

Mayoral Combined Authority Board

10 September 2024

Budget Development 2025/26 & Revised Treasury Management Strategy

Is the paper exempt from the press and public?	No
<i>Reason why exempt:</i>	Not applicable
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

Portfolio: N/A

Portfolio Holder: N/A

Lead Chief Executive: N/A

Director Approving Submission of the Report:

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Executive Summary

This report provides information on the process for setting the budget for the forthcoming 2025/26 financial year and highlights key financial issues for consideration.

Of material note is the potential withdrawal of Bus Service Improvement Plan (BSIP) funding, and the impact that would have on the bus network. The report notes that uncertainty remains across a number of grant funding streams, with clarity not expected before the Government's Comprehensive Spending Review is finalised.

Appended to this report is a revised Treasury Management Strategy (TMS) for the current financial year. This document is revised to show the amalgamated position of the MCA and the former Office for Police and Crime Commissioner (OPCC).

The revised TMS also updates on forecast treasury management income generation. This position is updated for the latest forecasts on cash balances and interest-rates. The report notes that base-budget forecasts for this income stream are expected to be surpassed by c. £5m.

In line with the adopted reserve strategy, this report recommends that additional Treasury Management income be appropriated to the Bus Resilience Reserve to support the mitigation of risk against financial shock from any decision to proceed with a move to a franchised bus model or the loss of grant support for bus from March 2025 onwards.

The report recommends that a long lease be granted to City of Doncaster Council (CDC) for a small strip of MCA owned land at the Mexborough mini-interchange site. This lease is required to support a CDC led CRSTS transport scheme and does not impact on the overall transport operations at the site.

The report recommends the approval of Commercial Street Bridge structural works to be funded from MCA capital receipts.

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

The MCA's financial budget affords it the means to deliver upon its investment aspirations.

Recommendations

1. Note the process and identified budget issues for the forthcoming financial year;
2. Approve the proposals to transfer £5m of anticipated additional Treasury Management income into reserve;
3. Approve the revised Treasury Management Strategy;
4. Approve the granting of a long-lease to the City of Doncaster Council for a part of the Mexborough mini-interchange site; and,
5. Approve the Commercial Street Bridge works at estimated cost of £0.60m to be funded from capital receipts.

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

The Treasury Management Strategy was presented to the Audit Standards and Risk Committee on 17th July 2024

The PCC's Budget and Council Tax Precept 2024/25 report was approved at the Public Accountability Board on 26th February 2024.

1. Background

- 1.1 This report provides an update after the first quarter of financial year 2024/25 on two principal issues:

1. The process for setting the budget for the forthcoming financial year along with key issues identified at this stage; and,
 2. The Treasury Management Strategy and performance to-date, along with a recommendation to move surplus treasury management income to reserves.
- 1.2 This report also recommends that City of Doncaster Council is granted a long lease for the Mexborough mini-interchange site to facilitate the Mexborough Sustainable Transport Scheme, and the approval of Commercial Street Bridge structural works.
 - 1.3 Budget assumptions are prepared on the basis that the existing funding model with national Government is retained in 2025/26, with an integrated settlement not achieved before 2026/27.
 - 1.4 It is proposed that the usual budget engagement process is followed, with bi-monthly meetings with the South Yorkshire Directors of Finance culminating in levy proposals brought to Leaders before Christmas through one-to-one engagement. In January 2025 the levy decision will be brought to the MCA Board.
 - 1.5 For the first time, the Mayor will also be responsible for setting a precept for police and crime. This report details how the budget for police and crime activity will be developed along with the governance steps that will be followed.
 - 1.6 The police and crime precept proposal will be confirmed in January 2025, along with any general Mayoral precept should it be considered.

2. Key Issues

Treasury Management Review

- 2.1 Following the formal integration of the MCA and OPCC on 7 May 2024, the 2024/25 Treasury Management Strategy has been updated to show the incorporation of the PCC debt and investment portfolios.
 - 2.2 It includes an updated series of prudential indicators for the MCA/PCC combined and additional commentary where circumstances and events have moved on since the original strategies of the MCA and PCC were approved.
 - 2.3 Further detail is provided in the covering report in Appendix A alongside the full Treasury Management Strategy included in Appendix B.
 - 2.4 The forecast for Treasury Management income is positive as interest rates have remained higher for longer than forecast during quarter 4 of 2023/24. However, investment income is subject to global factors which influence the UK economy and the Bank of England base rate. New government policy could also change the current forecast trend for interest rates.
- 2.10 Based on the anticipated level of returns Treasury Management income is expected to exceed the £10m budget approved in March. It is forecast that additional income of at least £5m will be available to the MCA during the remainder of the 2024/25. This forecast could increase depending on the prevailing Bank of England base rate and other external factors that drive the level of investment returns that can be achieved.

