SOUTH YORKSHIRE SYMCA MAYORAL COMBINED AUTHORITY

Mayoral Combined Authority Board

12 March 2024

Annual Budget & Treasury Management Strategy 2024/25

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?	No
Has it been included on the Forward Plan?	No

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Executive Summary
This report proposes a balanced budget and accompanying financial strategies for financial year 2024/25. The proposed budget provides resource totalling c. £397m 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 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

Mayoral Combined Authority Board	09 January 2024
Mayoral Combined Authority Board	14 November 2023
Mayoral Combined Authority Board	12 September 2023
Mayoral Combined Authority Board	31 July 2023

1. Background

1.1 In common with other public bodies and local partners, the MCA 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 Budgeting for 2024/25 has been undertaken in the context of material change with potential further change to come. In March 2024 tram operations will return to public control, whilst – subject to the legislative process – the functions and powers of the South Yorkshire Office for Police and Crime Commissioner (OPCC) could transfer to the MCA in May 2024. Work also continues to undertake the bus franchise assessment whilst the MCA continues to integrate and embed its new governance model and the functions of the South Yorkshire Passenger Transport Executive (SYPTE) that was dissolved in April 2023.

1.3 This budget wholly incorporates the transport functions of the former SYPTE and presents budget plans along the lines of the new governance model.

1.4 Whilst resource to support the activity of the wholly-owned South Yorkshire Future Tram Ltd (SYFTL) is included within this budget, the day-to-day operational activity of that company is not consolidated. SYFTL financial performance will be presented as an addendum to MCA reporting.

1.5 This budget provides resource to support the franchise assessment activity whilst the Reserve Strategy has also been recast to prepare for the potential for the Board to take a decision in the next financial year to move to a franchise model. Whilst preparations do not prejudge that decision they do allow a decision to be made in the knowledge that, should the Board decide to proceed, resource is available for the transition stage and mitigations are in place for immediate risks.

1.6 The budget for the MCA does not at this stage incorporate OPCC activity. Should OPCC powers be transferred to the MCA in May 2024 the budget will be re-cast to accommodate that activity.

1.7 The budget proposals presented in this report are notable for a number of reasons:

1. The total resource made available represents one of the largest spending envelopes ever provided by the MCA, with £210m of revenue and £187m of capital funding;
2. The forthcoming year marks the start of funding to be received to launch the UK's first Investment Zone, with both revenue and capital expenditure plans included within this budget;
3. The budget earmarks material amounts of funding in both 2024/25 and future years to progress bus franchising, should the Board choose to pursue that policy in the next financial year;
4. Treasury management performance is expected to remain strong in the new year as high cash balances continue to yield good returns. This income is applied to sustain core activity and provide funding to continue bus franchising activity;
5. The medium-term outlook is characterised by growing risk exposure that will require mitigating strategies, including the refreshed Reserves Strategy that is included in this report.

1.8 Whilst in previous years the immediate planning concern was the commercial sustainability of the public transport network, in 2024/25 it is expected that there will be a period of stability.

1.9 As agreed in September 2023, resource is set aside in this budget to sustain the current network through to 2025/26. A cocktail of reserves and Government funding will stabilise the budget in year, but uncertainty remains beyond this point with no clarity on Government's intentions beyond 2024/25.

1.10 Of note in the budget is the proposal to set funding aside to support the continuation of the franchise assessment and in particular allocate funding to potential transition activity. Planning for this activity now would allow the Board to make a decision in 2024/25 in the knowledge that resource could be made available if required. Funding for this activity is largely derived from the exceptional treasury management performance in financial year 2023/24 and prudent assumptions on what is expected to accrue in the new year, along with reallocations of reserves and Gainshare resource.

1.11 How the MCA can bridge the withdrawal or reduction of Government funding for bus in 2025/26 to the potential implementation of a franchised model without the further loss of parts of the network is a key planning concern.

