Mayoral Combined Authority Board

06 March 2023

Annual Budget & Treasury Management Strategy 2023/24

Is the paper exempt from the press and public?	No
Reason why exempt: *(Definitions under the Local Government Act 1972 – please seek guidance from the Governance Team/ Monitoring Officer)*	Not applicable
Purpose of this report:	Governance
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 proposes a balanced budget and accompanying financial strategies for financial year 2023/24. The proposed budget provides resource totalling c. £387m to enable the delivery of the MCA's capital and revenue programmes and its core activity.

What does this mean for businesses, people and places in South Yorkshire?
The budget reflects the region's financial plan, determining where, when, and to what value investment is made available to support the delivery of its aspirations.

Recommendations

1. Approve the adoption of the revenue and capital budget estimates for the year;
2. Approve the Reserve Strategy;
3. Approve the Treasury Management Strategy;

4. Delegate authority to the Section 73 Officer to accept a number of grant awards.

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

Audit and Standards Committee	25 January 2023
Mayoral Combined Authority Board	16 January 2023
Mayoral Combined Authority Board	18 October 2022
Mayoral Combined Authority Board	25 July 2022

1. Background

1.1 In common with other public bodies and local partners, the MCA Group is required to set a balanced budget every financial year. This budget must be approved by Members ahead of the new year and be supported by a medium-term financial strategy that takes account of forecast future expenditure, funding flows, and the requirements for use of reserves.

1.2 In support of this, the MCA has undertaken a Group wide integrated budgeting process. This process seeks to derive resource requirements to deliver upon the aspirations set by the Member priorities whilst discharging statutory obligations and delivering funded programmes of activity.

1.3 In undertaking this activity at the Group level the MCA is well positioned for the formal integration of the South Yorkshire Passenger Transport Executive into the MCA on the 1st April.

1.4 The budget estimates provided in this report reflect the levy funded activity of SYPTE, and the broader activity of the MCA. Expenditure related to support functions is shown in aggregate where possible, supporting greater transparency on the costs of delivering activity and statutory obligations across the Group.

1.5 Financial activity is presented along Thematic Board reporting lines, enabling oversight of funding and activity at this level at both budget setting and throughout the year as financial monitoring reports are prepared.

1.6 The budget proposals presented in this report are notable for a number of issues:

1. This budget provides a significant amount of resource for the delivery of over 190 capital investment projects and 10 revenue programmes of activity, alongside core activity;
2. The commercial sustainability of the public transport network remains of critical concern, and whilst this budget provides resource to protect services through to July 2023 the MCA's ability to sustain services beyond this point is limited;
3. Global issues continue to impact locally, with inflationary pressures now expected to provide challenges to the delivery of existing and emerging investment plans and with cost pressures showing across the business;
4. Treasury management performance is expected to remain strong in the new year as high cash balances yield better returns than have been seen in previous years. This income is applied to offset inflationary pressures and mitigates the potential loss of a number of core income streams; and,
5. The medium-term outlook for the MCA is characterised by the need for sustained levy increases to support core funding of existing activity, whilst the risk around the MCA's expected exposure to the financial and operational performance of the tram network post-2024 will crystallise by the end of the new financial year.

1.7 As in the previous financial years the key immediate planning concern is the commercial sustainability of the public transport network. With fare-paying patronage still below sustainable levels, and with committed government funding due to end in March, the risk that significant parts of the network are lost in the new year remains.

1.8 This budget provides resource to sustain services through to the end of July, avoiding cuts during the school-term. The MCA’s ability to support these services is derived from the use of unexpected treasury management income generation in 2022/23 and the commitment of reserves. This resource cannot be sustained over the remainder of the year nor into the future. Sustainable solutions will likely require national intervention, but at the time of writing Government’s intentions remained unclear.

1.9 The report also notes the significant level of resource available to the MCA in the new year at c. £387m to support revenue and capital programmes and core activity.

1.10 The level of resource available is inflated by large amounts of capital programme slippage, principally related to the Transforming Cities Fund (TCF) programme. Forecasting shows that as this slippage unwinds over the next two years spending power will fall.

1.11 The report further notes the lack of clarity on funding streams as we approach the new financial year. This is particularly prominent on a number of core income streams that support capacity and provision. This is particularly the case around LEP capacity funding (£0.50m) and Growth Hub grant (£0.35m). Whilst these values may appear immaterial in the context of the overall funding envelope they are not easily backfilled on a sustainable basis. In the short-term, it is proposed that surplus treasury management income generated in financial year 2022/23 is used to underwrite this risk.

1.12 Gainshare resource continues to be provided in the new year through the Project Feasibility Fund for investment into capacity and the development of investment plans across all partners, with capital resource made available to support delivery ready schemes. To-date, partners have indicated how they wish to deploy this resource with schemes being developed at pace. An element of revenue is reserved to support borrowing should additional investment headroom be required.

1.13 Finally, the report notes the challenging medium-term environment. The current strategy of releasing the Levy Reduction Reserve to offset against a falling cost-base is likely to become unsustainable by 2025/26 as inflationary cost pressures offset the savings made from retiring legacy debt and new costs are borne. The agreement to increase the transport levy by 2% in 2023/24 is a critical first-step in addressing this issue but forecasting shared with partners shows the need for further sustained step-increases in the levy in future years.

