Mayoral Combined Authority Board

05 June 2023

Financial Outturn 2022/23

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

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Executive Summary

This report provides a summary of the financial position as at the outturn of financial year 2022/23. The outturn position notes underspend across revenue and capital positions and increased income generation from treasury management activity.

The report also notes that whilst the majority of underspend will now result in committed activity falling into the new financial year and beyond, increased income presents opportunities to manage known sustainability pressures and emerging new activity.

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

The MCA's financial resources enables it to invest in people, projects and places in support of the wider ambitions for the region.

Recommendations

1. Note the financial position at the outturn of financial year 2022/23.

2. Approve the use of the revenue Capacity & Development Reserve, as detailed in paragraph 1.16

Consideration by any other Board, Committee, Assurance or Advisory Panel
None.

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1. Background

1.1 Throughout the year the MCA has received financial monitoring information that has provided the Board with updates on the expected financial position at the end of the financial year.

1.2 After each quarter the budget has been revised to reflect changing expenditure profiles, the adoption of new activity and the receipt of new funding streams.

1.3 The year has largely been characterised by challenges in delivering significant bodies of activity as national labour market pressures coalesced with unexpected global inflationary problems.

1.4 These issues have been exacerbated by continuing post-pandemic uncertainty relating to societal trends and how they impact on the demand and shape of the services the MCA provides or supports.

1.5 This uncertainty has made it difficult to forecast the need for the MCA to provide support to certain sectors of the economy, complicated further by the evolving approach of national Government to the support it can provide.

1.6 At outturn the financial position is notable on a number of issues:

1. At c. £110m the MCA and partners achieved the highest levels of annual capital investment since its inception in 2014;

2. Whilst in-year expenditure reached record levels it did fall short of base budget forecasts, with significant amounts of activity slipped into future years as labour market pressures impacted on capacity and inflationary pressures required schemes to be re-designed;

3. This capital slippage led to higher levels of cash being held on deposit which attracted improving yields as interest-rates rose in response to inflation;

4. This investment activity allowed the MCA to generate c. £8m more in investment income than it had planned, enabling the implementation of a £4m cost-of-living package to support struggling communities and allowing the MCA to consider options to bridge longer-term financial pressures;

5. The MCA was also able to navigate complex commercial challenges on the bus and tram network, using local and national funding to sustain a level of service and support patronage priming products such as the Zoom Beyond concession and the £2 fare cap;

6. An unexpected continuation of Government funding support for the transport network over Quarter 4 means that the MCA has avoided the need to draw upon finite reserves earmarked to support priority bus services, with that resource now available in the new year and beyond; and,

7. Bus operators' ability to deliver on all routes – regardless of subsidy – has remained a problem throughout the year, with a lack of drivers leading to some tendered services remaining unfilled. This has further contributed to a net c. £2m underspend on local transport authority activity, reducing the need for calls on the Levy Reduction Reserve.

1.7 In the immediate-term, slippage on the capital programme is likely to mean that the MCA will continue to operate with higher cash balance in the new financial year than had been anticipated at budget setting for financial year 2023/24. This is likely to have an impact on investment income profiles that is currently being considered.

1.9 The slippage of large amounts of capital expenditure into future years does not at this stage present a clawback risk. However, the ability to deliver schemes in a timely manner is central to the region's reputation as a reliable delivery partner. Measures implemented during the year should mean this position is becoming less likely.

1.10 The continuation of Government funding for bus services over Quarter 4 was a welcome intervention. Funding received meant that the MCA did not need to draw on reserves as it had initially planned. The commitment from Government to retain funding until July also now means that these reserves are unlikely to be needed before the summer.

1.11 At the time of writing Government's intentions for bus funding beyond these current commitments remain unclear and it may be that the continued funding support has simply moved the forecast loss of services until later in 2023/24. However, the existing Protection of Priority Service reserve remains available to support pressures with c. £7m uncommitted at this point.

1.12 Availability of bus drivers has been a constraining factor in the level of services the MCA can reprocure. Over the course of the year a number of services that were tendered for were not filled as operators lacked sufficient capacity.

1.13 The market's inability to bid for these services – and consequent budget savings - has contributed to a net reduction in the need for support from the Levy Reduction Reserve, with c. £2.1m required to balance the budget at outturn compared to a base budget forecast of c. £4.7m. This lower draw on reserves provides some additional flexibility in medium-term planning assumptions.

1.14 During the year the MCA agreed to support a bus driver training and retention scheme using skills funding. This investment should in time lead to greater capacity.

1.15 Reporting throughout the year noted the strong performance on treasury management activity, with £4m of windfall income set aside mid-year to support the cost-of-living response. Budget setting for financial year 2023/24 noted that the outturn position was likely to lead to further windfall of c. £2m, recommending this be held back in reserve pending the outcome of Government funding decisions.

1.16 At outturn, treasury activity had generated income in excess of forecast with £3.75m windfall income. This resource is currently held in a capacity and development reserve. It is recommended that this income is held to mitigate the impact of Government's recent decision to withdraw capacity funding that has been received by the MCA since 2014 (£0.50m p/a) and also to support the organisational capacity requirements referenced earlier on this agenda in the MCA Review report.

1.17 The Treasury Management Outturn report accompanies this report as an appendix. The report shows that in addition to the strong performance on income generation £8m of legacy debt was retired during the year. This is in line with the medium-term financial plan, with the associated interest savings built into forecasting.

1.18 The outturn position will now inform both a quarter one budget revision and planning for the next financial year. A revised budget, accounting for slippage, available income, and the latest activity profiles, will be represented to the Board in July whilst budget planning meetings for financial year 2024/25 have commenced with the South Yorkshire Directors of Finance.

2. Key Issues

2.1 This report notes the draft outturn position for financial year 2022/23. Further detail on outturn income and expenditure is provided in the appendices.

3. Options

3.1 **Option 1**

Board approve the proposal to use windfall funding generated from treasury management activity to support capacity requirements and mitigate the loss of Government funding.

3.2 **Option 1 Risks and Mitigations**

None.

3.3 **Option 2**

The Board could choose to hold back the release of windfall funding until an alternative priority has been identified.

3.4 **Option 2 Risks and Mitigations**

Without this resource the MCA will need to pare back activity to mitigate the loss of Government capacity funding and consider how best to support the issues raised through the MCA Review report.

3.5 **Recommended Option**

This is a report to note with no options presented for consideration.

4. Consultation on Proposal

4.1 None.

5. Timetable and Accountability for Implementing this Decision

5.1 None.

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 report and the appendices.

6.2 The report recommends that windfall treasury management income is matched off to the loss of Government capacity funding and the issues noted in the MCA Review Report.

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

A Financial Outturn Supporting Information
B Treasury Management Outturn Report

Background Papers

None.