1.12 A reserve strategy refresh has also been undertaken to reflect the changing operating environment. This reflects new risk exposure as the MCA becomes exposed to the financial performance of the tram network, but also the need to plan now for a potential move towards a franchise model for bus services. These changes have been possible due to the strong reserve position held and the de-scoping of pandemic related risks that have now abated.

1.13 Revised reserve profiles also reflect the release of funding through the MCA's Project Feasibility Fund and Capacity and Capability Fund. Both reserves have been generated in recent years to allow the MCA to invest for a sustained period into core capabilities and pilot activity, seeking to redress iniquities in the MCA's funding environment.

1.14 The report also notes the material amount of expenditure forecast in the capital programme at c. £187m. As in previous years the weight of the capital programme is directed at transport priorities, reflecting the major funding streams from the Department for Transport.

1.15 Whilst work to conclude the Transforming Cities Fund (TCF) programme continues, the City Region Sustainable Transport Settlement (CRSTS) programme is now intensifying with most schemes moving into final stages of business case development or into delivery.

1.16 The coming financial year will also see the first year of Investment Zone capital funding received. There is a material increase in the available capital funding from the UK Shared Prosperity Fund programme.

1.17 Looking ahead, the announcements made around the Network North funding suggest that up to £1.45bn could be made available to South Yorkshire from 2027 onwards for transport capital investment.

1.18 This new funding would provide medium-term certainty around transport investment and complement plans being made now to commit long-term Gainshare capital monies to the four Place Investment Plans.

1.19 At the time of writing, however, there is no certainty around the continuation of UK Shared Prosperity Funding nor the Brownfield Housing Fund, which are both due to end in the next financial year. The loss of this funding will impact on the breadth of activity the MCA can invest into.

1.20 The scale of the capital programme is likely to present delivery challenges in the new-year. Whilst ongoing work to ensure assurance processes are as efficient as possible is underway, capacity both within the sponsoring authorities and the wider supply chain continues to be challenging. The MCA will continue to work with partners to address these issues.

1.21 To support the budget, this 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 in the new year.

2. Key Issues

2.1 This report proposes a budget of £397m consisting of revenue and capital activity. Unlike previous years, the majority of expenditure is forecast to flow through revenue budgets, largely reflecting Government grant funding flows and project activity:

Capital Revenue Split	£k	%
Total Net Expenditure	£396,810	
- Revenue	£209,594	53%
- Capital	£187,216	47%

2.2 This level of expenditure represents an increase on the prior year budget of c.£10m across revenue and capital activity.

Year-on-Year Variance	2023/24 £k	2024/25 £k	Variance £k	Variance %
Revenue	£168,981	£209,594	£40,613	24%
Capital	£217,984	£187,216	-£30,768	-14%
Total	**£386,965**	**£396,810**	**£9,845**	

2.3 Increases in the revenue budget reflect – in part - the significant growth in the profiling of the UK Shared Prosperity Fund programme (£20m), the receipt of the first year of Investment Zone funding (£4m), the commitment of Skills and Business Renewal Action Plan funding (£7m), the receipt of Let Zero funding (£2m) and the appropriations of material amounts of funding to earmarked reserves to support potential requirements for bus franchising activity (£6m) and the Place Investment Plans (£8m).

2.4 Capital movements reflect new funding and refinements to forecasting on existing programmes. Expenditure forecasts are presented after the application of optimism bias. Grant will be received for the first time to support Investment Zone activity (£8m) whilst funding derived from recycled loans is also set aside to part support the South Yorkshire Airport City project. As the Brownfield Housing Fund programme enters its final year, significant amounts of funding are also set aside for that activity (£35m). For the first time, budget provision is also made for the Local Electric Vehicle Infrastructure (LEVI) programme (£9m).

Revenue Expenditure

2.5 The revenue budget has been re-cast for 2024/25 along the lines of the portfolio areas adopted as part of the MCA's governance changes implemented in 2023/24.

2.6 Expenditure is now recorded against the Health Inequalities, Best Start in Life and Creative Culture and Digital areas, along with the more familiar areas of Transport, Skills and Employment, Growth and Housing and Infrastructure.

