Sheffield City Region MAYORAL COMBINED AUTHORITY

25th JANUARY 2021

BUDGET REVISION 3

Purpose of Report

This report provides revised budget forecasts to the end of the financial year 2020/21. 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. Note the key conclusions of the mid-year treasury report attached at Appendix 2; and,
3. Note the slower than forecast pace of the capital programme.

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's financial plans remain aligned to business priorities, a third budget revision exercise has been undertaken as at the end of November 2020 (Period 8). 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, and planning for the year ahead:
1. Whilst the commercial viability of the South Yorkshire transport network remains a significant concern, it has now been confirmed that government will retain support packages in their current form until the end of March 2021;
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 resource being earmarked to Renewal Action Plan priorities and partner recovery efforts;

4. The MCA has received £30m from government in support of those sectors of the South Yorkshire economy affected by the transition into Tier 3 restrictions, with c. £8m already remitted to businesses at the time of this meeting; and,
5. Concerns around the pace of some parts of the MCA's capital programme are now crystallising in the form of significant forecast underspends.

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. Significant challenges do, however, lie ahead.

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 will 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 can support the transition from the currently heavily subsidised arrangements to a commercially viable network that reflects post-pandemic travel patterns. It is expected that government will shortly publish national plans on how they may use their legislative and fiscal powers in support of this transition.

1.7 The ongoing Covid related restrictions within South Yorkshire continue to present many challenges for the region, its communities and businesses. Since the last reporting-date a South Yorkshire wide scheme has been designed by the MCA and local authority partners to support affected businesses, using the £30m of government support received by the MCA. Already, c. £5m has been deployed in support of over four and half thousand businesses and individuals within the region.

1.8 The stabilisation of the MCA financial position following the approval of mitigations noted in the Quarter 1 report, and the injection of gainshare funding noted in the Quarter 2 report, 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 Complementing this investment, Gainshare resource has also now been committed to Renewal Action Plan priorities around business support and skills and apprenticeships. Delivery plans for this activity, along with proposals for capital investment, are now in development whilst it is expected that the £5.75m of gainshare resource committed to partner recovery efforts will be deployed imminently.

1.10 In common with peer authorities across the country, this report also notes concerns around the pace of the capital programme. As delivery capacity has been challenged following the stimulus packages announced earlier in the year, and restrictions impact upon practical delivery, concerns have now crystallised on a number of schemes. These issues were identified early, and work is underway with partners and peer authorities to identify mitigations.

1.11 Finally, in compliance with Constitutional reporting requirements, this report sets out the MCA's treasury management performance over the first half of the year.

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 eight months 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. To-date, patronage on the bus and tram networks has not reached beyond 60% and 50% 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 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. £2.45m.

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

Budget Movements	**£k**
Forecast Savings:	
Concessions	-£1,455
Debt Provisions	-£375
Pensions	-£358
Tendered Bus Services	-£100
	-£2,288
Forecast Pressures:	
Operational Departments	£221
Income Shortfalls	£703
	£924
Carry-forward of Investment Fund to 2021/22 risk mitigation	**-£1,087**
Net Underspend	**-£2,451**

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 A review in Quarter 3 of the budget for pension costs has also resulted in the release of £0.36m. The pensions budget had been rolled forward from previous years to cover the anticipated ongoing cost of the deficit recovery contribution to the South Yorkshire Pension Fund (SYPF). However, the outcome of the triennial valuation of the SYPF in March 2020 is that no such contribution is required over the next three financial years.

2.13 The budget for bus tendered services has been thoroughly reviewed in Quarter 3 to ensure that any eligible expenditure is being reclaimed from central government, thus maximising the use of DfT's Covid-19 Bus Services Support Grant for local transport authorities (LTA CBSSG). Consequently, the forecast outturn has improved by £0.36m since the position reported as at Quarter 2.

2.14 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.

2.15 Resource was also set aside as part of the Revision 2 exercise for Bus Review implementation activity (£0.29m). Planned work around the environmental, route, and quality workstreams is now being reconsidered in light of expected announcements from government on how they intend to use legislative and fiscal powers to support the transition away from the currently heavily subsidised funding model. Whilst procurement activity is expected to commence in Quarter 4, it is now expected that the majority of the cost of the activity will fall into the new year.

2.16 Finally, it should also be noted that provision was earmarked in this year's levy contribution for a degree of investment in services (£1.09m). 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 will now be carried forward to support the mitigation of risk in the new year

2.17 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. Resource not used in year will flow to reserves to support the mitigation of the significant risks forecasts in the new year.

<u>MCA/LEP Operational Revenue Budget</u>

2.18 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.

2.19 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.

2.20 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.

2.21 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.

2.22 These mitigations stabilised the budget and have since been complemented by the Board's formal approval (agreed at the meeting in November 2020) 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.

2.23 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.

2.24 As the year has progressed a number of proposed commissions have fallen away or been deferred to the new year. These changes largely reflect the ongoing Covid restrictions which have limited the proposed scale and scope of some pieces of activity (such as trade missions), whilst capacity has also been consumed by the immediacy of the response to the pandemic.

