

**1<sup>st</sup> June 2020**

**Revenue and Capital Outturn 2019-20**

**Purpose of Report**

This report provides the final revenue and capital outturn position before audit to the SCRMC Board for the Sheffield City Region Group for 2019/20.

**Thematic Priority**

Cross cutting – financial

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

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

**Recommendations**

Members are asked to:

- Note the revenue outturn positions of SCR and SYPTE
- Note the outturn of Capital programme and approve the carry forwards identified in paragraph 2.5.
- Note the risks addressed by the creation of provisions and earmarked reserves and approve the actions taken.

**1. Introduction**

- 1.1** Regular budget monitoring reports have been presented to MCA Board throughout the year on the financial performance of the organisation against its budget, predicting a final outturn position. This paper presents the final financial position across the whole group that will be reflected in the statutory accounts ahead of external audit.
- 1.2** The report looks at each element of the Group and highlights key issues. Detail of each area is attached in the respective appendices.
- MCA / LEP Revenue position
  - Revenue Programme activity
  - South Yorkshire Transport Revenue position
  - Capital Programme Expenditure 2019/20
- 1.3** Formal statutory financial accounts and statements have been prepared in line with the detail presented in this report. A key element of those statements is the level of reserves and provisions. Section 2.6 of the report sets out the overall position. The final statements will be amended in line with any decisions made at this meeting, reported to Audit & Standards Committee on 11<sup>th</sup> June and then published ahead of external auditing.

## 2. Report

2.1 The key issues regarding the financial performance of each element of the Group are set out below. Each element is considered separately. The final section considers the reserves of the Group and specifically the on-going financial strength in light of emerging pressures from Covid-19.

### 2.2 **MCA/LEP Revenue Outturn 2019/20**

Table 1 below shows the final net outturn position of MCA/LEP for 2019/20 with a net underspend of £675,000. This is less than the £1,022,000 reported in January. The changes are reported below.

**Table 1 - Net Outturn 2019/20**

	Budget	Outturn	Variance
Income Stream	£'000	£'000	£'000
EZ Business Rates	£3,023	£3,038	£15
Traded Income - AMP	£1,428	£1,636	£208
Transport Hub Subscriptions	£1,000	£1,000	£0
Base LEP Subscriptions	£204	£204	£0
LEP Grants	£500	£700	£200
Investment Income - Treasury	£195	£765	£570
Investment Income - Property Portfolio	£155	£159	£4
	<b>£6,505</b>	<b>£7,502</b>	<b>£997</b>
Expenditure			
Staffing	£2,519	£2,173	£346
SEP, LIS and SPF Development	£1,160	£1,336	-£176
Trade and Investment	£601	£458	£143
AMP	£1,022	£1,256	-£234
Business Support, Supplies & Services	£975	£824	£151
Other Property Costs	£228	£335	-£107
	<b>£6,505</b>	<b>£6,382</b>	<b>£123</b>
New Provisions	£0	£900	-£900
Release of Provisions	£0	-£455	£455
	<b>£6,505</b>	<b>£6,827</b>	<b>-£322</b>
<b>Net Outturn 2019/20</b>	<b>£0</b>	<b>£675</b>	<b>£675</b>

#### Income

The final outturn income is £7.502m for 2019/20 which is £274,000 more than reported in January. The major factor is due to additional Treasury Management income.

#### Expenditure

A net underspend of £123,000 on expenditure ahead of specific provisions is reported as the final position. In January the figure reported was £300,000 underspend. The major change is a net overspend on SEP, LIS and SPF and Trade & Investment budget lines of £33,000 rather than an anticipated underspend of £100k. Proactive measures in

the last quarter has driven expenditure alongside provisions for activity that was planned and consideration of the recovery from Covid-19.

### New Provisions

Each year the provisions made by the Authority need to be reviewed. This year has seen £455,000 returned to the revenue account. However, two specific new provisions have been identified and set aside in light of the pressures on MCA/LEP budget for 2020/21 because of Covid-19. £500,000 has been set aside as an income protection provision. £1.6m is expected from AMP in 2020/21 but pressure has already seen income levels fall off. It is expected that up to 25% of the income will not be delivered. The loss of tenants also brings a liability for service charges and business rates to MCA. £400,000 has also been set aside to assist Covid-19 Recovery for a comprehensive recovery plan, capacity and some funding for business grants.

