

16th January 2020

LEP and MCA Budget

Purpose of Report

This paper updates LEP Board members on the progress made in developing the draft LEP and MCA revenue budget for 2020/21 in the context of a 5-year financial strategy.

Thematic Priority

Cross cutting - governance

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

The paper will be available under the SCR Publication Scheme.

Recommendations

LEP Board members are asked to consider and note the progress to date in developing the draft LEP and MCA revenue budget for 2020/21 in the context of a 5-year financial strategy.

1. Introduction

- 1.1** Members of the LEP Board have received a series of budget update reports at each of the past three meetings, starting with a paper in July 2019 setting out the need to prepare for a £2m budget reduction, followed by a further update in September outlining a plan which had been developed to achieve the first £1m of the £2m target, and finally in November confirmation that target had been revised to £1m because Mayoral Capacity Fund (MCF) had been extended for a further year in 2020/21.
- 1.2** This report is intended to bring members of the LEP Board up to speed on the balanced 5-year Financial Strategy that identifies the resources to deliver the ambitions for Sheffield City Region (SCR) identified by the emerging Strategic Economic Plan. The strategy was approved by the MCA on 18th November 2019.
- 1.3** Income fluctuation is the largest risk to the budget for MCA/LEP and specifically Enterprise Zone receipts. The initial challenge is to deal with £1m reduction in 2020/21 as a result of the changes to the LEP geography.
The table at paragraph 2.4 sets out the forecast profile of business rates income and the use of reserves over the next 5 years. Paragraph 2.3 sets out the main assumptions about the MCA/LEP's income streams, and the proposed use of reserves is covered in more detail at paragraph 2.6.

- 1.4** A budget review was instigated in June 2019, the result of which is that significant savings have been identified which would reduce the cost base sufficiently to match the funding envelope. For example, it is proposed to reduce the staffing establishment by 12% and to decrease spending on central revenue budgets by 9%. Work is ongoing to identify further savings.

2. Proposal and justification

- 2.1** Major changes to funding for the MCA will take place over the period of the 5-year strategy. For instance, up to £230m of Transforming Cities Fund (TCF) is likely to be made available for 2020 to 2024. The Local Growth Fund programme (LGF) finishes in March 2021 but will be replaced by Shared Prosperity Fund (SPF) that will support the delivery of the priorities within local SEPs. Whilst the level of that funding is not yet known, some assumptions around the structure to deliver on the SEP priorities have been made in developing the overall financial envelope. In the short-term following the impending Budget from the Chancellor, additional funding is likely to be made available to support Growth in the City Region.
- 2.2** The financial strategy, as set out in the table below, identifies a financial envelope for the next 5 years and a high-level breakdown of the areas of expenditure that will be incurred. The current year budget has been included for completeness. Slightly more detail about centralised budgets has been included for 2020/21 as these reflect the main thrust to develop actual programmes the coming year to deliver the SEP outcomes.
- 2.3** This section of the report identifies the main assumptions of the Strategy

2.3.1 Income

- Enterprise Zone Business Rate receipts fall in 2020/21 by £1m due to Chesterfield's withdrawal from SCR LEP. Business rate receipts have been increased in later years to reflect some current investment decisions being realised and have been adjusted downwards since last reported due to reprofiling of investment in some growth programmes next year.
- Additional income has been realised in the current year for the Advanced Manufacturing Park Technology Centre. This will continue across future years and has been built into the strategy.
- Treasury management receipts have been thoroughly reviewed. Additional income reflects additional funding from TCF and the level of balances that will be held by MCA over the next few years. Interest rates are assumed to remain constant.
- All LEPs receive capacity grant from BEIS of £500k. It is assumed that this will continue for the foreseeable future.

2.3.2 Staffing

- Following management review of the current establishment, the proposal is to reduce core staffing costs by £320k in net terms. The actual reduction is £600k (12% of the establishment) but some of this is met directly from specific funding sources. Management Team has undertaken reviews of all vacancies that have occurred in the year and deleted some posts in the emerging budget proposals.
- Further synergies will be achieved from integration of the Group. These are built into future staffing costs.
- New funding streams such as TCF and SPF will be coming to MCA over the period of the plan. It is assumed that these will meet any programme management costs and not fall to core funding.

- The numbers in this line represent the broad cost that is affordable to fund the structure of SCR. This undoubtedly will change over the period but the strategy identifies how much is available and proposed for approval.

2.3.3 Other Core Revenue Budgets

The emerging SEP requires revenue funding to develop the schemes and programmes to both achieve funding and deliver the desired outcomes. In the 2020/21 budget proposals for funding specific streams of work have been identified by Management Team to meet the immediate challenges. In future years will need revenue input to achieve delivery, but the focus may change. The LEP will consider these as part of the budget setting process in each year. Many of the other MCA/LEPs have identified the need to secure revenue funding to bring forward feasibility work and early scheme programmes as a budget requirement in their current financial planning period.

A budget review of the centralised budget line has been undertaken and identified a reduction of 9% in light of the budget challenge. Focussing this resource will place the MCA/LEP in the best place to draw down funding from new sources such as SPF when they become available.

- 2.4** The table below illustrates the financial plan that will deliver a balanced position after 3 years. In the short-term the MCA/LEP's forecast expenditure for 2020/21 (c.£6.2m) will exceed forecast income (c.£5.9m) by around £0.3m, and a contribution of £0.3m from reserves will be required in order to set a balanced budget. This will also be the case for 2021/22, when a further £0.24m will be required from balances before cost reductions and additional receipts are delivered to balance the budget.

	Budget	Budget	Budget	Budget	Budget	Budget
	19/20	20/21	21/22	22/23	23/24	24/25
Income Stream	£'000	£'000	£'000	£'000	£'000	£'000
EZ Business Rates	£3,024	£2,009	£2,009	£2,209	£2,309	£2,409
Traded Income - AMP	£1,428	£1,620	£1,620	£1,620	£1,620	£1,620
Subscriptions	£1,204	£1,184	£1,184	£1,184	£1,184	£1,184
LEP Grants	£500	£500	£500	£500	£500	£500
Investment & Treasury Management	£195	£400	£450	£450	£450	£450
Investment Income - Property Portfolio	£155	£155	£155	£155	£155	£155
	£6,506	£5,868	£5,918	£6,118	£6,218	£6,318
Expenditure						
Staffing - Core	£2,519	£2,200	£2,142	£2,185	£2,229	£2,273
Central Revenue Budgets	£1,761		£1,600	£1,600	£1,600	£1,600
Policy, Research & Evaluation		£150				
LEP Support		£100				
Business Investment Programme		£200				
Trade & Investment		£250				
Skills Programme Development		£200				
Transport Programme Development		£250				
Housing and Infrastructure		£100				
Regional Placement		£200				
Communications		£150				
AMP	£1,022	£1,022	£1,022	£1,022	£1,022	£1,022
Business Support, Supplies & Services	£975	£938	£1,004	£1,012	£1,140	£1,140
Other Property Costs	£229	£394	£394	£264	£264	£264
	£6,506	£6,154	£6,162	£6,083	£6,255	£6,299
Use of (Contribution to) Reserves	-£0	£286	£244	-£35	£37	-£19

2.5 Historically this budget has only shown the net call on core funding. Expenditure that is incurred managing revenue or capital programmes is attributed to those funds and not shown here. The 2020/21 emerging budget is being developed as the gross operating cost of running MCA/LEP and showing all sources of funding. Early indications are that the gross cost of operating MCA/LEP for 2020/21 is £9.9m with £3.8m funding from specific grant or charges to programmes.

2.6 Overall Strategy

The approved Financial Strategy sets the financial envelope and the broad budgets for delivering the necessary operations to deliver on the SCR ambitions. It identifies a shortfall on income in 2020/21 and 2021/22 of £530k before moving to a balanced position over the rest of the period as new income comes on stream. It is recommended that revenue reserves are used to smooth out this transition. The level of general reserve currently sits at c.£1.7m. Utilising £530k of this reserve is a sensible approach that does not jeopardise the future financial security of the MCA, and ensures that the general reserve does not fall below the recommended minimum of £1m.

At this stage, this is a broad indication of how reserves will be used as part of the financial strategy. The reserves strategy will be brought forward as part of the detailed budget report, along with the Section 73 Officer advice, in early 2020.

3. Consideration of alternative approaches

3.1 Do Nothing – this is not considered to be a viable option 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.

3.2 Invest further revenue funding to bring forward feasibility work and early scheme programmes. The additional investment would need to come from reserves.

4. Implications

4.1 Financial

The financial implications are clearly set out in Section 2 of this report.

4.2 Legal

There are no legal implications arising directly from this report.

4.3 Risk Management

In formulating the assumptions which underpin the proposed financial strategy, officers have taken a prudent approach in order to mitigate all known risks.

The MCA/LEP continues to depend heavily on retained business rates from enterprise zones to resource the core budget. This source of income is susceptible to a variety of risks. This issue has been discussed previously with Members as part of the 2019/20 budget-setting process. However, the most significant element of this risk has now crystallised, namely the loss of £1m due to changes to SCR boundaries.

In light of these significant financial risks, sensitivity analysis has been undertaken to assess the MCA's exposure and to ensure that the MCA has a robust reserves strategy. The level of reserves remains sufficient to mitigate these risks, and as stated above the reserves strategy will be included as part of the 2020/21 budget report in early 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 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.

5. Communications

5.1 Consultation with key stakeholders has started and will continue through the various stages of the 2020/21 business planning process, including the Mayor & MCA Leaders, LEP Board, Chief Executives and Directors of Economic Development and Finance.

The 5-year financial strategy has also been discussed with the LEP Vice Chair and the Co-Chair of the Business Growth Executive Board, both of whom were selected by the LEP Chair to represent the private sector members of the LEP Board.

6. Appendices/Annexes

6.1 None.

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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