Revenue Expenditure by Area:	£k
Travel & Transport	£78,975
Growth & Skills	£86,157
Housing & Infrastructure	£600
Net Zero & Environment	£2,306
Creative, Culture & Digital	£465
Best Start in Life	£2,500
Health Inequalities	£257
	£171,259
Corporate Items	£13,907
Mayoral Office	£902
Other MCA Executive	£9,116
Appropriations to Reserves	£14,410
Total Revenue Expenditure	**£209,594**

2.7 Appropriations reflect the earmarking of funding expected to accrue in the year to reserves to support the bus franchising project and the delivery of the local authority Place Investment Plans and the regional Plan for Growth. This funding will be released as projects are agreed. Corporate items include debt charges, minimum revenue provision, and the support to SYFTL.

2.8 New funding expected to be received in year includes that made available for the Investment Zone (included within the Growth area) and Let Zero funding included within the Net Zero & the Environment line. The revenue budget also sees a significant increase in Shared Prosperity Fund activity (included within the Growth area) due to the profiling of grant flows, whilst Skills Renewal Action Plan activity has also increased as projects reach delivery. Funding is also released from reserves to support the Safe Place to Sleep project within the Best Start in Life policy area.

2.9 As in previous years the costs of the Mayoral Office – including staffing, services and commissions – are contained within the Mayoral Capacity Funding (MCF) received from Government.

2.10 Further details on the revenue budget are provided in the appendices.

Capital Expenditure

2.11 The capital programme is presented along programme lines, albeit some individual projects (as presented in the appendices) are funded across more than one programme. Optimism bias is applied to forecasting received from project teams to better align to recent delivery performance.

2.12 As in previous years, the majority of the programme is weighted to transport activity reflecting the significant funding flows that are received from the Department for Transport:

Capital Programme	**£k**
Transport Programme:	
Transforming Cities Fund	£32,380
City Region Sustainable Transport	£77,745
Active Travel	£3,850
Mayor's Sustainable Transport Fund	£4,076
	£118,051
Gainshare Programme	£21,644
Brownfield Housing	£23,716
Investment Zone	£5,556
Local Electric Vehicle Infrastructure	£6,230
Shared Prosperity Fund	£4,158
Recycled Local Growth Fund	£6,783
Digital Programme	£579
ICT Renewals	£499
Total Capital Expenditure	**£187,216**

2.13 The material amounts of funding being spent on TCF activity reflects slippage from previous years. All but a few TCF schemes will complete in the coming year.

CRSTS funded activity is expected to grow considerably in the new year as schemes exit the development stage and move into delivery.

2.14 Gainshare funded activity is also expected to increase as schemes approved in prior years move into delivery and partners begin to access the annual allocations that can be released to support the Place Investment Plans.

2.15 New funding is incorporated into the capital programme this year, including LEVI and Investment Zone activity. This new funding is complemented by recycled funding representing repaid loans that are now being reinvested back into schemes. This includes monies set aside for the South Yorkshire Airport City project, subject to the business case processes.

2.16 The Brownfield Housing Fund programme is now entering into its final year. Whilst there is a strong pipeline of schemes with outputs and values greater than the funding requirements, delivering these projects will be challenging and largely rest on the performance of external developers. The MCA continues to work with scheme sponsors to accelerate activity and seek flexibilities from Government to extend programme end dates to accommodate any slipped activity.

Funding

2.17 To fund the budget proposals, this report recommends the application of grants, use of locally generated commercial income, and the deployment of reserves.

2.18 This report proposes a funding package as follows:

Revenue Expenditure Funded by:	£k
Total Net Revenue Expenditure	£209,594
Funded by:	
Grant	£108,303
Transport Levy	£56,559
Commercial & Corporate Income	£22,145
Revenue Reserves	£22,587

Capital Expenditure Funded by:	£k
Total Net Capital Expenditure	£187,216
Funded by:	
Capital Receipts	£7,362
Capital Grant	£179,854

2.19 Whilst this is a significant 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.

2.20 Commercial and corporate income includes that funding generated from Treasury Management activities (£10m), income generated from the MCA estate (£5.3m), retained business rates from the Enterprise Zone (£2.7m) and funding generated from concession and ticketing activity (£2.2m).