### Conclusions

As reported in January, the MCA has benefited from additional windfall income in the year. Positive action early in the year has also delivered savings across the organisation in salaries. Even with making sensible provisions for the impact of Covid-19 on the current year's budget there is a net underspend on the original planned budget of £675,000.

The 2020/21 budget report highlighted the issue of funding the next Mayoral election as a future pressure on future MCA budgets. It concluded that the Election Reserve needs to be increased to meet that future cost of c£2m. Therefore, the Board are asked to confirm the transfer of the net underspend of £675,000 to the Mayoral Election Reserve. This will increase the Reserve to £908,000. A planned transfer of £800,000 from General Reserve will mean £1.708m will be set aside at 31<sup>st</sup> March 2021.

## **2.3 Revenue Programme Expenditure 2019/20**

SCR manage several revenue programmes. The funding and spending are outside the core operational budget for 2019/20. Table 2 below identifies the actual spend against planned programme for the year.

**Table 2 – Revenue Programme Spend 2019/20**

<b>Programme</b>	<b>2019/20 Budget</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Skills Bank 2	£1,157	£357	£800
Health Led Employment Trial	£2,179	£2,698	<b>-£519</b>
Enterprise Advisor Pilot	£180	£76	£104
Growth Hub	£829	£417	£412
One Public Estate	£330	£94	£236
Planning Delivery Fund	£162	£142	£20
Sustainable Travel Access Fund	£2,500	£2,495	£5
Energy & Sustainability	£59	£58	£1
Key Account Management	£102	£102	£0
HS2 Growth	£298	£170	£128
Mayoral Capacity Fund	£1,302	£1,302	£0
<b>Total</b>	<b>£9,098</b>	<b>£7,911</b>	<b>£1,187</b>

All the underspends on these programmes will be carried forward to 2020/21. The underlying issues on the major underspends are outlined in this section.

*Skills Bank 2* is on track to deliver on the programme identified but the original profile of spending had too much in 2019/20 which has resulted in less funding being drawn down from the Skills Bank 2 reserve. This funding will be carried forward and spent in 2020/21.

*Health Led Employment Trail* has now in its final stages. The overspend shown relates to the performance grant payment to South Yorkshire Housing Association. This will be met by funds retained from the 2018/19 allocation.

*Enterprise Advisor Pilot* The Careers Enterprise Council (CEC) make funding available each academic year for the scheme. The SCRMCA acts as intermediary and only claims from CEC what it has paid out to delivery partners. In the 2019/20 financial year £76,000 was drawn down.

*Growth Hub* continues to deliver essential services to the business community. A Growth Hub Reserve was set up from the original Local Growth Fund allocation to fund additional services in South Yorkshire over the period of the programme. In 2019/20 less money was drawn down from the pot as other funding sources were maximised. That funding remains in the reserve and will be utilised in 2020/21 as part of the recovery package.

*One Public Estate* is a programme funded by Government to help better utilise assets held across the wider public sector. The underspend reflects the reduced expenditure in 2019/20 because of the challenges faced with the major sites. Flooding and contract negotiations have contributed to that. However, the funding can be carried forward to 2020/21 and momentum will be maintained on the South Yorkshire programme

## 2.4 South Yorkshire Transport Revenue position

The outturn position for 2019/20 is shown below in table 3.

**Table 3 – Transport Revenue Outturn 2019/20**

	Budget £'000	Actual £'000	Variance £'000
<b>Mandatory &amp; Discretionary Expenditure</b>			
ENCTS/Mobility Concessions	24,869	23,790	1,079
<b>Financial Obligations</b>			
Capital Financing	10,797	10,784	13
Depreciation	3,889	3,889	0
Pensions	2,256	2,202	54
<b>Discretionary Expenditure</b>			
Child Concessions	1,689	2,814	-1,124
Departure Charges	-1,183	-1,117	-66
Tendered Bus Services	5,649	5,844	-196
Community Transport	1,657	1,657	0
<b>Operational Departments</b>			
Customer Services	1,792	1,556	236
Public Transport	5,523	5,442	81
Support Departments	2,799	2,716	83
<b>SYPTe Budget Outturn 2019/20</b>	<b>59,737</b>	<b>59,578</b>	<b>159</b>
Accounting Adjustments - Grants		-619	619
Other Accounting Adjustments		-311	311
Write back of Provisions		-787	787
Write back of Pension Reserve for 2019/20		-876	876
New Provision for Covid-19 Income loss		1,600	-1,600

