

Mayoral Combined Authority Board

26 July 2021

2021/22 Budget Revision 1

Is the paper exempt from the press and public?	No
Purpose of this report:	Monitoring/Assurance
Funding Stream:	Not applicable
Is this a Key Decision?	Yes
Has it been included on the Forward Plan?	Yes

Director Approving Submission of the Report:
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Executive Summary

This report provides revised budget forecasts to the end of the financial year 2021/22. The report recommends the adoption of the budget estimates, adjustments to budgetary ceilings, and the drawdown of earmarked reserves.

What does this mean for businesses, people and places in South Yorkshire?

This report contains recommendations to increase the budget of the broader South Yorkshire Business Support Scheme. This scheme, which currently has an approved budget of £42.5m, represents the MCA's locally driven response to supporting South Yorkshire businesses through the pandemic and helping them to thrive in new trading conditions.

Recommendations

The MCA Board:

1. Adopt the revised budget estimates;
2. Accept £12.7m of LEP City Deal transport capital funding secured by the Mayor;
3. Accept £0.4m of grant from the Careers and Enterprise Company;
4. Note the slower than forecast pace of the capital programme; and,
5. Note the ongoing negotiations with government around the agreement of a 'debt-cap' ahead of the receipt of borrowing powers.

Consideration by any other Board, Committee, Assurance or Advisory Panel

Not applicable

1. Background

- 1.1 The MCA's capital and revenue budgets remain sensitive to the recovery of the local and national economy as we move from the current waves of restrictions to a more permissive environment.
- 1.2 In order to ensure that the MCA's financial plans remain aligned to its corporate and business priorities, and reflect new funding that becomes available, an initial budget revision exercise has been undertaken as at the end of June 2021 (Period 3). 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, as well as planning for the medium term:
 1. There remains uncertainty over ongoing Government support for bus and tram, with support packages for tram in particular rolling on very short-term horizons;
 2. The MCA's successful South Yorkshire Business Support Scheme has exceeded the expenditure target of delivering over £42.52m financial support into the local economy, triggering receipt of a further tranche of support worth £7.36m;
 3. Further new funding has been made available to the MCA for discrete activity, requiring adjustments to budgets and financial plans, and the acceptance of grants;
 4. The high-profile project to integrate SYPTE into the MCA has commenced; and,
 5. Despite meeting all capital funding targets in 2020/21, the scale of the challenge to deliver on 2021/22 targets is becoming increasingly apparent, with risks beginning to crystallise.
- 1.4 Of principal concern for the MCA is the ongoing scale and longevity of government support for the South Yorkshire transport network. This is a concern in common with local transport authorities across the nation and reflects the lack of a longer-term support package that would support sustained planning.
- 1.5 This report notes that in recent days there has been some positive news around bus support, with a proposed extension to the end of the current financial year. This would provide some welcome near-term certainty, but to-date the MCA is not in

receipt of the required detail that would allow it to better understand the implications of the proposal. Furthermore, whilst the MCA does understand that agreement is close in government for an extension to tram financial support, the current package of financial support will end within weeks.

- 1.6 The MCA's adopted financial plan allows for a continuation of local support to the network at 2020/21 levels whilst so ever government maintains its support at current levels. This would allow for 100% services levels and allow public transport to play its key role in the recovery of the economy and community mobility.
- 1.7 Should government funding be withdrawn or reduced beyond sustainable levels, the MCA does have some limited financial levers. How the MCA deploys resource will require careful consideration and will be influenced by the detail of the government's proposed funding settlement.
- 1.8 Over Quarter 1 of the new financial year the MCA and local partners have continued to play a crucial role in the recovery of the local economy. Building on the success of the South Yorkshire Business Support Scheme that has previously been reported, the MCA has met its target to draw down on a further £7.36m of revenue funding.
- 1.9 To-date, £45.69m of financial support has been fed into the South Yorkshire economy, supporting a broad spectrum of the region's businesses and providing a lifeline to those traders who did not receive appropriate support from the national schemes.
- 1.10 The MCA's role as a trusted partner through which national investment can be directed is further evidenced in this report through budget adjustments required to accommodate new funding streams made available to the MCA. This includes £1.5m for the Made Smarter programme, and £5.2m for the Inter-City Transport Fund development funding. This latter funding is available to prime the MCA's larger bid into the £4bn investment fund and support work on the Bus Service Improvement Plan and the likely changes in the bus regulatory environment.
- 1.11 This report notes some of the emerging issues within the capital programme. This principally reflects the pressure to meet rigid government funding timetables, whilst delivering high quality schemes. Early warning processes have highlighted a number of issues, with officers from across the MCA and partners working collaboratively to identify mitigations.
- 1.12 This report further provides a brief update on the discussions underway with government around the agreement of a 'debt-cap'. This agreement is a necessary precursor to the receipt of borrowing powers, as available to the MCA through the devolution agreement.
- 1.13 Finally, this report seeks the acceptance of a number of new grants that are detailed later in the report. Of note is the offer from the Department for Transport of £12.7m of monies that were originally promised through the 2015 Growth Deal and have been released following sustained lobbying from the Mayor and officers.

