Sheffield City Region MAYORAL COMBINED AUTHORITY

21st September

MCA Group Budget Revision 1

Purpose of Report

In recognition of the significant disruption to activity as a result of Covid-19, a budget revision exercise has been undertaken across the MCA's revenue budgets and capital programmes. The results of this exercise are detailed in this report.

Thematic Priority

Cross-cutting - Financial

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

This paper will be available under the Combined Authority Publication Scheme

Recommendations

1. Note the disruption to the MCA's income streams and expenditure plans as detailed in this report;
2. Note the ongoing concerns around the commercial viability of the transport network;
3. Adopt the revised budget estimates;
4. Note the Section 73 officer's recommendations to not draw down on the Enterprise Zone retained business rate reserve as previously planned;
5. Approve the proposal to fund Bus Review activity from the MCA's SY Transport reserve;
6. Approve the proposal to draw down £500k from the MCA's earmarked Covid reserve to support the MCA Executive's revenue budget; and,
7. Approve the addition to the capital programme of £411k of new and accelerated capital activity required to support the MCA's response to Covid resilience to be funded from capital receipts unapplied.

1. Introduction

1.1 To ensure that the effects of Covid-19 disruption were properly understood, an in-year budget revision exercise has been undertaken that sought to review year-to-date expenditure, test income assumptions, and reforecast expenditure.

1.2 This exercise is now largely complete, with a number of significant issues arising. The most prominent of these issues can be summarised as follows:

1. The commercial viability of the region's transport system remains dependent on sustained emergency government support, which is now due to expire in October;
2. The testing of income assumptions has highlighted material shortfalls against budget on the MCA Executive's un-ringfenced revenue funding;
3. The MCA's proposed response to ensuring safe and resilient working conditions for employees has driven requirements for un-forecast capital expenditure; and,
4. There is a growing concern that capital expenditure targets may not be met.

1.5 The commercial viability of the region's bus and light-rail operators remains a prominent concern, with fare-paying patronage still well below the levels at which operators can deliver the required level of service without public subsidy.

1.6 Following representation from the Mayor and counterparts across the country, the Department for Transport has committed to a further 3-month extension of light-rail and bus support to the end of October. Coupled with local support via the committed SYPTE budget, this continues to protect service provision. A withdrawal of government support at the end of the current funding round, and before patronage recovers to sustainable levels, will adversely impact on that provision.

1.7 Whilst the MCA has been the recipient of several new funding streams since the start of the year, this budget exercise has highlighted income shortfalls to the value of £1.2m in the MCA Executive's general un-ringfenced funding which supports much of the organisation's core costs. These shortfalls largely relate to over-estimations of the level of Enterprise Zone business-rate receipts in the prior financial year, which now need to be corrected. It is proposed that these shortfalls are met, in part, by the release of provisions and reserves held to manage such scenarios, protecting critical activity required to ensure the MCA remains capable of delivering on its aspirations.

1.8 Work undertaken to determine how the MCA's employees will continue to deliver on its objectives in a safe manner has driven requirements for the acceleration of planned works at the Broad Street West building, and the implementation of new technology to aid remote and agile working. Cumulatively, these projects amount to c. £411k and will ensure safe and effective working conditions for employees. It is proposed that these one-off unbudgeted costs be met from the application of an available capital receipt.

1.9 In common with many organisations across the country, there is also a growing concern around the pace at which capital schemes are being brought forward and delivered. The addition of 'Getting Building Fund', 'Brownfield', and 'Active Travel' programmes as part of the government's fiscal stimulus package to the existing capital programme provides welcome additional funding, but does present further delivery challenges.

1.10 Finally, it is expected that the first tranche of Gainshare devolution monies will be received in September. Proposals on how this resource may be deployed will be reflected in a second budget revision to be brought before the MCA in November.

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.

2.2 **South Yorkshire Passenger Transport Executive Revenue Budget**
The SYPTE revenue budget operationalises the South Yorkshire Transport Plan and is largely funded by the transport levy with some ancillary income generated from fees and charges and ringfenced grant.

2.3 SYPTE revenue expenditure generally falls into three categories:

1. Regulatory and discretionary concessions which subsidises the cost to passengers of public transport journeys;
2. Discretionary tendered services which allows SYPTE to contract with operators for the provision of routes which the market may otherwise not provide; and,
3. The cost of maintaining transport infrastructure (interchanges and bus stops) and operations.

