27th JULY 2020

Year To-Date Finance Update

Purpose of Report

This report summarises the forecast impact of Covid-19 on the MCA's financial position after the first two periods of the financial year. A progress update on the external audit of the 2019/20 statutory accounts is also provided.

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 year to date revenue and capital positions of the SCR Group as at 31 May – the Q1 report will be presented at the MCA Board in September 2020;
- Note the forecast impact of Covid-19, and;
- Note the progress update on the external audit of the 2019/20 statutory accounts, which will be presented for approval at the MCA Board in September 2020.

1. Introduction

1.1 In common with partners and businesses across the region, the Covid-19 pandemic has caused disruption to the MCA's financial affairs. This report seeks to highlight the impact of that disruption, and the steps being taken to protect both operations and our financial position.

1.2 The financial impact of Covid-19 on the MCA's financial position is notable across four principal areas:

1. Financial support afforded to public transport across South Yorkshire as patronage collapsed in the wake of lockdown restrictions;
2. Disruption to some income sources that support the budget;
3. A slowing in some delivery activity; and,
4. The announcement of significant new government funding support for operational and investment activity as a round of fiscal stimulus was entered into.

1.3 In support of its communities, the movement of key workers, and the future viability of the public transport network in South Yorkshire, the MCA Group moved quickly to provide support to bus and light-rail operators as farebox income collapsed. Through SYPTE, budgeted concessions payments and bus-tendered service contracts have been honoured, ensuring a steady flow of income into operators. Together with discrete grant awarded directly to operators by the Department for Transport, this has helped to ensure a continuation of services and support a bridge to commercial sustainability when patronage recovers.

1.4 The MCA Group has also heeded requests from government to maintain goods and services contracts and contracts of employment, where budgets allow. This is aligned to the national policy of keeping the country working, but also seeks to ensure that the MCA is well placed to support the renewal and recovery programme that will likely follow.

1.5 Income shortfalls are forecast in a number of areas, including fees generated from rental property and investment income from cash held on deposit in advance of need. These shortfalls were largely predicted, with resource being earmarked in reserve to mitigate the issue.

1.6 MCA officers are also continuing to engage with government on grant programmes, both new and old. Requests have been made for flexibility on time-limits on the use of existing grant, whilst successful bids have also been made for resource from new grant programmes that will help prime recovery. Our ability to significantly intervene in the recovery and renewal efforts will, ultimately, be dependent on government flexing national levers and affording us the resource to support the local economy.

1.7 Whilst the MCA's financial position in the short-term is stable, it is still sensitive to events largely outside of its control. The ongoing commercial viability of the public transport network is reliant on a recovery in fare paying patronage. Where shortfalls persist, further calls for public subsidy or unpalatable service reductions will likely arise. As currently, a national effort led by government will be required.

1.8 MCA officers continue to engage with government to raise these issues, including being party to a joint letter to government from all Combined Authorities. The financial forecasts provided in this report are consistent with those reported to government.

1.9 Reflecting all these issues, a major budget reforecast exercise is underway within the MCA that will bring back proposals to the September MCA meeting. This exercise is being undertaken from a position of comparative stability, with a prudent level of reserves allowing us some scope to flex budgets without displacing key priorities.

1.10 This reforecast will vary the budget for new funding streams that are forecast to become available. This may include the first year of Devolution funding, subject to the passage of the Order through Parliament.

1.11 Finally, it should be noted that the request for Board to consider the statutory financial accounts at this meeting has now been deferred to the MCA Board in September 2020. Despite comfortably meeting the statutory deadline for publication of the MCA's draft accounts, the audit of South Yorkshire Pension Fund is not now expected to conclude before August, limiting the MCA's external auditor's ability to conclude the audit of the Group's accounts.

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.

MCA/LEP Operational Revenue position

2.2 The approved core operational budget for 2020/21 is £9.99m, the breakdown of which is shown in Table 1a in Appendix 1. Table 1b shows the breakdown of general income, which includes the income streams most vulnerable to the impact of Covid-19.