1.14 The projections presented for the medium-term now take account of the forecast need for financial support for the tram system that will return to public ownership in March 2024.

1.15 Whilst exposure to the financial performance of the system cannot now be avoided, work is underway to shape an appropriate operating model for the tram operations that mitigates the operating and financial risk. Consideration will also need to be given to options to both grow tram patronage and manage the cost-base. This issue remains a key risk for the MCA.

1.16 To support the budget, the report requests delegated authority for the Section 73 Officer to accept a number of cyclical grants that are expected to be offered to the MCA before the next Board meeting.

2. Key Issues

2.1 This section of the report includes summaries of:

1. A budget summary, complemented by further detail contained in the appendices;
2. Medium-term financial estimates;
3. The Reserve Strategy, including proposals for release of reserves; and,
4. The Annual Treasury Management Strategy

2.2 The Section 25 statement is provided at the end of this report. Summaries presented in this report are accompanied by more detail in the appendices.

Budget Summary

Expenditure Plans

2.3 This report proposes a budget for the year of £387m, consisting of both revenue and capital expenditure. This expenditure will be resourced principally from discrete grants, with contributions, commercial income and the use of reserves supplementing:

Funding	£k	
Gross Expenditure	**£386,965**	
- Revenue	£168,981	44%
- Capital	£217,984	56%
Funded by:		
Contribution from Unearmarked Reserves	£540	0%
Grants and Earmarked Reserves	£386,425	100%
	£386,965	

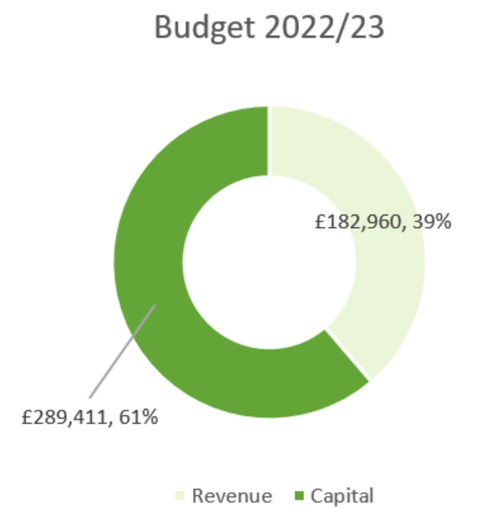
2.4 This level of expenditure represents a decrease of close to £85m (18%) on the prior year base budget. The fall in year-on-year budgets partly reflects changes in the funding streams available to the MCA, but is primarily driven by reforecasting of capital activity and some Gainshare Renewal Action Plan revenue activity that has now pushed expenditure to future years:

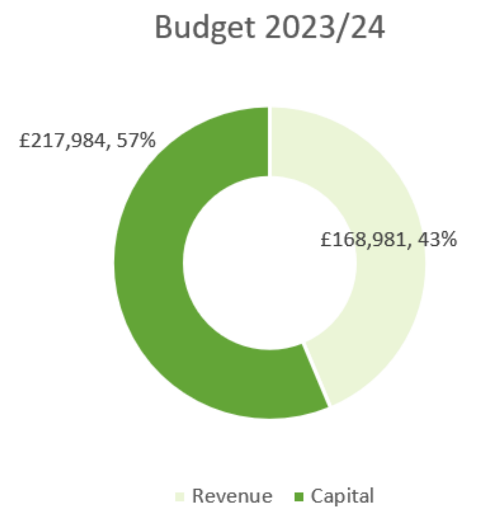
	2022/23 £k	2023/24 £k	Variance £k	Variance %
Revenue	£182,960	£168,981	-£13,979	-8%
Capital	£289,411	£217,984	-£71,427	-25%
	£472,370	**£386,965**	**-£85,406**	**-18%**

2.5 An analysis of the variance between the forecast outturn position for 2022/23 and these budget proposals highlights an increase in capital expenditure and a decrease in revenue expenditure. Revenue expenditure is expected to fall as the local subsidy to the transport network ends in July 2023 and some of the cost-of-living measures implemented in 2022/23 such as the £2 fare cap and the 18-21 concession all lapse. Capital expenditure increases against the outturn position as activity that was due to take place in 2022/23 now slips into the new financial year:

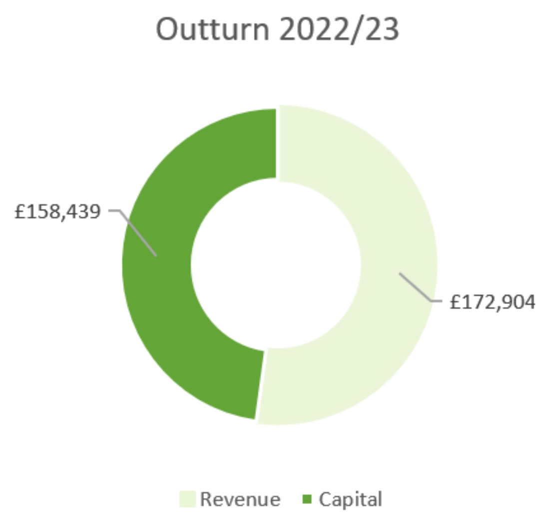
	2022/23 Forecast Outturn £k	2023/24 Budget £k	Variance £k	Variance %
Revenue	£172,904	£168,981	-£3,923	-2%
Capital	£158,439	£217,984	£59,545	38%
	£331,342	**£386,965**	**£55,622**	**17%**