2.4 The pandemic and resultant restrictions on movement has had a significant effect on the region's transport usage. Across the bus and light-rail network patronage collapsed and is now still at roughly half the level it was pre-Covid.

2.5 The consequence of this collapse in patronage is much reduced fare-box income from fare-paying passengers. Without this income, the operators are unable to deliver a commercially viable service.

2.6 To sustain a level of provision and support our communities the MCA, via SYPTE, has supported operators by continuing to make concessionary and tendered-service payments to operators at pre-Covid levels, despite the reduced patronage. This has guaranteed a level of income to operators and is managed within existing SYPTE budgets, placing no additional strain on resource.

2.7 Furthermore, the MCA has continued to lobby government to recognise the importance of public transport provision as part of the economic and social recovery and the return of pupils to school, with the MCA calling for sustained government support to the network.

2.8 Following sustained representation from the MCA and other bodies across the country, the government has committed to extending existing funding for the light-rail network until October with support paid directly to bus operators being reviewed monthly with a two-month notice period for change. Government have also provided additional funding to support additional capacity for dedicated school services over the first term. At the time of writing, the time limitations on the non-school services means that the funding for all modes could be withdrawn by the end of October.

2.9 The consequences of a withdrawal of government funding to the network before patronage recovers to sustainable levels could be profound. Under existing conditions, the MCA could not back-fill government support on a sustained basis whilst commercial operators would be unlikely to maintain provision at current levels on a loss-making basis. This would likely lead to a significant contraction in the level of public transport provision.

2.10 Recognising this, work is underway across the MCA Group to develop exit-strategies from the existing funding model, testing how the MCA would respond to the threat of systemic withdrawal of unviable services. This exercise will review how the budget could be reorganised to support efficient interventions into the market to protect a level of service.

2.11 Over Quarter 1 the SYPTE revenue budget overspent by £201k. A full budget breakdown is provided in Appendix A. This overspend is largely due to additional expenditure related to Covid coupled with income shortfalls relating to fees and charges. These pressures are partly mitigated by an underspend on bus tendered-services (£105k). That underspend reflects that the budget was set with c. £1m of headroom to support further subsidised routes, but to-date decisions on how that resource could be deployed have been held noting existing pressures and the potential need to fund Bus Review work.

2.12 Appendix A further details the forecast full-year outturn position. This is summarised as showing a net underspend for the year of £1.2m. This outturn position has been forecast on a number of assumptions, the most significant being that the government scheme for supporting bus and light-rail runs until patronage has sufficiently recovered to allow for commercially sustainable services. A change in this assumption may have a material impact on the current composition of the budget.

2.13 Other factors that will influence the outturn position include decisions on how Bus Review activity is to be funded and whether the government reimburses the MCA for some income shortfalls as part of the Income Loss Relief Scheme open to local government bodies.

2.14 The forecast costs of delivering Bus Review activities are still largely undefined both in quantum and timeframe. However, what is known is that the revenue budget was set without provision for this activity. It is proposed that the costs of the Bus Review activity in this financial year be met if necessary from a draw on the MCA's Transport Reserve, but in the event of sufficient underspends accruing the costs be funded from the in-year SYPTE budget. This will allow the activity to proceed without displacing other priorities, whilst the full costs of the project will be reviewed as part of the business planning and budget setting process for the new financial year. A formal recommendation in this respect will be brought to the MCA when costs are known.

2.15 Budget assumptions will be reviewed and tested at the close of Quarter 2, with a second budget revision brought to the MCA in November.

2.16 **MCA/LEP Operational Revenue Budget**
The MCA/LEP revenue budget funds the core costs of the MCA Executive, providing much of the required infrastructure and support for the delivery of the capital and revenue programmes, and delivering the policy, development, and statutory functions.

2.17 The MCA/LEP budget is funded from a disparate variety of funding streams. These include small envelopes of ringfenced grant, recharges to the capital and revenue programmes, and then un-ringfenced funding. Un-ringfenced funding includes general grants, member subscriptions, commercial income generated from the MCA's property assets, and retained business-rates generated from the Enterprise Zones.

2.18 The budget was set at £9.9m for the year, and funded form in-year contributions and a draw on a previously earmarked revenue reserve.

