

## Report to Sheffield City Region Overview and Scrutiny Committee

<b>Date of Meeting:</b>	17 October 2019
<b>Subject:</b>	MCA/LEP Revenue Budget Review
<b>Purpose of the Report:</b>	To brief Members on the MCA/LEP revenue budget setting process and how decisions are made regarding the allocation of each budget.
<b>The Scrutiny Committee is being asked to:</b>	Consider and note the process by which the 2020/21 MCA/LEP revenue budget will be set.
<b>Category of Report:</b> Open Under the Freedom of Information Act and Schedule 12A of the Local Government Act 1972, this paper and any appendices will be made available under the Combined Authority Publication Scheme.	

### Summary:

The purpose of this report is to brief Members on the MCA/LEP revenue budget setting process and how decisions are made regarding the allocation of each budget.

#### 1. Introduction/Context

The annual Revenue Budget sets out the budget proposals for the Mayoral Combined Authority (MCA) for a one-year period. For the purposes of this report, the Revenue Budget refers to the budget covering the core operational budget for the MCA and LEP, and also any multi-year revenue programmes for which the MCA is the accountable body.

The MCA's Financial Regulations set out the roles and responsibilities of the Authority, the Head of Paid Service and the Finance Director in relation to the annual Revenue Budget.

The Finance Director is responsible for preparing detailed proposals for the annual Revenue Budget for the coming year in conjunction with the Head of Paid Service. The Authority is responsible for approving the annual revenue budget.

The 2019/20 MCA/LEP Revenue Budget report was submitted to and approved by the MCA on 25<sup>th</sup> March 2019. The Committee received a report on the budget-setting process at its meeting on 11<sup>th</sup> April 2019.

#### 2. Matters for Consideration

##### 2.1 2019/20 Budget-setting process

By way of a recap from the previous report to the Committee on 11<sup>th</sup> April, this section summarises the process followed for the 2019/20 budget. Section 2.2 then illustrates how the 2020/21 budget-setting process differs.

The MCA approved the 2019/20 MCA/LEP Revenue Budget on 25<sup>th</sup> March 2019. The approval of the budget report was the culmination of almost a year's work, comprising consultation with key stakeholders at various stages of the 2019/20 business planning process, including the Mayor &

MCA Leaders, LEP Board, Chief Executives and Local Authority Directors of Economic Development and Finance.

At the start of the 2019/20 business planning process, officers in the MCA Finance team refreshed their medium term forecasts based on the 2017/18 outturn position, any changes to risks and assumptions built into the 2018/19 budget, horizon-scanning and discussions with the SCR Executive Team and peers in partner authority finance teams, in particular with the four billing authorities who pay over retained business rates in respect of SCR enterprise zones.

A meeting of SCR Local Authority Directors of Finance is typically held in early May to review these forecasts and to discuss the financial planning assumptions, including any interdependencies with local authority budgets, e.g. subscriptions payable to the LEP.

As the year progresses, the MCA Finance team produces quarterly budget monitoring reports for the MCA to consider and approve. Any new information gathered during the course of preparing these reports is used to refresh the medium term forecasts and the draft budget, for example changes to the staffing establishment, new commissions in relation the development of the Strategic Economic Plan (SEP), trade and investment, etc.

Peak activity in the budget-setting process is in Q4, i.e. January to March 2019. Any new policies which are likely to affect the Authority's forecast income and/or expenditure are developed and discussed with relevant stakeholders. For instance, the proposed business rates rebate policy was presented to the ED/DoFs Forum (Local Authority Directors of Economic Development and Directors of Finance) on 28<sup>th</sup> January 2019, followed by Chief Executives in mid February 2019.

A new feature of the 2019/20 business planning process was the Mayor's budget workshop in January 2019, where Leaders were presented with the draft budget proposals. Leaders subsequently asked for options to be modelled which could deliver budget savings of 10% in 2019/20.

A revised budget was developed which included proposals to deliver an underlying reduction of 11.8%. This was presented to and endorsed by the LEP Board on 4<sup>th</sup> March, for onward approval by the MCA on 25<sup>th</sup> March 2019.

## **2.2 2020/21 Budget-setting process**

When the 2019/20 MCA LEP revenue budget was approved at the March 2019 meeting of the MCA, it was agreed that Leaders would be involved in a review of the 2019/20 budget to identify where further savings could be made and to commence early work on the determination of the 2020/21 budget.

### Leaders Workshop – 10<sup>th</sup> June 2019

The first workshop with Leaders was held on 10<sup>th</sup> June 2019 and was chaired by Mayor Dan Jarvis. A summary of the information presented and discussed at the workshop is set out below.

The budget workshop further reviewed the information provided in the March 2019 MCA/LEP Revenue budget paper with a focus on the core operational revenue budget of £6.5m.

The expenditure was linked to three core business objectives:

- **Operational** – to ensure we spend money and maintain our assets well
- **Strategic** – to secure more resource to deliver economic growth, and;
- **Delivery** – to deliver special projects and Mayoral priority programmes.

For the approved 2019/20 budget, the allocations are broken down as below:



Objective	£	%
Operational	3.48m	53
Strategic	2.99m	46
Delivery	0.04m	1
<b>Total</b>	<b>6.51m</b>	<b>100</b>

In the 8<sup>th</sup> July report to the LEP, board members were advised that in preparing to meet the challenge of setting a balanced revenue budget for 2020/21, the MCA and LEP needed to prepare to accommodate a £2m income reduction in year whilst ensuring the 3 core business objectives were still delivered. This equated to a core revenue budget cut of 30%.

Board members were further advised at that time that preparing for this cut was necessary to accommodate two income risks which may be realised in 2020/21:

- **Mayoral Capacity Fund** – £2m allocation for 2018 to 2020 (notionally £1m per year) with no certainty for future allocations.
- **Enterprise Zone Business Rates** – The outcome of the LEP review to remove overlapping geographies may result in a £1m loss of EZ Business rates.

It is now known that Chesterfield has decided to withdraw its membership from the SCR LEP, which will result in a £1m loss of EZ business rates payable to the SCR LEP with effect from April 2020.

It is possible that the other income risk will not crystallise, but to not prepare for the possibility now would be too high of a risk for Statutory Officers.

The current round of ringfenced special project funding and major funding programmes are nearing full commitment and completion. The £380m LGF programme is likely to be 100% committed by the November meeting cycle and the current focus is therefore on managing out the tail end of the programme delivery.

It is therefore necessary for the SCR Executive team to begin to refocus resources more into the 'strategic, securing resource' business objective rather than 'delivery' and 'operational'.

This includes the in-year activity required to refresh the Strategic Economic Plan (SEP) and to develop the Local Industrial Strategy (LIS) and preparing a pipeline of potential projects for successor funding programmes (including Transforming Cities Fund - TCF).

At the workshop it was concluded that:

- Work should progress to develop a plan to reduce budgets by up to £2m whilst ensuring that the three business objectives continue to be achieved;
- Greater levels of integration and cost benefit with SYPTTE should be considered through a whole group review, and;

- A second workshop would be convened to update on progress and review new steps, and which would provide an opportunity to include feedback from discussions at the LEP and MCA.

### LEP – 8<sup>th</sup> July

The outcome of the Leaders workshop was reported back to the LEP Board on 8<sup>th</sup> July.

The Board recognised the significance of a 30% reduction in the budget and considered what could be done to protect the Mayoral Capacity Fund, whilst acknowledging that the business rate matter was less open to consideration.

It was resolved that the LEP Board would be presented with a further report detailing potential changes after the summer recess.

### LEP – 9<sup>th</sup> September

A further update on progress made on the 2019/20 budget review was provided by the Chief Executive at the LEP on 9<sup>th</sup> September.

The report provided a summary of the proposals currently under consideration ahead of discussion by the MCA later in the financial year. A plan has been developed that can achieve the first £1m of the £2m target in 2020/21, through a combination of:

- Reductions to operational costs (£0.4m),
- Increases in income (£0.25m),
- Use of reserves (£0.5m).

