Sheffield City Region MAYORAL COMBINED AUTHORITY

16th NOVEMBER 2020

BUDGET REVISION 2

Purpose of Report

This report provides revised budget forecasts to the end of the year, including the adoption of a number of new funding streams. The report recommends the adoption of the budget estimates and adjustments to budgetary ceilings.

Thematic Priority

All.

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

The paper will be available under the Combined Authority Publication Scheme

Recommendations

The MCA Board:
1. Adopt the revised budget estimates;
2. Approve the adoption into the capital programme of a gainshare capital fund totalling £18m;
3. Approve an increase in the revenue budget ceiling by £42m to accommodate gainshare funded activity and Covid Tier 3 Restriction funding; and,
4. Note the slower than forecast pace of the capital programme.
5. Approve the contracting arrangements to secure external support for the delivery of the Adult Education Budget Implementation Plan.

1. Introduction

1.1 Over the course of the year the MCA's capital and revenue budgets have seen significant change following the economic disruption caused by the pandemic and the resultant fiscal response from the government.

1.2 To ensure the MCA properly understands these issues, a second budget revision exercise has been undertaken at the mid-year mark to review the MCA's financial position. This exercise sought to re-test income and expenditure assumptions, and re-forecast budgets and programmes to the end of the financial year.

1.3 The results of this exercise highlight a number of notable issues that will influence the MCA's financial position over the remainder of the year:

1. Whilst the commercial viability of the South Yorkshire transport network remains a significant concern, it is now expected that government will retain support packages in their current form until the end of March;
2. Previously reported disruption to the MCA Executive budget has now been stabilised, with resource now being released to support priority activity that was previously paused;

3. The first tranche of gainshare funding is now being accessed, with plans in development with Members for its full deployment;
4. It is now anticipated that the MCA will receive £30m from government in support of those sectors of the South Yorkshire economy affected by the transition into Tier 3 restrictions, with collaborative work underway across the region to develop support schemes; and,
5. Concerns around the pace of some parts of the MCA's capital programme are now beginning to crystallise.

1.4 Taken together, these prominent issues reflect a pivot from reactive management of the immediate unplanned consequences of the pandemic to a more proactive stage: supporting the stabilisation, protection, and recovery of the wider South Yorkshire economy.

1.5 Since the last reporting date, concerns around the MCA's immediate financial exposure to falling patronage and fare-box income on buses and trams across the region has abated with the announcement that government intends to extend its existing emergency support package to the end of the financial year.

1.6 This announcement gives much needed near-term stability to financial planning but does largely defer the problem to the new financial year. Work continues apace to develop plans on how the MCA could respond to a withdrawal of government support before patronage recovers to sustainable levels, and these plans will underpin budget planning for the new financial year.

1.7 The transition of South Yorkshire to Tier 3 of the Covid restrictions presents many challenges for the region, its communities and businesses. Collaborative work is underway between the MCA and local authority partners to develop South Yorkshire wide schemes to support affected businesses, using the £30m of government support expected to be received by the MCA.

1.8 The stabilisation of the MCA financial position following the approval of mitigations noted in the Quarter 1 reporting, and the injection of gainshare funding, has allowed for the release of resource to support investment in activity previously paused. This principally includes recruitment in the Business Growth and Skills & Employment teams who will have an important role to play in support to the local economy and communities.

1.9 The revised budget estimates presented in this report further reflect the work underway across the region to deploy the first tranche of gainshare in support of recovery and renewal efforts. This report recommends an increase in the capital programme ceiling to accommodate gainshare funded activity in development, and a further increase in the revenue budget ceiling to accommodate both emergency support to local authority partners and the MCA, and the deployment of resource in support of Renewal Action Plan priorities currently being defined with Members.

1.10 Finally, this report notes that in common with peer authorities across the country, as significant focus is aimed at immediate priorities other planned activity is not proceeding at the pace previously forecast. This is a particular issue for the MCA's capital programme where previously reported concerns on certain programmes are now beginning to crystallise. Early warning of these issues has allowed for the MCA and partners to begin to address these issues.

2. Proposal and justification

South Yorkshire Operational Transport Revenue Budgets

2.1 The Operational Transport revenue budget activity consists of that of the South Yorkshire Transport Executive (SYPTE), and those associated costs managed at the MCA level. Those latter costs largely relate to the costs of debt and receipts arising from cash management which are managed at the Group level.

2.2 These budgets have experienced significant disruption over the first half of the year, as the public transport network has been impacted by the pandemic and resultant restrictions implemented to stem its proliferation.

2.3 Initial travel restrictions, the shift to home-working, and the impact of social distancing measures on the leisure, retail and hospitality sectors have all impacted on patronage on the public transport network. At the time of writing, patronage on bus and tram systems had recovered to only c.50% and c.40% of pre-Covid levels respectively.