2.19 A review of both expenditure forecasts and income assumptions has highlighted cumulative un-budgeted pressures of c. £1.81m. These include shortfalls on income of c. £1.2m, emerging net-cost pressures of c. £0.33m, and a change to the proposed use of reserves of c. £0.28m.

2.20 Income shortfalls fall into the following categories:

Source	**£k**
Retained Business Rates	£872
Commercial Income	£238
Deposit Income	£77
	£1,187

2.20 Retained business rates refer to those rates paid by businesses on the region's Enterprise Zones. Those rates are passported by the billing authorities to the MCA/LEP and go towards supporting core functions.

2.21 At a budgeted level of £2m, business rates formed 20% of the MCA/LEP's funding for the revenue budget and represent a key source of un-ringfenced funding. They are, however, relatively volatile. Whilst forecasts are received from partners, assumptions can change mid-year whilst businesses can also challenge the rates they pay over a multi-year basis.

2.22 An exercise to test all income assumptions has highlighted that the business-rates have been overestimated by £872k. This over-estimation will now need to be corrected in the current financial year, effectively reducing the resource available to the MCA. These over-estimations relate to two principal issues:

1. A number of successful appeals by businesses to the Valuation Office Agency; and,
2. A change in business use at one major site, that reduces the billable footprint.

2.23 Whilst work will be undertaken with the Directors of Finance to identify better early-warning systems for this sort of issue, the matter does reflect the difficulties in aligning an income stream such as this to fixed and core costs.

2.25 In the context of the shortfalls to the budgeted business rates and the ongoing risk, it is the recommendation of the Section 73 Chief Financial Officer to reject the previously adopted proposal to draw down £283k from an earmarked Enterprise Zone business rates resilience reserve to support the general budget. Such a draw would impact upon the organisation's financial resilience to manage business rates fluctuations into the future, and it is likely that the current issues will persist – at least in some form – into financial year 2021/22. Revising plans to draw down on this reserve leaves an income shortfall of £283k.

2.24 In common with other partners, the MCA is also seeing shortfalls on returns generated from cash held on deposit as returns are depressed in the low interest-rate environment (£77k pressure). This issue is also exacerbated by lower than budgeted returns from the MCA's property assets, principally the Advanced Manufacturing Park Technology Centre (£238k pressure). Market conditions are forecast to impact on tenancy, whilst contributions from the canteen have fallen away with its temporary closure.

2.25 On a net-basis forecasts show expenditure pressures of c. £335k. This figure is formed after a decision at this point to hold vacant posts to avoid additional pressures. Whilst there are several factors that contribute to this, the largest single tranche of costs is around the MCA's proposed response to ensuring that employees can work safely, efficiently, and in an agile manner that ensures the Group is resilient against future disruption.

2.26 Requirements have been identified for the acceleration of a laptop refresh to replace aged kit that is beyond its warranty period and experiencing high-failure rate; technology improvements to allow for better collaborative working in an agile setting; and the acceleration of previously forecast requirements to repair and replace parts of the ventilation system at Broad Street West. Cumulatively, the costs of these interventions come to £411k.

2.27 Recognising these pressures a full budget and balance sheet review has been conducted. This has included a review of capital and revenue reserves, provisions, recharges to programmes, and testing of aged creditors.

2.27 Following this review it proposed to manage the cumulative income and expenditure pressures through a combination of the release of provisions and available reserves, the capitalisation of asset purchases, the write back of certain aged creditors to revenue, and the adoption of new recharges to a number of programmes that have come on-stream since the budget was set:

	£k
Net Pressure	**£1,807**
Managed by:	
Reserve Release	-£500
Provisions Release	-£609
Capitalisation of Asset Purchase/Repair	-£411
Release of Aged Creditors	-£147
Corporate Recharges to New Programmes	-£100
Budget Challenge	-£40
Mitigated Pressure	**£0**

2.28 It is proposed to release a reserve taken to manage income loss during the pandemic (£500k) and a specific provision taken to manage annual Enterprise Zone business rate fluctuations (£259k). A further provision for planned asset maintenance will be released to support the ventilation works at BSW (£200k) whilst provisions of c. £150k that are judged to be no longer required will also be released.