<b>SYPTE Final Outturn 2019/20</b>	<b>59,737</b>	<b>58,585</b>	<b>1,152</b>
Combined Authority operational expenditure	328	341	-13
MRP - existing	3,195	3,161	34
External interest	1,388	1,388	0
Investment income	-1,819	-2,303	484
<b>MCA Transport Outturn 2019/20</b>	<b>3,092</b>	<b>2,586</b>	<b>505</b>
<b>Overall Transport Outturn 2019/20</b>	<b>62,829</b>	<b>61,171</b>	<b>1,657</b>

The budget outturn position for SYPTE is in line with that reported previously to Members in January 2020. A £1m underspend on ENTCS concessions due to reducing patronage is offset by a similar overspend on child concessions. This was a consistent position throughout the year before Covid-19. The significant change is that a provision of £300,000 has been made in these accounts to meet emerging costs to support the continuation of the tram system in April as a result of Covid-19 pressures and a timing lag in support coming from Department for Transport. At the time of reporting, this cost is likely to be met by Department for Transport grant in 2020/21.

The transport arm of the Group has also benefited from additional investment income which has resulted in a favourable variance of £505,000 at year end. This money will be added to the Levy Reduction Reserve in the closure of accounts process.

#### Provisions

Each year the provisions made by the Authority need to be reviewed. This year has seen £787,000 returned to the revenue account. Accounting adjustments were made during the audit of 2018/19 accounts concerning pension payments. Consequently, £876,000 is returned from the pension reserve to the income and expenditure account for 2019/20. In addition, there are technical accounting adjustments that are made at year end to reflect the accounting treatments of depreciation and assets and the impact upon the final revenue balance. In 2019/20 there is specifically £619,000 relating to accounting treatment of grants and £310,000 for other financing adjustments.

A review of the impact of Covid-19 has been undertaken upon the SYPTE 2020/21 revenue budget. The major threat is to the income budget of £4.1m covering park and ride charges, commercial income, property rent, departure charges and service charges. A real risk of £1.6m has been identified and a new provision has been made in the 2019/20 accounts to cover the impact in 2020/21. The final underspend of £1.152m will fall into SYPTE Operational reserve.

#### Conclusions

The outturn position for transport is broadly in line with the budgetary monitoring reports that Members have received throughout the year. Covid-19 had limited impact on the 2019/20 financial position but is likely to create additional budgetary pressure in 2020/21. Some provisions have been made to try to alleviate those pressures as explained above. It will be a key risk that will be monitored throughout the year.

The reserves position is considered in the last section of this report where the overall financial resilience of the Group will be considered.

## **2.5 Capital Programme Expenditure 2019/20**

The summary capital outturn for 2019/20 is shown below in Table 4. It sets out the actual spend against each programme.

**Table 4 -Capital Outturn 2019/20**

2019/20 Capital Programme			
Programme	Current budget	Forecast Outturn	Variance
	£'000	£'000	£'000
Local Growth Fund	£35,458	£36,147	-£689
Highways Capital Maintenance	£16,078	£14,745	£1,333
SYLTE (excluding ITB)	£8,902	£8,098	£804
Integrated Transport Block	£9,834	£9,531	£303
Transforming Cities Fund	£4,244	£1,973	£2,271
BDR Transport Capital Pot	£3,079	£2,607	£472
Low Emission Buses	£1,293	£1,293	£0
	<b>£78,888</b>	<b>£74,394</b>	<b>£4,494</b>

Local Growth Fund

The programme for 2019/20 had grown from the original profile to £43m. However, several major schemes in the programme have sought re-profiling of expenditure to 2020/21. In the end, spend of £36.1m was achieved that exceeded the target set by Government.

Highways Maintenance Block

This grant funding is for Barnsley, Doncaster and Rotherham highways capital maintenance programmes. The underspend of 8% is due to the actual reduced level of work undertaken and claimed in the year. Approval is sought to carry forward this underspend into the 2020/21 programme.

SYLTE Capital Programme

The underspend of £804,000 is predominantly due to a reduced level of spend on some projects as a result of Covid-19 related lockdown restrictions. In other cases, some major schemes have almost completed but there are underspends due to retentions being held back until snagging works are completed. Approval is sought to carry forward this underspend to complete the delayed programme.

Integrated Transport Block

Approval is sought to carry forward £303,000 into the 2020/21 programme.

