Sheffield City Region MAYORAL COMBINED AUTHORITY

25th JANUARY 2021

BUDGET AND BUSINESS PLAN DEVELOPMENT

Purpose of Report

This report provides an update on the progress towards the finalisation of an integrated MCA Business Plan and Budget for the forthcoming financial year. Following engagement with Members, this report further seeks approval for the South Yorkshire Transport Levy and the proposal to not set a Mayoral Precept.

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

1. Approve the South Yorkshire Transport Levy for financial year 2021/22;
2. Approve the proposal to not set a Mayoral Precept for financial year 2021/22;
3. Note the proposal to freeze local authority subscriptions for financial year 2021/22;
4. Note the forecast scale of consolidated Group spending power in the forthcoming year; and,
5. Note the intention to bring the final Group revenue budget and capital programme for approval to the MCA's March meeting.

1. Introduction

1.1 In common with other public bodies and local partners, the MCA Group is required to set a balanced budget every financial year. This budget must be approved by Members ahead of the new year and be supported by a medium-term financial strategy that takes account of forecast future expenditure, funding flows, and the requirements for use of reserves.

1.2 In support of this, the MCA is mid-way through a Group wide integrated business planning process. This process seeks to derive resource requirements to deliver upon the aspirations set by the Member priorities and foundational strategies such as the Strategic Economic Plan and the Renewal Action Plan. The business plan in turn drives the budget by ensuring that financial resource is directed to business priorities.

1.3 In undertaking this activity at the Group level the MCA is better able to begin coordinating and aligning its Group wide financial and human resource to Group wide priorities. This supports a degree of business integration ahead of the formal integration process.

1.4 To-date, activity has been focussed on designing service business plans that can operationalise the broader MCA Corporate Plan. This work is complemented by the

forecasting and identification of the financial resource that will be available to the MCA Group to deliver those plans.

1.5 Initial work highlights a number of issues that will shape financial planning for the forthcoming year and beyond:

1. Concern around the commercial sustainability of the South Yorkshire transport network remains, with little certainty on both future demand for services and government's approach to financial support;
2. The forecast future spending power for the MCA Group in the new financial year is considerably in excess of previous years enabling significant investment;
3. The majority of existing funding is ringfenced to specific activity whilst the Spending Review further highlights a potential retrenchment of government funding streams to silos of activity, and a move away from the devolved flexibility enjoyed by the MCA through the Local Growth Fund (LGF) programme;
4. Sustaining levels of investment over the medium and long-term will be challenging as time-limited funding streams fall away; and,
5. Medium to long-term risk around the operation of the Supertram system needs to be considered and addressed in the coming year.

1.6 Taken together, these issues highlight both the significant opportunities new funding creates, but also the uncertainty across the full spectrum of the MCA's operations and the broad scale and scope of challenges.

1.7 Transitioning from a heavily-subsidised model to a sustainable transport system represents the most immediate and pressing issue. Whilst there are some indications on how Government will support this transition on a national level there is, at this stage, little certainty. The MCA's ability to effectively manage a transition without major Governmental support is constrained by both legislative and fiscal restrictions.

1.8 At c. £385m, the scale of resource at the MCA's disposal in the new financial year is considerable and will support significant investment in local priorities, and in some instances give the MCA more say on how resource is used. However, much of this resource is time-limited, and most is ringfenced to discrete activity. Deploying this resource in an efficient and effective manner will be a challenge on already stressed systems.

1.9 Ongoing reliance on ringfenced grants further presents a number of sustainability challenges. Most pressingly, initial work highlights the paucity of future grant funding for Business Growth aspirations which risks stalling the significant momentum achieved from the deployment of LGF resource.

1.10 Finally, funding the activity of the MCA Executive in a sustainable manner will remain problematic whilst so ever there remains a heavy reliance on time-limited grant streams. The likelihood of funding cliff-edges may impede longer-term planning and efficient resourcing.

1.11 These challenges can, however, be considered alongside the significant flexibility afforded to the MCA from its annual gainshare funding allocations. This budget setting process reflects the first year in which gainshare resource can be factored into financial planning, and how the capital and revenue allocations are deployed beyond the next financial year will help shape the MCA's response to other funding challenges.

1.12 Accordingly, in recognition of the significant risks around the funding of the transport network and following discussions at the MCA's November meeting and separate 1-1 briefing sessions, this report recommends that Members approve the setting of the South Yorkshire transport levy at existing 2020/21 levels. Maintaining the levy at £54.36m will support current investment levels and support mitigation of risk. Detailed revenue and

capital forecasts for this activity are provided in the appendices to support consideration of this proposal.

1.13 Similarly, the report notes the current proposal to freeze other local contributions via transport hub and LEP subscriptions at current levels.

1.14 The report further seeks approval for the proposal to not set a Mayoral precept for the new financial year, with the costs of the Mayoral office being met from Mayoral Capacity Fund grant.

1.15 The business planning process will continue to develop delivery plans and be adjusted as better information is received around funding for the new year. The final Group revenue budgets, capital programmes, and reserve strategies will be presented to Members for approval at the MCA's March meeting.

2. Proposal and justification

2.1 This section of the report briefly outlines progress in the development of the segmental parts of the MCA Group's business planning and budgets. This summary reporting is supported by detailed appendices.

MCA Group Spending Power

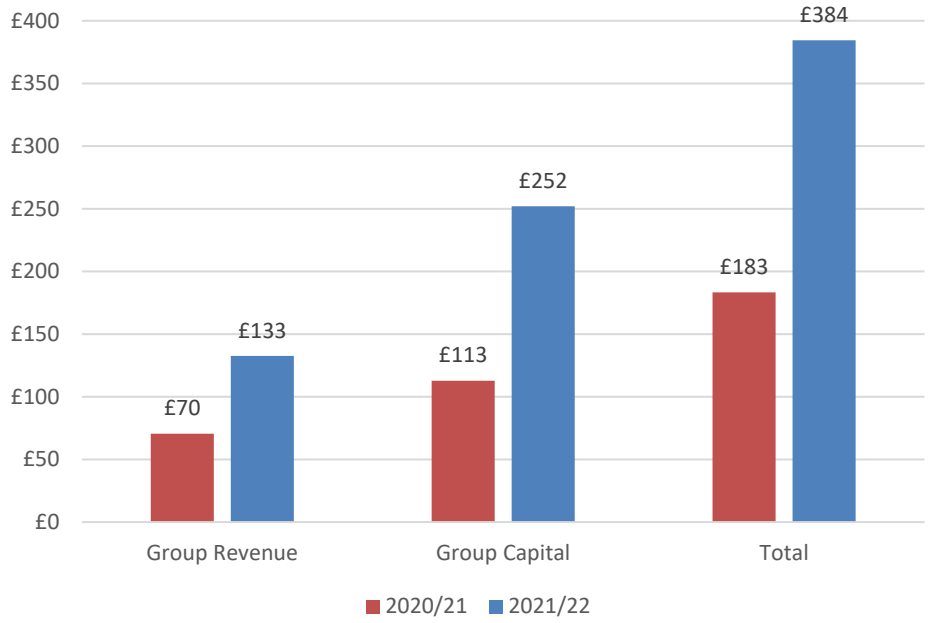
2.2 Spending power reflects the cumulative resource at the disposal of the MCA across the whole Group. It consists of both revenue and capital resource and provides an indicator of the level of investment possible.

2.3 Some of the MCA's spending power is derived from local sources, such as the transport levy, local contributions, and retained business rates. The significant majority of the MCA's resource is, however, derived from government grant. Some of this grant is committed over the longer-term and free from restrictions, whilst other elements are prescribed for certain activity and over certain timeframes.

2.4 The Spending Review provided more information over the funding that will be available to the MCA, but at the time of writing there was still a lack of certainty on the specific allocations that would be committed.

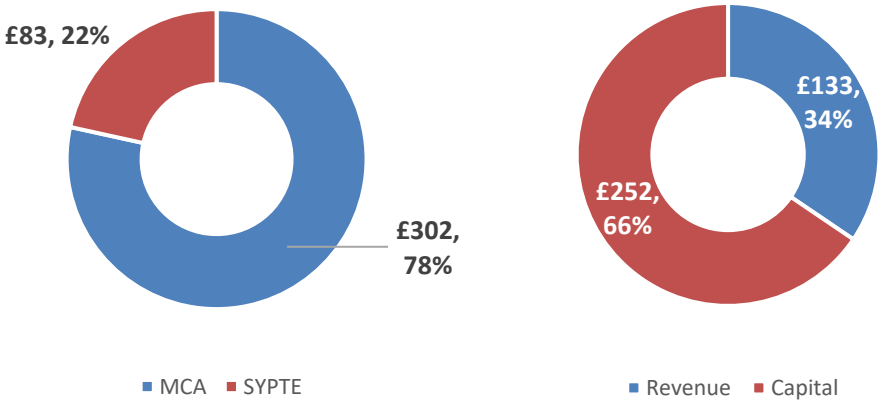
2.5 However, based on known commitments and current forecasts, it is estimated that the MCA will have c. £385m of resource at its disposal in financial year 2021/22. This resource consists of funding that will be received in year, and underspends that will be rolled over from the current year. It does not include resource that may be made available in the new year from the proposed Levelling Up Fund nor the UK Shared Prosperity Fund. A full list of forecast funding is provided in **Appendix 2**.

2.6 Funding at this level represents a significant increase on prior years, with resource available for investment into local services and the wider local economy increasing by over £200m on 2020/21, a movement of c. 110%:



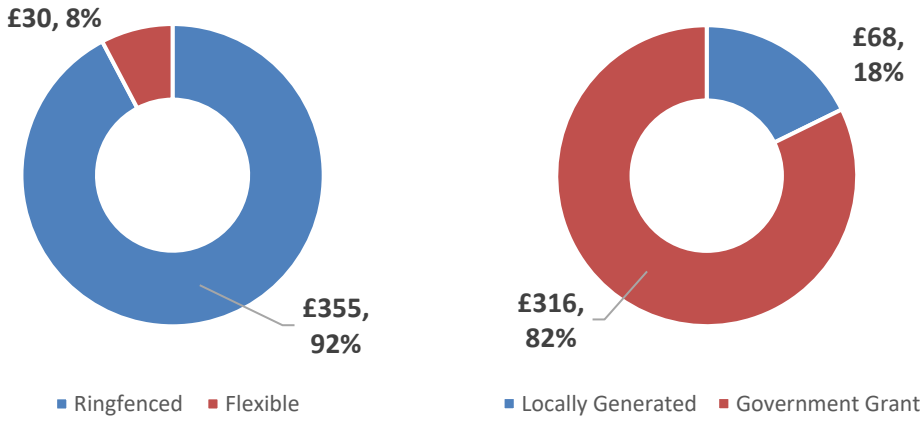
2.7 The significant increase in forecast resource reflects the adoption of new funding streams arising from the devolution agreement – predominantly the gainshare resource (£30m) and the Adult Education Budget (£38.50m) – and those grants made available to the MCA as part of the Government's fiscal stimulus response to the pandemic. It also captures some of the significant slippage forecast from the current financial year, particularly around the Transforming Cities (TCF) programme.

2.8 Of this value, c. £83m (24%) will be available to SYPTE, with c. £302m (78%) being available to the MCA Executive. The majority of the resource available is for capital investment (£252m/66%), with £133m (34%) of revenue resource available.



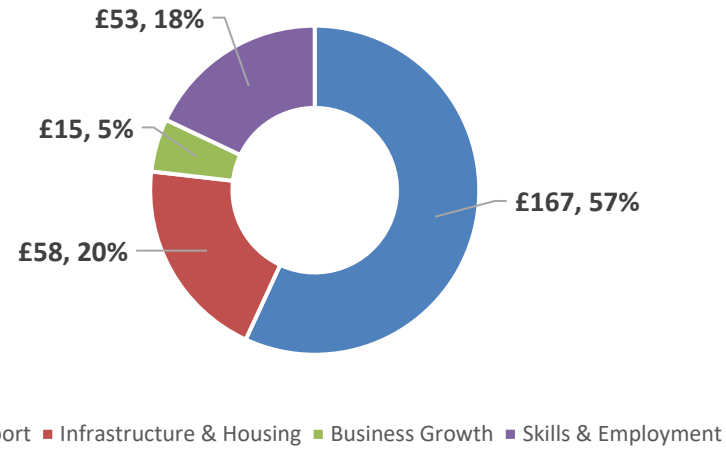
2.9 The funding is overwhelmingly ringfenced (£355m/92%), with only limited amounts (£30m/8%) being flexible. Ringfenced funding refers to that resource which is committed to specific activity by grant conditionality, legislation, or local decisions. As an example, the Adult Education Budget funding is ringfenced by the grant conditionality to the specific activity, the transport levy is ringfenced by legislation to prescribed South Yorkshire transport activity, and elements of the annual gainshare resource have already been committed to certain priorities by past Board decisions.

2.10 Partly reflecting this issue, the majority of the MCA's forecast resource will be derived from government grant (£316m/82%). Around £68m (18%) will be generated from local sources, such as the transport levy, planned draws on reserves, and locally generated commercial income:



2.11 The significant majority of government grant is now ringfenced at the point of award, with the notable exception being the gainshare devolution monies. Those ringfences reflect government priorities but will often align to MCA priorities. What is of significance is where ringfences don't match the full array of MCA priorities. Initial work highlights this as being an issue with our Business funding.

2.12 Of the forecast grant awards there is a significant weighting of resource to transport and infrastructure, with a smaller amount of residual LGF/JESSICA available to Business Growth activity. Whilst some year 1 and 2 gainshare resource has been targeted at Business RAP activity, this means that Business Growth accounts for c. 5% of current ringfenced activity in the new year:



2.13 The MCA's ability to influence how Government awards funding is limited, and there are indications from the Spending Review of a retrenchment back towards Departmental funding lines and away from the flexibilities the LGF programme afforded the region.

2.14 The loss of flexibilities will impinge on local discretion on how best to target public resource in the most effective manner. However, the receipt of un-ringfenced gainshare resource and the prospect of borrowing powers for non-transport activity in the new financial year does give the MCA the financial tools to influence the shape of its expenditure in a manner which would not have been possible pre-devolution.

2.15 To-date, of the £60m gainshare resource available for financial years 2020/21 and 2021/22, c. £36m has been committed in support of priority activity. The balance of this

resource is available for deployment through application of the grant in-year, or via the leverage of that resource for a more expansive borrowing funded programme.

2.16 Work is currently progressing on proposals for an Investment Fund centred on Member priorities and complementing other available funding. This Fund will be supported by the Project Feasibility Fund that Leaders have previously endorsed. Proposals for these Funds will be brought before Leaders at the MCA's March meeting.

2.17 Work to forecast and identify available funding for the new financial year and beyond will continue over the coming weeks. Better clarity is expected to be received from Government over Quarter 4 as Departmental spending plans are finalised and funding announced.

2.18 Final funding forecasts will ultimately shape the resource rationing exercises required to present balanced budgets to the Board in March.

South Yorkshire Transport Levy 2021/22

2.19 The South Yorkshire transport levy resources the operationalisation of the South Yorkshire Transport Plan. Funding is used to pay for items that the MCA must provide under statute, such as the national concessionary travel scheme; the costs of past financing decisions; the upkeep and maintenance of transport infrastructure such as interchanges and bus stops; local priorities such as discretionary travel and subsidised bus routes; and the operations of the South Yorkshire Passenger Transport Executive (SYPTE).

2.20 Public transport in South Yorkshire is currently operating under significant public subsidy from local and national government. This subsidy has sustained commercial operators and routes following the collapse in fare paying patronage following Covid related restrictions.

2.21 Under current arrangements a sensitive equilibrium has emerged where the local emergency subsidy via SYPTE budgets remains affordable and operators are largely shielded from the inherent financial risk in the operating environment. In turn, this has protected services for key workers and communities, and provides a valuable platform for economic recovery efforts.

2.22 The key risk to this delicate status-quo is the continuation of government support, and in particular the risk of government withdrawing or reducing its support before fare-paying patronage returns to sustainable levels.

2.23 Whilst the MCA understands that it is the government's intention to continue support for public transport whilst it remains affected by restrictions, and then support the transition from existing heavily-subsidised arrangements to a post-restriction phase, there is currently little certainty beyond March 2021. Government's desire and ability to support the network at a national level is likely to be shaped by wider fiscal realities and competing pressures.

2.24 Equally, forecasting fare-paying demand for public transport in the new financial year is particularly difficult. Whilst an eventual removal of restrictions is likely to prime a return of passengers to the network, it is not possible to predict with any degree of certainty when restrictions will be lifted, how long it will take for passenger confidence to recover, and whether there are lasting changes to demand from issues such as home-working and leisure and retail behavioural adjustments.

2.25 Under the MCA's forecasts patronage will not recover beyond 80% of pre-Covid levels during the year. Left unabated, this would leave a full-year revenue shortfall for operators of c. £24m and likely precipitate the withdrawal of unviable routes, and potentially, ultimately, the withdrawal of operators entirely.

2.26 This issue reflects the single largest financial risk for the MCA Group and poses a simple question: should government support be withdrawn or reduced to unviable levels before fare-paying patronage returns to the network, how can the MCA respond?

2.27 In support of this question a Group wide workstream is currently developing an exit strategy to deliver policy and strategy options. This work is supported by the proposed financial strategy which seeks to provide a bridge to the post-pandemic phase when a more informed view can be taken on travel behaviours and demand.

2.28 This strategy is detailed in Appendix 1, but can be summarised as having two complementary strands:

1. Maintaining the current status-quo, through providing local subsidy whilst so ever the Government maintains its funding commitments at viable levels; and,
2. Providing the financial resilience and flexibility to support the transition from the existing subsidy-model to post-pandemic realities.

2.29 In delivering upon this strategy the MCA will also be required to manage business-as-usual challenges arising from inflationary pressures and commercial income disruption.

2.30 This strategy has been socialised with Leaders at the MCA's November meeting and in further detail in individual briefing sessions.

2.31 To deliver upon the strategy this report recommends that the transport levy is held at existing levels. Holding the levy at existing levels when allied to planned draws on the levy-reduction reserves and budget challenge will allow for both a maintenance of the status-quo and the mitigation of other financial pressures.

2.32 However, the levy alone will be insufficient to manage the risk of government withdrawing or reducing funding before patronage recovers to viable levels. This report proposes the creation of an earmarked reserve at c. £7m from the redeployment of existing Group wide reserves, to provide resource to be targeted at the protection of priority services should this risk crystallise.

2.33 In the event of a government withdrawal or reduction of services, it is also proposed that the MCA withdraws its local subsidy under existing arrangements transitioning to a more targeted approach. On a full year basis, and on current patronage projections, this would generate c. £5m p/a.

2.34 Taken together, the resource freed-up from the existing subsidy approach and the earmarked reserves will provide a material amount of funding that could be deployed at the MCA's discretion in support of priorities. Whilst this resource will be insufficient to protect all services, and be unsustainable in the longer-term, it will provide a bridge to a future point at which a more informed judgement can be made on future passenger transport provision and its funding.

2.35 **Appendix 1** of this report provides additional detail on the proposed financial strategy and financial forecasts for both the revenue budget and the capital programme. Budget projections provided in **Appendix 1** are presented on the basis of a continuation of the existing status-quo over the full year. Preparing forecasts on this basis affords transparency over other underlying budget movements including identified pressures and savings.

