

SCR MCA TRANSPORT AND ENVIRONMENT BOARD

8th January 2021

DRAFT 2021/22 SOUTH YORKSHIRE TRANSPORT REVENUE BUDGET & CAPITAL PROGRAMME

Purpose of Report

To provide members of the Transport and Environment Board with an update on the development of the draft 2021/22 South Yorkshire Transport Revenue Budget and Capital Programme.

Thematic Priority

Secure investment in infrastructure where it will do most to support growth.

Recommendations

That members of the Transport and Environment Board endorse the draft 2021/22 Financial Strategy and Revenue Budget and Capital Programme proposals for onward submission to the MCA Board on 25th January 2021.

1. Introduction

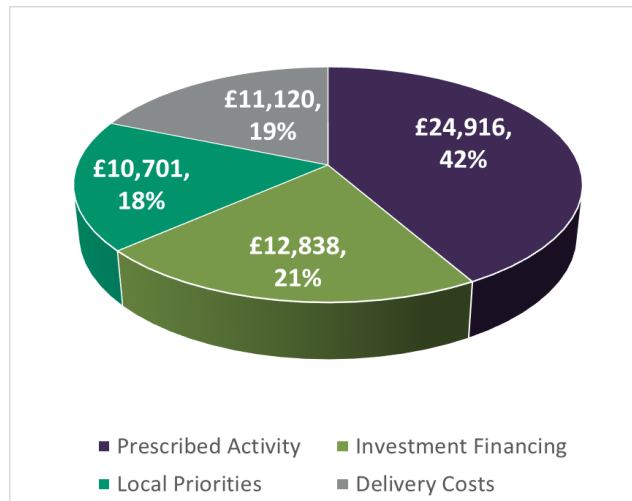
- 1.1** This report presents the draft 2021/22 South Yorkshire Transport Revenue Budget – comprising the net expenditure of SYPTE and the transport related costs managed directly by the Mayoral Combined Authority (MCA) – and the Capital Programme.
- 1.2** In terms of the Revenue Budget, the main body of this report sets out the proposed Financial Strategy for the year, whilst detailed budget reporting and variance analysis is provided in **Appendix 1**.
- 1.3** The principal funding source for this budget is the annually agreed transport levy on the four South Yorkshire Local Authorities. This report sets out proposals for the levy in the new year.
- 1.4** For most of the last decade the financial strategy for the levy has been one of managed reductions to support partner pressures. Since 2010 the annual levy has fallen by £40.3m (42.5%) from £94.7m to £54.4m for financial year 2020/21. Adjusting for inflation, this represents a cumulative reduction of over 50%.
- 1.5** At the last budget round Leaders indicated their desire to pivot towards investment in public transport, agreeing to hold the levy at the current level. That decision represented a significant shift in emphasis.
- 1.6** This report also outlines the aims of the Capital Programme, the capital budget setting process, and the 2021/22 Capital Programme proposals. It then summarises the outstanding

issues arising from the proposed Capital Programme, the revenue and resource implications, and the outcomes which the programme is intended to deliver.

2. Proposal and justification

Current Year Financial Strategy

- 2.1** The current year's budgeted net expenditure for South Yorkshire transport activity is £59.6m which, in addition to the levy of £54.4m, is funded by a contribution of £5.2m from the MCA levy reduction reserve. This reserve is the fulcrum of the medium-term financial strategy, as it will sustain existing levels of investment until a significant amount of debt is repaid in 2024.
- 2.2** Expenditure can be broadly broken down into four categories:
- Activities prescribed by statute where the costs cannot be controlled (42%)
 - Expenditure resulting from past investment decisions (21%)
 - Day-to-day running costs (19%)
 - Resource deployed to local priorities (18%)
- 2.3** These four categories are illustrated further in the pie chart below. Figures are expressed in £'000:



- 2.4** As with other areas of life, the pandemic has had a significant impact on the public transport network. Initial restrictions followed by wider social-distancing measures have deeply affected public transport patronage, leading to a dramatic collapse in farebox income. To-date, patronage on bus has not risen above 60% of pre-Covid levels, and not above 40% on tram.
- 2.5** This level of patronage reduction would, if left unmitigated, likely lead to the systemic withdrawal of commercially unviable services, and potentially the collapse of operators.
- 2.6** In response to this concern, two layers of public support were extended to the transport network:
- Government provided direct support to bus operators through grant (CBSSG)
 - Government provided grant awards for tram to LTAs (LRRRG)
 - Government provided grant awards for bus tendered services to LTAs (LA CBSSG)
 - The MCA via SYPTE budgets provided concessionary support payments to bus and tram operators at pre-Covid levels.
- 2.7** In total, it is expected that the level of public support to the network may reach £60m by the end of the current financial year. This level of funding has sustained the network throughout

the pandemic and resultant restrictions and protected a level of service that has allowed for the ongoing movement of key workers, commuters, students, and other users.

- 2.8** These interventions have allowed for an equilibrium of sorts to emerge. The status-quo sees operators insulated from commercial risk, services maintained (albeit with capacity restrictions) for passengers, and an acceptable interim financial compromise for the MCA where current levels of support are affordable in the context of overall pressures.
- 2.9** To-date, the intervention into the market has been a success with limited service withdrawals and a relatively stable financial outturn forecast for the LTA functions of the MCA.

Planning for Uncertainty in Financial Year 2021/22

- 2.10** Financial planning for the new year is beset by uncertainty. Planning requires us to predict the behaviour of the three key actors in the current environment:
- Will **Operators** continue to run services where they are at best breaking-even?
 - Will **Users** return to the network, or have travel patterns permanently changed?
 - Will **Government** sustain its support, for how long, and to what level?
- 2.11** Of most immediate concern are the intentions of government beyond March. Whilst government has committed to a support package to January 2021, with an expectation of an extension of that support to March, there is little concrete support beyond that point.
- 2.12** A withdrawal of government support, in full or in part, before patronage returns to sustainable levels will disturb the sensitive equilibrium that currently exists, and likely precipitate a request from operators for greater local subsidy or risk service withdrawals.
- 2.13** The MCA does not have the resource to backfill a withdrawal of government support on a sustainable basis and recognises that a call on additional levy contributions at this time would be difficult.
- 2.14** Accordingly, a financial strategy is proposed that will allow the MCA to plan against a base-case scenario, whilst leaving sufficient resilience to manage disruption should government funding be withdrawn before patronage recovers.

The Central Hypothesis

- 2.15** The base-scenario for planning assumes that government support for the South Yorkshire passenger transport network continues, in some form, until restrictions are lifted.
- 2.16** To maintain the current status-quo, it is proposed that MCA will continue to play its part in subsidising the network through pre-Covid volume concessionary fare payments whilst so ever government maintains its contributions at current levels.
- 2.17** Upon the lifting of restrictions, we assume that government support is withdrawn either in full or in part. At this stage the MCA ceases to pay concessionary fares at pre-Covid volume levels, and instead reverts to payment based on actuals.
- 2.18** The central hypothesis assumes that once restrictions are lifted patronage will begin to recover, but not reach 80% of pre-Covid levels before the end of the financial year.
- 2.19** In this scenario, modelling suggests that the removal of public support packages and the shortfall in fare paying patronage will create a significant revenue shortfall for operators. Modelling suggests that over a full year, at the forecast patronage levels, the transport network would have a funding deficit of c. £22m.

2.20 Set against this, modelling suggests that should the MCA revert to paying concessionary fares on actuals, and with patronage not rising beyond 80%, concessionary payments would, over a full year, fall by c. £5m.

Sensitivity

2.21 The financial implications of this hypothesis are largely dependent on two major variables:

- When government withdraws support; and,
- To what extent government withdraws support

2.22 These sensitivities will significantly impact upon the reaction of both operators and passengers to events. A cliff-edge withdrawal of funding before passenger confidence returns would have a significant effect on the network, whereas a tapered reduction that eases the network into a transitional phase may be more manageable.

Financial Strategy

2.23 The proposed financial strategy for the new financial year is predicated on three main objectives:

- Sustaining the current level of service provision wherever possible to support communities and the economic recovery;
- Facilitating the transition to the post-pandemic phase; and,
- Supporting partner financial pressures.

2.24 Recognising the significant uncertainty, it is proposed that the levy is held at current levels. Holding the levy will support the maintenance of the status-quo whilst government maintain their funding, and support mitigating actions should that funding be withdrawn. Holding the levy also avoids further calls on partner budgets.