- 2.11 It is recommended that any windfall surplus is appropriated to the Bus Resilience Reserve to support known pressures around bus funding for financial year 2025/26 and the significant new risk that the MCA would be exposed to should the MCA choose to proceed with a move to a new franchised model for bus services.

Budget Planning 2025/26

Local Transport Authority Revenue Budget

- 2.12 In January 2024 the MCA set the transport levy for the year and agreed a medium-term financial plan for local transport authority activity.
- 2.13 That plan was centred on protecting as many transport services as possible in the short-term, whilst in the long-term addressing structural sustainability issues.
- 2.14 This plan required the use of reserves and material levels of Government support for short-term interventions aimed at stabilising the bus network and gradual transport levy increases to meet longer-term sustainability challenges.
- 2.15 Taken together, these interventions have supported a period of stability on the network with daytime, evening, and weekend services protected through financial years 2023/24 and 2024/25.
- 2.16 This support means that around 70% of the network is now wholly or partly subsidised, with around 90k people reliant on a subsidised service during the day and 210k reliant on subsidised service during the evening.
- 2.17 A key planning concern in setting the 2024/25 budget was the continuation of Bus Service Improvement Plan (BSIP) funding beyond March 2025 when the current grant ends. This grant is currently providing c. £11m of support to the network that cannot be backfilled on a sustainable basis from other funding sources.
- 2.18 Whilst the Department for Transport have previously indicated that there would be some continuation of funding beyond March 2025, no clarity has been available around the quantum or longevity. The general election and subsequent announcement of a significant national deficit has further added uncertainty to the issue.
- 2.19 The potential loss of BSIP funding in 2025/26 would have a serious impact on the scale of the network. Evening and Sunday services that are currently heavily subsidised could be lost, leaving the network up to around 43% smaller than it was pre-Covid.
- 2.20 Whilst the franchise assessment exercise has suggested that the current network could be retained under a franchised model, a wholly franchised model would not be achieved before 2028. Accordingly, there is potentially a gap of several years between the possible loss of national support and the benefits of a franchised model flowing.
- 2.21 The MCA, along with other local transport authorities, continues to engage with the new Government to emphasise the importance of the continuation of BSIP funding. Government have indicated that they are aware of the issue and are considering options.

- 2.22 The local transport authority cost-base is also expected to see some pressures around the cost of the English National Concessionary Travel Scheme (ENCTS). Recent months have seen marginal increases in the levels of ENCTS journeys, suggesting a recovery in lost journeys from this cohort. As demand increases the unit cost of the journey has also increased due to the national reimbursement formula set by the Department for Transport adversely changing.
- 2.23 Increases in the costs of concessionary travel have been offset to-date by lower variable costs on tendered services contracts. This again suggests an increase in patronage across the network.
- 2.24 The ability of the MCA to continue to offset concession pressures with savings elsewhere in the budget will largely be predicated on patronage levels. A potential variable in this is the likely withdrawal of the Government's £2 fare-cap scheme during the year. The MCA understands that the current scheme will be phased out, with a more targeted scheme under consideration.
- 2.25 The performance of the tram network continues to be a material consideration in the local transport authority revenue budget. Performance to-date has been encouraging with marginally higher revenues and costs being managed down. This is expected to result in a full-year underspend in 2024/25 of c. £0.5-£1m with an expectation that the levels of subsidy planned in the MTFS can be achieved as year-on-year savings are realised.
- 2.26 The wider economic picture has improved with inflation rates now at the Bank of England's target of 2% but inflation is expected to rise again in Q3 and Q4 as the dampening effect of declines in energy prices fall out of the equation. Whilst lower inflation is positive from a service cost and delivery perspective this is likely to signal future reductions in interest rates which will impact the MCA's ability to generate the levels of Treasury Management income seen in recent years. At this stage, it is expected that the MCA will be able to generate returns sufficient to meet its core budget requirements up to the end of the MTFS period.
- 2.27 Although the headline rate of inflation has reduced this means that prices are no longer increasing at the historically high rates, we've seen during 2022/23 and 2023/24. Previous cost increases may still feed through indirectly as suppliers review their pricing. In addition, the Local Government pay award is still to be agreed by the National Public Sector Unions. Recommendations from the national pay review bodies are for above inflation rises for other parts of the public sector which may have a bearing on any future award.
- 2.28 Engagement sessions have been undertaken with the South Yorkshire Directors of Finance Group, with revised modelling indicating that the current strategy of 2% increases is likely to hold until c. 2027. Accordingly, at this stage it is recommended that the existing approach of gradual levy increases is maintained.
- 2.29 This strategy is particularly sensitive to inflation assumptions and the financial performance of the tram system. Modelling work will continue with further engagement sessions planned before Christmas. This will inform the Budget Setting proposals for the Transport Levy which are due to be presented to the MCA Board in January.