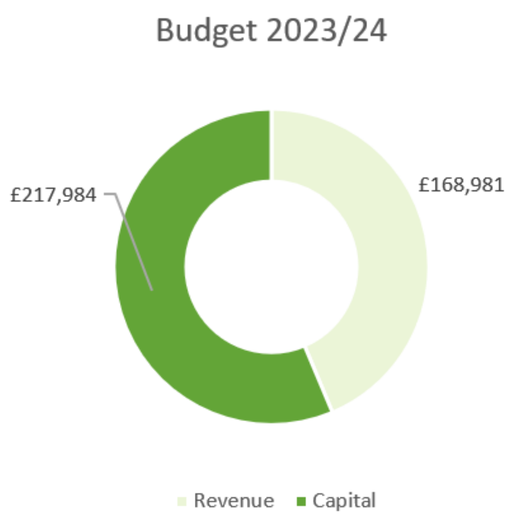
2.6 Although the overall quantum of expenditure is estimated to decrease against the base budget by £85m, the relative share of revenue and capital is expected to maintain a ratio of roughly 40:60 between the 2022/23 base budget and the proposed 2023/24 budget:





2.7 However, when comparing against the forecast 2022/23 outturn position the impact of capital programme slippage becomes clearer. At the outturn of the 2022/23 year capital expenditure accounted for 48% of all expenditure, whereas in these budget proposals it will account for 57% of total expenditure:



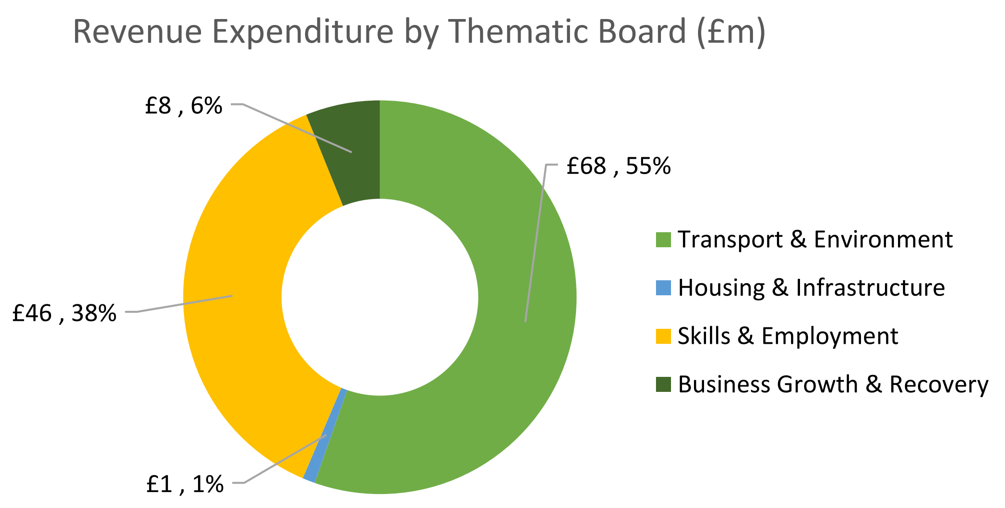


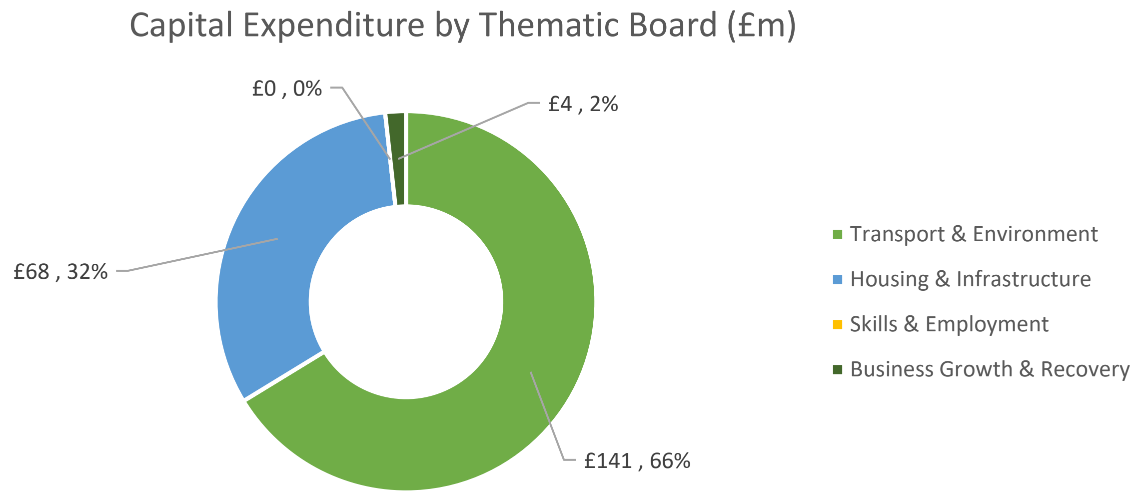
2.8 This highlights that as in previous years the principal challenge will be in delivering the capital programme to the required timeline. The Assurance Framework report within this agenda pack contains some proposals on how the development process can be expedited, whilst this budget contains further resource to be distributed to delivery teams to help support capacity and delivery.