2.36 Agreeing the levy at this stage allows for the principal funding envelope to be set within statutory deadlines. In line with discussion with Leaders it is, however, proposed to continue to develop the budget and capital programme for approval at the MCA's March meeting. This will allow the MCA to continue to shape budget plans in alignment with the

latest information that is expected to be received around Government's intentions for financial support to the public transport network in the new year.

2.37 After adjusting for population movements, holding the levy at current levels will mean the levy is apportioned in the following manner:

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**

South Yorkshire Transport Levy: Future Risk

2.38 The financial strategy driving levy proposals for the next financial year is necessarily short-term: mitigating immediate risk and providing a bridge to an opportunity to consider new demand and future funding.

2.39 In the new financial-year work will need to be undertaken to pivot away from this short-term approach to a longer-term consideration of how aspirations are delivered on and emerging risk is mitigated.

2.40 Whilst the realities of a post-pandemic period will shape everything, there are two existing underlying factors that will need to be addressed:

1. Meeting the objectives of the Bus Review, and arresting the decline in patronage; and,
2. Managing the Mass Transit Renewal project, and the likely transition from the current concession arrangements to a new model for the delivery of tram services.

2.41 Resource for the delivery of initial Bus Review activity is included within levy proposals. However, whilst this resource will shape options available to the MCA, there is a likelihood that practical delivery of change to the bus network may cost more than the existing network.

2.42 As part of the Bus Review activity, options will need to be thoroughly costed and income streams identified. Managing this exercise whilst demand remains difficult to predict will be a challenge, but consideration will need to be given to this in the new year.

2.43 The MCA Board has also previously given its approval for the development of an outline business case for the Mass Transit Renewal project: the update of the physical Supertram infrastructure.

2.44 The development of this business case and its on submission to the DfT has inevitably been delayed by Covid. Given the business case's sensitivity to patronage, better information is now required to understand demand in future years.

2.45 However, delay aside, the MCA's future financial planning will need to take account of the likely need to provide a local capital contribution towards renewal costs, and the revenue risk that may arise from the ending of the current concession arrangements in 2024 - arrangements that have shielded the MCA from commercial risk for the last decade.

2.46 These issues can, however, be considered alongside the likelihood of falls in the MCA's underlying cost base as further borrowing is repaid. Whilst such expenditure reductions are

reflected in the medium-term plan to 2025/26, projections show further falls beyond this as expensive legacy debt is retired and not replaced. Medium-term projections will be presented to Members in March.

Mayoral Precepts

2.47 Legislation requires that proposals for Mayoral precepts are presented to the MCA by the end of January as part of a Mayoral budget proposal.

2.48 The Mayor proposes that no precept be raised for financial year 2021/22, and that the costs of the Mayoral office are met in full from the Mayoral Capacity Fund grant (£1m) that has been confirmed for the coming year.

2.49 This report recommends approval of this proposal, confirming that committed Mayoral related costs can be resourced from committed grant.

MCA Executive Budget Development

2.50 The MCA Executive provides the officer capacity and skills to deliver upon the MCA's non-operational transport priorities. The Executive further discharges the statutory obligations expected of any public body, provides the policy development and leadership for the Group, and delivers its programmes of activity. It will be the MCA Executive, alongside delivery partners, who will be responsible for the delivery of the investment enabled from the significant increase in spending power referenced earlier in this report.

2.51 The MCA Executive is funded from a cocktail of sources, including un-ringfenced grant, local contributions, commercial income, and recharges to revenue and capital grant funded programmes.

2.52 The budgeted cost of the MCA Executive in 2020/21 was c. £10m, and despite challenges over the year expenditure is expected to outturn at around that value.

2.53 Funding sources for this activity were disrupted during the year, with income shortfalls of c. £1.2m being offset by an emergency injection of gainshare funding and the release of reserves.

2.54 Initial funding projections suggest that the income losses will largely rebound in the new financial year, though it is likely that they will remain susceptible to Covid related pressures. Forecasts also suggest that the opportunity to recharge the costs of delivering programmes into ringfenced funding streams will grow next year. This movement largely reflects the growth in spending power more generally.