2.3 In-year budget is complemented by reserves and provisions taken at the year-end in anticipation of Covid-19 related risk. The uncertainty caused by Covid-19 makes it particularly difficult to predict the forecast outturn at such an early point in the financial year. However, at this stage is forecast that an additional draw of £0.55m on reserves will be required from reserves to balance the budget.

2.4 Some issues, such as shortfalls in income generated from property and investment returns, can be predicted with a greater degree of certainty. As detailed in the 2019/20 outturn report, we are forecasting the loss of £0.50m of income due to Covid-19, mainly as a result of falling investment income aligned to Bank of England interest-rate cuts in March, and reduced occupancy levels at the AMP. This latter issue, in turn, is expected to cause an overspend on property running costs (c.£0.05m), due to the landlord's liability for empty property rates.

2.5 Forecast expenditure levels are more difficult to predict. This reflects adjustments to ways of working impacting on the pace of delivery, the capacity of suppliers to respond to our requirements, and the potential for reprioritisation of activity in response to Covid-19 recovery and renewal plans. At this stage, however, it does appear that a vacancy allowance savings target of £0.25m will be met as the pace of recruitment has slowed. These issues are currently being tested through a major budget reforecast exercise and will be reported to MCA Board at the September meeting.

2.6 The forecast requirement for additional draws on reserves can be funded from resource set-aside at the year-end to mitigate the likely risk identified at that stage. The release of this earmarked resource will help protect existing priority activity, without impinging on the reserves strategy.

Revenue Programme Expenditure 2020/21

2.7 The 2020/21 budget provides resource for the MCA to deliver several revenue programmes in-year. Expenditure and income related to these programmes is differentiated from the core operational revenue budget, reflecting the discrete funding of the programmes and their often time-limited nature.

2.8 Table 2 (in Appendix 1) identifies the latest forecast spend of £9.57m against planned programme for the year of £6.22m, representing a £3.35m increase. At this stage it is forecast that delivery profiles used to inform the budget will not be unduly disrupted, with variances largely reflecting changes to the scope of activity, and indeed new activity related to new grant.

2.9 Forecast revenue programme variances can be summarised as:

- Slippage on the 2019/20 programme carried forward to 2020/21: £1.2m
- New grant award since the budget was approved: £1.8m
- Forecast additional expenditure above plan: £0.4m

2.10 Slippage has been already been reported in the 2019/20 outturn report. The key variance is new grant award (£1.8m), or forecast new grant award, comprising:

- Active Travel (£834k)

- Health-led employment support trial (c.£500k)
- Growth Hub (£290k)
- Air Quality (£144k)

2.11 *Active Travel* is the first tranche of funding awarded by DfT to introduce temporary measures on the highway to create additional safe space for cyclists and pedestrians in order to maintain social distancing. The region has been successful in securing 100% of its bid of £1.4m, of which roughly 60% is revenue. See paragraph 2.28 re: the remaining 40% capital element). Members are also asked to note that the region will be bidding for Phase 2 funding of c.£5.6m.

Health Led Employment Trail is now in its final year. The programme was expected to conclude by October 2020, however it is now likely that the Work & Health Unit will offer additional funding for the trial to continue for a further six months.

Growth Hub continues to deliver essential services to the business community as part of the region's economic recovery from the impact of Covid-19. A Growth Hub Reserve was created from the original Local Growth Fund allocation to fund additional services in South Yorkshire over the period of the programme. This source of funding will be supplemented with £410k of the annual Growth Hub grant from BEIS, as well as a new grant from BEIS worth £290k which is subject to additional conditions.

Air Quality grant has been awarded by DEFRA to deliver a series of temporary street closures in partnership with schools, to encourage a change in travel behaviour. Unfortunately due to Covid-19, our delivery partner organisations have been presented with a number of operational challenges, which is likely to result in the completion of the project slipping into the next financial year. The funding body is broadly comfortable with this, with the risk of grant clawback deemed low.