2.25 Coupled with ongoing budget challenge to mitigate pressures, net expenditure has fallen by c. £0.58m since the last reporting date. After adjustments for funding sources, this reduces the required draw on reserves by c. £0.39m.

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

Budget Movements	**£k**
Pressures	
Net Expenditure Pressures	-£173
Income Pressures	-£1,187
Total Pressures	**-£1,360**
Mitigations:	
New Income Sources	£1,342
Draw on Provisions	£238
Total Mitigations	**£1,580**
Requirement for Reserves Reduced by	**£220**

2.26 **Appendix 1** details budget movements, but the following table summarises the overall budget movements at each review point since the adoption of the base budget. Despite the disruption, loss of income, and expenditure pressures, mitigations now mean that net expenditure is almost on budget, and use of reserves within £0.22m of the original budget estimate:

	Base	*Var.*	Rev. 1	*Var.*	Rev. 2	*Var.*	Rev. 3	*Var. to Base*
	£k	*£k*	£k	*£k*	£k	*£k*	£k	*£k*
Gross Expenditure	£9,986	*£335*	£10,321	*£681*	£11,002	*-£843*	£10,159	*£173*
Recharges & Specific Grant	-£3,425	*-£511*	-£3,936	*-£840*	-£4,776	*£284*	-£4,492	*-£1,067*
Net Expenditure	**£6,561**	***-£176***	**£6,385**	***-£159***	**£6,226**	***-£559***	**£5,667**	***-£894***
Available Funding	**-£6,278**	***£430***	**-£5,848**	***£81***	**-£5,767**	***£163***	**-£5,604**	***£674***
Net (Surplus)/Deficit	**£283**	***£254***	**£537**	***-£79***	**£459**	***-£396***	**£63**	***-£220***
Contribution (from)/to General Fund Reserves	**-£283**	***-£254***	**-£537**	***£79***	**-£459**	***£396***	**-£63**	***£220***

MCA/LEP Revenue Programmes

2.27 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.

2.28 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.

2.29 The latest forecast expenditure shows full year expenditure of £42.79m, representing an increase on the opening budget of £36.31m. This expenditure is fully funded from ring-fenced grant allocations received in year or held from prior years.

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

Budget Movement	**£k**
Opening Budget	**£6,476**
New Funding	£38,219
Additional Draw on Unapplied Grant	495
Lower Forecast Expenditure	-£2,397
Forecast to Outturn at Period 8	**£42,793**

2.31 New funding largely relates to the addition of £30m of new funding negotiated with government for a discretionary business support scheme, designed and administered in South Yorkshire. By the end of the calendar year over 5k grants totalling c. £5.28m had been awarded to businesses and individuals across South Yorkshire. The shape of this scheme is under constant review to ensure that it remains responsive to the needs of business as Covid restrictions are changed.

2.32 New funding also reflects the adoption of gainshare resource into the revenue budget. An allocation of £12m of gainshare revenue is available for deployment in this financial year, and Members have previously committed this value in full to recovery and RAP priorities. It is forecast that c. £7m of this resource will be deployed in the current year. This includes £5.75m deployed in support of local authority partner recovery plans, with resource ready to be remitted to partners. Gainshare resource not deployed in the current financial year

can be rolled forward to future periods at the MCA's discretion. A breakdown of current commitments made on gainshare resource is provided in **Appendix 3**.

2.33 Revenue resource granted to complement capital delivery schemes associated with the Active Travel and Brownfield programmes is also forecast to be released in the current year. This resource will support the pace and quality of development of capital delivery schemes. The MCA intends to complement this funding through the creation of a Project Feasibility Fund, designed to deliver a sustainable pipeline of investable propositions. Work is underway to identify how this Fund could be resourced, both in the immediate and longer-term.

2.34 **Appendix 1** details the full scope of the MCA's revenue programmes, presenting forecast performance against budget at each revision period.

MCA Group Capital Programme

2.35 The MCA's Group level programme was set for the year at c. £113.478m. Since that point a number of new programmes of funding have been announced, whilst delivery pressures have been identified.

2.36 Despite the addition of c. £44.58m of new funding and schemes into the overall programme, the forecast outturn expenditure levels has now fallen below the base budget as slippage and deferrals has more than offset new funding. These movements can be summarised as follows:

Programme Movements	£k
Base Budget Position	£113,478
New Programmes	£44,580
Slippage/Deferrals	-£63,715
Forecast to Outturn	**£94,343**

2.37 Forecast programme pressures now account for 56% of the opening programme. These pressures are evident across a number of programmes and are reflected in peer authorities across the country.

2.38 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.

<u>New Funding not yet Adopted into the Programme</u>

2.39 Since the last reporting-date the MCA has formally received two new funding allocations:

1. A630 Parkway Widening Scheme: £40.16m; and,
2. Active Travel 2: £4.37m.

2.40 Whilst the MCA has previously approved the acceptance of this funding the schemes have not formally been adopted into the programme. At this stage it is not forecast that there will be any material expenditure before the end of the year, and therefore the capital programme ceiling will not need to be adjusted.

