

Mayoral Combined Authority Board

16 January 2023

2022/23 Budget Revision 3

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

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.

Recommendations

The MCA Board:

1. Adopts the revised budget estimates; and,
2. Approves the disbursement of Additional Restrictions Grant New Burdens to the local authorities.

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

Not applicable

1 Background

1.1 As we approach the final quarter of the year there are a number of notable budgetary issues:

1. Inflationary pressures and ongoing supplier capacity constraints continue to impact upon the pace of the capital programme;

2. As the capital programme slips the MCA is holding more cash on deposit, leading to greater revenue income generation than forecast at the mid-year mark;
 3. The up-take of the £2 fare-cap introduced to support cost-of-living pressures has surpassed all expectations, with a forecast cost over budget by c. £0.40m;
 4. There is now an increasing likelihood that the MCA will lose a number of Government revenue grants that fund core services in the new year; and,
 5. Vacancy management and recruitment challenges will lead to underspends across most of the MCA's teams, with proposals to roll forward resource into the new year.
- 1.2 Performance on the capital programme remains an issue for the MCA and local authority delivery partners. In particular, the legacy Transforming Cities Fund (TCF) and Active Travel programmes have slipped significant amounts of money into the new year.
 - 1.3 Whilst performance on legacy transport capital programmes remain an issue, promising progress has been made on the new City Region Sustainable Transport (CRSTS) programme, with a number of schemes now in delivery and others accelerating through development.
 - 1.4 A number of workstreams are underway in this area to speed up processes, whilst significant amounts of revenue from the Project Feasibility Fund and CRSTS Revenue Fund have also been released to support capacity. The MCA has committed to review Assurance processes as part of the wider organisational review. At this stage, no funding is at risk of clawback but officers are discussing contingency plans.
 - 1.5 Inflationary pressures continue to be monitored across the capital programme. The programme performance report to this Board requests delegations to each area to be able to manage such pressures at a local authority programme level, giving each area the flexibility to match off overspend to underspends. The MCA is also supporting a number of authorities to bring forward non-MCA funded schemes (such as LUF and Future High Street) that are experiencing cost pressures and can be part-funded through each area's notional Gainshare allocation.
 - 1.6 Uptake on the £2 fare cap, launched in November to support the cost-of-living pressures faced by many in South Yorkshire, has been considerably in excess of forecast with over 1.25 million journeys benefiting from the scheme, and with over 51% of journeys being undertaken from communities within the 3 most deprived bandings. This is leading to forecast overspend against the budget by c. £0.40m. This pressure will be accommodated within the balance of funding set-aside for cost-of-living mitigations.
 - 1.7 Further work is being undertaken to assess the performance of this scheme and consider what lessons may be learnt that could support future pricing policies.
 - 1.8 Continuing slippage on the capital programme is leading to the MCA holding higher levels of cash than it forecast to. This cash is now attracting good rates of return as interest-rates continue to rise. At outturn it is now forecast that income from treasury activity will be c. £5m in excess of base budget, with £4m of that previously being earmarked to transport and cost-of-living activity.
 - 1.9 This report proposes that the balance of this surplus be held in reserve in the near-term. This reflects the now growing likelihood that a number of core revenue grant income streams received from Government will be withdrawn in the new year (£0.50m LEP capacity and £0.50m Growth Hub). These income streams support core activity that cannot be easily stopped or charged into other funding streams. Holding resource back in

this manner will allow the MCA to manage the loss of income and plan for the following year with more certainty.

- 1.10 Underspends across most of the MCA's teams are now forecast to accrue as vacancy management and recruitment challenges lead to staffing savings. In most cases these savings result in lower draws on ring-fenced grant, with resource held over in grants unapplied and earmarked reserves. It is proposed to retain this resource and redeploy into the new year to support resourcing plans.
- 1.11 Finally, the MCA has been notified that it will be in receipt of c. £37k of New Burdens grant associated with the ongoing monitoring and reporting of the Covid related Additional Restrictions Grant. This report proposes to disburse this grant to the local authorities based upon the relative grant expenditure incurred.

