

Mayoral Combined Authority Board

24 January 2022

Budget and Business Plan Development 2022/23

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?	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 an update on the budget and business planning processes for the forthcoming financial year.

Following engagement with the South Yorkshire Leaders and Mayor, the report recommends approval of the proposal to increase the transport levy by 2%.

The report notes the now likely loss of a number of revenue grant streams that support core MCA activity. The report proposes to mitigate this risk in the near-term by holding back treasury management surpluses generated in the current financial year until clarity is received from Government.

Finally, the report notes the intention not to seek a Mayoral Precept for the coming financial year.

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

The MCA's financial plan, as manifested through its budget, provides the resource to deliver upon South Yorkshire's aspirations. The developing business plans and accompanying

budgets will determine how, where, and to what level the MCA invests in the region in the coming years and will set out how that investment is to be funded.

Recommendations

This report recommends:

1. Approve the South Yorkshire Transport Levy for financial year 2023/24;
2. Approve the proposal to not set a Mayoral Precept for financial year 2023/24;
3. Note the likely loss of Government revenue grant streams and the proposed mitigation.

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

Mayoral Combined Authority Board

25 July 2022

Mayoral Combined Authority Board

18 October 2022

1. Background

- 1.1 This report represents the third iteration of budget development reporting to the Board since the summer and follows on from engagement with the South Yorkshire Directors of Finance Group.
- 1.2 Throughout the year the focus of budget planning has been on the need to commit to a longer-term financial plan for the MCA's local transport authority activity whilst managing near-term pressures where possible.
- 1.4 This planning has, in part, been complicated by the still emerging societal behaviour changes post-pandemic and a lack of clarity on Government's intentions for the funding of transport priorities and the MCA's wider body of activity. The challenging inflationary environment has further exacerbated these issues.
- 1.5 Since the last reporting date, officers have held one-to-one engagement sessions with all Leaders proposing a 2% increase to the transport levy and presented a number of policy choices that could be considered ahead of the new financial year to generate further financial savings.
- 1.6 This report recommends the adoption of that 2% increase, raising c. £1.1m of additional funding each year. Adoption of this recommendation would mean that the levy would be increased for the first time in over twelve years, representing a significant investment decision for each local authority and the MCA.
- 1.7 Whilst the scale of the transport challenge will not be addressed in its totality through this increase, the rise does represent the critical first step in moving towards longer-term financial sustainability. Reporting presented to the Leaders and Mayor recommends a number of incremental increases in the coming years to avoid a significant budget deficit that would otherwise arise in financial year 2025/26.

2. Financial Planning

South Yorkshire Transport Levy

- 2.1 Over the last two budget rounds reporting has noted that the MCA's pre-pandemic financial strategy had been compromised due to excess inflation and the future repatriation of tram costs.
- 2.2 The challenging financial environment was made harder by the shortfall in patronage across the public transport network, leaving many services commercially unviable. Reporting has previously highlighted that bridging that gap using local resource was not achievable, with a reliance on national funding to help subsidise services.
- 2.3 Over the last year the MCA has continued to provide significant amounts of emergency local support to transport operators, complementing national support. This has included the extension of the 18-21 concession (£1.5m) and the early implementation of the £2 fare-cap (forecast £1.1m) to help stimulate patronage along with the protection of priority services through to July 2023 (£7m). The MCA has also provided support via concessionary fare reimbursements which have been paid above actual cost. These extraordinary interventions have largely been funded from one-off use of reserves and unexpected income streams and cannot be sustained on an ongoing basis.
- 2.4 Engagement with local authority partners and reporting has noted that these issues are now beginning to crystallise and hastened by the worsening inflationary environment.
- 2.5 Forecasting shows that the cost of maintaining all the emergency provision currently in the system would cost around £9m in the next financial year, rising to £25m by the end of the decade.
- 2.6 Even if emergency provision was to lapse, forecasting shows that the core local transport authority revenue budget would be in deficit by c. £6m by 2025/26. This deficit arises as costs continue to grow and reserves that have previously supported the budget are exhausted.
- 2.7 Budget engagement sessions with the South Yorkshire Directors of Finance group have focussed on how this core deficit (£6m) could be bridged. The focus has been on three strands of activity:
 1. Efficiency savings;
 2. Policy choices; and,
 3. Levy increases.
- 2.8 Efficiency savings of c. £0.45m p/a have been identified, mainly focussed on asset and IT rationalisation along with more efficient recharging of revenue costs into capital funding. Processes are in place to deliver these savings ahead of the new financial year.
- 2.9 A number of policy choices have been identified that could generate further savings of up to £1.3m p/a. These choices have been communicated to Leaders and officers and will be worked up in more detail ahead of the new financial year.