2.21 In its January session the Board agreed to raise the transport levy by 2% and maintain subscriptions at their existing levels, bringing total local contributions for MCA activity to £57.75m:

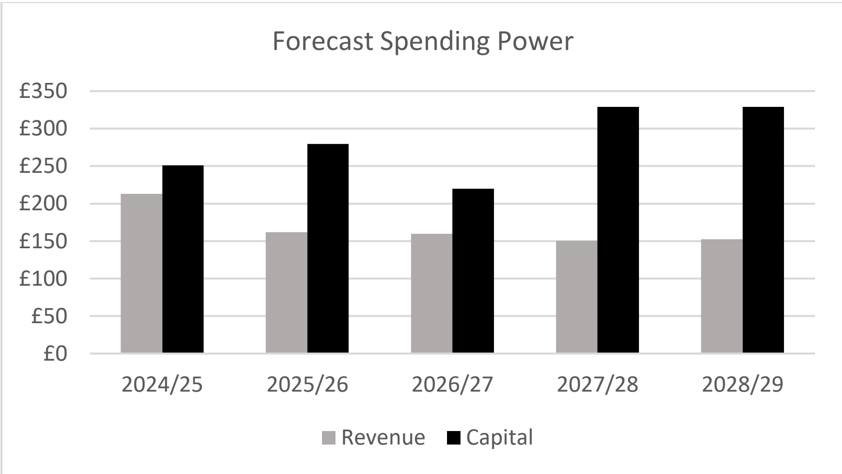
Local Authority Contributions	Levy £k	Subscriptions £k	Total £k
Barnsley	£9,915	£208	£10,123
Doncaster	£12,500	£262	£12,762
Rotherham	£10,594	£222	£10,816
Sheffield	£23,552	£493	£24,045
	£56,561	£1,185	£57,746

2.22 As reported at the January Board meeting, in line with the Mayoral manifesto no precept will be raised in the current year.

Medium-Term Forecasts

2.23 Forecasts of spending power in future years highlights the significant investment potential available to the MCA.

2.24 The following chart shows the forecast level of expenditure to 2029 based on known funding streams and known expenditure requirements:



2.25 Available capital funding is expected to grow from the current position as grant profiles and slipped activity coalesce in 2025/26. Significant amounts of Transforming Cities Fund (TCF) and City Region Sustainable Transport Settlement (CRSTS) are forecast to be delivered over the next few years.

2.26 By 2026/27 available capital resource is expected to fall as slipped activity is recovered whilst it is assumed that no new funding is made available to support the UK Shared Prosperity Fund programme and the Brownfield Housing Fund programme that both conclude in 2024/25.

2.27 By 2027/28, however, it is forecast that capital resource will grow significantly as the CRSTS2 programme arrives. This funding was initially announced at c. £0.9bn but was subsequently increased to £1.45bn following the cancellation of the HS2 northern leg and the announcement of Network North activity. On an assumption that c. £300m p/a will be made available, the opportunities for the MCA to invest into core transport priorities is significant.

2.28 The reduction in revenue funding reflects a number of movements including the exhaustion of reserves for discrete projects and strategies. In the coming years funding set aside for the Tram Concession end project; the Business and Skills Renewal Action Plan workstreams; the Safe Place to Sleep project; the Transport Innovation Fund; and budget stability reserves such as the Levy Reduction Reserve 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.

2.29 The key medium-term revenue challenges for the MCA remain:

1. Managing exposure to the financial performance of the tram network;
2. Dealing with the loss or reduction in Government bus funding when the current BSIP monies end in 2024/25;
3. Managing inflationary pressures when none of the MCA's funding streams are index-linked;
4. Managing exposure to commercial income performance, particularly Treasury Management activity;
5. Managing exposure to reserve contributions as earmarked and capacity reserves become exhausted; and,
6. Managing exposure to recharges as funded programmes reach their end points.