Non-Transport MCA Revenue Activity

- 2.30 Non-LTA elements of the budget are largely characterised by uncertainty around a number of grant funded programmes.
- 2.31 Of particular note is the potential for the loss of UK Shared Prosperity Fund, which comprises revenue and capital resource and is now in its final year of funding. South Yorkshire has seen strong performance in this area, using the money to good effect across business, skills, net zero and community cohesion schemes.
- 2.32 The loss of this funding would weigh on wider regeneration and levelling-up efforts and leave the region with a significant hole that was formerly filled by European monies. A withdrawal of the Fund without a successor would also jeopardise core capacity and skills across the region, particularly in local authority teams.
- 2.33 The MCA is working with local and national partners to emphasise the importance of this funding whilst working locally to determine how best a reduced settlement could be deployed.
- 2.34 A number of other funding streams are due to end or have not been committed beyond the current financial year, including:
- Mayoral Capacity Fund revenue (£1m p/a)
 - Local Economic Development Funding revenue (£0.24m p/a)
 - Growth Hub (£0.38m p/a)
 - Multiply (£2.04m p/a)
- 2.35 The MCA has a continuing dialogue with Government officials on these programmes, but it is not expected that any clarity will be available until the comprehensive spending review has been finalised.
- 2.36 The MCA is, alongside other peer authorities, also continuing to engage Government on a sustainable funding settlement for MCA areas. Importantly for South Yorkshire, the MCA is seeking a settlement that compensates for the lack of a Business Rates Retention agreement as enjoyed by other authorities. Government is now proactively working with the MCA to consider this issue.

Police and Crime Revenue Budget

- 2.37 The former PCC approved a £347m revenue budget for Police and Crime in February 2024. The PCC proposed to levy a precept of £251.04 on a band D property (an increase of £13). This was agreed unanimously by the Police and Crime Panel.
- 2.38 The budget, along with the former PCC's other assets and liabilities, transferred to the Mayor on May 7th 2024, when he became responsible for PCC functions.
- 2.39 As part of the 2024/25 strategic planning and budget setting process the Chief Constable submitted her assessment of policing need in South Yorkshire. Whilst the Force is comfortable that the way it operates is fit for purpose and is the best model to meet the needs of the people of South Yorkshire, this will continue to be monitored and developed where necessary.

- 2.40 There are, however, multiple areas in which offending is predicted to increase, with increased demand specifically expected around vulnerability, the digital arena, economic crime and fraud, neighbourhood crime and illegal drugs. Coupled with financial constraints, developing technology, political change and the impact of national events, for example, issues around trust and confidence, it is vital to be able to plan and react appropriately.
- 2.41 In order to achieve this, core priority areas are response and further development of the operating model to ensure that the right resources are in the right areas to support delivery, whilst continuing to focus on vulnerability and neighbourhood crime.
- 2.42 Investment in IT infrastructure and core systems is also crucial to support the work of the Force and should also lead to improvements in efficiency and effectiveness. As such, the development of the technology enabled change team was also included in the budget, this being necessary to meet the challenges of the future as well as to support specific IT systems implementation and benefits realisation.
- 2.43 There are a number of key challenges within the budget, and these are being monitored closely:

Savings

- 2.44 The budget includes savings of £4.7m, but significant additional savings (projected at £16.4m p.a.) will be required towards the end of the MTFS period, along with some use of reserves.
- 2.45 Through the strategic savings and efficiency board, and the priority-based budgeting (PBB) process, work has already begun on identifying and implementing the savings required. These are aligned to changing needs and increasingly complex demands on the service and will result in improved efficiency and effectiveness. Tranche one has already been undertaken, and the implementation phase has begun. Work has started on tranche two.
- 2.46 Only savings that are supported with firm implementation plans have been recognised in the Medium-Term Financial Strategy (MTFS), and as such the financial forecast is expected to improve as savings plans crystallise. The expectation is that the Force will still be ambitious in its outlook but will need to balance that ambition against the ability to maintain existing service levels in the current financial climate.

