

16th November 2020

BUDGET AND BUSINESS PLAN DEVELOPMENT 2021/22

Purpose of Report

This report provides an outline on the process for developing the budget and supporting business plan for the new financial year. The report notes the challenging environment in which this process is taking place, and the need for engagement with partners.

Thematic Priority

All.

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

This paper will be available under the Combined Authority Publication Scheme

Recommendations

- Note the budget and business planning process being undertaken within the MCA;
- Note the significant uncertainties shaping the process; and,
- Note the proposed approval timeline.

1. Introduction

- 1.1** Whilst significant organisational focus is placed on the immediacy of the response to the pandemic, planning is also underway across the MCA Group for the activity and resource required to allow the MCA to deliver on its objectives in the new financial year.
- 1.2** These objectives will be led by the developing Corporate Plan and distilled into individual business plans that will collectively feed the budget process. This integrated business planning should support the adoption of focussed objectives for the MCA and allow resource allocation decisions to be led by clear prioritisation.
- 1.3** In common with other partners, however, the MCA's ability to plan is constrained by significant uncertainties. The MCA's activity will be heavily influenced by the evolving trajectory of the pandemic and the resultant impact on public finances.
- 1.4** This report outlines the business planning process that will be undertaken and notes the challenges ahead. Baseline assumptions are also shared to support engagement around partner contributions. The report further notes a proposed engagement plan.
- 1.5** Formal agreement will be required for the South Yorkshire Transport Levy at the MCA's meeting of the 25th January. For the first time, the MCA will also be required to consider a Mayoral Precept should one be proposed.

2. Proposal and justification

MCA Group Business Planning Exercise

- 2.1 The MCA Group – consisting of the MCA Executive and the South Yorkshire Passenger Transport Executive (SYPTTE) – have committed to undertaking an integrated business planning exercise for the forthcoming financial year.
- 2.2 This exercise will drive corporate focus on the objectives for the year, help shape activity plans, and allow for resource to be deployed to agreed priorities. On the back of this exercise a budget and medium-term financial plan can be set. An integrated approach across the Group will also support better alignment in planning and use of shared resource.
- 2.3 The business planning process is fed from the MCA’s anchor vision statements and influenced by a number of national policy issues such as the Spending Review and the proposed Devolution White Paper, and local policy issues such as the Bus Review and approaches to the deployment of gainshare resource.
- 2.4 The Corporate Plan, currently in development, will capture these issues and shape agreed objectives for the coming year. Parameters for delivery plans are then set by the financial resource available and organisational capacity. These issues determine deliverability – what can be achieved.
- 2.5 Within these parameters, delivery plans will then be developed by individual teams, in turn shaping the corporate support strategies. Collectively, these plans will then feed the budget requirements for the year.
- 2.6 This process can be exemplified as follows:



Challenges and Assumptions

- 2.7 Developing business plans and budgets for the new financial year is a challenge for the MCA and partners alike. Without a clear view on how the pandemic and the governmental response will evolve over the coming months, it is difficult to derive any certainty beyond the reality that the new year is likely to be beset by uncertainty.
- 2.8 In this context this report notes key challenges and assumptions for each part of the MCA Group, but noting that adopted plans will need to be responsive to the emerging challenges.

South Yorkshire Passenger Transport Executive (SYPTTE)

- 2.9 SYPTTE’s key challenge heading into the new financial year remains the commercial viability of the transport network.

- 2.10** Patronage on buses is currently around 50%, whilst patronage on the Supertram light-rail system is around 40%. Reduced patronage results in reduced revenue for the commercial operators and increases the likelihood of services being withdrawn to the detriment of South Yorkshire's communities, businesses, and the recovery effort.
- 2.11** Patronage is affected by a number of factors, including: passenger confidence; increased home-working; reduced social, retail, and leisure demand; and, importantly, on-board social distancing measures which reduces capacity on buses and trams.
- 2.12** To-date, lost-fare revenue has been mitigated by local and national interventions. SYPTE has continued to pay concessionary-fares at pre-Covid volume levels, whilst government has provided grant support directly to operators.
- 2.13** Government has, this month, announced a continuation of funding to January, with an option for a further extension to the end of the financial year in March. However, beyond this there is currently no certainty.
- 2.14** In the event of a cessation or reduction in government support to operators before patronage recovers to sustainable levels, SYPTE is likely to see calls for increased local financial support. Such support will be difficult to achieve without significant change to the limited discretionary elements of the SYPTE budget, or recourse to reserves in the short-term and levy increases in the longer-term.
- 2.15** Detailed work is progressing on an 'exit-strategy' from the current emergency funding arrangements through the Transport and Environment Executive Board.
- 2.16** Other challenges and risks facing SYPTE in the new year include, but aren't limited to, considering:
- How to respond to likely operator behaviour around the cost of concessionary fares once the current SYPTE commitment to paying on pre-pandemic volumes ends;
 - How to fund the Bus Review implementation activity without displacing existing priorities;
 - How to react to the possible withdrawal of Integrated Transport Block (ITB) grant which funds parts of the SYPTE capital programme;
 - How to react to the possible withdrawal of Sustainable Travel Access Fund (STAF) grant;
 - How to react to likely ongoing disruption to commercial income streams; and,
 - How to plan for the likely required local contribution to the Mass Transit Renewal scheme.
- 2.17** For initial planning purposes, it is assumed that government support to the South Yorkshire transport network will continue, in some form, whilst social distancing measures are in place. From this baseline, and subject to engagement with partners, it is proposed that:
- The transport levy be held at existing levels to support the current level of service provision;
 - A limited amount of resource be ring-fenced to support priority investment;
 - Immediate risk that may crystallise in the new year related to the cost of concessionary fares and/or service withdrawals be mitigated in the first instance by budget reorganisation and/or limited draws on reserves;
 - Pay inflation pressures be managed through budget challenge;
 - The costs of the Bus Review implementation activity be met from South Yorkshire transport reserves to avoid the displacement of current investment in services;