2.29 Whilst the identified pressures can be managed in-year, the release of reserves and provisions reduces the MCA's financial resilience going-forward. Accordingly, an exercise is currently underway to further test the deliverability and necessity of all expenditure lines that are not yet in procurement. It is intended that where this exercise identifies unnecessary or undeliverable expenditure, the underspends generated mitigate the need to draw upon reserves.

2.30 Finally, following representation from the MCA and counterparts across the country, government have indicated that MCAs will be eligible for reimbursement of certain types of income loss under the government's Income Loss Relief Scheme that was previously made available to local government only. Whilst it is anticipated that the MCA will benefit from this, the lack of specific guidance on which types of income loss will be covered means that at this point it is prudent not to forecast a value.

2.31 MCA/LEP Revenue Programmes
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.

2.32 The latest forecast expenditure shows full year expenditure of £8.96m. This expenditure is fully funded from ring-fenced grant allocations received in year or held from prior years.

2.33 At this stage it is forecast that most activity will spend to budget, reflecting the relatively low value and limited scope of much of the activity. However, there has been growth in the number of programmes under way since the start of the year, whilst additional resource is required to be drawn from Mayoral Capacity Fund grant unapplied:

	£m
Opening Budget	**£6,476**
New Grant	
Adult Education Budget Implementation	£295
Brownfield	£504
Active Travel	£834
	£1,633
Additional Draw on Unapplied Grant	
Mayoral Capacity Fund	£853
Forecast to Outturn	**£8,962**

2.34 Since the last Finance report a number of new grant awards have been confirmed. These include:

1. Confirmation of funding for the Adult Education Budget (AEB) Implementation Plan (estimated £296k)
2. Confirmation of a revenue allocation to accelerate the Brownfield Site (£841k, of which c. £504k will be spent in year)
3. Confirmation of revenue funding for an Air Quality project (£144k)

2.35 At the time of writing the MCA was still awaiting a response from government on the proposals to extend the Working Health Trial whilst plans will be developed on how to deploy the Air Quality grant now the new school term has commenced.

2.36 MCA Group Capital Programme

The MCA's Group level programme was set for the year at c. £112.76m. Since that point a number of new programmes of funding have been announced and proposals for the addition of new projects are contained in this paper, whilst delivery pressures have been identified.

2.37 These movements can be summarised as follows:

Programme Movements	**£k**
Base Budget Position	£112,766
New Programmes	£27,438
New Additions	£411
Slippage/Deferrals/Removal of Schemes	-£19,689
Forecast to Outturn	**£120,515**

2.38 Forecast programme changes now account for 15% of the opening programme. These issues are arising across a number of programmes, with the potential to worsen as the year progresses.

2.39 Work is underway within the MCA, and with the collaboration of partners, to understand the drivers for this slippage and seek longer-term mitigations. However, Covid restrictions coupled with the announcement of a significant number of new time-limited programmes has undoubtedly made a challenging target more difficult.

2.40 Local Growth Fund Programme
The LGF programme is now in its final year, with MHCLG reiterating the requirement for all monies to be spent in-year.

2.41 Although the LGF programme is showing a material outturn underspend against the full year budget, the key parameter is the forecast outturn expenditure against the in-year funding. On this metric the programme is currently performing well, with a shortfall of only £344k:

LGF Programme	**£k**
Target Expenditure	£43,239
Forecast to Outturn	£42,895
Current Shortfall on Target	**£344**

2.42 This position has been achieved despite reported slippage of £10.92m over the year-to-date. Dynamic use of the pipeline has allowed slipped or removed activity to be largely replaced by pipeline funding:

LGF Programme	**£k**
Target Expenditure	£43,239
Slippage	-£10,915
Use of Pipeline	£10,571
Forecast Outturn	**£42,895**

2.43 This approach protects the time limited LGF allocations, with slipped activity falling into the new year. That activity can be funded up to the available capital resource held by the MCA. At this time, this is limited to the £15m capital funding recycled from the former JESSICA fund and a number of recycled loans and receipts totalling £3.46m.

2.44 Work is ongoing to test whether there will be further slippage as the year progresses. At this stage there is c. £2.71m of further pipeline schemes that could potentially absorb additional underspend, but as the year progresses it will become ever more difficult to flip schemes in this manner. Should slippage exceed the available resource and LGF underspend not be retained in the region, there is a risk of schemes being unfunded in the new year. Balancing the need to spend the LGF resource and managing the risk of over committing is particularly important.

