

Report to Sheffield City Region Overview and Scrutiny Committee

Date of Meeting:	11 April 2019
Subject:	2019/20 MCA/LEP Revenue and Capital Budget
Purpose of the Report:	To brief Members on the MCA/LEP revenue budget setting process and how decisions are made regarding the allocation of each budget.
The Scrutiny Committee is being asked to:	Consider and note the process by which the 2019/20 MCA/LEP revenue budget was set.
Category of Report: Open Under the Freedom of Information Act and Schedule 12A of the Local Government Act 1972, this paper and any appendices will be made available under the Combined Authority Publication Scheme.	

Summary:

The purpose of this report is to brief Members on the MCA/LEP revenue and capital budget setting process and how decisions are made regarding the allocation of each budget.

1. Introduction/Context

The annual Revenue Budget sets the budget proposals for the Mayoral Combined Authority (MCA) for a one-year period. For the purposes of this report, the Revenue Budget refers to the budget covering the core operational budget for the MCA and LEP, and also any multi-year revenue programmes for which the MCA is the accountable body.

The MCA's Financial Regulations set out the roles and responsibilities of the Authority, the Head of Paid Service and the Finance Director in relation to the annual Revenue Budget.

The Finance Director is responsible for preparing detailed proposals for the annual Revenue Budget for the coming year in conjunction with the Head of Paid Service. The Authority is responsible for approving the annual revenue budget.

As well as a general description of the budget-setting process, Section 2 of this report addresses each of the following questions:

- How is the budget decided upon for each thematic priority, i.e. housing, business, skills?
- How is budget divided between authorities/areas on capital programmes, is it based on need?
- Are there any additional costs incurred by implementing the Mayor's manifesto?

The 2019/20 MCA/LEP Revenue Budget report which was submitted to and approved by the MCA on 25th March 2019 is attached at Appendix 1.

2. Matters for Consideration

2.1 Budget-setting process

The MCA approved the 2019/20 MCA/LEP Revenue Budget on 25th March 2019. The approval of the budget report was the culmination of almost a year's work, comprising of consultation with key stakeholders at various stages of the 2019/20 business planning process, including the Mayor & MCA Leaders, LEP Board, Chief Executives and Local Authority Directors of Economic Development and Finance.

At the start of the 2019/20 business planning process, officers in the MCA Finance team refreshed their medium term forecasts based on the 2017/18 outturn position, any changes to risks and assumptions built into the 2018/19 budget, horizon-scanning and discussions with the SCR Executive Team and peers in partner authority finance teams, in particular with the four billing authorities who pay over retained business rates in respect of SCR enterprise zones.

A meeting of SCR Local Authority Directors of Finance is typically held in early May to review these forecasts and to discuss the financial planning assumptions, including any interdependencies with local authority budgets, e.g. subscriptions payable to the LEP.

As the year progresses, the MCA Finance team produces quarterly budget monitoring reports for the MCA to consider and approve. Any new information gathered during the course of preparing these reports is used to refresh the medium term forecasts and the draft budget, for example changes to the staffing establishment, new commissions in relation the development of the Strategic Economic Plan (SEP), trade and investment, etc.

Peak activity in the budget-setting process is in Q4, i.e. January to March 2019. Any new policies which are likely to affect the Authority's forecast income and/or expenditure are developed and discussed with relevant stakeholders. For instance, the proposed business rates rebate policy was presented to the ED/DoFs Forum (Local Authority Directors of Economic Development and Directors of Finance) on 28th January, followed by Chief Executives in mid February.

A new feature of the 2019/20 business planning process was the Mayor's budget workshop in January 2019, where Leaders were presented with the draft budget proposals. Leaders subsequently asked for options to be modelled which could deliver budget savings of 10% in 2019/20.

A revised budget was developed which included proposals to deliver an underlying reduction of 11.8%. This was presented to and endorsed by the LEP Board on 4th March, for onward approval by the MCA on 25th March.

2.2 Thematic priorities

The proposed revenue programme for 2019/20 can be found in Appendix 2 of the budget report appended to this report. The vast majority of these programmes are directly linked to either the SCR's Growth Deal (e.g. Skills Bank) or to the SEP.

Prioritisation of revenue funding is allocated at a corporate level based upon the priorities of the LEP / MCA / Mayor, to date priorities are focused upon the delivery of the agreed SEP targets. 2019/20 will see a plan regarding delivery of the Manifesto as part of the planning and allocation of the Mayoral Capacity Fund (MCF).

There is an established internal process for allocation of resources from the 'SEP Development or Marketing and Communications' budgets which the Head of Paid Service has delegated authority from the MCA to allocate to specific commissions. The financial implications of each commission are signed off by the Deputy Section 73 Officer.

Prioritisation and allocation of revenue programme resource, such as Skills Bank, Working Win, One Public Estate, for example are directly related to the business case and delivery plan agreed between the SCR and the relevant funder.