- The costs of the Mass Transit Renewal project development be managed without recourse to additional levy contributions; and,
- Activity funded from ITB/STAF is wound down unless successor grant streams are announced.

2.18 This approach is designed to protect existing service provision without calling on partners for additional resource in the new financial year. This approach is necessarily short-term and seeks to afford the MCA and partners time to both better judge the impact of the pandemic on future travel patterns and understand how the government may respond to that issue on the national level. A clearer view on those issues may require changes to the existing financial strategy.

MCA/LEP

2.19 The activity of the MCA/LEP is largely driven by access to ongoing funding streams for the delivery of capital and revenue programmes. Other, non-programme activity, such as policy development, business support, inward-investment, communications, and the delivery of statutory functions, is funded from an irregular and often unpredictable mix of funding streams.

2.20 The ability to forecast which of these funding streams will continue, and/or to what quantum, in the new year represents one of the most prominent planning obstacles for the MCA in the current planning cycle. This uncertainty is exacerbated by the delays and uncertainty around the planned government Spending Review.

2.21 Whilst it is possible that the MCA/LEP will lose a number of funding streams which underpin investment and organisational resourcing, it is also likely that the MCA/LEP will have significant challenges in delivering at pace a number of time-limited investment programmes.

2.21 Key challenges for the MCA/LEP in the new year include:

- Adjusting the organisation to the potential loss of time-limited funding streams which cumulatively provide c.£2m in support to organisational costs including:
 - The Local Growth Fund (LGF) grant which has underpinned the capital programme since 2015;
 - The Mayoral Capacity Fund grant which supports Mayoral Office costs.
- Delivering, at pace, an extensive capital programme that could reach c. £150m, including:
 - Slipped LGF activity;
 - Slipped and in-year Transforming Cities Fund activity
 - Slipped and in-year Getting Building Fund activity;
 - Slipped and in-year Brownfield Housing Fund activity; and,
 - Slipped and in-year Active Travel Fund activity.
- Effectively forecasting income flows from sources sensitive to the pandemic
- Developing investment programmes to be funded from gainshare resource
- Managing the integration with SYPTE.

2.21 Flexing organisational design to manage funding fluctuations such as those outlined above will be a fundamental challenge. The likelihood of the Spending Review now being released in late November also now means that there will be limited time between December and the new year to react to funding announcements.

2.22 For planning purposes, we assume that partner contributions will remain static. This principally means:

- LEP contributions remain at their current levels;
- South Yorkshire Transport Hub subscriptions remain at their current levels; and,
- Enterprise Zone retained business rates will continue to be passported to the LEP.

- 2.23** Partner attention is also drawn to the current uncertainty around the transport maintenance grant that is received by the MCA and paid to the South Yorkshire local authorities. This includes core maintenance grants including Highways Capital Maintenance (HCM) and Integrated Transport Block (ITB), and more irregular funding such as that for Pot Holes.

Budget Approval Timeline

- 2.24** Under law, the South Yorkshire transport levy must be approved by the middle of February, and a balanced budget be agreed by the end of March.
- 2.25** For the first time, the MCA will also need to consider a Mayoral budget and proposals for a Mayoral precept. The MCA must consider initial budget proposals by the 1st February and has until the 8th February to propose changes. Any precept must be agreed by the 1st March.
- 2.26** It is proposed to use the MCA's meeting on January 25th to formally consider levy and precept proposals. Should there be agreement at this stage, it is proposed that the full revenue budget and capital programme be approved at the MCA's meeting on March 22nd. Should there be dissension from the proposals for the non-transport levy budget in January, an additional MCA meeting may be required in February.

Engagement

- 2.27** Following the practice adopted in previous years, the MCA would welcome the opportunity to discuss budget proposals in detail with partners. Engagement in November/December outside of the formal meeting cycle would allow the MCA to better shape proposal around partner feedback.
- 2.28** Engagement with the Directors of Finance is also proposed.

3. Consideration of alternative approaches

- 3.1** This report provides initial proposals on budget development. These proposals may change over the time as circumstances concerning the pandemic and funding change.
- 3.2** Engagement with members is proposed to support the development of budgets and business plans.

4. Implications

- 4.1 Financial**
This report outlines the budget and business plan development for 2021/22. Budget assumptions are detailed at this stage but may change in the coming months.
- 4.2 Legal**
N/A
- 4.3 Risk Management**
N/A
- 4.4 Equality, Diversity and Social Inclusion**
N/A

5. Communications

- 5.1** N/A

6. Appendices/Annexes

6.1 None

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