

23<sup>rd</sup> March 2020

**2020/21 Proposed MCA/LEP Revenue Budget**

**Purpose of Report**

This paper sets out the proposed Sheffield City Region MCA/LEP Revenue Budget for financial year 2020/21. The MCA Board approval is sought for the budget in line with MCA Constitution.

**Thematic Priority**

All 6 thematic priorities apply due to the cross-cutting nature of the annual budget.

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

This paper is not exempt from the Freedom of Information Act 2000

**Recommendation**

1. Board Members are asked to consider the detail explained within the report and approve the revenue budget for 2020/21 as set out in Appendix 1.

**1. Introduction**

- 1.1** This paper sets out the proposed 2020/21 MCA/LEP Revenue Budget which has been finalised following consultation with key stakeholders and LEP Board on 5<sup>th</sup> March 2020. Formal approval is sought from MCA Board in line with MCA Constitution.
- 1.2** The proposed budget has been developed in line with the Medium-Term Financial Strategy agreed at MCA in November 2019. It is based upon the going concern principle and the known funding sources for 2020/21. Members will recall the context of developing the strategy was a £1m reduction in Enterprise Zone receipts because of the LEP Review. Early consideration at MCA Board and management review of operational structures has helped address this gap. This report will explain how that has been captured and incorporated into 2020/21 Budget proposal.
- 1.3** It does not include any allowance for monies which may be devolved to the SCRMA in 2020/21. Should this process be completed by summer 2020 and monies devolved, a revised 2020/21 budget report will be produced and brought back to the LEP and the MCA in Autumn 2020 for approval. This will be part of developing a new robust 5-year financial strategy.

## 2. Proposal and justification

2.1 The budget report sets out the operational revenue expenditure budget for 2020/21 and the income sources that fund that activity. Key activities that will be undertaken within this budget allocation include;

- Business Growth & Investment
- Skills Programmes
- Infrastructure & Housing Programmes
- Transport Programmes including Transforming Cities Fund
- Running LEP/MCA
- Mayoral Priorities
- Preparedness for more devolved funding

2.2 Cost centres have been introduced in 2020/21 that greater reflect our operational activity and gross costs and gross income shown. The changes introduced will generate greater transparency of costs and better comparability against other organisations. Direct comparison to 2019/20 budget is a challenge because of the change in basis but it is addressed in each section. They also identify the assumptions used in determining the budget and the pressures absorbed.

### 2.3 Revenue Budget

The summary revenue budget is shown below setting out the gross cost centre budgets for the current operational structure. Cost centre budgets are shown in Appendix 1. Previously this has been shared with section 151 officers of the constituent authorities as well as vice chair of LEP and Chair of Business Growth Executive Board.

**Table 1 Summary Revenue Budget 2020/21**

	Employee Costs £	Non Staffing Costs £	Operational Expenditure £
<b>Business Growth, Skills &amp; Employment</b>	<b>1,408,453</b>	<b>1,087,000</b>	<b>2,495,453</b>
<b>Transport, Infrastructure &amp; Housing</b>	<b>1,452,687</b>	<b>650,000</b>	<b>2,102,687</b>
<b>Governance &amp; Mayoral Office</b>	<b>488,483</b>	<b>117,551</b>	<b>606,034</b>
<b>Chief Executive Office</b>	<b>1,328,352</b>	<b>490,000</b>	<b>1,818,352</b>
<b>Business Services</b>	<b>531,509</b>	<b>953,449</b>	<b>1,484,958</b>
<b>Property Running Costs</b>	<b>39,798</b>	<b>1,688,785</b>	<b>1,728,583</b>
Vacancy Allowance	250,000		250,000
<b>TOTAL OPERATIONAL BUDGET</b>	<b>4,999,281</b>	<b>4,986,785</b>	<b>9,986,066</b>
<b>INCOME</b>			<b>-9,702,755</b>
<b>PLANNED USE OF GENERAL FUND BALANCES</b>			<b>283,311</b>

The proposed budget is planning to utilise £283,311 of revenue reserves in 2020/21. This is in line with the MTFs approved at MCA Board in November 2019 and updated at January LEP Board. The affordability is discussed in section 2.8 below.

## 2.4 Staff Costs

The gross staffing budget for 2020/21 is just under £5m. The original gross staffing budget for 2019/20 was £5.208m. This reduction in budget does not reflect the whole picture.