2.9 The spread of expenditure across the Thematic Board areas largely reflects the ringfencing of grants to certain activity and the MCA Group's core competencies:

Budget	Revenue £k	Capital £k	Total £k
Transport & Environment	£68,354	£141,365	£209,719
Housing & Infrastructure	£1,268	£68,172	£69,440
Skills & Employment	£46,238	£0	£46,238
Business Growth & Recovery	£7,547	£3,736	£11,283
	£123,407	£213,273	£336,680
MCA Executive	£17,140	£4,357	£21,497
Mayoral Office	£3,377	£0	£3,377
Corporate Income/Expenditure	£12,649	£0	£12,649
Corporate Programmes	£12,408	£354	£12,762
Total	**£168,981**	**£217,984**	**£386,965**

2.10 The differences in distribution between revenue and capital expenditure across the Thematic Board areas reflects the MCA's operational responsibilities for certain spheres of activity around transport, skills provision, and business support schemes:





2.11 The above graphic reflects that transport activity attracts significant amounts of revenue and capital resource, whereas skills and employment activity is exclusively revenue funded, and conversely housing and infrastructure is predominantly capital funded.

2.12 The graphic further exemplifies the relatively small amounts of funding for business growth activity relative to its importance to the Strategic Economic Plan and the region's aspirations. This is a significant issue for the region that shapes considerations around the deployment of unrestricted gainshare resource in particular.

2.13 The Transport and Environment portfolio includes the operational transport costs of the Local Transport Authority, largely funded by the levy and reserves. This report recognises the significant risks in this area, with resource held in reserves to help mitigate those risks. The financial strategy for the management of the commercial viability concerns for the transport network has previously been agreed and includes an increase of 2% to the levy and the deployment of earmarked reserves. Additional revenue resource is made available in this budget to support the costs of the Bus Franchise Assessment and managing the end of the tram concession project. Capital expenditure in this portfolio reflects the transport maintenance grants and the significant investment via the Transforming Cities Fund that has now been rolled into the £570m CRSTS programme. Resource is also available via Active Travel grants complemented by gainshare contributions, whilst gainshare investment into bus infrastructure priorities and the final three months of the 18-21 travel concession is also included.

2.14 The Housing, Infrastructure, and Planning portfolio is a capital-intensive area. This principally reflects the inclusion in this portfolio of the Brownfield Housing along with the gainshare funding made available to local authority place investment into the region's towns and cities. Funding made available in financial year 2022/23 for housing and infrastructure capital activity has largely slipped, with expenditure now forecast to fall in 2023/24 and beyond. Revenue expenditure primarily comprises Net Zero activity.

2.15 Conversely, the Skills and Employment portfolio is exclusively a revenue area. This reflects the adoption of the AEB activity, the extension of the Working Win programme for a further two years, along with new Government funded programmes such as Multiply and Shared Prosperity Fund. Resource remains available in this area for Skills Renewal Action

Plan activity, but at the time of writing no firm commitments had been made, and as such the resource is held in earmarked reserve.

2.16 An area of ongoing concern for the region is the quantum of funding available to support business growth aspirations. In the new year, c. £11m of funding is expected to be applied, c.£4m of which relates to capital investment into previously agreed business investment schemes. Resource will continue to be applied to support business advisors funded from the Business Renewal Action Plan funding (£0.80m) whilst an element of the Shared Prosperity Fund is also committed to business activity. Whilst the receipt of Shared Prosperity Fund resource is welcome, the quantum available to the region is now significantly less than that received under previous European funding regimes.

2.17 Expenditure shown against the MCA Executive reflects the aggregate cost of the majority of the Group wide support functions. These functions are familiar to any public body and discharge the statutory responsibilities of the MCA, facilitate and manage the performance of the MCA's capital and revenue programmes, and provide the policy, assurance, communications, and strategic leadership for the Group. Much of these costs are recharged into programme funding to reflect their incremental nature.

2.18 Capital expenditure in this area is that which is necessarily incurred in assuring, monitoring and evaluating the MCA's range of capital programmes. It also includes investment into the MCA's estate and IT assets.

2.19 Expenditure incurred in the Mayoral Office reflects the staffing support provided to the Mayor, along with Mayoral priority activity. The direct costs of the Mayoral function are fully funded by the Mayoral Capacity Grant provided by Government.

2.20 Expenditure in the area of Corporate Programmes includes the new Communities and Place element of Shared Prosperity Fund and £2m of the MCA's Project Feasibility Fund.

Reflecting the role of the MCA, the majority of the MCA's expenditure is incurred in direct investment into services via grant awards to partners for the delivery of programmes of activity, the payment of passenger and operator subsidies to public transport companies, and the delivery of projects. This is complemented by the cost of past financing decisions, people costs, the cost of premises including office accommodation and transport interchanges, and professional services:

Expenditure Type	**2023/24 £k**	**%**
Investment	£334,104	86%
Financing	£11,464	3%
People	£14,886	4%
Premises	£12,235	3%
Professional Services	£7,595	2%
Supplies & Services	£6,436	2%
Communications	£245	0%
	£386,965	

2.21 To aid greater transparency and monitoring, the proposed budget for 2023/24 now includes a separately identifiable management area for corporate income and expenditure, including capital financing costs, treasury investment income, subscriptions and enterprise zone business rates receivable from local authority partners.