Not included in the £1.8m of new grant award is *AEB implementation funding*. A contribution of 50% towards the costs of preparing for the implementation of AEB has been sought from DfE. For 2020/21, this contribution is expected to be in the region of £383k. Confirmation of grant award is expected by the time we report back on the Q1 budget monitoring position.

The assumptions used to set the original budget are currently being tested as part of the budget reforecast exercise. The results of this exercise will be presented to Board in September.

<u>South Yorkshire Transport Revenue position</u>

2.12 A summary of the forecast outturn position as at P2 is shown in Table 3 of Appendix 1. Understanding the impact of Covid-19 on the South Yorkshire Transport revenue budget afforded to SYPTE is aided by an understanding of the interdependency between a commercially viable network and the deployment of SYPTE resource to support service provision. This reflects that public transport provision is generally provided by private operators working to profit models, with public resource being used to deliver priorities in service provision and pricing that the private operators cannot or will not provide.

2.13 SYPTE's revenue budget consists of a number of mandatory and discretionary expenditure lines. These include the costs of the mandatory concessions that SYPTE is obliged to pay to operators as part of the national scheme to subsidise the use of public transport for certain groups, and the discretionary costs of providing concessions for other groups not covered by the national schemes and the subsidy of certain bus routes in support of local priorities.

2.14 The expenditure which SYPTE incurs against these items is in-part driven by volume. Roughly, the greater the use of public transport by those eligible for concessionary travel, the greater the cost to SYPTE. Conversely, lower patronage means lower costs.

2.15 In this instance, lower costs are not to be celebrated. Reductions in the use of public transport runs contrary to SYPTE's objectives, whilst falling fare-paying passengers impacts on the commercial viability of routes. Where operators cannot commercially operate routes, it may fall on SYPTE to support those routes via public subsidy.

2.16 Accordingly, it is in SYPTE's financial and business interest to promote a commercially viable network that works for passengers both in terms of scope and cost.

Covid-19 has crystallised a trend seen over recent years where patronage levels have been falling. Lockdown restrictions have collapsed patronage, which reduces the level of fare income but also the level of concession subsidy that would otherwise be paid by SYPTE. Left unaddressed, this would likely lead to services being withdrawn or SYPTE being asked to directly subsidise routes that were previously commercially viable.

2.17 To mitigate this risk, SYPTE has entered into a temporary agreement with operators to continue to pay concessions based on a 12-month rolling average derived from pre-Covid-19 assumptions. This has been complemented by emergency operator support grant awarded by the Department for Transport, along with national schemes such as furlough. These interventions have protected a level of service and should help to bridge the gap to the revival of patronage as lockdown lifts.

2.18 Whilst this is a significant financial intervention by SYPTE, it does not create a current financial pressure as SYPTE is dispersing the original concessions budget set for the year. No new cost is being incurred in that respect.

2.19 Overall, however, the latest forecast indicates an overspend of £1.6m which is predominantly linked to the impact of Covid-19 on SYPTE's main sources of income (for instance departure charges, advertising income, rents, service charges and commission on ticket sales). As noted in the 2019/20 outturn report, resources have been set aside as part of the 2019/20 closedown process to mitigate this risk.

2.20 Additional expenditure has also been incurred on Covid-19 emergency costs such as extra ICT costs to enable remote working (the majority of which fell in March 2020), facilitation of social distancing at interchanges and bus stops, the acquisition of personal protective equipment and an enhanced cleaning programme.

2.21 Whilst the current situation has been stabilised by interventions from government and SYPTE, risk will persist until patronage recovers to pre-Covid levels. A key variable is the extent to which government will continue to support bus and light-rail operators in the manner seen to-date. The current round of DfT funding formally ceases on 3 August and, whilst discussions are ongoing with DfT about future funding, at the time of writing no further details were available bar an assurance that bus operators would receive at least three-months warning ahead of the cessation of current support (suggesting an October end-date at the time of writing). The potential consequences of central government support being withdrawn before patronage returns to sustainable levels include, but are not limited to:

- An increase in concessionary reimbursement rates;
- A reduction in service frequency and/or coverage;
- A collapse of local operators; and/or
- An increase in the number of priority routes requiring public subsidy.