2.25 Budget challenge has been undertaken to support the mitigation of cost inflation, particularly around inflationary increases in the cost of operations and tendered services.

2.26 Pressures arising from activity which we don't expect to repeat will be met from reserves. This includes the forecast costs of Bus Review work (£0.40m), and income shortfalls from commercial and investing activity (£0.95m).

2.27 A short-term approach is proposed to the macro risk of the systemic withdrawal of services from the network in the event of a government funding withdrawal.

2.28 In the event of government support being withdrawn or reduced to unviable levels it is proposed that the MCA cease to pay its pre-Covid levels of support to operators and instead revert to paying on actuals. Assuming patronage recovers to no more than 80%, this will generate a £5m full-year surplus on current budget levels.

2.29 This budget headroom will be supplemented by a Covid resilience reserve of c. £7m, generated from the pooling of reserves from across the Group. Taken together, this resource would be available for deployment in support of the interim protection of priority routes and services.

2.30 This approach to managing the macro risks facing the MCA is necessarily short-term. The MCA cannot backfill the loss of both government support and fare-paying patronage beyond the immediate term. Ultimately, the sustainability of the network is dependent on the recovery of patronage.

2.31 However, this approach does provide a bridge to an opportunity to consider the post pandemic phase travel patterns that emerge as the vaccine is rolled out, and new funding realities as the

government pivots away from emergency support.

- 2.32** As the demand and funding landscape becomes clearer, the MCA will be required to re-set its financial strategy to realign to more sustainable financial support to its LTA objectives.

Levy Proposals

- 2.33** Legislation requires that the cost of the levy is apportioned on a per capita basis. Accordingly, whilst the total quantum of the levy will be held at current levels, the apportionment will marginally change:

Authority	Population 2018	% Share	Levy 2020/21 £'000	Population 2019	% Share	Levy 2021/22 £'000	Variance £'000
Barnsley	245,199	17.50%	£9,494	246,866	17.52%	£9,525	£31
Doncaster	310,542	22.10%	£12,053	311,890	22.14%	£12,034	-£19
Rotherham	264,671	18.90%	£10,275	265,411	18.84%	£10,240	-£35
Sheffield	582,506	41.50%	£22,542	584,853	41.51%	£22,565	£23
	1,402,918		£54,364	1,409,020		£54,364	£0

Supporting Actions

- 2.34** In support of this Financial Strategy work will continue on the Covid funding exit strategy, and work to set a decision framework around how resource will be deployed to priorities in the event of services being withdrawn.
- 2.35** Recognising the central importance of government to the existing stage of the pandemic, and the transition to a sustainable post-pandemic phase, the MCA will also continue to work with government to emphasise the importance of the public transport network to the recovery.

Next Steps

- 2.36** After consideration at the Transport & Environment Board, this report will be presented to the Mayoral Combined Authority for approval on 25th January 2021.
- 2.37** As the 2021/22 business planning process evolves and emerging pressures and savings are identified, as well as existing pressures and savings reviewed, the draft budget figures will be revised accordingly.
- 2.38** From the initial budget engagement session with Cllr Read, it is assumed that Leaders will be content to adhere to the plan of presenting the final budget proposals for approval at the MCA on 22 March 2021.
- 2.39** This will allow officers to assess the latest available information following the Spending Review and Government's plans for continuation of emergency funding packages such as CBSSG and LRRRG.
- 2.40** The MCA will also undertake further investigative work into the pressures and savings proposed in the Operational & Support Departments and apply greater challenge to estimates and assumptions where required.

Capital Programme - Aims

- 2.41** The purpose of the Capital Programme is to deliver outcomes that contribute to the delivery of the MCA's public transport goals, and support SYPTTE's statutory and contractual

compliance requirements such as health and safety legislation and obligations under leases.

The MCA's strategies relevant to SYPTTE's activities include the:

MCA Strategic Economic Plan (SEP) – The Plan sets out how the Region will build and sustain a competitive economy. In relation to transport there are three main objectives, collectively aimed at connecting main population centres to each other and to employment sites.

MCA Transport Strategy – The Transport Strategy sits beneath the SEP and sets out the wider aims and objectives for the MCA transport network, beyond its function to enable economic stability and growth. The Strategy has four overarching goals. The first is to support economic growth, and the three policies relating to this are those set out in the SEP. The remaining three goals and associated policies are as follows:

- To create healthy streets where people feel safe.
- To improve the quality of our outdoors
- To promote, enable and adapt different technologies

The objectives of the capital programme will also support the Renewal Action Plan proposals, and it is noted at this stage that, subject to member agreement, capital resource may be allocated to support bus investment from the year 1 and 2 gainshare funding.

Paragraph 2.47 in this report summarises how the 2021/22 Capital Programme contributes to the goals and policies set out above.

Summary of Process to Date

- 2.42** During September and early October 2020, the initial list of possible projects for inclusion in next year's capital programme was circulated within SYPTTE, the Local Authorities and MCA. The long list this generated was sifted (see below) by SYPTTE Management Board in November.

A further round of engagement is being undertaken with local authority partners and operators with comments requested prior to the report going to the MCA meeting. The ITB element of the capital programme was considered by SYTDG at their December meeting and is progressing through the MCA approval process.

Proposed 2021/22 Capital Budget

- 2.43** The long list of potential schemes arising from the above was reviewed on the basis of:

- i) "Committed" schemes first: these include TCF schemes.
- ii) Contribution to SYPTTE's and the MCA's goals.
- iii) Contribution to SYPTTE's business priorities.
- iv) Degree of support and other comments from partners.
- v) Availability of funding.
- vi) Availability of resources to deliver.

Based on the above, the priorities for non-committed schemes can be summarised as:

- Schemes to improve the financial sustainability of the public transport network as part of the post Covid recovery. These include preparatory work and early wins for the Bus Review and tram related work.
- Preparing a pipeline of schemes to assist with the above and improving readiness for future bidding opportunities.

- Life cycle renewals.

The proposals for next year's capital programme were endorsed by SYPTe's Transport Officers Board on 21 December 2020 and are shown in **Appendix 2**.

In summary this shows a total Capital Programme next year of £23.87m funded as below:

Source	Amount £'000	Comments
ITB assumed 2021/22 Allocation	£2,049	
ITB assumed 2020/21 Allocation c/d	£318	<i>Mass Transit</i>
ITB Other	£70	<i>'topslice' – Wheels to Work</i>
TCF	£19,085	
Capital Grants Unapplied	£1,207	
Better Bus Area grant	£65	
DfT ring-fenced grant c/d	£1,000	<i>Mass Transit</i>
Previously Approved Borrowing	£80	<i>Rail Replacement</i>

The total proposed spend broken down by area and mode is given below:

	ITB		Overall	
	£'000	%	£'000	%
BMBC	£292	14.2%	£7,294	30.6%
DMBC	£292	14.2%	£7,290	30.5%
RMBC	£392	19.1%	£4,802	20.1%
SCC	£1,074	52.4%	£4,488	18.8%

Mode	£'000	%
Bus	£16,936	70.9%
Rail	£1,487	6.2%
Tram	£5,275	22.1%
Other/Non-mode Specific	£176	0.7%

Longer-term Investment Profile

- 2.44** Based on the schemes included in the 2021/22 budget and the information currently available about their longer-term impacts and future projects, a 5 year spend forecast is given in **Appendix 3**.

Longer-term investment profiles will also be influenced by a number of issues still in development. These include:

- i) **Funding for the Tram Bridging Strategy** – Work is underway on the potential requirements for investment in tram infrastructure ahead of the end of the current concession in 2024. Work is currently underway on this issue, and a report will be brought to the MCA.
- ii) **Funding for the Mass Transit OBC/FBC** – This will be the subject of a separate paper to the MCA.
- iii) **Asset Management Plan**- The intention to refresh a Group wider asset management plan may change the shape of the current lifecycle renewal programme and/or identify opportunities for investments or disposals.
- iv) **The volume of underspend this year that could be carried forward into next year** - An updated forecast is being prepared but the actual figure will not be formalised until towards the end of the financial year.
- v) **Outcome of the TCF review** – A further MCA-wide review of the TCF programme will be undertaken in the new year, where deliverability of existing schemes will be tested and opportunities for new schemes will be considered. SYPTTE is contributing to this review to ensure an equitable share of its schemes across the region.
- vi) **ITB Funding** – This budget has been prepared on the basis that ITB, or similar replacement, will be available. At the time of writing it is understood that ITB grant will flow in the new financial year, but should it not, or at lower than forecast levels, a priorities led rationing exercise will be required to pare investment back to affordable levels.
- vii) **SYPTTE Business Plans** - Links between the capital programme and SYPTTE's business plans are being developed. The MCA Group's composite business plan will be submitted to the March MCA meeting.
- viii) There are also some project related tasks that need to be completed before work starts next year, for example the review of the Retail and Information Strategy programme.

