Sheffield City Region MAYORAL COMBINED AUTHORITY

TRANSPORT BOARD

10th January 2020

PROPOSED 2020/21 SOUTH YORKSHIRE TRANSPORT REVENUE BUDGET

Purpose of Report

To seek endorsement from Transport Board to submit the proposed 2020/21 South Yorkshire Transport Revenue Budget to the MCA for approval.

Thematic Priority

Secure investment in infrastructure where it will do most to support growth.

Freedom of Information and Schedule 12A of the Local Government Act 1972

The paper will be available under the Combined Authority Publication Scheme.

Recommendations

That members of the Transport Board:

- Note the contents of the draft 2020/21 South Yorkshire Transport Revenue Budget report;
- Recommend to MCA to retain the Levy at 2019/20 levels, and;
- Consider the three options presented in Section 3 on how to use the funding.

1. Introduction & Context

1.1 This paper presents the proposed 2020/21 South Yorkshire Transport Revenue Budget (which comprises the net expenditure of SYPTE and the transport related costs managed directly by the Mayoral Combined Authority) and sets out some of the current and future challenges.

1.2 During consultation with local authority leaders the possibility of leaving the Levy at 2019/20 level was discussed. 3 options for this funding not included within the detailed budget are identified in section 3. Members of the Transport Board are asked to consider which of the options should be recommended to the MCA for approval on 27 January 2020.

1.3 Since April 2010, the annual Levy has been reduced by £40.3m (42.5%) from £94.7m in financial year 2010/11 to £54.4m for financial year 2019/20 in the context of significant budget challenges faced by the constituent Authorities. To achieve these levy reductions, SYPTE has cut costs and is now a smaller organisation in both scale and scope of activity.

1.4 Over the same period, patronage on bus and trams in the region has faced steady decline. On the one hand, this has generated savings on the concessionary fares budget due to the fall in demand for subsidised travel passes. On the other hand, these savings have masked the adverse consequence of patronage decline such as reducing viability of the regional bus network. Operators have been responding by cutting services along unprofitable routes and seeking increased reimbursement rates for concessionary fares. This inevitably puts greater pressure on the bus tendered services budget, as the PTE will have to intervene where bus network coverage is deemed inadequate.

1.5 This situation is likely to be compounded by the fact that First Group being put up for sale has led to its regional financial performance being reviewed as unprofitable, which could lead to substantial bus service reductions without significant public subsidy. The outcome of the sales process remains uncertain at the time of writing. It has therefore reached a point where there are limited options as to how to absorb the aforementioned pressures and deliver further savings without compromising the quality of public transport services in the region.

1.6 In 2019, the Mayor asked Clive Betts to undertake a review of bus services in South Yorkshire. This was in a direct response to these challenges being faced. The scope of that review is to examine the reasons for patronage decline, options for arresting that decline and the potential operating model for the network moving forward. The review is due to report back to the MCA in March 2020. The MCA's response to this will be in the form of the Public Transport Implication Plan, which is part of a suite of documents which sits underneath the Transport Strategy. The date to produce the Public Transport Implementation Plan will be determined once the review is concluded.