Transforming Cities Fund

Department for Transport allocated £4.2m for 2019/20 for schemes within South Yorkshire. Some delivery issues were identified and DfT has agreed that £2.2m can be carried forward to 2020/21. All four schemes will now be completed in summer of 2020, Covid-19 permitting.

BDR Transport Pot

The underspend reported here reflects the reprofiling of planned expenditure to 2020/21 in Barnsley to support the M1 junction 37 works programme. Approval is sought to carry forward this underspend to meet these costs in 2020/21.

## 2.6 Provisions and Reserves

### 2.6.1 Provisions

Provisions are where the Authority considers setting aside funding to meet new impending revenue expenditure. This could be in the form of a procurement process that is underway that does not meet the definition of an accrual, a new investment that will deliver efficiencies or to meet impending threats to the budget from unforeseen challenges. In the current situation Covid-19 meets that criteria. Mention has been made of the creation of provisions earlier in the report and the rationale for doing so. However, for transparency, Table 5 below identifies all the provisions that are on-going and will be part of the financial accounts of the Group.

**Table 5 – Provisions as at 31<sup>st</sup> March 2020**

<b>MCA/LEP Provisions</b>		
	<b>£'000</b>	<b>£'000</b>
HR and IT Development	£200	
Outstanding Payment for Project Mercury	£250	
Costs of Short-Term Contract Staff Severance	£40	
South Yorkshire Futures	£94	
Planned Building Maintenance	£400	
Loss of Income from Covid-19 Impact	£500	
COVID-19 Recovery	£400	
Business Support Review	£100	
Digital Infrastructure Plan	£80	
Miscellaneous	<u>£80</u>	<b>£2,144</b>
<b>SYLTE Provisions</b>		
Potential Grant Recovery	£270	
Asset Management	£731	
Legal Claims & Fees	£169	
SYSL Payments	£300	
Covid-19 Income loss	<u>£1,600</u>	<b>£3,070</b>
<b>Total Provisions @ 31st March 2020</b>		<b>£5,214</b>

### Reserves

**2.6.2** The Group has Reserves set aside to meet future liabilities. Some are earmarked for specific reasons whilst others are to protect and safeguard its financial position against volatile income streams and to ensure its on-going security. Table 6 identifies all the revenue reserves held by the Group.

**Table 6 – Reserves held as at 31<sup>st</sup> March 2020**

		<b>Balance @ 1.4.2019</b>	<b>Forecast variance</b>	<b>Use of Reserves</b>	<b>Balance @ 31.3.2020</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
MCA/LEP General Reserve	u	£1,768	£675	<b>-£675</b>	£1,768
Business Rates Resilience Reserve		£843	£153		£996
Mayoral Election Reserve		£233		£675	£908
MCA/LEP LGF Reserve		£1,655	£7		£1,662

Skills Bank Reserve		£1,680	£3,397		£5,077
Skills Bank 2		£1,100			£1,100
MCF		£0	£908		£908
<b>Total MCA/LEP Revenue Reserves</b>		<b>£7,279</b>	<b>£5,140</b>	<b>£0</b>	<b>£12,419</b>
SYPTTE Operational Reserve	u	£8,273	£1,152	-£4,474	£4,951
SYPTTE Asset Management Reserve				£1,500	£1,500
SYPTTE Covid-19 Income Reserve					£0
SYPTTE Covid-19 Recovery Reserve				£3,000	£3,000
SYPTTE Earmarked Reserve		£4,992		-£26	£4,966
<b>SYPTTE Revenue Reserves</b>		<b>£13,265</b>	<b>£1,152</b>	<b>£0</b>	<b>£14,417</b>
MCA Levy Reduction Reserve		£25,091	£505	-£6,076	£19,520
MCA Transport General Balances		£5,888			£5,888
MCA PFI Reserve		£9,810	£1,348		£11,158
<b>Total Revenue Reserves</b>		<b>£61,333</b>	<b>£8,145</b>	<b>-£6,076</b>	<b>£63,402</b>

u = unearmarked reserves

#### MCA/LEP Reserves

Most of these reserves have been earmarked for specific purposes by either the funding source such as Skills Bank or by decision of the MCA Board. The general fund reserve is £1.768m at 31<sup>st</sup> March 2020 and is unearmarked. This is in place to cover unexpected fluctuations that have not been provided for. A reasonable level has been identified as £1m for the current MCA/LEP activities and budget. An allocation of £800,000 to Mayoral Election Reserve was identified in the 2020/21 Budget Report which will bring the balance in line with good practice.