2.30 Whilst in the medium to long-term franchising may offer a more sustainable route to managing the bus network, a key planning concern is how to react to the potential loss or reduction of Government funding that is due to end in 2024/25. Without a successor funding stream the MCA is not in a position to provide the current level of subsidy that is sustaining the network at its current levels. This could lead to services being withdrawn before a franchise model is implemented.

2.31 Inflationary pressures remain an issue for the MCA given the lack of indexed linked funding. To-date these pressures have been managed through efficiencies and the commitment of commercial income flows, whilst the transport levy is now on a more sustainable trajectory. Whilst inflation is now reducing, the MCA remains exposed to this issue.

2.32 In recent years the MCA has benefited from exceptional performance on its Treasury Management activity. This has generated significant windfall. The MCA has taken a cautious approach to this windfall, matching one-off surpluses to one-off activity such as the franchise assessment activity and the Transport Innovation Fund. The MCA has also earmarked material amounts of funding to the Capacity & Capability reserve to strengthen core MCA functions. This money will be released over a sustained five-year period, but after this the MCA will need to rebalance its cost-base back to an affordable envelope.

2.33 The MCA remains heavily exposed to recharges with around £7m of costs being charged to revenue and capital programmes. Whilst this is prudent, reflecting the costs to the MCA of delivering activity, it does expose the MCA to Government funding cycles, with a requirement to flex the organisation up and down, often at short notice, to react to new funding.

2.33 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.

Reserve Strategy

2.34 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.

2.35 These reserves are generally differentiated between capital and revenue amounts, and those that are earmarked to specific activity or otherwise.

2.36 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.

2.37 A number of significant reserve reviews have been undertaken in the last three years to ensure that reserves were directed towards key risks and also to ensure that there was Group wide coherence, avoiding duplication. These exercises have been required as the MCA has navigated significant risks emerging during and after the pandemic and then the integration of SYPTE into the MCA.

2.38 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 changing risk in our operating environment;
2. An assessment of whether our reserves were mitigating the right risks given the recovery from the pandemic and a move towards more direct control of the transport network; and,
3. An assessment of whether our reserve strategy appropriately supported our adapted financial strategy.

2.39 The exercise noted five prominent issues:

1. The levy reduction reserve will now be exhausted by 2026/27, a year later than assumed previously;
2. A number of pandemic related reserves are no longer required, as the risks they supported have abated;
3. A number of other specific earmarked reserves can be decommitted as the risks they support have fallen away or can be moved against other funding;
4. Reserves previously committed to supporting bus services in 2024/25 can now be redeployed following the receipt of Government grant; and,
5. Critically, the MCA needs to prepare now for the risks that may arise subject to future decisions on the move to a franchised model for bus services.

2.40 Over the last two budget cycles discussions with local authority officers and Leaders has focussed on the need to plan for the eventual exhaustion of the Levy Reduction Reserve. This reserve has sustained the budget in anticipation of repayments of expensive legacy debt that would allow the cost-base to fall and use of reserves to be withdrawn.

2.41 Over time this strategy has been compromised by the introduction of new costs and excess inflation. To mitigate this the Board has committed to sustained increases in the transport levy, with a 2% increase agreed for the new financial year.

2.42 In the near-term this report proposes a £4.6m draw on this reserve to support the levy in 2023/24. This draw will take the reserve to £7.2m, with further draws placed on it in 2025/26 before it is exhausted in 2026/27.

2.43 Material changes to the Reserve Strategy are proposed in the new year to mitigate risk and investment requirements that will arise should the Board take a decision to pursue bus franchising.