The reductions to operational costs include savings via a vacancy management process, a reduction in direct operational costs but also includes a number of costs pressures which have arisen since the budget was set in March 2019.

The increase in income is primarily related to the LEP asset at the AMP achieving a higher than profiled return and an increase in treasury investment income.

The third area is a one-off use of reserves which essentially offsets the additional cost pressures, however use of reserves needs to be carefully balanced against the future reserve requirements.

Achieving a permanent reduction of a further £1m in year is more difficult whilst ensuring the key objectives can be achieved.

Options are being explored to consider how this can be achieved over a multi-year period, including:

1. Seeking to achieve an operational saving during 2019/20 to create an additional provision to help smooth the impact of the £2m reduction of income in 2020/21. In part this can be achieved by redeploying some of the LEP capacity grant (£0.2m LIS capacity grant) received this year.
2. Utilise remaining reserves during 2020/21 to set a balanced budget in year but with an approved three-year plan to top up the reserves to a suitable level from permanent budget savings in subsequent years.
3. Continue to implement permanent savings of the second £1m over the following two financial years (2021/22 and 2022/23) and hence topping up the reserves to the required level.
4. Work with the MCA to consider how wider group efficiencies can be achieved, and
5. In parallel to the above options seeking to increase both the level and certainty of LEP and MCA income sources.

## Next Steps

Liaison will continue with LEP, MCA Members, Local Authority Officers and other key stakeholders in the run up to proposing a draft budget in November before seeking approval in March.

## **2.4 Implications**

### **a. Financial**

The budget review process commenced to prepare for a potential £2m reduction of the 2019/20 budget. £1m of this reduction has now been confirmed, whilst the second £2m remains a risk.

### **b. Legal**

There are no legal implications arising directly from this report, but the required budget reduction may have an impact on existing contracts this will be considered as part of the options analysis work.

### **c. Risk Management**

Managing a budget reduction of this scale in year is a significant risk and will be included in the SCR strategic risk register. This needs to be balanced against the potential for ongoing (multiyear) budget reductions having a compound effect.

A 1-year Comprehensive Spending Review (CSR) has delayed the expected announcement of successor funding to the Local Growth Fund (LGF) programme, which means that there is now likely to be a gap between the delivery phases of LGF and Shared Prosperity Fund (SPF).

The use of reserves to bridge the funding gap is not sustainable and we need to ensure that a prudent level of reserves remain available at all times.

### **d. Environmental**

There are no environmental implications arising directly from this report.

### **e. Equality Impact Assessment**

The principles of equality, diversity and social inclusion are built into the annual budget setting process and are taken into consideration when assessing budget pressures and savings proposals.

Any Equality implications that members must have due regard to under s.149 Equality Act 2010 will be set out in detail in the report that accompanies any recommendation about specific proposals.

### **f. Performance Management/Measuring Outcomes**

This section is not applicable to the revenue budget report.

## **3. Consideration of alternative approaches**

This section is not applicable to the revenue budget report, due to the statutory requirement to set a revenue budget in advance of the forthcoming year, and in accordance with the MCA's own financial regulations.

#### **4. Issues the Overview and Scrutiny Committee may wish to consider ...**

Members are invited to share their views on how the 2020/21 budget-setting process can be improved, so lessons learned can be built into the 2021/22 business planning process.

#### **5. Recommendations**

Members are asked to consider and note the process by which the 2020/21 MCA/LEP revenue budget will be set.

#### **6. Appendices/Annexes**

None

**Report Author:** Mike Thomas  
**Job Title:** Senior Finance Manager (Deputy Section 73 Officer)  
**Officer responsible:** Dave Smith  
**Organisation:** SCR MCA  
**Email:** [dave.smith@sheffieldcityregion.org.uk](mailto:dave.smith@sheffieldcityregion.org.uk)  
**Telephone:** 0114 2203476

**Background papers used in the preparation of this report are available for inspection at:**  
11 Broad Street West, Sheffield, S1 2BQ

**Other sources and references:**