<u>Gainshare Funded Programme</u>

2.41 The MCA has £18m of gainshare capital at its disposal in the current financial year. To-date the MCA has committed to deploying this resource in support of flooding and Active Travel aspirations and has further indicated its intent to deploy resource in support of bus investment. Substantive work is also underway to develop a South Yorkshire Investment

Fund centred on Member priorities to leverage the long-term gainshare capital commitments.

2.42 At this stage it is forecast that gainshare funded expenditure will be limited in the current year. Resource earmarked to Active Travel will track the deployment of funding from the Active Travel 2 scheme whilst negotiations around local support to the Environment Agency's South Yorkshire flooding programme are ongoing.

2.43 Gainshare resource not deployed in the current year can be rolled forward at the MCA's discretion.

Local Growth Fund Programme (LGF)

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

2.45 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 £0.55m:

LGF Programme	**£k**
Target Expenditure	£43,239
Forecast to Outturn	£43,786
Current Headroom on Target	**£547**

2.46 This position has been achieved despite reported slippage of £10.83m 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	-£10,829
Use of Pipeline	£11,376
Forecast Outturn	**£43,786**

2.47 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.

2.48 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)

2.49 The TCF programme is currently reporting slippage of c. £28.87m against the funding profile given to the region by government. This represents c. 88% of the programme for the year. Performance issues with this programme were identified early in the year, and there has been no further forecast deterioration since a major review was undertaken and reported on in August.

2.50 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.

2.51 Work has been undertaken between the MCA and local authority partners to review this programme and the Transport Executive Board and Chief Executives have been briefed on performance. Further collaborative engagement with delivery partners has been planned for January, and Members will be kept apprised of the issue and identified mitigations.

Getting Building Fund (GBF)

2.52 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.

2.53 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 £5.19m (£7.73 at Revision 2) with further expenditure in financial year 2021/22 ahead of the conclusion of the programme in March 2022.

Brownfield Fund

2.54 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.

2.55 Grant conditionality around this scheme requires that the programme is assessed under government Green Book processes. To expedite expenditure schemes are completing FBCs with the intention of a number of proposals being brought before Members in March.

2.56 The accompanying report in this agenda pack notes the intention to bring scheme proposals forward in the current financial year of up to £8.73m, but it is not forecast that expenditure incurred will be beyond £2m at this stage.

Highways Maintenance Programmes

2.57 There are three strands to the maintenance programmes:

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

2.58 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. At the MCA's November meeting approval was granted for the acceptance of this funding and its onward deployment. Due to the late receipt of the grant determination, it is expected that expenditure this year will be limited (c. £3.40m).

2.59 At this stage it is forecast that ITB and HCM allocations will largely spend to budget.

2.60 Highway maintenance funding is not generally subject to the same degree of time-restraints as some of the other funding afforded to the MCA.

Reserves

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

2.62 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.

2.63 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.

2.64 Since the last reporting-date the forecast reserve position has been adjusted to reflect the latest outturn forecasts. These include the forecast underspend on the SYPTE position (£1.14m), the forecast reduced use of reserves to balance the MCA Executive position (£328k) and adjustments in the drawdown of grants unapplied.

2.65 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	-£1,465	£10,579
	£13,044	**-£1,465**	**£11,579**
MCA Transport			
General	£5,888	£0	£5,888
Earmarked	£30,678	-£1,471	£29,207
	£36,566	**-£1,471**	**£35,095**
SYPTE			
General	£4,951	£0	£4,951
Earmarked	£11,065	£0	£11,065
	£16,016	**£0**	**£16,016**
Total Group Revenue Reserves	**£65,626**	**-£2,936**	**£62,690**

Mid-Year Treasury Performance

2.66 The MCA's Constitution requires that it reports at least twice a year on the performance of its treasury management function. The MCA chooses to report at the mid-year mark and at the outturn of the financial year.

2.67 Appendix 2 outlines performance up to Period 8. The report notes that the MCA has performed within its prudential indicators and that performance is largely on-track.

2.68 In common with many authorities, however, the report notes that investment returns remain suppressed. This factor reflects the premium placed on 'safe-harbour' investment instruments as global financial markets weather Covid disruption. The impact of this issue is felt within our revenue budgets with a net shortfall on revenue generated of c. £150k. This issue would have been exacerbated but for the higher levels of cash held by the MCA as unplanned grants were received and the capital programme slipped.

3. Consideration of alternative approaches

3.1 This report recommends the adoption of the third 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 Do nothing – as far as the mid-year treasury report is concerned, this is not an option as the MCA would fail to comply with the reporting requirements of the Prudential Code resulting in a loss of scrutiny.

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.

4.3 Risk Management
Failure to monitor compliance with the treasury management strategy and investment strategy and related Prudential Indicators, could lead to the MCA making capital investment decisions which are unaffordable or expose the MCA to the risk of loss beyond its risk appetite.

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 1:** Detailed Budget Monitoring Reports
Appendix 2: Mid-year Treasury Report
Appendix 3: Gainshare Commitments

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