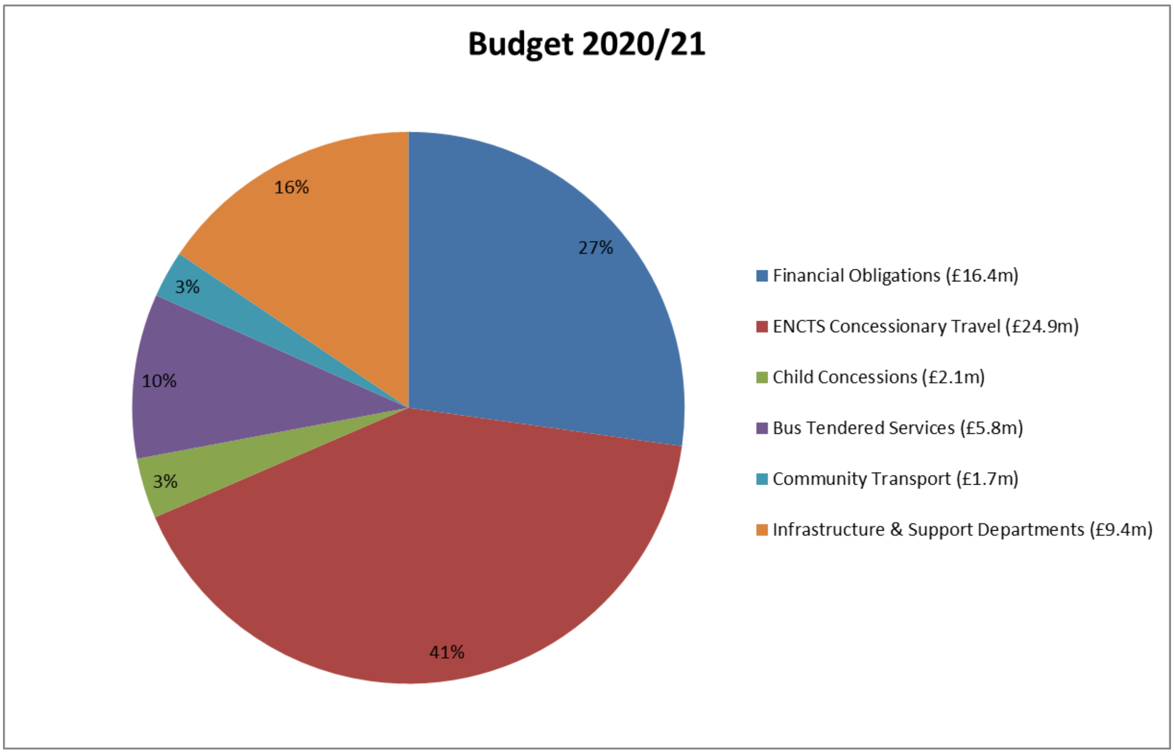
1.7 Furthermore, public opinion on climate change is shifting toward a greater expectation that local authorities will take more radical steps to embrace clean energy technology and improve air quality. This is captured in the recent climate emergency declaration by MCA and the pending response due at the January 2020 Board.

1.8 A paper on the draft budget 2020/21 and financial strategy was received by Transport Board in October and approved for consultation with the Constituent Authorities. These meetings took place in October and early November and the issues raised have now been incorporated into this budget paper and the proposals before Members. Specifically, some options have been included on how to utilise the additional £1.1m generated from leaving the levy at the 2019/20 level rather than reducing it as originally proposed within the MTFS.

2. Proposal and justification

<u>2020/21 Proposed Budget</u>

2.1 The proposed revenue budget for 2020/21 has been compiled and the underpinning assumptions are shown in **Appendix C**. It identifies total SYPTE revenue expenditure of £60.4m including the implications of capital spending in the Capital Programme and debt repayments. The chart below illustrates the areas of spending and the relative sizes of each budget heading.



A summary of the draft 2020/21 Budget compared to the current year budget is provided in **Appendix A**. It identifies the changes between years. The next section of the report looks at the major changes, impact on the budget and the on-going challenges to future SYPTE revenue budgets.

2.2 Concessions

41% of SYPTE's expenditure relates to the English National Concessionary Travel Scheme (ENCTS), which provides concessionary travel for people of state pension age and eligible disabled persons. The rules of the scheme are set nationally but the cost is inevitably driven by demand. In recent years patronage has fallen, in part influenced by state pension age equalisation, and has fallen further in the current year. On the one hand this fall in patronage has reduced the prima facie costs. However, inflationary pressure on the reimbursement rates has meant that this budget will need to increase marginally by £22k. 2020/21 also sees the end of the current three-year deals in place with the two main bus operators in the region which results in changes to the reimbursement approach and assumptions therefore made in the budget.

The emerging pressure of falling patronage in this category is that the operators will see further falls in revenue and more routes becoming less financially viable. Operators may then cease to operate routes that are deemed essential and increase demand on the already stretched tendered services budget.

2.3 Child Concessions

On a positive note child patronage is increasing. However, that has financial consequences from increased usage as the notified fare for children remains fixed at £0.80. Reimbursement rates to operators are increasing as fares rise and the factors affecting reimbursement change such as schools finishing earlier. The implication for 2020/21 budget is an increase of £446k.

2.4 Tendered Services

This budget funds services that are deemed essential in terms of previously defined criteria that operators will not run on a commercial basis. They tend to be for a 3-year period and the retendering is phased to spread the incidence of tendering. 2.5% inflation has been applied to the elements of service that are due to re-tendering this year which gives an increase of £170k for 2020/21.

Every effort has been made to minimise the impact of service contraction on this budget over the past 4 years. However, it remains under severe pressure. Costs of retendered services are increasing significantly ahead of the budget provision and therefore routes have had to cease or be substantially reduced. The inflationary pressures will further impair services in the future. A further demand for new tendered services could arise with the impact of falling patronage across the network.

2.5 On-street Advertising

The contractor that previously provided the on-street advertising gave notice to terminate their agreement on 1st October 2018, and the contract has now been re-tendered and subsequently awarded. This activity is budgeted to provide income of £625k in the current year but the expiry of the notice period in 2019/20 is currently assumed to impact on future income levels. Income will reduce in 2020/21 to £450k before climbing to higher levels over the 10-year contract term.

2.6 Financial Obligations

Around 27% of SYPTE's expenditure relates to so-called 'financial obligations', which includes costs such as pensions, debt interest repayments and depreciation of SYPTE assets. A major change in 2020/21 is a reduction in debt interest of £3.6m as a result of debt repayments in the year of £53m. This is the major factor to the reduction in the costs and bridge the gap between levy and expenditure.

The other element is depreciation charges. However, this has no impact upon the revenue position because it is met from reserves earmarked specifically for depreciation created as part of a debt review previously.

2.7 Rail Administration Grant

Department for Transport (DfT) funding for heavy rail related activity is currently £1.2m p.a. It likely to remain available in 2020/21. However, it is at high risk for reduction or withdrawal in the future, as DfT review their own budgets. Although some savings in direct costs would accrue as a result of withdrawal of funding, this would create further budgetary pressure due to the contribution it makes to overall SYPTE resources.

2.8 MCA transport related expenditure

The proposed South Yorkshire Transport revenue budget for 2019/20 includes an allocation of £3.1m to cover staff and accommodation overheads, plus capital financing costs in relation to the restructuring of the financial group's debt and more recently for borrowing undertaken on behalf of SYPTE for capital schemes such as the refurbishment of Rotherham Interchange. The budget for 2020/21 will increase to £4.6m primarily due to costs of debt for Rotherham Interchange and reducing investment interest as a direct result of the debt repayment discussed in paragraph 2.6.

2.9 **Funding and Levy**

The principal funding source for this budget is the annually agreed Transport Levy on the four South Yorkshire Local Authorities. In presenting budget proposals, SYPTE and the MCA as a financial group should have regard to the financial pressures faced by the partner Authorities.
As partner budgets have come under increasing pressure, the Levy has been reduced. Since April 2010, the annual Levy has fallen by £40.3m (42.5%) from £94.7m in financial year 2010/11 to £54.4m for financial year 2019/20. To achieve these levy reductions, SYPTE has cut costs and is now a smaller organisation in both scale and scope of activity.

As part of the 2017/18 South Yorkshire Transport Revenue Budget and Medium-Term Financial Strategy (MTFS) approved by the Mayoral Combined Authority in January 2017, Levy reductions of 2.5%, 2.5% and 2% per annum were agreed for 2018/19, 2019/20 and 2020/21 respectively, as illustrated in the table below.

Year	Saving %	Saving £m	Cumulative Saving £m
2018/19	2.5	1.4	1.4
2019/20	2.5	1.4	2.8
2020/21	2.0	1.1	3.9

2.10 Medium Term Outlook
2020/21 is the final year of the current Medium-Term Financial Strategy and a 2% levy reduction has been identified. The impact of implementing this reduction on each authority is shown in the table below.

Authority	Population	% Share	Levy 2019/20 £'000	Levy 2020/21 £'000	Variance £'000
Barnsley	245,199	17.5%	9,494	9,312	-182
Doncaster	310,542	22.1%	12,053	11,793	-260
Rotherham	264,671	18.9%	10,275	10,051	-224
Sheffield	582,506	41.5%	22,542	22,121	-421
	1,402,918		**54,364**	**53,277**	**-1,087**

Work needs to start early in 2020 to develop the strategy for the next 5 years recognising the increasing pressures on the SYPTE revenue budget and demands of bus service provision. This will be developed in line with the emerging public sector spending plans from central government and the impact upon constituent authority budgets.

2.12 Levy Reduction Reserve
A Levy Reduction Reserve was created as part of a financial review some years ago. The purpose of this reserve was to help manage the transition to a balanced budget position through peak debt periods.

Appendix B includes forecasts for the next 5 years, which are indicative and subject to further work. The assumptions used are based on what is the current scenario for SYPTE expenditure in the future without the impact of the pressures described in paragraphs 2.2 to 2.4. If the strategy is to reduce in 2020/21 with no further increases then, even with this favourable outlook of expenditure assumptions, the Levy Reserve is completely utilised by 2024.

2.13 Conclusions
The proposed budget for 2020/21 has been prepared based upon current activity and known inflation and services will be provided within that budget. However, it must be acknowledged that there are impending future financial pressures that will put pressure on services and costs in 2021 and beyond. Work on the next Medium-Term Financial Plan needs to examine the impact and reflect the changes in future budgets.

2.14 Reserves have been used to help smooth impact of the necessary reductions in Levy over the past 8 years. However, the resources available to do this are diminishing and will cease to exist in 2024. Whilst the medium-term scenario shows that future levy will match expenditure, there is increasing pressures on that expenditure that needs to be recognised and further analysed in developing the next medium-term plan. A review of Levy policy will also need to be undertaken to ensure funding of future service provision.

2.15 Maintaining the Levy at 2019/20 levels will generate an additional £1.1m for service delivery not included in the budget. During the consultation process there was much discussion on the level of funding and how future funding must be reviewed in the light of the wider public sector spending reviews in the coming months. However, it was suggested that there may be an opportunity to maintain the 2019/20 Levy level, but Members would need to be clear what this funding would be earmarked for. Some options are examined in section 3 of this report.

3. Consideration of alternative approaches

3.1 Keeping the Levy at 2019/20 level will generate £1.1m of funding not considered in the budget presented in **Appendix A**. Some options for utilising this funding are considered below.

3.1.1 Route Mapping and Tendered Services
As stated throughout this report more services are becoming a challenge to deliver commercially. Therefore, there will be increasing pressure on developing tendered services as well as large inflationary pressure on existing services. This option looks to allocate funding, perhaps up to £400,000, to develop further detailed analysis as part of an Implementation Plan following the Bus Review on what are the essential routes in each district and, equally important, what are the emerging essential routes as the demographic changes and location of employment opportunities and essential services develop. This work will help define what is supported in future. Any funding not used in 2020/21 for this will be earmarked to support the Tendered Services budget.

Undertaking this option would identify resources to undertake some necessary forensic analysis that can be used to shape future service delivery and funding decisions. It would also help protect the current essential services from potential cessation.

3.1.2 Tendered Services
This area of service is currently under increasing pressure due to inflation and bus operator costs. The additional funding could be earmarked to specifically support this area of activity in 2020/21 and the future.

Implementing this option would enable protection of the current essential services from potential cessation and give additional headroom.

3.1.3 Increasing Levy Reserve
Another option is to take the opportunity to use the £1.1m to increase the Levy reserve. This funding would then provide some protection against the inflationary pressures outlined in the above report and reduce the potential call on constituent authorities in the future.

If there is funding available, this is a prudent option to protect SYPTE's revenue position whilst keeping the options open to spend the money in the future.

4. Implications

4.1 **Financial**
The financial implications are clearly set out in Section 2 and the accompanying appendices of this report.

4.2 Legal

In setting the South Yorkshire Transport Revenue Budget for 2020/21, the MCA must have regard to the Transport Levying Bodies Regulations 1992. In particular, it must ensure that the transport levy for the forthcoming financial year is agreed by 15th February 2020 in order to allow enough time for the constituent authorities to set their council tax levels by early March.

4.3 Risk Management

Although by its nature the budget is always based on assumptions, for 2020/21 there is considerable uncertainty in some of the key variables which increases risk. The budget assumptions are set out in **Appendix C** of this report.

This is mitigated to a degree by using prudent assumptions, and carefully assessing the level of reserves which should be held. The MCA group's reserves strategy, which outlines this approach in more detail, will be presented to the MCA alongside the 2020/21 MCA/LEP revenue budget and LGF capital programme reports at the next meeting on 23rd March 2020.

4.4 Equality, Diversity and Social Inclusion

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 regards to under s.149 Equality Act 2010 will be set out in detail in the report that accompanies any recommendation about specific proposals.

5. Communications

5.1 Consultation with the Leaders, Chief Executives and Directors of all four levy-paying authorities was undertaken in November 2019.

6. Appendices/Annexes

6.1 Appendix A – Budget Summary
Appendix B – Medium Term Forecast
Appendix C – Budget Assumptions

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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: n/a

Appendix A

Transport Revenue Budget - Option 1 - Reduce levy by 2%	2019/20	2020/21	
	Budget £'000	Forecast £'000	Change £'000
Mandatory Expenditure			
Support for Concessionary Travel	25,438	25,460	22
Financial Obligations			
Debt Interest	10,797	7,202	(3,595)
Tram Access	1,500	1,500	0
Depreciation	2,389	6,475	4,086
Pensions	2,256	1,256	(1,000)
Transport Operator Discretionary Expenditure			
Discretionary Concessions	1,689	2,136	446
Departure Charges	(1,183)	(946)	237
Bus Tendered Services	5,649	5,821	173
Community Transport	1,657	1,657	0
Operational Departments			
Customer Group	1,874	1,945	72
Interchanges & Sites	2,310	2,422	112
Infrastructure (On Street)	978	1,247	269
Planning & Support Departments	4,384	4,187	(198)
Total SYPTE Expenditure	59,737	60,361	624
Depreciation which will be matched by Grant release	(1,977)	(6,063)	(4,086)
Excess depreciation over historic cost depreciation transferred from Revaluation Reserve	(412)	(412)	0
Grant from MCA to PTE	57,348	53,886	(3,462)
Combined Authority operational Net Expenditure	328	466	138
MRP - existing	3,097	3,115	18
External interest	1,388	1,388	0
Investment income	(1,819)	(1,274)	545
Interest + MRP (Unfunded capital schemes)	98	907	809
Total MCA Expenditure	3,092	4,602	1,510
PTE & MCA Base Cost	60,440	58,488	(1,952)
	0.6%	-3.2%	
Levy reduction reserve	(6,076)	(5,211)	865
Transport Levy	54,364	53,277	(1,087)
	-1.1%	**-2.0%**	

Use of reserves:

Levy reduction reserve		
Balance b/f	24,437	18,361
Planned use	(6,076)	(5,211)
Balance c/f	18,361	13,150

Appendix B

Transport Revenue Budget - Option 1 - Reduce levy by 2%	2019/20 Budget £'000	2020/21 Forecast £'000	2021/22 Forecast £'000	2022/23 Forecast £'000	2023/24 Forecast £'000	2024/25 Forecast £'000
Mandatory Expenditure						
Support for Concessionary Travel	25,438	25,460	25,958	26,477	27,007	27,547
Financial Obligations						
Debt Interest	10,797	7,202	6,020	5,421	3,200	2,200
Tram Access	1,500	1,500	1,500	1,500	1,500	0
Depreciation	2,389	6,475	6,372	6,355	3,556	3,534
Pensions	2,256	1,256	1,256	1,256	1,256	1,256
Transport Operator Discretionary Expenditure						
Discretionary Concessions	1,689	2,136	2,154	2,154	2,154	2,154
Departure Charges	(1,183)	(946)	(946)	(946)	(946)	(946)
Bus Tendered Services	5,649	5,821	5,821	5,821	5,821	5,821
Community Transport	1,657	1,657	1,657	1,657	1,657	1,657
Operational Departments						
Customer Group	1,874	1,945	1,995	2,045	2,095	2,145
Interchanges & Sites	2,310	2,422	2,447	2,472	2,497	2,522
Infrastructure (On Street)	978	1,247	955	663	663	780
Planning & Support Departments	4,384	4,187	4,212	4,237	4,262	4,287
Total SYPTE Expenditure	59,737	60,361	59,401	59,112	54,722	52,957
Depreciation which will be matched by Grant release	(1,977)	(6,063)	(5,960)	(5,943)	(3,144)	(3,122)
Excess depreciation over historic cost depreciation transferred from Revaluation Reserve	(412)	(412)	(412)	(412)	(412)	(412)
Grant from MCA to PTE	57,348	53,886	53,029	52,757	51,166	49,423
Combined Authority operational Net Expenditure	328	466	466	466	466	466
MRP - existing	3,097	3,115	3,096	3,052	3,014	3,010
External interest	1,388	1,388	1,388	1,388	1,388	1,153
Investment income	(1,819)	(1,274)	(1,032)	(952)	(396)	(658)
Interest + MRP (Unfunded capital schemes)	98	907	1,119	1,119	1,119	1,119
Total MCA Expenditure	3,092	4,602	5,037	5,073	5,591	5,089
PTE & MCA Base Cost	60,440	58,488	58,066	57,830	56,756	54,513
	0.6%	-3.2%	-0.7%	-0.4%	-1.9%	-4.0%
Levy reduction reserve	(6,076)	(5,211)	(4,789)	(4,553)	(3,480)	(1,236)
Transport Levy	54,364	53,277	53,277	53,277	53,277	53,277
	-1.1%	**-2.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
Use of reserves:						
Levy reduction reserve						
Balance b/f	24,437	18,361	13,150	8,361	3,808	328
Planned use	(6,076)	(5,211)	(4,789)	(4,553)	(3,480)	(1,236)
Balance c/f	18,361	13,150	8,361	3,808	328	(908)