Funding

2.22 To fund the budget proposals, this report recommends the application of grants, and the deployment of reserves.

2.23 Grants can be differentiated between those that are ringfenced, and those that are free from restrictions. Restrictions may arise from grant conditionality or from past MCA decisions to use grants (such as gainshare) for specific purposes.

2.24 This report proposes a funding package as follows:

Funding Sources	**2022/23 £k**	**2023/24 £k**	**Variance £k**
Ringfenced/Committed Grants			
Transport levy	£54,364	£55,452	£1,088
Revenue Grants	£91,785	£89,879	-£1,906
Capital Grants	£254,130	£209,822	-£44,308
	£400,279	£355,153	-£45,126
Reserves & Provisions			
Capital Receipts	£35,280	£6,892	-£28,388
Revenue Reserves & Provisions	£32,037	£17,161	-£14,876
Contribution from Unearmarked Reserves	0	£540	£540
	£67,317	£24,594	-£42,723
General Income			
Treasury management income	£188	£3,000	£2,812
Retained Business Rates	£2,087	£2,691	£604
Local Authority Subscriptions	£1,184	£1,184	£0
Un-ringfenced Grants	£500	£0	-£500
Income from Business Loans	£357	£0	-£357
Asset Management Trading Surplus	£459	£344	-£115
	£4,775	£7,219	£2,444
Total Funding	**£472,371**	**£386,965**	**-£85,406**

2.25 Whilst a large number, the release of revenue reserves and capital receipts largely reflects timing issues with grants received but not used flowing through to reserves and being drawn down in the following year.

2.26 Of most significance is the draw of £6.86m from the protection of priority services reserve to support the bus tendered services budget in the coming year. A contribution of £0.54m is proposed from General Fund reserves to support the anticipated loss of LEP capacity funding. Treasury management surplus generated in financial year 2022/23 has been held back and will be taken to the General Fund to support this draw.

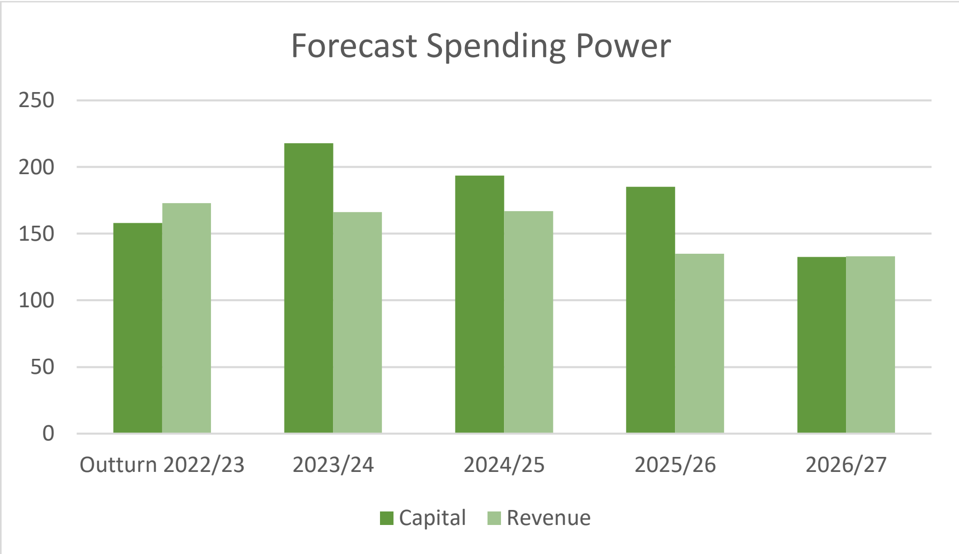
2.27 In its January session the Board agreed to raise the transport levy by 2% whilst this report proposes to maintain subscriptions at their existing levels, bringing total local contributions to MCA activity to:

	Levy £k	Subscriptions £k	Total £k
BMBC	£9,721	£206	£9,927
DMBC	£12,255	£264	£12,519
RMBC	£10,386	£226	£10,612
SCC	£23,090	£488	£23,578
	£55,452	**£1,184**	**£56,636**

<u>Medium-Term Forecasts</u>

2.28 Forecasts of spending power in future years highlights that the resource available in 2023/24 will likely represent a peak. This peak reflects the slippage of significant amounts of planned activity as labour market and supply chain pressures as well as inflation have all impacted upon delivery.

2.29 The following chart shows the forecast level of expenditure to 2026 based on known funding streams and known expenditure requirements:



2.30 The graphic above highlights a number of underlying movements.

2.31 Principally, expenditure on the Transforming Cities Fund has lagged behind initial and revised forecasts. This programme has been impacted by the receipt of emergency funding during the pandemic which precipitated the diversion of capacity and focus onto time sensitive activity, with the programme now falling into a period of high inflation which has necessitated scheme re-designs.

2.32 TCF activity is now coalescing with the City Region Sustainable Transport programme, leading to significant amounts of capital investment activity. Based on current profiling, c.£151m of new CRSTS and existing TCF activity is budgeted for in the new year.