2.4 This loss of fare-paying patronage significantly impacts revenue generation, leading to concerns around the commercial viability of services. As services are generally run on a for profit basis by commercial operators, there is a significant underlying risk that unviable services are withdrawn by operators to the detriment of community mobility and the wider recovery effort.

2.5 In mitigation of this risk the bus and tram network has received significant public subsidy since March 2020. The MCA, through SYPTE budgets, has contributed material support through paying concessionary fares at pre-Covid volume levels, which has guaranteed a baseline of income for operators. This has been complemented by significant amounts of direct grant support to the operators by government.

2.6 Government support to-date has been on a short-term rolling cycle, with cliff-edges leading to major concerns around the capacity of the MCA to react to a withdrawal of that support.

2.7 However, in the last month government support at existing levels has now been guaranteed until January, with an intention for its continuance until the end of the financial year. This extension delivers much needed near-term financial stability and allows the Group to better develop plans for sustainable local support to the network should government withdraw or reduce its support in the new financial year.

2.8 The stability this commitment provides gives the MCA greater confidence on its budget forecasts, which now suggest that the Operational Transport budgets will cumulatively underspend by c. £0.36m.

2.9 This underspend consists of a number of issues including income shortfalls, underspends on concessionary fares, increased Covid related expenditure, and the start of Bus Review activity:

Budget Movements	**£k**
Forecast Savings:	
Concessions	-£1,455
Debt Provisions	-£375
	-£1,830
Forecast Pressures:	
Tendered Bus Services	£263
Operational Departments	£218
Income Shortfalls	£703
	£1,184
Bus Review Implementation Work	**£285**
Net Underspend	**-£361**

2.10 Concessions are currently underspending against budget in recognition of the agreement with government and operators to pay a flat fee to operators based on pre-Covid patronage volumes, whilst so ever government support is in place. This guarantees operators a baseline of predictable income and is significantly in excess of the levels that would be paid if actual volume levels were used. The underspend arises largely because base budgets anticipated growth in volumes and unit cost in the new year.

2.11 Underspend on debt provisions reflects a timing issue, with a longer-repayment profile adopted than originally forecast for debt taken on to finance the Rotherham Interchange renewal works.

2.12 Income shortfalls arise from a number of sources including rents generated from interchanges, car parking charges, and commission generated on ticket sales. The MCA is hopeful that some of this shortfall will be recovered from government's income loss relief scheme.

2.13 Resource is also set aside for the initial work into the Bus Review (£0.29m). Work around the environmental, route, and quality workstreams is now planned to commence in the current year. This work is unbudgeted, with Members previously agreeing for the work to be funded from in-year underspend or MCA Operational Transport reserves.

2.14 Finally, it should also be noted that provision was earmarked in this year's levy contribution for a degree of investment in services (£1.1m). As concerns have focussed on maintaining existing levels of service provision rather than growth, this resource has not yet been adopted into the budget and remains available for deployment.

2.15 Noting the ongoing uncertainty beyond the near-term, it is proposed that underspend and uncommitted resource be held as in-year reserve. This resource can be deployed to immediate pressures or priority activity should the need arise.

MCA/LEP Operational Revenue Budget

2.16 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 net-budget was set at £9.9m for the year, and funded from in-year contributions, a draw on the LGF revenue grant reserve, and a draw on a previously earmarked General Fund revenue reserve.

2.19 Previous reports have noted significant strain on this budget area arising from Covid related income shortfalls and expenditure pressures. Mitigations proposed in the last budget report were approved by Board and have now been implemented.

2.20 These mitigations stabilised the budget and have since been complemented by the Board's informal approval (to be agreed formally at this meeting) to release £0.74m of gainshare resource to unlock previously paused activity that had been held in abeyance given the severity of the reported pressures.

2.21 This additional resource has allowed the MCA to target resource into priority vacant establishment posts in the Business Growth and Skills and Employment Team, and also support extra capacity to support the delivery of the AEB Implementation Plan.

2.22 Appendix 1 details expenditure and income forecasts along with variances to budget, but identified pressures and mitigations can be summarised as:

Budget Movements	**£k**
Net Pressures	£1,767
Priority Investment Identified	£741
	£2,508
Mitigations:	
New Resource	-£840
Capitalisations	-£410
Release of Provisions	-£629
Draw on Reserve	-£458
Release of Aged Creditors	-£148
Budget Challenge	-£23
Mitigated Pressure	**£0**

2.23 The following table summarises the overall budget movements at each review point since the adoption of the base budget, with net expenditure increasing by net £0.51m, funding increasing by net £0.33m and a balancing increased draw on reserves of £0.18m:

	Base £k	***Var. £k***	**Rev. 1 £k**	***Var. £k***	**Rev. 2 £k**	***Var. to Base £k***
Gross Expenditure	£9,986	*£335*	£10,321	*£680*	£11,001	*£1,015*
Recharges & Specific Grant	-£3,425	*-£511*	-£3,936	*£2*	-£3,934	*-£509*
Net Expenditure	**£6,561**	***-£176***	**£6,385**	***£682***	**£7,067**	***£506***
Available Funding	**-£6,278**	***£430***	**-£5,848**	***-£761***	**-£6,609**	***-£331***
Net Surplus/(Deficit)	**£283**	***£254***	**£537**	***-£79***	**£458**	***£175***
Use of General Fund Reserves	**-£283**	***-£254***	**-£537**	***£79***	**-£458**	***-£175***

MCA/LEP Revenue Programmes

2.24 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.

2.25 In recent months the value of these programmes has significantly increased as resource flowing to the MCA to support Covid recovery efforts has been announced and gainshare resource has been received.

2.26 The latest forecast expenditure shows full year expenditure of £48.55m, representing an increase on the opening budget of £42.67m. This expenditure is fully funded from ring-fenced grant allocations received in year or held from prior years.

2.27 The following table exemplifies the exemplifies the net growth in this area:

Budget Movement	£k
Opening Budget	**£6,476**
New Funding	£42,671
Additional Draw on Unapplied Grant	£495
Lower Forecast Expenditure	-£1,091
Forecast to Outturn at Quarter 2	**£48,551**

2.28 New funding largely relates to the £11.26m of gainshare revenue (£12m less £0.74m reflected in the MCA/LEP operational budget) and the anticipated £30m of Tier 3 Grant support negotiated with government.

2.29 This report recommends that the revenue budget ceiling is adjusted to accommodate both of these new funding streams but recognises that discussions are ongoing with Members on how resource will be deployed.

2.30 A report to today's meeting recommends the release of £5.75m of gainshare resource to local authority partners in support of Covid economic recovery efforts. As further proposals are developed and agreed with Members this resource will be drawn down to individual projects, but at this stage it is prudent to adjust budgetary headroom to reflect the new funding.

2.31 At the time of writing, whilst government have announced Tier 3 Covid support for the region to be received by the MCA totalling £30m, a formal grant letter had not yet been received. Collaborative work is underway across the region to develop a South Yorkshire wide business support scheme and Members will be asked to approve that scheme and the acceptance of the formal grant offer upon its receipt.

2.32 Lower than forecast expenditure largely relates to the Health Led Employment Trial. The MCA is considering options around the future of this activity.

2.33 Appendix A details the full scope of the MCA's revenue programmes, presenting forecast performance against budget at each revision period.

MCA Group Capital Programme

2.34 The MCA's Group level programme was set for the year at c. £112.77m. Since that point a number of new programmes of funding have been announced, whilst delivery pressures have been identified.

2.35 Despite the addition of c. £44.58m of new funding and schemes into the overall programme, the forecast outturn expenditure levels have only increased by £6.64m as expenditure on existing schemes is now forecast to fall short of initial forecasts. These movements can be summarised as follows:

Programme Movements	£k
Base Budget Position	£112,766
New Programmes	£44,580
Slippage/Deferrals	-£37,932
Forecast to Outturn	**£119,414**

2.36 Forecast programme pressures now account for 30% of the opening programme. These pressures are arising across a number of programmes, and whilst at the mid-year mark issues are beginning to crystallise there is a latent potential for the position to worsen as activity enters the winter months and additional Covid restrictions impact upon the pace of delivery.

2.37 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.

Gainshare Funded Programme

2.38 This report seeks approval for the entry into the Group's programme of an £18m gainshare funded programme. Whilst work is underway with Members to develop schemes and activity, it is prudent to adjust the ceiling now to accommodate the likely scope of works.

Local Growth Fund Programme

2.39 The LGF programme is now in its final year, with MHCLG reiterating the requirement for all monies to be spent in-year.

2.40 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 forecast expenditure currently in excess of target by £0.46m:

LGF Programme	£k
Target Expenditure	£43,239
Forecast to Outturn	£43,700
Current Headroom on Target	**£461**

2.41 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	£11,376
Forecast Outturn	**£43,700**

2.42 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.

2.43 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.

Transforming Cities Fund (TCF)

2.44 The TCF programme is currently reporting slippage of c. £28.78m against the funding profile given to the region by government. This represents c. 88% of the programme for the year, and a deterioration of £16m since the budget Revision 1 exercise was completed in August.

2.45 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.

2.46 Work has been undertaken between the MCA and local authority partners to review this programme and a report has been prepared for the Transport and Environment Executive Board to recommend a number of mitigations.

Getting Building Fund (GBF)

2.47 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 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.