2.44 This refresh sees a number of earmarked reserves associated with income resilience and debt financing de-committed, with their balances moved to a new 'Bus Risk' reserve. This reserve is also topped up with a transfer from the General Fund, enabled by a duplication between the SYPTE and MCA General Fund balances. The reserve is also the beneficiary of an amount held in an earmarked revenue reserve for works required on a tram tunnel. Whilst this risk remains, it is of a capital nature and the risk is transferred to capital receipts.

2.45 In total, the new Bus Risk reserve will stand at £10m and provide a buffer against the immediate exposure to the financial performance of the bus network the MCA will face should it proceed with franchising.

2.46 Reserves previously held to support at-risk bus services in 2024/25 are also now de-committed following the receipt of Government resource. It is proposed that these reserves, along with surplus treasury management income from 2023/24 and forecast treasury management income surpluses in 2024/25 are transferred to a new 'Bus Franchise Transition' reserve. It is proposed that this reserve be further topped up with a contribution from the Gainshare revenue resource that will be received in 2024/25.

2.47 In total, this would allow for the creation of a £20m fund to support bus franchising transition activity, that would be further complemented with the re-profiling of £5m of capital grant. It is expected that this resource will begin to be drawn upon in 2024/25 and be exhausted by the end of financial year 2026/27.

2.48 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 and released as projects are commissioned. Gainshare revenue committed to the delivery of the Place Investment Plans and regional aspirations will also be held in earmarked reserves up until committed to projects.

2.49 Finally, over the last two financial years resource has been earmarked to a Capacity & Capability reserve. This reserve is designed to support core organisational requirements, noting that the MCA is not in receipt of general capacity funding and does not benefit from revenue funding streams from a business-rate retention deal. Plans have now been agreed to release this funding over a five-year period to allow for sustained investment.

2.50 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 support to the South Yorkshire Airport City project. Activity is principally resourced from recycled LGF funding held as receipts.

Annual Treasury Management Strategy

2.51 Regulation and the MCA's Constitution require that the MCA approve the adoption of an Annual Treasury Management Strategy (TMS).

2.52 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.

2.53 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.

2.54 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.

2.55 Noting the ongoing volatility in global events and the potential for change in the UK's financial outlook the TMS proposes to maintain the current stance, limiting investments to the safest of counterparties.

2.56 Of note in this year's TMS is the elevated level of income that is expected to continue be generated from cash management activity. The rapid rises in interest-rates from 0.75% in financial year 2022/23 to 5.25% at the time of writing has led to unexpected income windfall from the cash held on deposit, with strong performance also now expected in the coming year.

2.57 It is now assumed that interest-rates have peaked and will fall to around 3.75% by the end of 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 £10m in interest in the new year, representing c. £10m less than that expected to be generated in 2022/23 at outturn, but around £7m more than was budgeted for in 2022/23. Of this income around £4m is required to support the base budget, with £6m of windfall proposed to support franchise transition costs.

2.58 The TMS also notes the intention to retire a further £4m of borrowing during the year, following the £50m repaid in 2023/24. The repayment of this borrowing reduces the cost of debt by c. £0.2m.

2.59 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.

2.60 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).

2.61 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. Government officials have indicated that their proposals are not intended to impact on the MCA's practice and have noted that Section 73 Officers and approving authorities will continue to have discretion around the setting of a prudent provision.

2.62 Finally, the TMS reflects that there is no planned requirement for new borrowing in the coming year. Whilst the MCA retains headroom via the debt-cap agreed with HM Treasury no new investment requiring borrowing is planned for the year.

2.63 The MCA has engaged HM Treasury on the potential need to consolidate the debt position of the OPCC and South Yorkshire Police in the event of a transfer of powers to the MCA. The Chief Under Secretary to the Treasury has since agreed to this undertaking, allowing the MCA to continue with its current levels of borrowing headroom.

Grant Acceptances

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 2024/25
- Gainshare 2024/25
- LEP Capacity 2024/25
- Growth Hub 2024/25
- Mayoral Capacity Funding 2024/25
- Working Win 2024/25
- Levelling Up Fund Capacity 2024/25
- Investment Zone 2024/25

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

Section 25 Statement

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 Section 73 Officer notes the work undertaken across the MCA to develop these estimates in the face of much uncertainty.

2.70 A business planning exercise has been undertaken led by the Executive Leadership team, with costed plans developed across the business. This was complemented by a resource rationing exercise, led by the Chief Executive and Section 73 Officer, to determine how best to allocate finite reserves in support of priority commissions and capacity and capability requirements.

2.71 These exercises allow for a balanced in-year budget and robust medium-term position. However, the longer-term position is characterised by uncertainty.

2.72 The MCA’s changing operational landscape continues to bring with it new and different risks. The decision to bring the tram operations back under public control by March 2024 and potential decisions to move towards a bus franchise model could enable significant strategic opportunities to deliver a more efficient and effective transport network. They will, however, also bring the MCA much closer to the impact of financial underperformance.

2.73 These issues have led to a significant exercise to determine how bus franchise assessment costs could be funded and how reserves and other funding could be realigned to help mitigate immediate risk.

2.74 In part enabled by windfall Treasury Management income and a judicious Reserve Strategy, this budget provides a funding package for transition costs and an immediate resilience reserve of £10m. Whilst this reserve would allow for an annual deficit of c. 10% on income to be incurred it can only be used once.

2.75 This reserve would benefit from being higher to allow the MCA to deal with multi-year issues without suffering financial shock, and it is proposed that consideration be given to diverting underspends and/or income surpluses to this reserve should they arise.

2.76 Significant resource is also budgeted for to sustain SYFTL whilst operating risk is also held against capital resource if in-year performance deteriorates beyond forecast. Whilst recent procurement exercises indicate that the budgeted subsidy could be in excess of requirement, there remains concern over the impact of disruptive renewals work on patronage.

2.77 Looking ahead, the MCA’s decision in January 2024 to commit to a second transport levy increase and note the need for sustained increases is a positive step to addressing structural issues in the funding of core transport activity.

2.78 A key planning concern, as noted in the report, is the risk that Government funding for bus services is not made available in 2025/26 leading to a loss of services. Whilst the franchising assessment work indicates that services may be recoverable under that model, even if Board did take a decision to pursue it would take some time for the benefits to flow. This could lead to a gap where provision deteriorates before improving.

2.79 At the time of writing Government had indicated that some support may be possible through to 2028/29, but no detail was available on how that funding would be disbursed and what quantum may be available to the MCA.

2.80 Of significance is the ongoing performance on Treasury Management both in financial year 2023/24 and expected into financial year 2024/25. With support from the Board, windfall income has been used prudently with funding set aside in reserves for long-term sustained capacity and capability and investment into priority commissions that may enable the MCA to access either further funding or deliver services more efficiently into the future.

2.81 The Transport Innovation Fund, Capacity & Capability Reserve, Franchise Transition Reserve, and Safe Place to Sleep Reserve have all been funded in the Reserves Strategy from Treasury Management income and will be released over a number of years to sustain the budget.

2.82 This will allow for investment into priority areas but will create a medium-term cliff-edge. Unless the MCA is able to monetise the benefits of this investment the budget will need to be reduced back to core income streams.

2.83 As stated in the report, planning concerns remain around inflationary pressures and exposure to recharges into time-limited programmes of activity. To-date those issues have been mitigated through new income becoming available and new programmes of funded activity replacing withdrawn ones. Into the future, should this not be the case the MCA will need to adjust its cost-base and flex capacity accordingly.

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 quantum of reserves held are currently appropriate. The Section 73 Officer notes the significant challenges in the medium-term planning environment, particularly if exposure to the financial performance of the transport network move closer to the MCA.

3. Options Considered and Recommended Proposal

3.1 **Option 1**
Approve the recommendations in the report.

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

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

3.8 **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.

3.13 **Recommended Option**
Option 1

4. Consultation on Proposal

4.1 Board has been consulted on proposals around the transport levy and precept throughout the year.

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.

9.2 Click or tap here to enter text.

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 Treasury Management Strategy
B Budget Detail