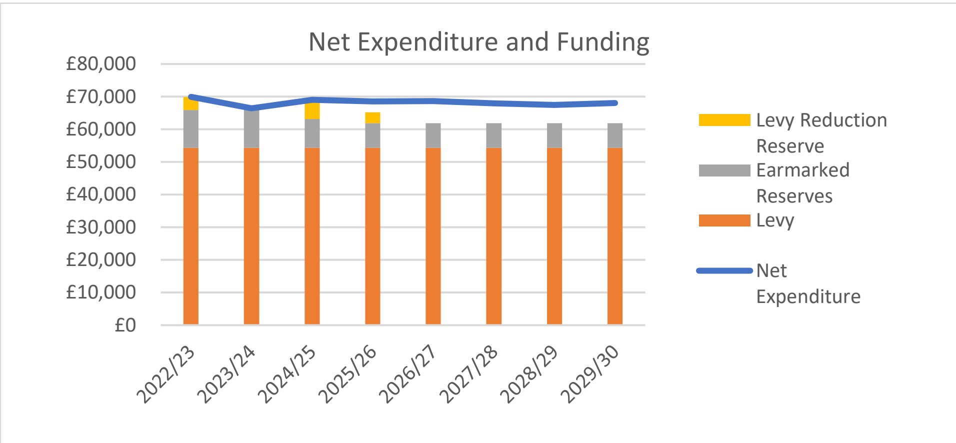
2.1 Since the last reporting date, several variables have changed which impact upon the forecast budget position:

- Whilst the continuation of Bus Recovery Funding until the end March, is welcome it does not address the ongoing sustainability concerns.
- Forecasts for the return of the English National Concessionary Travel Scheme (ENCTS) cohort to the public transport network have now been revised down, resulting in a £2.4m saving that will arise in 2023/24.
- Agreement has been reached to deploy £5m from the Protection of Priority Services Reserve in support of school bus services over two years.

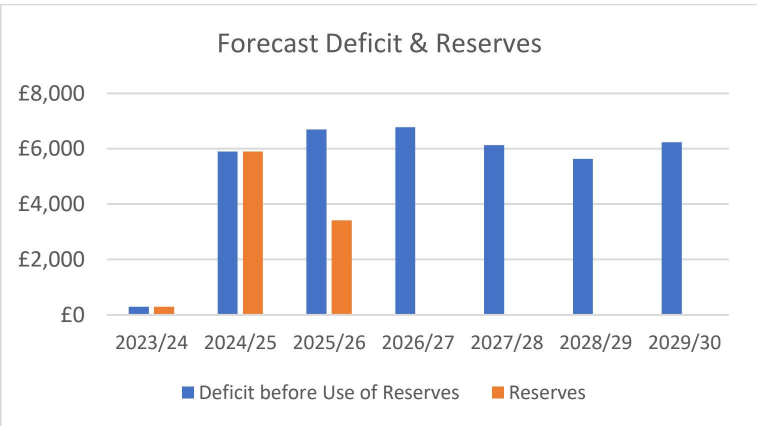
- The major tender exercise undertaken over the summer has returned costs showing a gap of £12m between the cost of those services that meet the criteria for buy-back and the available budget.
- Pay and price inflation is now forecast at c. £1m.
- The costs of supporting tram operations upon the end of the current concession in 2024 have now been modelled into the budget, showing initial subsidy requirements of c. £7m p/a reducing over time.
    - These forecasts remain very sensitive to energy price inflation
- A modest increase in investment income is now forecast, reflecting cash forecasts and the rise in interest-rates.

2.2 The net impact of these movements has been to bring forward the date at which the Levy Reduction Reserve will be exhausted to financial year 2025/26 but flatten the overall ongoing deficit at c. £6m against a previous forecast of c. £8m. p/a.

2.3 The following table highlights that whilst net expenditure will stay relatively static as falling interest costs offset inflationary pressures in the medium-term, the loss of the Levy Reduction Reserve contributions leave the budget in deficit:



2.4 This issue is further exemplified in the next chart which highlights those forecast deficits against the release of the Levy Reduction Reserve:



2.5 Approaches to meeting this structural deficit and providing options on how further withdrawn services could be bought-back have been considered and shared with the Directors of Finance Group.

2.6 In the near-term a number of policy options are available that could generate up to c. £2m of resource p/a. These include interventions that would have limited impact on services and those that would require sensitive decisions. Proposals around these will be brought forward to Members in private session.