2.45 Transforming Cities Fund (TCF)
The TCF programme is currently reporting slippage of c. £12.80m against the opening base budget. This represents c. 39% of the programme for the year, with concerns that the number could grow materially as the year progresses.

2.46 TCF is awarded in annual allocations, and whilst there is flexibility to move funding between years within a programme cycle, there is a growing risk that the amount of activity being pushed into the final years of the programme will become increasingly difficult to deliver by the end of the programme in March 2023.

2.47 Getting Building Fund (GBF)
The Getting Building Fund represents part of the government's fiscal stimulus package, with £33.6m of funding being awarded to the region for fourteen 'shovel-ready' schemes.

2.48 MCA processes are being refined to help accelerate these schemes through to FBC, contract, and into delivery. A number of schemes have submitted FBCs and are progressing. At this stage it is anticipated that expenditure will outturn at £7.74m with further expenditure in financial year 2021/22 ahead of the conclusion of the programme in March 2022.

2.49 Brownfield Fund
The Brownfield Site Fund represents a further strand of the government's fiscal stimulus package, with an initial £40m of capital awarded to the region over five years. The region was also successful in bidding for a further £840k of revenue funding that will be used to accelerate activity over the early years.

2.50 Whilst delivery plans are still being developed around this fund it is expected that there will be expenditure by outturn of c. £5.50m.

Highways Maintenance Programmes

2.51 There are three strands to the maintenance programmes:

1. Highways Capital Maintenance (HCM)
2. Integrated Transport Block (ITB)
3. Pot Hole & Challenge Fund

2.52 As part of the government's stimulus package £13.61m of un-budgeted capital resource has been made available to the region for Pot Hole repair. The terms of this funding and a grant determination letter have not yet been received, and therefore work has yet to commence across the region.

2.53 At this stage it is forecast that underspends will accrue on the HCM and ITB schemes, and as the year progresses without finalisation of the conditionality around the Pot Hole funding it will become increasingly likely that this element of the programme will also come under pressure.

2.54 HCM and ITB are not subject to the same degree of time-restraints as some of the other funding afforded to the MCA.

2.55 Group Revenue Reserves
The Group's revenue reserves can be summarised as follows:

Revenue Reserves	B/f £k	Movement £k	C/d £k
MCA/LEP			
General	£1,000	£0	£1,000
Earmarked	£11,919	-£2,302	£9,617
MCA South Yorkshire Transport			
General	£5,888	£0	£5,888
Earmarked	£30,678	-£5,211	£25,467
SYPTE			
General	£4,951	£0	£4,951
Earmarked	£11,067	-£646	£10,421
	£65,503	**-£8,159**	**£57,344**

2.56 General reserves are held to mitigate financial shock and exploit un-budgeted opportunities, whilst those that are earmarked are held for specific purposes previously agreed by the Board or required as part of grant conditions.

2.57 The significant earmarked reserves held by the MCA for South Yorkshire transport purposes reflect the levy reduction reserve that is mitigating the need for levy increases on a multi-year basis, and the Doncaster Interchange PFI reserve which manage the risk of the complex PFI deal.

3. Consideration of alternative approaches

3.1 This report outlines a number of financial pressures and proposals for mitigating them from existing resource. Proposals include the use of reserve balances and balance-sheet flexibility to meet unbudgeted pressures. These proposals are designed to protect priority activity whilst ensuring the MCA's ongoing financial resilience.

3.2 The report notes further work around budget challenge that may mitigate proposed use of reserves.

3.2 Alternative approaches could be to displace activity to avoid drawing on reserves and other balances.

4. Implications

4.1 Financial
This is a Finance report that proposes the adoption of a new budget, with recommendations on the use of reserves and the addition of items to the capital programme.

4.2 Legal
No legal issues arising.

4.3 Risk Management
This report notes a number of risks around the continuation of government funding for the South Yorkshire Transport Network. This matter is on the Finance element of the Corporate Risk Register and has previously been reported to the Audit Committee.

4.4 Equality, Diversity and Social Inclusion

None.

5. Communications

5.1 None

6. Appendices/Annexes

6.1 Appendix A: Tables

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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: