

Report to Sheffield City Region Overview and Scrutiny Committee

Date of Meeting:	30 January 2020
Subject:	MCA/LEP Revenue Budget Review
Purpose of the Report:	To brief Members on the MCA/LEP revenue budget setting process and how decisions are made regarding the allocation of each budget, thus allowing them to discharge their responsibilities to scrutinise the budget before it is presented for approval by the MCA in March 2020.
The Scrutiny Committee is being asked to:	Consider and note the process by which the 2020/21 MCA/LEP revenue budget will be set.
Category of Report:	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 25th March 2019. The Committee received a report on the budget-setting process at its meeting on 11th April 2019.

2. Matters for Consideration

2.1 2019/20 Budget-setting process

The Committee received a report on the 2019/20 budget-setting process on 11th April 2019. A recap of the 11th April report was included in the report presented to the Committee at its previous meeting on 17th October 2019. Section 2.2 illustrates how the 2020/21 budget-setting process differs.

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.

Since March 2019 the following budget briefings have taken place:

- **Leaders Workshop** (10th June 2019) – a review of the information provided in the March 2019 MCA/LEP Revenue budget paper with a focus on the core operational revenue budget of £6.5m.
- **LEP Board** (8th July 2019) – members were advised that the MCA and LEP needed to prepare to accommodate a £2m income reduction in 2020/21, equivalent to a core revenue budget cut of 30%.
- **LEP Board** (9th September 2019) – members were notified that a plan has been developed that would achieve the first £1m of the £2m target in 2020/21.
- **Overview & Scrutiny Committee** (17th October 2019) – update on 2020/21 budget-setting process up to and including LEP Board on 9th September 2019.
- **LEP Board** (4th November 2019) – members were advised that the savings target had been reduced by £1m due to confirmation of Mayoral Capacity Fund being extended by a further year.
- **MCA** (18th November 2019) – members approved a 5-year strategy which would be used as the basis of developing the detailed 2020/21 budget.
- **Scrutiny Budget Workshop** (18th December 2019) – informal discussion with Scrutiny committee members on the 5-year strategy and the challenges of setting the 2020/21 budget, including (i) loss of income, (ii) cost savings and (iii) use of reserves.
- **LEP Board** (17th January 2020) – members were updated on the 5-year strategy approved by the MCA on 18th November 2019.
- **Directors of Finance** (28th January 2020) – officers were briefed on the development of the detailed 2020/21 budget.

5-year strategy: the context

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.

5-year strategy: overview

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.

	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

5-year strategy: main assumptions

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.

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.

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.

5-year strategy: conclusions

- The table overleaf illustrates that the plan will deliver a balanced position after 3 years. In the short term the MCA/LEP's forecast expenditure for 2020/21 (c.£6.2m in net terms) 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.
- Historically, the 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 the MCA/LEP and showing all sources of funding. The indicative gross cost of operating the MCA/LEP for 2020/21 is £9.9m with £3.8m funding from specific grant or charges to programmes.

Next Steps

Liaison will continue with LEP, MCA Members, Local Authority Officers and other key stakeholders in the run up to presenting the proposed budget on 5th March to the LEP Board before seeking approval from the MCA on 23rd March.

2.4 Implications

a. Financial

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

b. Legal

There are no legal implications arising directly from this report.

c. 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 the reserves strategy will be included as part of the 2020/21 budget report in March 2020.

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

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Background papers used in the preparation of this report are available for inspection at:

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Other sources and references:

None