- Net salary underspending has been reported to Board during the year. Management review of vacancies has resulted in reduction of establishment by 12% and a budget saving.
- A pay award of 2% has been assumed from 1<sup>st</sup> April 2020 but that is still subject to national negotiation.
- Transforming Cities Funding has been assumed and additional posts across the organisation have been included in the budget.
- The post review staffing numbers and the total cost reflect the emerging work of LEP/MCA and are comparable to others.
- A 5% vacancy allowance has also been included to reflect staff turnover in the year.

## 2.5 Non-Staffing Costs

These costs represent the costs of operating a LEP/MCA organisation and include costs of consultancy support to develop new policies and programmes, revenue programmes such as Active Travel and Skills, property costs, service agreements, ICT, HR to name a few. The introduction of new cost centres detailed in Appendix 1 allows for greater transparency and control.

The new presentation of cost centres and gross costs present a challenge of direct comparison between years in Appendix 1. However, the table below allows comparison at a broader level.

**Table 2 – Comparison of Non-Staff Costs between years**

	2019/20	2020/21	Budget Change
	<u>£000</u>	<u>£000</u>	<u>£000</u>
SEP/LIS Budget	1,760		
Business, Growth and Skills		650	
Transport, Infrastructure & Housing		450	
Chief Executive Office	<u>0</u>	<u>500</u>	
	1,760	1,600	-160i
LGF Consultancy	150	150	0
AMP	1,020	1,115	95ii
Other Property	605	574	-31
Growth Hub	400	337	-63iii
Active Travel	150	150	0
Business Services	960	953	-7
Governance	<u>75</u>	<u>107</u>	<u>32</u>
	<b>5,120</b>	<b>4,986</b>	<b>-134</b>

## Notes

- i. As stated in the Medium-Term Financial Strategy, revenue resources have been scrutinised. The SEP/LIS budget has been allocated to priority areas in line requirements to deliver the priority areas. This has resulted in a budget reduction.
- ii. This budget reflects the additional running costs of AMP. There is additional income from this facility to more than compensate.
- iii. It appears that there is a budget reduction in Growth Hub Funding for 2020/21. However, that is not the case. Growth Hub is supported by annual BEIS grant and funding from a special reserve set up with specific BEIS funding several years ago. The difference represents the change in planned draw down from the reserve.

## 2.6 Income Budget

- 2.6.1 The income budget is summarised in the table above. This section looks at the detail and a comparison to 2019/20 where possible. Table 3 below looks at General Income. Comparison is made with 2019/20 and explanation of the variances are shown in the notes below.

**Table 3 – General Income**

	2019/20	2020/21	Variance	
	£000's	£000's	£000's	
Enterprise Zone Business Rates	3,023	2,009	-1,014	i
BEIS LEP Grant	500	500	0	
BEIS Growth Hub Grant	410	410	0	
Transport Hub Subscriptions	1,000	1,000	0	
LEP Subscriptions	204	184	-20	i
AMP Income	1,428	1,620	192	ii
Treasury Management	195	400	205	iii
Other Property Income	155	155	0	
	<b>6,915</b>	<b>6,278</b>	<b>-637</b>	

## Notes

- i. As previously discussed at Board, the major factor is the reduction of income from the realignment of LEP boundaries and the loss of £1m of enterprise zone receipts from Chesterfield. This has also resulted in a reduction of subscriptions.
- ii. Greater revenue has been generated from more activity at AMP in 2019/20. The budget has been adjusted to reflect the overall position.
- iii. Cash flow modelling has been re-examined during the budget process and the expected level of Treasury Management returns increased for the budget although rates will remain static.

- 2.6.2 The other aspect of income when working on a gross basis is Specific Grants and Recharges. The detail of 2020/21 budget is shown below in Table 4. Comparison between years is difficult for area because it varies significantly between years based upon activity

and much of the activity is procured as required. However, where sensible, a comparator has been shown. Some narrative explanation is shown in the notes underneath the table.