2.22 Assumptions shared with government show a worst-case scenario under current contracted commitments of a £3.9m overspend in 2020/21 if risks materialise, with longer term impacts if patronage levels fail to recover to pre-Covid-19 levels. This number is likely to be significantly higher if further local intervention is required to subsidise further priority services that were previously commercially viable. Determining this value would require a greater understanding of the profitability of existing routes.

2.23 Total DfT funding awarded to the region for pass-through to local operators to-date is in the region of £5.4m, of which £3.9m relates to tram and £1.5m relates to bus. The bus element comprises:

- Supported Bus Services (£704k)
- Covid-19 Bus Services Support (£504k)
- Covid-19 Bus Services Support Restart (£309k)

This funding is in addition to more expansive DfT grant awarded directly to bus operators (such as CBSSG).

2.24 At this stage forecasts presented assume a continuation of government support until patronage sufficiently recovers for grant schemes to be withdrawn. The budget reforecast exercise will test these assumptions and explore sensitivity to potential scenarios, including the full or partial withdrawal of support ahead of normalisation of patronage.

Capital Programme Expenditure 2020/21

2.25 The capital programme is sensitive to Covid-19 as lockdown restrictions and supply chain disruption effect delivery timelines. At this stage, a number of schemes have reported possible and probable delays which begin to impact on the level of expenditure achievable in year.

2.26 A breakdown of the capital programme forecast vs budget for 2020/21 is shown in Table 4 of Appendix 1. The table below sets out how the current budget has evolved since the start of the year, and how the latest forecast has been developed.

2.27

	£'000
Approved programme as at March 2020	107,583
Carry-forwards approved at outturn	5,183
Current budget	**112,766**
New grant	33,408
Other adjustments	5,408
Latest forecast	**151,583**

New Grant

2.28 We are currently aware of £33.41m of new capital grant awards (since the budget was set) which will fund capital expenditure in the current financial year.

Some of these grants were forecast, but others represent part of the government's broader fiscal stimulus package including a £33.6m allocation from the Getting Building Fund and £40m from the Brownfield Fund.

Assumptions are made that £11.20m (a third) of the £33.6m Getting Building Fund will be spent this year, with the remaining two thirds spent by March 2022. Brownfield Fund resource is made available at £8m p/a over a five year funding allocation.

The remaining £14.2m relates to Pothole & Challenge Fund (£13.6m) and the capital element of the Emergency Active Travel Fund (£603k).

The table doesn't include any recent grant awards where certain key details are still unclear, for instance where DfT have yet to confirm whether funding will be allocated to the SCR as accountable body (or direct award to highways authorities). This applies to c.£6m of funding to support highways projects in Barnsley and Doncaster announced in the week commencing 29 June.

2.29 The MCA continues to seek new sources of un-ringfenced capital funding to resource the pipeline of investment opportunities that have arisen in recent months and give the MCA the flexibility to support business' recovery and renewal. At the time of writing, whilst the flexible LGF capital resource was fully committed a number of schemes were going through the assurance process to ensure a ready pipeline of investable schemes were available should new resource be forthcoming.

Other adjustments

2.30 Of the total amount for 'other adjustments', the latest forecast indicates that Local Growth Fund will surpass budget by £6.2m. This principally reflects the over-programming position. This issue restricts our ability to commit resource to new schemes into the programme without displacing others. Members are also asked to note that the risk of central government withholding a third of LGF still remains, pending the outcome of the mid-year review by BEIS. The MCA continues to maintain a long list of potential pipeline projects which should help mitigate this risk, whilst lobbying Government for LGF to be rolled over into 2021/22 where there is justification for doing so.