Legacy Issues

- 2.47 There are legacy costs arising from three issues:
- Civil claims against SYP as a result of the Hillsborough football disaster
 - Civil claims against SYP as a result of non-recent child sexual exploitation (CSE) in Rotherham
 - The National Crime Agency's on-going investigations into non-recent CSE.

Legacy estimates when the budget was set were that the total legacy costs would be a further £86m by 2028/29, of which £30m will have to be funded locally. In 2024/25, the cost of legacy issues is anticipated to be £10.3m, funded through reserves. Potential risks include the timing of the claims settlements and the availability of special grant funding from the Home Office. These are being monitored closely and Finance staff liaise regularly with Home Office officials in this area.

- 2.48 As well as changes that may arise from a new government and the associated economic impact, other specific risks include:
- Outstanding issues around police pension costs for the McCloud Sergeant pension ruling. It has been assumed that the outstanding issues around police pension costs will be covered by the government, but this is yet to be confirmed.
 - Longer term funding for the police uplift officers that have already been recruited as this is currently unclear.
- Again, officers are liaising with the Home Office through national groups to understand any financial impact at the earliest point.

2025/26 police and crime budget preparation

- 2.49 A draft strategic and financial planning timetable is in place. This process begins in September in liaison with the Force and other partners. The process builds on the Mayor's policing priorities as well as the Force assessment of need, and culminates in the final budget approval process in February.

Capital Programme

- 2.50 The multi-year capital programme will largely continue as planned into the new financial year, with the majority of funded programmes continuing.
- 2.51 Of note, however, is the potential loss of the Shared Prosperity Fund element of the capital programme (£27m) and the Brownfield Housing Fund programme (£53m), both of which are now in their final year of funding.
- 2.52 The Brownfield Housing Fund programme is now well developed, with a marginal over-programmed position and a strong pipeline of schemes coming through. The MCA is engaging Government on the potential to extend this programme and avoid the stop-start nature to housing funding.
- 2.53 In the new financial year we expect to see a significant increase in the drawdown against Gainshare capital funding received in prior years as scheme development accelerates. Some authorities have indicated that they may consider borrowing against future year profiles, enabling significant place-shaping activity.
- 2.54 The national deficit announced by the Chancellor and the associated upcoming Spending Review presents some risk to future year funding, but potentially also opportunities. The MCA continues to engage with Government on the potential for an integrated funding settlement, affording the region more flexibility to deploy resource to local priorities.

Disposal of Mexborough Mini-Interchange Site

- 2.55 The City of Doncaster Council (CDC) are undertaking a programme of highway works under the Mexborough Sustainable Transport Scheme. To allow the proposed scheme to be constructed, CDC require either ownership or a long full repairing lease on a parcel land owned by SYMCA.
- 2.56 Appendix C shows an outline of the land recommended for disposal. The site consists of a large transport pull in with 4 shelters (3 x double, 1 x triple), which would be re-sited or replaced within the scheme to John Street, just behind the site. The ex-Traveline building is not required for this project shown by the pink boundary

- 2.57 The recommendation is that a long full repairing lease be granted to CDC for a minimal consideration. This will mitigate the risk to SYMCA, whilst retaining a land asset which in future may become a strategic option.

Commercial Street Bridge Works

- 2.58 Following a routine inspection, a defect was found relating to the fixed bearing on Commercial Street Bridge. It was advised that this should be rectified to prevent any further deterioration.
- 2.59 Design works are now complete with works scheduled for September. These include strengthening to the bridge deck diaphragm at the delta (centre of Park Square Roundabout) end including localised concrete repairs.
- 2.60 The total estimated cost is £0.6m. It is proposed that this will be funded by MCA capital receipts generated from a parcel of land sold recently in Sheffield.

3. Options Considered and Recommended Proposal

3.1 Option 1

Approve the recommendations in the report.

3.2 Option 1 Risks and Mitigations:

None.

3.3 Option 2

Reject the recommendations in the report.

3.4 Option 2 Risks and Mitigations:

Not approving the transfer to reserves will reduce the MCA's ability to respond to changing circumstance and ongoing risk mitigation

Not approving the disposal of the Mexborough mini-interchange site will prevent the progression of the Mexborough Sustainable Transport Scheme.

Not approving Commercial Street Bridge Works will increase the risk of further deterioration.

3.5 Recommended Option

Option 1

4. Consultation on Proposal

- 4.1 None.

5. Timetable and Accountability for Implementing this Decision

- 5.1 The Executive Director Resources and Investment will implement these changes immediately.

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 in the appendices.

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

Appendix A – Updated Treasury Management Strategy

Appendix B - 202425 TM strategy (combined)

Appendix C - Mexborough mini-interchange site plan