2.55 In total, whilst further certainty is required around grant funding that will be made available in the new year, it is expected that there will be c. £12.5m of resource available to meet the costs of the Executive.

2.56 This value represents an increase on 2020/21 of c. £2.5m, but largely reflects the adoption of significant amounts of new activity that wasn't in the previous year's budget. This includes AEB delivery funding (£0.8m) and the costs of supporting the new capital funding streams made available to the MCA during the year (c. £1.1m). The extension and/or growth of other funding streams such as Working Win provide further resource and cumulatively this new funding will mitigate the loss of resource previously generated from recharging delivery costs into the LGF programme.

2.57 Initial Business Planning work highlights likely growth in the scale and scope of activity and associated staffing requirements as the scale of the MCA's activity accelerates. This growth will generally be resourced from the accompanying grant funding.

2.58 Whilst the ability to recharge incremental costs into programme grants streams is a useful source of funding which allows the MCA to properly resource programmes, it does not provide resource for core costs such as policy and strategy development, corporate communications, and the discharge of statutory obligations.

2.59 To support the resourcing of these critical workstreams, the MCA remains reliant on its locally generated income, including its retained business rates and local authority LEP and transport hub subscriptions.

2.60 Recognising this, this report proposes the continuation of existing local authority subscriptions at current levels. These contributions have been held at these rates since 2015, with inflationary pressures being offset through budget challenge. Proposed subscriptions by authority are presented below:

Authority	LEP Subscriptions £k	Transport Hub £k	Total Value £k
Barnsley	£32	£174	£206
Doncaster	£41	£223	£264
Rotherham	£35	£191	£226
Sheffield	£76	£412	£488
	£184	**£1,000**	**£1,184**

2.61 The MCA is currently undertaking its second Business Planning development sprint. This phase of the exercise will allow for a further iteration of delivery plans in support of the MCA's programmes and the matching of financial resource to priorities.

2.62 A key planning challenge will be around the ability of the MCA to manage peaks and troughs in programme funding. Inconsistent and/or unpredictable funding requires the MCA to retain the flexibility to scale its capacity at relatively short-notice to meet the requirements of government funded programmes of activity.

2.63 Final proposals on the shape of the revenue budget and capital programme will be brought before Members in March.

3. Consideration of alternative approaches

3.1 The report recommends the approval of the proposed South Yorkshire transport levy and the proposal to not set a Mayoral precept for the new financial year.

3.2 The alternatives to the proposals could include increases to the levy and the setting of a precept. This would provide additional resource which would assist in the management of the risks described in this report but would require additional calls on local authority budgets and the local taxpayer.

3.3 A further alternative could include reductions to the transport levy. This would reduce the resource available to the MCA and limit its ability to manage risk. Whilst deeper draws on reserves would be possible to offset a reduction this would affect the MCA's financial resilience in the longer-term.

3.4 Options to increase the levy and set a precept have been considered and rejected, noting the significant financial pressures on local authorities and local taxpayers.

3.5 Options to reduce the levy have been considered and rejected, noting the imperative to protect, wherever possible, key transport services both in the new financial year and beyond.

4. Implications

4.1 Financial

This is a financial report, the details of which are included within the main body of the report and the appendices.

4.2 Legal

This report discharges the obligations to present Mayoral precept proposal by the end of January. 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

This report details a number of major financial and delivery risks. These risks are tracked through the Corporate Risk Register and are monitored through the Audit and Standards Committee.

4.4 Equality, Diversity and Social Inclusion

None.

5. Communications

5.1 None.

6. Appendices/Annexes

6.1 Appendix 1: South Yorkshire Transport Financial Strategy 2021/22
Appendix 1a: South Yorkshire Transport: Draft Revenue Budget 2021/22 Detail
Appendix 1b: South Yorkshire Transport: Draft Capital Programme 2021/22 Detail
Appendix 1c: South Yorkshire Transport: Draft Capital Programme 2021-2026
Appendix 1d: South Yorkshire Transport: Draft Capital Programme 2021/22 Funding
Appendix 2: Group Spending Power: Forecast Funding

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