2.33 As this TCF slippage begins to unwind the quantum of capital resource is likely to begin to ebb. Profiling may also be affected by the emergence of new funding streams such as Active Travel Round 4. No provision is made in these forecasts for potential distributions that may come to the region, as the bidding process was still in progress at the time of writing this report.

2.34 The end of the current Brownfield Housing capital funding round in 2025 also accounts for a sharp reduction in funding available, with the £57m of funding made available to the region needing to be spent by the end of financial year 2024/25.

2.35 The ability to shape the pace and timing of capital investment resourced from devolution monies is now in the gift of the MCA because it has borrowing powers for non-transport as well as transport. These powers are complementary to the long-term funding commitments and will allow the MCA to accelerate investment into the near-term, accruing the benefits of investment far sooner than if expenditure was matched to the 30-year profile of the devolution settlement. Provision is made within the 2023/24 budget to provide resource to support borrowing headroom of c. £40m.

2.36 The reduction in revenue funding reflects a number of movements including the exhaustion of reserves for discrete projects. In the coming years funding set aside for the Bus Review, Franchise Assessment, and the Tram Concession end project will all be exhausted with an assumption that those projects will have completed. Programmes like Skills Bank that have been maintained through recycled income will also begin to unwind. Key revenue funding streams such as Shared Prosperity Fund, Multiply, and Working Win are also only committed into the near-term and will end by 2026 unless decisions are taken by Government to extend them.

2.37 As further detail becomes available on potential new funding streams and investment plans, the medium-term forecasts will be updated with budget revisions presented to Board on a quarterly basis.

<u>Reserve Strategy</u>

2.38 Regulation requires that the MCA adopts an annual reserve strategy. Reserves are held to mitigate risk, guard against financial shock, and provide available resource to meet opportunities.

2.39 The MCA holds reserves across the Group structure. These reserves are generally differentiated between capital and revenue amounts, and those that are earmarked to specific activity or otherwise.

2.40 Earmarked reserves are held to manage known issues, including the mitigation of identified risk or meeting the demands of forecast future resource requirements. Unearmarked reserves are held to provide the MCA with the ability to exploit opportunities that may arise, whilst also guarding against latent risk.

2.41 A number of significant reserve reviews have been undertaken in the last two years to ensure that reserves were directed towards key risks and also to ensure that there was Group wide coherency, avoiding duplication. These exercises have placed the Group in a good position to manage the integration of SYPTE into the MCA on the 1st April.

2.42 As part of the budget setting process for the new year the reserve strategy has again been reviewed. This review sought to achieve a number of key objectives:

1. An assessment of whether the quantum of reserves held remained appropriate for the risk in our operating environment;
2. An assessment of whether our reserves were mitigating the right risks; and,
3. An assessment of whether our reserve strategy appropriately supported our adapted financial strategy.

2.43 The exercise noted four prominent issues:

1. The carrying balance on the PFI reserve is now adjudged to be broadly appropriate after the impact of the recent spike in inflation on the long-term model is taken into account;
2. The levy reduction reserve will now be exhausted by 2025/26;
3. The Protection of Priority Services Reserve is now fully committed; and,
4. General Fund reserves are expected to be c. £1m higher than originally forecast due to the performance on treasury management.

2.44 The PFI reserve has been growing steadily over the last decade as credits received from government outstripped the cost of the unitary charge. This has largely arisen due to the benign inflationary environment that prevailed from the 2008 recession up to 2022, with the committed funding assuming a higher level of RPI.

2.45 Modelling undertaken ahead of financial year 2022/23 concluded that £3m of resource could be de-committed from the PFI Reserve and be earmarked to supporting the Franchise Assessment work. This left a carrying balance of c. £12m with an expectation that more resource could be considered for release into the future.

2.46 Following the sustained period of heightened inflation, modelling has again been undertaken. Taking into account the impact of this inflation on the long-term PFI model, and factoring in prudent assumptions about future inflation, the carrying balance is now considered broadly right with a small surplus forecast at the end of the contract.

2.47 Throughout the year discussions with members and officers on transport levy strategy has focussed on the risk that the use of the Levy Reduction Reserve was becoming unsustainable. The core strategy around this reserve was based on requirements for the reserve falling over time as expensive legacy debt was retired. Whilst that debt is being repaid, the savings generated are – in part – being offset by inflationary pressures and new costs.

2.48 It is now forecast that the budget will continue to run with deficits when the reserve is exhausted around 2025/26. Discussions with members and officers have focussed on the need to consider gradual levy increases or difficult policy choices to avoid a cliff-edge, with agreement reached to increase the levy by 2% in the new year. In the near-term this report proposes a marginal £0.01m draw on the reserve to support the levy in 2023/24. This draw will take the reserve to £8.44m, with more significant draws placed on it in 2024/25 and 2025/26.

2.49 It is proposed that £1m of resource that would otherwise flow to the General Fund reserve is held as a sinking fund to support the transition that will be required to adapt to the likely loss of LEP capacity funding. This funding supports much of the day-to-day operations of the MCA, and whilst the future of LEPs is likely to change those core operations will remain.