2.7 Work has also been undertaken to identify whether resource could be made available to support transport pressures from outside the annual budget to support further short-term transport pressures. A review has been undertaken that has reviewed in-year budget performance, the potential to redeploy resource from prior commitments, and the opportunity to release reserves. A number of reports within this pack contain details on how this resource could support price-caps and a continuation of at-risk services beyond March 2023.

2.8 Finally, modelling continues to be undertaken to identify how any residual deficit could be met through incremental levy increases. Whilst the Directors of Finance Group has helpfully provided local direction on partner pressures, the ability to bridge the deficit without recourse to an increase in levy resource remains limited.

2.9 Following engagement with the Directors of Finance Group in June follow up sessions are now planned for August and September, with a view to bringing formal proposals before the Members in 1-1 sessions to be undertaken in October/November. Final preparation around the levy will be undertaken before Christmas with a view to agreeing the final value at the MCA Board's meeting in January.

MCA/LEP Budget

2.10 Work is underway within the MCA to identify how best the MCA's existing body of activity and resource can complement the manifesto of the Mayor and how new money made available could be brought to bear in support of it and wider MCA priorities.

2.11 Since the last reporting date there has been little clarity received on the quantum and scope of funding that will be made available in the new financial year with key concerns remaining around the continuation of LEP capacity (£0.50m), Mayoral capacity (£1m), and Growth Hub funding (£0.50m).

2.12 The loss of this grant funding would compound existing sustainability issues within the MCA Executive. This is particularly the case around the Business/Trade and Investment area which is heavily dependent on support from a reserve sinking fund and other core functions such as policy development where discrete funding is not provided by Government and there are limited opportunities to recharge costs into other funding streams.

2.13 Concerns around grant funding are exacerbated by continuing underperformance on commercial income as higher utility costs and lower demand for rental space impact surplus generated from this activity. These issues are expected to persist into the new year.

2.14 Inflationary pressures have now been forecast, with pay and price pressures adding c. £1m to the cost-base or depressing net income generation. These inflationary pressures represent a key concern as the MCA is not in receipt of any inflationary linked funding.

2.15 Whilst the inflationary environment is generating concerns the resultant increase in interest-rates is providing opportunity.

2.16 Due to the significant capital programme slippage previously reported, the MCA is currently holding cash on deposit under the auspices of the Treasury Management Strategy. At the time of setting the budget it was assumed that interest-rates would remain at their historical lows for some time, with the returns generated from holding cash on deposit generating negligible returns.

2.17 At the time of writing, and with interest-rates now at 1.75%, the MCA is accruing returns around 2%, with an expectation that the investment income forecast of c. £1m will be significantly exceeded. At the time of writing it is expected that income from this source will generate up to £4m more than budgeted.

2.18 With forecast cash balances expected to fluctuate throughout the year as capital programme activity catches up to profile, the forecast outturn position is unpredictable. However, it is highly likely that resource could now be available to release into the current year or be fed into the budget process for the forthcoming year and beyond. Windfall surpluses could be used on a sinking-fund basis to offset the loss of core grant streams for a number of years and sustain those teams that are currently supported from finite reserves.

2.19 Income generated through this source would be unencumbered from grant conditions and could be deployed entirely at the discretion of the MCA. A number of proposals are included within this report pack, including interventions on transport and cost-of-living concerns.

3. Options Considered and Recommended Proposal

3.1 Option 1

Note the update provided through this report.

3.2 Option 1 Risks and Mitigations

None.

3.3 Recommended Option

Option 1

4. Consultation on Proposal

4.1 This is a discussion report only.

5. Timetable and Accountability for Implementing this Decision

5.1 This is a discussion report only.

6. Financial and Procurement Implications and Advice

6.1 This report provides an update to the report provided to the Board in July.

6.2 The report outlines the significant financial challenges faced by the Authority, but also the expectation in the near-term that treasury management income will exceed budget.

7. Legal Implications and Advice

7.1 None.

8. Human Resources Implications and Advice

8.1 None.

9. Equality and Diversity Implications and Advice

9.1 None.

10. Climate Change Implications and Advice

10.1 None.

11. Information and Communication Technology Implications and Advice

11.1 None.

12. Communications and Marketing Implications and Advice

12.1 None.

List of Appendices Included

None

Background Papers

MCA Board Report to the 25th July meeting.