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

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

- 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:

Base Budget	Revenue £k	Capital £k	Total £k
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
	£146,400	£276,443	£422,843
MCA Executive	£32,421	£4,410	£36,831
Mayoral Office	£3,137	£0	£3,137
Uncommitted	£1,001	£8,558	£9,559
Total	£182,959	£289,411	£472,370

- 2.4 At budget revision 3 a number of adjustments to the budget ceiling are proposed. Revenue expenditure is now expected to outturn at £172.90m, £10.06m below the base budget. Capital expenditure is now forecast to outturn at £158.44m, £130.97m under the revised budget forecast as activity across a number of programme areas has been re-profiled to future periods.
- 2.5 At the time of writing no capital funding was at risk of clawback. Whilst TCF expenditure remains behind schedule this funding stream has now been incorporated into the CRSTS programme window providing some additional time to complete activity. Discussions remain ongoing with partners and funders, and good intelligence is held on schemes that could take advantage of funding should it become available.
- 2.5 In total, as at the end of November 2022 (Period 8), expenditure is expected to outturn at £331.34m:

Consolidated Group	Base £k	Revision 3 £k	Variance £k
Capital	£289,411	£158,439	-£130,972
Revenue	£182,960	£172,904	-£10,056
Total	£472,370	£331,342	-£141,028

- 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 across all areas.
- 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 Business Growth and Skills, and also the recently announced measures to address cost of living pressures and to protect at-risk bus services in the Transport and Environment area.

Consolidated	Base £k	Revision 3 £k	Variance £k
Transport & Environment	£267,102	£167,848	-£99,254
Housing & Infrastructure	£81,766	£54,671	-£27,094
Skills & Employment	£56,664	£52,015	-£4,649
Business Growth & Recovery	£17,311	£15,279	-£2,032
	£422,843	£289,814	-£133,030

MCA Executive	£36,831	£30,020	-£6,811
Mayoral Office	£3,137	£3,150	£13
Uncommitted Renewal Fund Resource*	£9,559	£8,359	-£1,200
Total	£472,370	£331,342	-£141,028

*including at Revision 3 the balance of cost-of-living funding (£0.20m)

- 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 on cost of living and public transport protection measures requires the deployment of £4m surplus investment income (included within general income in the table below):

Funding	Base £k	Revision 3 £k	Variance £k
Gross Expenditure	£472,370	£331,342	-£141,028
- Revenue	£182,960	£172,904	-£10,056
- Capital	£289,411	£158,439	-£130,972
Funded by:			
General Income	£5,774	£10,312	£4,538
Surplus transferred to Reserves	£0	-£866	-£866
Grants & Contributions	£466,596	£321,896	-£144,700
	£472,370	£331,342	-£141,028

- 2.9 Over Quarter 1 the MCA received the disappointing news that LEP Capacity and Growth Hub grants had been reduced by a cumulative £0.38m. This was an unexpected movement that came after the budget was set. Since this point the developments around the continuation of operations at Doncaster Sheffield Airport and the early repayment of interest-bearing loans during the year has precipitated an adjustment to the income expected to be generated from this source.
- 2.10 These shortfalls are more than offset by in-year savings and the exceptional performance on Treasury Management activity. A confluence of high cash balances arising from capital programme slippage and rapid interest-rate rises means that investment instruments are now yielding significantly higher returns than initially forecast. It is now expected that returns will gross £6.0m for the year, c. £4.8m above the initial estimate.
- 2.11 Movements on uncommitted resource reflects the commitment to fund one capital project at £1.4m, offset by the residual £0.20m of revenue funding held for cost-of-living interventions. It is expected that the balance of this resource will be committed to the priorities that have been identified with each local area over recent months (see comments on the Renewal Fund at 2.14 below).

Financial Activity by Thematic Area

- 2.12 Further information is provided in the appendix on financial activity within each thematic area.

Financial Activity by Partner

2.13 Investment profiles are provided for each local authority and the MCA within the appendix.

Renewal Fund Update

2.14 Since the last reporting-date the MCA has worked with local authority partners to determine how uncommitted Gainshare funding could be used. This work has resulted in a number of schemes being brought forward that can be funded from each area's notional allocation of the uncommitted resource.

2.15 Schemes being brought forward include business/non-local authority investment opportunities and a number of Place based schemes that require additional resource to offset price pressures.

2.16 At the time of writing the MCA has been notified by Government of the opportunity for further capital funding. Following collaboration with each local authority area a bid has been submitted to Government using existing priorities identified on the Renewal Fund pipeline. The MCA expects to receive an update on this bid early in the new calendar year.

2.17 A full breakdown of all existing Gainshare commitments is shown in the appendix.

2. Options Considered and Recommended Proposal

2.1 Option 1

Adopt the budget revisions presented in this paper.

2.2 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.

2.3 Option 2

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

2.4 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.

2.5 Recommended Option

Option 1.

3. Consultation on Proposal

None

4. Timetable and Accountability for Implementing this Decision

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

5. 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.

6. Legal Implications and Advice

None.

7. Human Resources Implications and Advice

None

8. Equality and Diversity Implications and Advice

None.

9. Climate Change Implications and Advice

None.

10. Information and Communication Technology Implications and Advice

None

11. 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