Appendix C

Budget Assumptions

1.1 The following section provides an overview of the specific areas of expenditure within the SYPTE Budget for 2020/21.

1.2 Payroll

As in previous years, the gross payroll budget comprises of a fully costed structure less £250k allowance for vacancies in the year. It has been assumed that, in line with the local government pay settlement, all staff will receive a 2% cost of living increase and any spinal point increases as required. The net increase to the PTE's budget is c.£200k for the full year. The number of posts on the establishment has been reduced from 189 as at December 2018 to 182 as at September 2019, of which 11 posts are currently vacant.

The 2020-23 triennial valuation by South Yorkshire Pensions Authority's Actuary has resulted in the level of future service rate (FSR) increasing from 14% to 16.4% including the future effect of McCloud Review. However, on a positive note, the fund is no longer in deficit. Therefore, the deficit payments of £1m pa will no longer be required.

1.3 Rotherham Interchange

Rotherham Interchange officially re-opened towards the end of April 2019.

As a result of the refurbishment work, which was largely funded through prudential borrowing, there will be an increase in capital financing costs which will appear in the MCA transport related expenditure budget for 2020/21. This will be covered from the levy reduction reserve. There is the further impact of depreciation, which is covered in paragraph 1.7 below.

1.4 Inflation

Specific contract inflation has been applied to contracts. Inflation has been assumed at 2.5% for all other contracts.

1.5 Concessions

Mandatory concessions make up 41% of the SYPTE budget. Whilst SYPTE is constantly refining the model to better forecast the costs of concessionary travel, this process is complicated by the number of factors that impact on patronage. Some variables can be easily identified, including:

- entitlement (most notable of which is the change in the state pension age);
- changes in the network; and
- how passes are issued.

Other variables, however, including the impact of social and economic factors (for instance, how people choose to shop) are more difficult to predict and model.

Elderly patronage continues to decline. However, the resulting saving is being offset by inflationary increases in reimbursement rates. The current assumption is that this will lead to a net increase in cost of £22k for the 2020/21 budget, offset by savings on the issue of passes.

Child patronage is increasing. The reimbursement rate is also increasing as fares rise and the child fare remains fixed at 80p. Overall this results in an increased cost of child concessions by £446k.

1.6 Tendered Bus Services

As with the other contracts it has been assumed a contractual, inflationary increase of 2.5% will apply to all contracts for the renewals that fall within the 2020/21 financial year.

The net result of these changes is a £173k increase against 2019/20 whilst managing the impact on the customer offer.

These assumptions are based on Option 1 (2% reduction in transport levy).

1.7 Financial Obligations

The 2020-23 triennial valuation by South Yorkshire Pensions Authority's Actuary have recently been published. The results show that SYPTE's share of the pension fund is now in surplus. It has therefore been assumed that the annual deficit recovery contribution will cease with effect from 2020/21, thus yielding an annual saving of £1m.

Depreciation is assumed to increase due to the revaluation of land and buildings, in particular as a result of the recent refurbishment of Rotherham Interchange, but the excess is fully funded by the Revaluation Reserve.

For 2020/21 interest payments are forecast to reduce by £3.595m due to the repayment of loans in line with the MTFS. Opportunities for early repayment to yield further interest savings will continue to be assessed, but none have presently been included in the proposed budget on the basis that the cost of implementing such measures such as early redemption penalties will outweigh the benefits.

1.8 Operational Expenditure Not Included Elsewhere

Finance officers worked with all budget holders across SYPTE and the MCA to identify the pressures and potential savings for 2020/21 for each of their operational areas. There is one main factor which will have an adverse impact on SYPTE's budget for 2020/21.

In an effort to offset the running costs of on-street furniture (bus stops and shelters) SYPTE has a long-standing contract for advertising displays on some shelters. The company providing the advertising sought to reduce the payment being made to SYPTE, and served notice on the contract, which has now expired on 1st October 2019. A new provider has now been appointed but the net reduction on SYPTE's income is assessed at £175k for 2020/21. The income generated by the new contract increases significantly in future years and has been included in the MTFS.

Savings have been secured across all operational areas of the business that have helped to offset the inflationary and incremental pressures in payroll costs. Only savings that do not have a detrimental impact on services have been included in the proposed budget.

After accounting for the points noted above, the overall increase in Operational Expenditure is £255k.