Brownfield Fund

2.49 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 Grant conditionality around this scheme requires that the programme is assessed under government Green Book processes. It is expected that the scheme SBC will be submitted into the MCA's assurance processes imminently.

2.51 Noting these issues, the latest forecasts provided show £4.23m against a funding profile provided by government of £5.50m.

Highways Maintenance Programmes

2.52 There are three strands to the maintenance programmes:

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

2.53 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. A grant determination has been received by the MCA for this funding, and a report to this meeting proposes the acceptance of the grant and its onward distribution to local authority partners.

2.54 At this stage it is forecast that underspends will accrue on the HCM and ITB schemes. This report notes the Pot Hole and Challenge Fund as spending in full (£13.61m) in-year, but it is likely that these forecasts will be reconsidered.

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

Reserves

2.56 In common with all partners, the MCA holds revenue reserves. These reserves serve a number of purposes.

2.57 Earmarked reserves are held to earmark grant funding that is yet to be deployed, whilst other reserves are held to mitigate risk or exploit opportunity around specific issues.

General reserves are held to manage latent risk and, again, exploit opportunities that may arise.

2.58 The importance of retaining access to deployable un-ringfenced reserves has been particularly apparent in this financial year as the MCA and partners have reacted to un-forecast challenges.

2.59 The MCA Group retains a prudent level of reserves. The majority of these reserves will be drawn upon in the coming years to support the Reserve Strategy. The level of reserves will be reviewed annually as part of the budget setting process:

Revenue Reserves	B/f £k	Movement £k	C/d £k
MCA/LEP			
General	£1,000	£0	£1,000
Earmarked	£12,044	-£2,343	£9,701
	£13,044	**-£2,343**	**£10,701**
MCA Transport			
General	£5,888	£0	£5,888
Earmarked	£30,678	-£3,922	£26,756
	£36,566	**-£4,207**	**£32,359**
SYPTE			
General	£4,951	£0	£4,951
Earmarked	£11,065	£0	£11,065
	£16,016	**£0**	**£16,016**
Total Group Revenue Reserves	**£65,626**	**-£6,550**	**£59,361**

Contracting Arrangements

2.60 The MCA's scheme of delegation authorises the statutory officers to enter into contracting arrangements up to £100k. Above this value, the MCA Board or Executive Boards must authorise officers to enter into contracting.

2.61 In support of the delivery of the Adult Education Budget (AEB) Implementation Plan, this report recommends to the Board the extension by £80k of an existing £100k contract with Jacquie Chambers Consultancy Ltd.

2.62 This engagement was initially entered into to provide immediate capacity support following the departure of the previous Assistant Director for Skills & Employment. The contract has been further used to address the significant shortfall in capacity within the Skills team during the first six months of the year when capacity and expertise was required to support the Skills team's contribution to the development of the Renewal Action Plan and the Comprehensive Spending Review submission. Access to this contract allowed the MCA to call off resource on a needs basis, obviating the need to recruit when there were significant prevailing budgetary concerns.

2.63 Whilst an appointment has now been made to the vacant Assistant Director post with the officer due to join the MCA shortly, continuity in the delivery of the AEB Implementation Plan is critical during the complex procurement stage. This procurement will materially shape the success or otherwise of the AEB programme.

2.64 Noting that this procurement exercise must begin imminently to allow for the delivery of AEB ahead of the new academic year, and that the costs of the proposed engagement can be met, in full, from ringfenced AEB grant, this report recommends that the MCA authorises officers to enter into the contracting arrangements.

3. Consideration of alternative approaches

3.1 This report recommends the adoption of the second budget revision of the financial year. These forecasts are aligned to the latest delivery information available, and thus ensure that financial and business planning remain aligned.

3.2 The report recommends a number of adjustments to the revenue budget ceiling and entries to the capital programme. This will allow the MCA to formally accommodate new funding streams.

3.3 The report further recommends the authorisation of the statutory officers to enter into contracting arrangements to support the delivery of the AEB Implementation Plan. This proposal will ensure continuity of the delivery of this critical activity.

4. Implications

4.1 Financial

This is a financial report. The financial implications of proposals are detailed in the body of the document.

4.2 Legal

This report notes the authorisation required by the MCA for the adoption of revised budget estimates, the entry into the capital programme of a new funding package, and an extension to the revenue budget ceiling.

4.3 Risk Management

None.

4.4 Equality, Diversity and Social Inclusion

None directly as a result of the recommendations of this paper.

5. Communications

5.1 None.

6. Appendices/Annexes

6.1 Appendix A: Detailed Reports

Report Author	**GARETH SUTTON**
Post	**GROUP FINANCE DIRECTOR**
Officer responsible	GARETH SUTTON
Organisation	SHEFFIELD CITY REGION MCA
Email	Gareth.sutton@sheffieldcityregion.org.uk
Telephone	

Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