2.50 Forecasting also shows that the Protection of Priority Services reserve is now wholly committed. The majority of this reserve will be used to sustain bus services to the end of July 2024, with an element retained to support school services through to the end of 2024/25. The exhaustion of this reserve will limit options to manage the loss of services should Government funding end.

2.51 Reserve profiling for the new year continues to reflect timing differences between the receipt of grant and its deployment. In particular gainshare reserves have accumulated in the preceding three years. Allocations held in support of the Skills and Business Renewal Action Plan will continue to be held in reserve up until such a point as decisions are made on how to release that funding.

2.52 Release of revenue reserves will be complemented by the release of capital receipts to fund capital expenditure. This largely relates to the funding of the tail of the LGF over-programming position and is resourced from recycled LGF funding held as receipts.

Annual Treasury Management Strategy

2.53 Regulation and the MCA's Constitution require that the MCA approve the adoption of an Annual Treasury Management Strategy (TMS). The TMS presented today has previously been reviewed and endorsed by the Audit, Standards and Risk Committee.

2.54 The TMS sets the parameters within which the MCA will deliver its cash and debt management activities. The proposed TMS and associated Capital Strategy are appended to this report. The TMS includes an Investment Strategy and Prudential Indicators. Progress against this proposed strategy will be reported to the MCA on a quarterly basis.

2.55 In common with most other public sector bodies, the MCA's approach to its Investment Strategy is governed by a hierarchy of considerations centred on protecting public funding. This hierarchy places a greater emphasis on the security and the liquidity of the MCA's investments than it does on the yield generated from them.

2.56 This relatively conservative approach limits the MCA's exposure to losses arising from counterparty default, but also limits the returns that can be generated from investing cash resource until it is required.

2.57 Noting the significant financial uncertainties prevailing in financial markets the TMS proposes to maintain the current stance, limiting investments to the safest of counterparties.

2.58 Of note in this year's TMS is the elevated level of income that is expected to be generated from cash management activity. The rapid rises in interest-rates from 0.75% to 4% in financial year 2022/23 has led to unexpected income windfall from the cash held on deposit. It is now expected that interest-rates will peak at around 4.5% in the new financial year. This elevated level should mean that cash balances continue to attract better rates of return than has been seen in recent years. The MCA expects to generate around £3m in interest in the new year, representing c. £2m less than that expected to be generated in 2022/23 at outturn, but around £2m more than was budgeted for in 2022/23. This income will help to offset the inflationary pressures that are driving costs up across the business.

2.59 The TMS also notes the intention to retire a further £50m of borrowing during the year, following the £8m repaid in 2022/23. The repayment of this borrowing reduces the cost of debt by c. £2.2m.

2.60 The ongoing retirement of legacy debt will reduce the overall burden of financing costs on the revenue budget and the transport levy. This trend is forecast into our medium-term financial strategy.

2.61 Of note in the TMS is the proposed Minimum Revenue Provision (MRP) policy statement. The statement, unadjusted from the preceding year, notes the MCA's proposed means of paying down any debt associated with gainshare funded investment. The MCA proposes that for gainshare investment the annual gainshare capital allocation be used to pay down the capital finance requirement, obviating the need for a charge to revenue (MRP).

2.62 The MCA contends that this approach is prudent, affordable, and sustainable, supporting the matching principle with capital resource paying down capital debt. The TMS notes that a government consultation on the capital framework may – inadvertently – prohibit the MCA from operating this approach, instead requiring that a revenue contribution be made to pay down capital debt. The MCA has engaged government officials on this matter and formally responded to the consultation. The results of this consultation have not yet been published, and officers continue to talk to Government officials on the issue.

2.63 Finally, the proposed TMS supports the potential for the MCA to take on gainshare funded debt in the new year. These budget proposals afford a one-off provision of £1.2m in revenue headroom to support financing costs should opportunities emerge that require the MCA to invest above the capital available to it. That funding would provide a bridge to the longer-term Gainshare allocations that will be available to each authority from 2024/25 onwards.

<u>Grant Acceptances</u>

2.64 The MCA expects to be in receipt of a number of grant offers that will support these budget proposals. These grant offers are not the subject of bids, but cyclical awards.

2.65 This report requests delegated authority for the Section 73 Officer to accept the offers on behalf of the MCA, subject to the conditions being acceptable.

2.66 The following offers are expected:

- Adult Education Budget 2023/24
- Gainshare 2023/24
- LEP Capacity 2023/24
- Growth Hub 2023/24
- Mayoral Capacity Funding 2023/24
- Working Win 2023/24
- Levelling Up Fund Capacity 2023/24
- Electric Vehicle Chargepoint Capacity 2023/24
- Accessibility Innovation Scheme 2022/23

2.67 The details of any acceptances will be reported through the delegated authority reporting and budget monitoring reports.

<u>Section 25 Statement</u>

2.68 The Local Government Act 2003 requires that the statutory finance officer comments on the robustness of estimates used to determine the budget and the adequacy of reserves.

2.69 The Group Section 73 Officer notes the work undertaken across the Group to develop these budget estimates in the face of much uncertainty.

2.70 This budget exercise has enabled the MCA to match its resource to priorities, drive efficiencies, and continue to ensure that Group wide reserves are focussed on key risks.