Revenue and Resource Implications of the Capital Budget

2.45 Revenue Impacts

Where known, the revenue impacts of the schemes in the budget are shown in **Appendix 4**. Work is ongoing to determine the revenue implications for all schemes in the Capital Programme. These costs are factored into the revenue budget.

2.46 Resources

Provision has been made in SYPTTE's Business Plan for 2021/22 for the resources necessary to deliver this budget.

The resources required for schemes where the funding is uncertain at present (e.g. Bus Review, Tram Bridging Strategy) will be dealt with in parallel with the project's overall development.

Overall Contribution to the MCA's Goals

2.47 The proposed 2021/22 Capital Programme has been assessed to ensure that each project contributes to one or more of the goals and/or policies as set out in paragraph 2.41 of this report. It is usual for any single project to contribute to more than one policy, particularly larger projects such as MCA Mass Transit, which will impact directly or indirectly on each of the goals to varying degrees.

For details on each schemes contribution to each of the 12 Transport Policies please see **Appendix 5**.

3. Consideration of alternative approaches

3.1 Under law a balanced budget must be set by the start of the new financial year. This report outlines a proposal to achieve that position whilst delivering on the MCA's priorities and mitigating the significant risk detailed.

Should the MCA wish to undertake a different body of activity over the course of the year, or adopt a different approach to managing the risk inherent in the current operating environment the budget can be recast.

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

In setting the South Yorkshire Transport Revenue Budget for 2021/22, the MCA must have regard to the Transport Levying Bodies Regulations 1992. In particular, it must ensure that the transport levy for the forthcoming financial year is agreed by 15th February 2021 in order to allow enough time for the constituent authorities to set their council tax levels by early March.

4.3 Risk Management

Given the current climate of uncertainty, the MCA Board on 16 November 2020 approved in principle the proposal that the levy be held at existing levels to support the current level of service provision.

Many of the risks for next year's Capital Programme are as for previous years, but there are also some specific to this budget. The main risks to these include:

- i) Resolution of funding where source not yet agreed (e.g. Tram Bridging Strategy);
- ii) The longer-term impacts of covid 19 on services and available funding;
- iii) Confirmation of ITB funding;
- iv) Projects at varying degrees of development, hence risk that costs, benefits and programmes will change as they develop;
- v) Resources needed to deliver related activities not clear at present;
- vi) SYPTE is dependent on third parties for delivery of many schemes, particularly Local Authorities where issues with resources and Public Transport schemes' priority compared to other work could impact on delivery.

4.4 Equality, Diversity and Social Inclusion

The principles of equality, diversity and social inclusion are built into the annual budget-setting process and are taken into consideration when assessing budget pressures and savings proposals. Any equality implications to which members must have regard under s.149

Equality Act 2010 will be set out in detail in the report that accompanies any recommendation about specific proposals.

5. Communications

- 5.1 Consultation and engagement with the Leaders, Chief Executives and Finance Directors of all four levy-paying authorities with regard to the proposed 2021/22 financial strategy was undertaken in December 2020.

6. Appendices/Annexes

- 6.1 Appendix 1 - Detailed revenue budget reporting and variance analysis
Appendix 2 – Breakdown of draft 2021/22 capital programme
Appendix 3 – 5-year capital expenditure forecast
Appendix 4 – breakdown of capital programme funding sources
Appendix 5 – capital programme’s contribution to each of the 12 Transport Policies

Report Author	Mike Thomas
Post	Senior Finance Manager
Officer responsible	Gareth Sutton
Organisation	Sheffield City Region Mayoral Combined Authority
Email	gareth.sutton@sheffieldcityregion.org.uk

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: n/a