2.31 The capital programme for 2020/21 was predicated on the region being awarded the higher end of its Transforming Cities Fund bid, i.e. £230m. The award of a much lower amount (£166m) means that the programme will need to be significantly re-based over the next three years. It is currently envisaged that the profile for 2020/21 will be reduced by £1.1m, with the main reductions to the programme being loaded toward 2021/22 and 2022/23. The TCF Programme Board is scheduled to endorse the revised programme at its August meeting, after which the proposed variations will be brought to the MCA in September for approval. On 3 July Transport Board approved the payment of c.£3m of scheme development costs which will facilitate an acceleration of projects so as to mitigate the risk of grant clawback in later years.

Statutory Accounts

2.32 The 2019/20 statutory financial accounts and statements for the SCR group were presented in draft to Audit & Standards Committee on 11 June and then published on 15 June, ahead of external auditing.

2.33 Originally, the timetable had been set with the normal statutory deadline of 31 July in mind for the completion of the audit and the approval of the accounts by the MCA Board. Due to Covid-19, the statutory deadline has been relaxed to 30 November.

2.34 Despite publication of the draft accounts well in advance of the statutory deadline, the external auditor has not been able to complete his work due to delays to the finalisation of the audit of the South Yorkshire Pension Fund. As pension figures are material to the Group's position, the auditor must have comfort that those figures are correct before he is able to conclude his opinion on the Group's accounts.

2.35 For these reasons, the external auditor will not be able to provide his opinion on the accounts until August at the earliest. An additional Audit & Standards Committee meeting will be convened by early September for the Committee to receive the external auditor’s opinion, and to consider and endorse the accounts for approval by the MCA Board in September 2020.

Other Covid-19 Issues

2.36 Business Support Loans
The MCA retains a portfolio of loans afforded to businesses and partners to support investment (£14.60m). These loans were resourced from LGF allocations, and cash backed.

In common with the general operating environment, the level of default risk on these loans has increased. For technical accounting purposes, the expected credit loss on these loans was reported as £1.2m (8%) through the statutory accounts.

Should loans be defaulted on, and no recovery is possible, there will be no resource shortfall as the loans have been resourced from existing grant. However, the ability to recycle returning funding into the future will be foregone.

MCA officers are actively engaging with all counterparties to offer assistance and modified repayment plans to mitigate risk whilst supporting partners.

2.37 Treasury Management Strategy
The MCA’s Treasury Management Strategy remains particularly conservative, placing a premium on the security of investments over the yield returned.

Whilst there has, to-date, been no run on the financial markets as seen in 2008, the reduction of the Bank of England base-rate to historical lows has impacted on the investment returns available.

Given the significant amounts of cash held by the MCA (largely accumulated for future repayment of debt), a reduction in investment return has a material impact on the revenue budget. At this stage, it is forecast that investment returns across the Group will fall short of budget by £0.50m.

It is unclear for how long interest-rates will remain at their depressed level. With significant amounts of quantitative-easing in the financial system, a ‘V’ shaped financial recovery could precipitate higher than tolerable inflation and a return to higher interest-rates. This would support a resumption in investment returns closer to budget.

3. Consideration of alternative approaches

3.1 This report sets out a summary of the MCA Group’s financial position, with a summary explanation of the impacts of Covid-19. 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 year to date revenue and capital position for SCRMCA Group for 2020/21. Actions have been taken to set up provisions to mitigate the impacts of Covid-19 on the 2020/21 financial position, which will help the organisation meet the challenges to services as well as protect and safeguard the financial security of the organisation.

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 present the audited statement of accounts at the next formal MCA Board meeting in September.

4.2 Legal

This paper reports the latest financial position to MCA in a timely manner. The financial accounts of all local authorities are supposed to be published subject to audit by 31st May each year. However, this timetable has been relaxed this year due to pressures of the Covid-19 epidemic. The draft accounts were published on 16 June, ahead of the revised deadline.

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 the 2019/20 outturn 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 Appendix 1 – breakdown of revenue and capital budgets and forecast outturn

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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: None