#### SYPTTE Reserves

SYPTTE Operational Reserve operates as MCA/LEP general reserve and is in place to cover unexpected fluctuations in expenditure or income. It has been reduced to £4.95m this year. A reasonable level of operational reserve is around 5% of the revenue expenditure which would be c£3m under normal circumstances. The level of operational reserve will be reviewed during the 2021/21 budget setting cycle as it may be required to balance a reducing income budget into the medium term.

£4.5m has been allocated to two new earmarked reserves that have been created this year to reflect on-going potential issues for the organisation. An asset management reserve has been created to deal with any future impairment charges that are made from revaluing assets. Under the accounting conventions used for SYPTTE, all impairments to value are shown in year. By creating a specific reserve, the impact on the operational reserve will be mitigated and help future financial planning. A second earmarked reserve of £3m has been created to set aside funds to deal with additional pressures on expenditure that the recovery from Covid-19 may place upon SYPTTE budgets. It has been allocated in a reserve rather than a provision because there are no clear plans or costs for the activities. If there is no demand in the year, this will be reviewed alongside all Earmarked Reserves during 2021/22 budget process and at year end for 2020/21 and appropriate changes made.

The major utilisation of reserves was the draw down of £6.076m from the levy reduction reserve. This was £0.5m less than planned in the 2019/20 budget because of the surplus investment income achieved from treasury management in the year. Whilst this



balance is large at £19.52m, it will be fully drawn down over the life of the medium-term financial plan.

## **2.7 Overall Conclusions**

The 2019/20 outturn position reflects the activities undertaken by the Group in the financial year. The accounts have been drawn together in line with CIPFA Code of Practice and all appropriate accounting standards.

Finance directors are required to consider the on-going financial strength of an organisation as they present the financial accounts. The emergence of the Covid-19 epidemic is a key consideration and a theme throughout this report. Risks to the on-going sustainability of each part of the Group have been assessed and specific budgetary impacts examined. Potential further calls on SCR Group resources have also been reviewed and sensible provisions and changes to Earmarked Reserves have been proposed as part of the closedown process. In my opinion this is the appropriate course of action and the Group remains in strong financial health with the ability to continue to operate and deliver its services in 2020/21 and beyond.

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

- 3.1** This report sets out the financial outturn position against planned budget for 2019/20. It is a statutory requirement to report to the Executive and therefore no alternative approach is appropriate.

## **4. Implications**

### **4.1 Financial**

This paper provides information on the overall outturn position for SCRMCA Group for 2019/20. Actions have been taken to set up provisions to mitigate the impacts of Covid-19 on the 2020/21 financial position for each discrete area. These positive actions will help the organisation meet the challenges to services for 2020/21 as well as protect and safeguard the financial security of the organisation.

Alongside this report, officers have prepared the draft statutory accounts for publication in line with the statutory framework. This timetable has been relaxed under the current Covid-19 situation, but it is intended to publish following the formal meeting and appropriate approvals.

### **4.2 Legal**

This paper reports the overall financial position to MCA in a timely manner. The financial accounts of all local authorities are supposed to be published subject to audit by 31<sup>st</sup> May each year. However, this timetable has been relaxed this year for 2019/20 accounts due to pressures of the Covid-19 epidemic. Following this meeting, the draft accounts will be reported to Audit and Standards Committee and then published ahead of audit.

### **4.3 Risk Management**

The main financial risk to the organisation is the additional financial pressure in 2020/21 on the revenue budgets of SYPTE and MCA/LEP arising from Covid-19. The provisions identified as part of this process and creation of earmarked reserves will mitigate and reduce the impact in year and allow positive action to be undertaken in the recovery phase of the current situation.

#### **4.4 Equality, Diversity and Social Inclusion**

There are no equality, diversity and social inclusion implications arising directly from this paper.

#### **5. Communications**

5.1 None

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

6.1 List any relevant appendices/annexes here: none

Report Author	Noel O'Neill
Post	Interim Group Finance Director
Officer responsible	Noel O'Neill
Organisation	Sheffield City Region Mayoral Combined Authority
Email	<a href="mailto:noel.oneill@sheffieldcityregion.org.uk">noel.oneill@sheffieldcityregion.org.uk</a>
Telephone	0114 220 3443

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: None