2.71 The Section 73 Officer notes the multi-disciplinary approach to forecasting activity, risk, demand for services, and financial profiling. This has led to informed budgeting and the proactive management of a number of emerging issues.

2.72 Reserves continue to be held at prudent levels for the management of current latent risk, whilst the annual reserve review undertaken as part of the budget setting process has allowed for some adjustments to earmarked reserves.

2.73 Whilst the budget setting process and level of reserves allows for the MCA to approach the new financial year with a degree of confidence, a number of risks remain. These risks have largely been identified in previous budget rounds but remain persistent with no easy fixes.

2.74 Principally, there are persistent concerns around the commercial sustainability of the South Yorkshire public transport network. The key variables in this equation – a return of fare-paying patronage and the longevity and level of Government funding – remain outside of the MCA's direct control.

2.75 Significant commitments have been made by the MCA to sustaining services to the end of July through use of windfall income and reserves. This funding is finite and cannot be sustained indefinitely. The scale of the potential challenge is likely to be beyond the MCA's ability to manage without sustained Government support.

2.76 The MCA's broader activity in the longer-term remains heavily reliant on Government funding cycles. Whilst long-term commitments to transport funding via the CRSTS package are welcome, the region does remain sensitive to Government policy decisions. The receipt of Shared Prosperity Fund at levels materially below that received from Europe means that the task of supporting our businesses remains challenging.

2.77 This report also notes that the budget proposed is set assuming a certain level of funding that has yet to be committed to. The lack of clarity from Government on a number of core funding streams is an impediment to good planning. For the purposes of this exercise the risk of funding not being forthcoming will be managed against General Fund reserves.

2.78 Work to design a new South Yorkshire investment strategy – based on four Place Plans and one Regional Plan - is essential to ensure the region is able to design and implement financial plans that will allow the MCA to bridge gaps in the Government's investment cycles, avoiding exposure to boom-and-bust cycles that would impact on the organisation.

2.79 Resource continues to be made available through this budget for the Project Feasibility Fund, which will support the production of local and regional investment plans. It is hoped that these plans will enable the region to pivot from being reactive to proactive, taking investment prospectus' to Government and private investors, seeking to draw in more investment to the region than has been possible before. This approach should reduce the need for public subsidy, allowing the MCA to use its money more efficiently.

2.80 Looking ahead, in the medium-term the MCA will need to act on known sustainability issues associated with its local transport activity. The region has taken the critical first step in this process by agreeing to the first transport levy increase in over 12 years. This increase will, however, need to be supplemented by further increases each year to address the forecast deficit or difficult policy decisions will be required. Without action the MCA will not be able to support the current level of activity.

2.81 A number of policy options have been presented to Leaders which could be considered to either help address the deficit – and thus reduce the need for levy increases – or be used to generate headroom to invest back into services. It is likely that these issues will need to be considered in the context of the loss of services that is expected in July 2024 following the end of Government subsidy and the MCA's own emergency support.

2.82 Finally, in the coming financial year the MCA will assume responsibility for the tram network. Whilst operations will be managed through an arms-length subsidiary the MCA will ultimately be exposed to the financial risk and reward of the system's performance. This is the most significant change to the MCA's financial risk profile since its incorporation in 2014. These budget estimates include requirements for significant amounts of public subsidy in the coming years, with marginal improvements over time.

2.83 Whilst work is ongoing to address how commercial performance can be maximised and risks managed, work has also been undertaken on how the MCA could use its funding to avoid the sort of financial shock that could accrue if unexpected losses are incurred. Legal and financial advice has been taken on the potential to use capital resource to offset losses and discussions have been held with the current external auditor. Due to the change in external auditor discussions will also need to be held with the new auditor in the new year. Leaders will be engaged on this issue should the option be considered legitimate.

2.84 It is the opinion of the Section 73 Officer that these budget proposals are robust and provide a sound basis for the delivery of the MCA's activity. The Section 73 Officer further believes that the current quantum of reserves held are appropriate and have been earmarked to mitigate key risks. The Section 73 Officer notes the significant challenges in the medium-term planning environment related to the operation and funding of tram operations from March 2024.

3. Options Considered and Recommended Proposal

3.1 **Option 1**
Accept the recommendations of this report

3.2 **Option 1 Risks and Mitigations**:
Acceptance of this report will support the delivery of the budget proposals.

3.3 **Option 2**
The recommendations in this report could be rejected.

3.4 **Option 2 Risks and Mitigations:**
It is a statutory requirement for the Board to adopt a balanced budget ahead of the new financial year.

A decision not to delegate authority to the Section 73 Officer for the award of grants could result in delays to the receipt of required funding.

3.5 **Recommended Option**
Option 1

4. Consultation on Proposal

4.1 The proposals in this report are the result of reports to the Board in July, October and January with one-to-one engagement with the Board members in November and December.

4.2 The Audit, Standards and Risk Committee were consulted on the Treasury Management Strategy in January.

5. Timetable and Accountability for Implementing this Decision

5.1 This budget will be live from April 2023.

6. Financial and Procurement Implications and Advice

6.1 This is a finance report the details of which are presented in the main body of the document.

7. Legal Implications and Advice

7.1 It is a legal requirement to set a balanced budget ahead of the new financial year.

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 Budget Detail

B Treasury Management Strategy

C Capital Strategy