**Table 4 – Specific Grant and Recharges**

	2019/20	2020/21	
	0	1	
	£000's	£000's	
Local Growth Fund	1,150	1,150	i
Transforming Cities Fund Grant	0	480	ii
MCF Staffing	350	350	iii
MCF Active Travel	75	150	iii
Sustainable Travel Access Fund	25	25	
Skills Bank	324	220	
Planning & Delivery	112	45	
One Public Estate	90	15	
WHU Trial	391	170	
Energy & Sustainability	57	40	
SYPT & Levy	526	449	iv
Growth Hub Reserve	340	280	
Miscellaneous	<u>51</u>	<u>51</u>	
	<b>3,491</b>	<b>3,425</b>	

**Notes**

- i. This is the eligible element of LGF for programme management.
- ii. TCF funding has been assumed for 2020/21. This is the estimated administration element of TCF for 2020/21
- iii. This is the elements of MCF that have been costed in the budget at this stage. £500k of the 2020/21 funding is available for programmes in the year including follow up to Bus Review.
- iv. Some services are shared and some are recharges for the management of some PTE activity. Some changes have been made in the year in the respective costs of these services.

**2.7 Revenue Programmes**

SCR manage several revenue programmes. The funding and spending is outside the core budget but some commentary is appropriate for a complete budget picture. It is anticipated that SCR will deploy £6.2m across the region and this is shown in Table 5 below.

**Table 5 Revenue Programme 2020/21**

Programme Activity	Thematic Area	2019/20	2020/21	
		Outturn	Budget	
		£'000	£'000	
Health Led Employment Support Trial	Skills & Employment	2,179	1,499	i
Skills Bank	Skills & Employment	1,157	790	ii
Enterprise Advisor Pilot	Skills & Employment	180	180	
Key Account Management	Trade & Investment	102	144	
Sustainable Travel Access Fund	Transport	2,500	2,500	iii
Energy & Sustainability	Infrastructure	59	56	iv
Planning Delivery Fund	Planning	162	46	
Mayoral Capacity Fund	Mayor's Office	1,302	1,000	
<b>Sub-Total</b>		<b>7,641</b>	<b>6,215</b>	

## Notes

- i. The health led trial was launched successfully in 2018/19 and is now in the process of being delivered under a contractual arrangement with NHS Sheffield Clinical Commissioning Group and the delivery partner, South Yorkshire Housing Association. This was due to finish at March 2020 but negotiations with the Work and Health Unit have allowed for an extension of the scheme to October 2020.
- ii. Skills Bank is a 6-year programme which forms part of Sheffield City Region's Growth Deal. Skills Bank essentially comprises two elements: tasks and activities which the SCR is responsible for delivering and the main contract with the delivery partner for commissioning training. ESFA have confirmed funding for the final year for delivery in 2020/21.
- iii. Sustainable Transport Access Fund was a 3-year programme running from 2017/18 to 2019/20 and delivery has been strong to date. In December Government announced that this valuable revenue programme is to be extended for 2020/21. This funding will allow partners to continue the valuable work undertaken in the first three years and help support the delivery of the SCR wider Transport vision.
- iv. The Energy & Sustainability workstream was started late in 2018/19. This is a 2-year programme and the estimated value is around £114k. £14k is funded from Core budget and £100k has been obtained from BEIS (via Tees Valley Combined Authority). The programme seeks to increase capacity to develop and deliver energy projects and improve the quality of energy projects brought forward.

The Government has recently announced a Supported Bus Grant specifically for 2020/21 amounting to £703,614 for Sheffield City Region. This funding will be passported to SYPTE to support bus services.

## 2.8 Reserves

MCA/LEP has reserves for specific purposes. Table 6 below shows the anticipated levels at 31<sup>st</sup> March 2020 and 31<sup>st</sup> March 2021.

**Table 6 – Revenue Reserves**

	Balance b/f 1.4.2019	Planned Use	Forecast variance	New Use	Reserves c/d 31.3.2020	Propose d Use	Reserves c/d 31.3.2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Reserve	£1,768		£1,022	£-800	£1,990	£-800	£1,190
Election Reserve	£233			£800	£1,033	£800	£1,833
Business Rates Reserve	£843		£153		£996	£-283	£713
Growth Hub Reserve	£1,655	£-340			£1,315	£-280	£1,035
Skills Bank Reserve	£1,680		£3,397		£5,077		£5,077
Skills Bank 2	£1,110	£-600			£510	£-510	£0
<b>Revenue Reserves</b>	<b>£7,289</b>	<b>£-940</b>	<b>£4,572</b>	<b>£0</b>	<b>£10,921</b>	<b>£-1,073</b>	<b>£9,848</b>

SCR's level of revenue reserves has increased by £3.632m. The key element of this is Skills Bank Reserve. Money has been passed to SCR from the completion of phase 1. The intention from the original negotiation with Central Government was that this additional funding identified from phase 1 would be used to extend the Skill Bank programme after phase 2. Skills Bank 2 represents early payment of funding towards the 2<sup>nd</sup> Skills Bank Programme that runs until 2021. The Skills Bank reserve is likely be utilised over the

following three years (2021-2024) following a policy paper coming to LEP Board in summer of 2020.