- 2.10 Finally, officers have worked up proposals around how the transport levy could be increased incrementally over a number of years to build up resource. These increases were considered in the context of the wider pressures on local authority budgets.
- 2.11 In late November and early December each local authority was presented with proposals to increase the levy in 2023/24 by 2% (£1.1m). This would need to be followed by further increases into the future, albeit the requirements for increases would be considered in each budget planning cycle.
- 2.12 This proposal will result in the following 2023/24 levy requirements, with the total levy distributed on a per-capita basis using the latest Office for National Statistics data-sets:

	Population	Population %	Levy 2022/23 £k	2% Increase £k	Levy 2023/24 £k
Barnsley	248,100	17.53%	£9,530	£191	£9,721
Doncaster	312,800	22.10%	£12,014	£240	£12,255
Rotherham	265,000	18.73%	£10,182	£204	£10,386
Sheffield	589,200	41.64%	£22,637	£453	£23,090
Total	1,415,100	100.00%	£54,364	£1,087	£55,451

The funding generated from this increase would be held to bridge the deficit that will arise by 2025/26 but will not address the totality of pressures that will arise once emergency funding has been exhausted in the summer.

- 2.13 Policy choices that could support further savings will be brought back to the Board at a later-date. These savings could be used to reinvest into more supported services or reduce the need for further levy increases in the coming years.

MCA/LEP Revenue Budget

- 2.14 In previous reports concerns have been raised that a number of Government revenue grants that support core MCA services may be withdrawn.
- 2.15 As we approach the final quarter of the year it is becoming more likely that LEP Capacity Grant (£0.50m) and Growth Hub Grant (£0.50m) will be withdrawn. This follows unexpected reductions to these grants that have been received in the current year after the budget was set.
- 2.16 This report proposes that the £1m additional treasury management income noted in the budget update report be held over at this stage to support the likely financial shock that the budget would otherwise face if these grants are withdrawn in their totality.
- 2.17 Once clarification has been received on the funding, decisions can then be made on how to release that funding.

Mayoral Precept

2.18 In line with manifesto commitments, no Mayoral precept will be sought for the current financial year. The cost of the Mayoral office will be met from the Mayoral Capacity Fund grant expected to be received from Government.

3. Options Considered and Recommended Proposal

3.1 Option 1

This report recommends that Members approve the transport levy and Mayoral precept.

3.2 Option 1 Risks and Mitigations

Approving the levy offers the MCA the opportunity to develop budgets appropriate to the level of demand and identified risks and detailed in the report.

3.3 Option 2

The Board could choose to reject any or all of the recommendations in the report, in particular requesting a lower transport levy.

3.4 Option 2 Risks and Mitigations

Adopting a lower transport levy would impinge upon the MCA's ability to deliver the required level of service whilst managing the risks identified. Should a lower transport levy be requested the MCA would be required to pare back its investment budgets and/or draw on reserves to a greater than forecast level. Drawing on reserves in this manner would be unsustainable and exacerbate existing sustainability concerns.

3.5 Option 3

The Board could choose to reject any or all of the recommendations in the report, in particular requesting a higher transport levy.

3.6 Option 3 Risks and Mitigations

Adopting a higher transport levy would require larger contributions from each of the South Yorkshire local authorities. A higher transport levy would provide the MCA with greater financial resilience to manage in-year pressures, but that levy would need to be sustained into the future to support longer-term planning.

3.7 Recommended Option

Option 1

4. Consultation on Proposal

4.1 A number of engagement sessions have been undertaken with the MCA Members and Mayor in reaching these recommendations.

5. Timetable and Accountability for Implementing this Decision

5.1 Approval of the recommendations in this report will support final budget development ahead of reporting to the Board in March.

6. Financial and Procurement Implications and Advice

6.1 This is a financial report, the details of which are covered in the main body of the document.

7. Legal Implications and Advice

7.1 The MCA is legally required to approve a transport levy and Mayoral precept by February 2023.

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

A Local Transport Authority Revenue Budget Forecasts

Background Papers

None.