If the organisation wishes to secure external funding there is an agreed and proportionate process depending upon the scale, complexity and risk of the bid. The process includes internal officer development of proposals and Peer Scrutiny, for more complex bids this stage could include the establishment of external project development boards, if appropriate (due to the scale of the bid) the Appraisal Panel (representatives of the Statutory Officers) input on matters such as value for money and risk, in all circumstances Section 73 Officer approval is required, and for larger bids approval to bid is sought by the MCA and/or LEP.

2.3 Capital Programme

The capital programme includes a variety of external funding sources which prescribe the basis on which funding can be allocated, the three largest sources being:

- Local Growth Fund (LGF) - LEP
- Highways Capital Maintenance (HCM) - Transport
- Integrated Transport Block (ITB) - Transport

In order to secure LGF funding, all scheme promoters (including but not limited to local authorities) are required to submit a business case which must be assessed in accordance with the LEP's Local Assurance Framework. Every case is assessed on its merits, according to the Government's Green Book methodology. The LGF Capital Programme was negotiated on behalf of the LEP with Government in 2014/15 and is always endorsed by the LEP prior to approval by the MCA. This year approval was granted by the MCA on 25th March 2019.

HCM is the largest transport capital grant (c.£12m) and is based on 'need'. The grant allocation is determined by a DfT funding formula per local authority. Only 3 out of 4 South Yorkshire authorities receive HCM. Sheffield is ineligible because its highways programme falls under separate PFI arrangements. The MCA is the accountable body and passports HCM in arrears to the 3 local authorities based upon defrayal of spend.

ITB (c.£8.4m) is split between the four South Yorkshire local authorities and SYPTE. SYPTE retains 25% of the funding for countywide projects, whilst the remaining 75% is split between the four authorities roughly in accordance with their respective population figures.

The 2 largest schemes in the South Yorkshire Transport Capital Programme in 2018/19 (Rotherham Interchange and Supertram Re-railing Phase 2) are funded through prudential borrowing, due to the lack of internal and external resources suitable/available for these types of scheme. In both cases, there was a clear 'need': a legal or contractual obligation on SYPTE to take all necessary steps to rectify assets which were unsafe or no longer fit for purpose.

The South Yorkshire Transport Revenue Budget & Capital Programme for 2019/20 were approved by the MCA on 28th January 2019.

2.4 Mayor's manifesto

The cost of running the Mayoral Office will largely be funded through the Mayoral Capacity Fund (c.£1m per annum for 2 years, starting in Q4 2018/19), which is shown as a revenue programme in the 2019/20 revenue budget report (see Appendix 2 of the budget report) and is forecast to spend £624k in 2018/19 and £1.376m in 2019/20).

MCF will also be deployed to resource mayoral priorities such as the Active Travel Commissioner. 2018/19 spend will be reviewed by MHCLG/BEIS in early 2019/20, prior to release of the second year's allocation.

a. Financial

The financial implications of the 2019/20 MCA/LEP Revenue Budget are clearly set out in Section 2 and the accompanying appendices of the budget report attached at Appendix 1.

b. Legal

There are no legal implications arising directly from this report.

c. Risk Management

In formulating the assumptions which underpin the revenue budget, officers have taken a prudent approach in order to mitigate all known risks. The MCA/LEP continues to depend heavily on retained business rates from enterprise zones to resource the core budget. This source of income is susceptible to a variety of risks, further details of which are described in Appendix 1 of the budget report.

In light of these significant financial risks, sensitivity analysis has been undertaken to assess the MCA's exposure and to ensure that the MCA has a robust reserves strategy. This strategy is set out in Appendix 3 of the budget report.

d. Environmental

There are no environmental implications arising directly from this report.

e. Equality Impact Assessment

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 that members must have due regard to under s.149 Equality Act 2010 will be set out in detail in the report that accompanies any recommendation about specific proposals.

f. Performance Management/Measuring Outcomes

This section is not applicable to the revenue budget report.

3. Consideration of alternative approaches

This section is not applicable to the revenue budget report, due to the statutory requirement to set a revenue budget in advance of the forthcoming year, and in accordance with the MCA's own financial regulations.

4. Issues the Overview and Scrutiny Committee may wish to consider ...

Consider asking the committee Members to provide their views and comments on a proposal/subject or certain aspect of the proposal/subject.

Members are invited to share their views on how the 2019/20 business planning process could have been improved, so lessons learned can be built into the 2020/21 business planning process.

5. Recommendations

Members are asked to consider and note the process by which the 2019/20 MCA/LEP revenue budget was set.

6. Appendices/Annexes

Appendix 1 – 2019/20 MCA/LEP Revenue Budget Report (approved by MCA on 25th March 2019)

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Other sources and references:	