Growth Hub Reserve is similarly earmarked for specific activity. As stated elsewhere this was created in conjunction with Government at the start of the LGF Programme.

General Reserve is not earmarked and is held by SCR to secure the authority against any unforeseen changes in circumstances. In 2018/19, £1.7m was established by the Section 73 Officer as a prudent level of reserves. Table 6 indicates that this will increase by c£1m in the year due to the in the year underspend reported to January Board. However, a future budget pressure surrounding Mayoral elections has been highlighted alongside discussions with other M9 Finance Directors. The costs of the 2022 election will be in the region of £2m. It would be sensible to smooth the impact of that cost over a longer period. Therefore, it is intended to add £800,000 to the Election Reserve from some of the windfall additional income in 2019/20. This will leave the General Reserve at £2m at 31<sup>st</sup> March 2020. It is proposed that a further allocation is made in 2020/21 of £800,000 to provide for the 2022 Mayoral Elections. This will leave General Reserve at £1.190m. This remains a sound level for general reserves.

The Business Rates Reserve was created to smooth fluctuations in the level of business rates received by SCR. It is intended to utilise £283,311 to meet 2020/21 budget requirements. A further £240,000 will be earmarked for 2021/22 budget in line with the MTFs updated at the previous LEP Board in January 2020. This will bring this reserve down to £472,000 in line with MCA policy.

## **2.9 Section 25 Statement**

- 2.9.1 Section 25 of the Local Government Act 2003 places requirements on a Section 73 Officer in determining the Authority's budget for the forthcoming financial year to report on the robustness of the estimates made for the purposes of the calculations and on the adequacy of the proposed financial reserves. This assessment is based upon the Combined Authority continuing to operate on an on-going basis and with existing powers. This section sets out the Section 73 Officer's view of the budget and medium-term financial plan.
- 2.9.2 The medium-term financial plan approved by the MCA Board in November set out a robust plan to deliver a balanced budget over the medium term. There is a marginal risk to future income sources from a down-turn in business rate revenue but a reserve is in place to mitigate that. As the majority of the SCR's budgets are not demand led, the level of control the Combined Authority has over its expenditure is significant. Both give confidence in the delivery of the plan.
- 2.9.3 The budget presented to the Board, has been compiled in line with the MTFs and the assumptions therein are robust. Staffing has been reviewed against the projected demands for 2020/21 and some posts deleted. Some funding has been earmarked or new staffing resource to manage the new TCF programme. Revenue funds have been allocated to key service areas to resource the development of major projects and programmes. Funding this development of new programmes is a pressure on all MCA's. SCR has allocated the resources that can be afforded at this time.
- 2.9.4 Overall this is a robust budget for the planned activities of the MCA/LEP for 2020/21. The planned utilisation of reserves is a reasonable approach and leaves the MCA in a sound financial position to move forward with confidence.

### 3. Consideration of alternative approaches

- 3.1 It is enshrined in MCA Constitution that a budget is set before the start of the financial year. The Capital Programme was approved at January MCA Board alongside setting the Transport Levy. SCRMCAs budget must be approved at 23<sup>rd</sup> March 2020 Board.

### 4. Implications

#### 4.1 Financial

This is the budget setting report and all financial matters are incorporated in the main body of the report.

#### 4.2 Legal

Recommending this report to MCA Board on 23<sup>rd</sup> March 2020 meets the requirements set out in the Constitution.

#### 4.3 Risk Management

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

#### 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 been undertaken at various stages of the 2020/21 business planning process. Discussions on the proposed budget have taken place with the LEP Vice Chair and the Chair of the Business Growth Executive Board, constituent authority Directors of Finance and Chief Executives. This consultation has been instrumental in informing the report before the Board.

### 6. Appendices/Annexes

- 6.1 Appendix 1 – Cost Centre Revenue Budgets for 2020/21

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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