2. Key Issues

2.1 Summary overview

The 2021/22 budget for the year was set at £358m, consisting of both revenue and capital expenditure. This expenditure was fully funded from a combination of grants, receipts, general income, and reserves:

Funding	£k	
Gross Expenditure	£358,194	
- Revenue	£133,356	37%
- Capital	£224,838	63%
Funded by:		
General Income	£4,978	2%
Release of Reserves/Provisions	£32,671	9%
Grants	£320,545	89%
	£358,194	

2.2 For the first time, the budget was structured around the MCA's thematic board areas, allowing for greater insight into how the MCA's investments are matched to its aspirations.

2.3 The weighting of expenditure reflects, in part, the MCA's local transport authority responsibilities and new responsibilities for devolved activity such as the Adult Education Budget. It is also heavily shaped by the grants that are available from government:

	Revenue £k	Capital £k	Total £k
Transport and Environment	£66,583	£147,368	£213,951
Housing, Infrastructure, Planning	£897	£67,170	£68,067
Skills and Employment	£33,490	£3,451	£36,941
Business Growth and Recovery	£18,213	£3,406	£21,619
	£119,183	£221,395	£340,578
MCA Executive	£12,762	£3,443	£16,205
Mayoral Office	£1,411	£0	£1,411
Total	£133,356	£224,838	£358,194

2.4 At quarter 1 a number of adjustments are proposed to realign to the latest delivery information available. Principally, this sees an increase in revenue activity as new funding is made available and draws from reserves are proposed, but a reduction in capital activity as expenditure is re-profiled. This leads to a marginal net increase on the budget ceiling:

	Original £k	Revision 1 £k	Variance £k	Variance %
Revenue	£133,356	£158,957	£25,601	19%
Capital	£224,838	£199,325	-£25,513	-11%
	£358,194	£358,282	£88	0%

- 2.5 These proposals are reflected in changes to the weighting of expenditure across the thematic areas. Capital programme reprofiling varies down the net quantum of activity within the Transport and Housing areas, whilst new funding and reprofiling of existing funding adds activity into the Skills and Business areas:

Consolidated	Original £k	Revision 1 £k	Variance £k
Transport and Environment	£213,951	£203,002	-£10,949
Housing, Infrastructure, Planning	£68,067	£63,124	-£4,943
Skills and Employment	£36,941	£42,119	£5,178
Business Growth and Recovery	£21,619	£31,586	£9,967
	£340,578	£339,831	-£747
MCA Executive	£16,205	£16,850	£645
Mayoral Office	£1,411	£1,602	£191
Total	£358,194	£358,283	£88

- 2.6 This report proposes to adjust the funding applied to meet the revised expenditure forecasts. Principally, new revenue funding received is applied to meet the forecast costs of new activity whilst capital funding can be deferred to meet expenditure as it arises:

Funding Sources	Budget £k	Revision 1 £k	Variance £k
Ringfenced/Committed Grants			
Revenue Grants	£108,251	£130,981	£22,730
Capital Grants	£212,179	£186,666	-£25,513
	£320,429	£317,647	-£2,783
Reserves & Provisions			
Capital Receipts	£12,659	£12,659	£0
Revenue Reserves	£19,701	£22,573	£2,872
Provisions	£427	£427	£0
	£32,787	£35,659	£2,872
General Income			
Retained Business Rates	£2,152	£2,152	£0
Local Authority Subscriptions	£1,184	£1,184	£0
Asset Management Trading Surplus	£643	£643	£0
Un-ringfenced Grants	£584	£584	£0
Income from Business Loans	£340	£340	£0
Investment Income	£75	£75	£0
	£4,978	£4,978	£0
Total Funding	£358,194	£358,284	£89

- 2.7 The above table notes a proposed increase in the draw on revenue reserves. This largely (£1.17m) relates to a draw on the earmarked gainshare revenue reserve to

meet the costs of the slipped emergency recovery grants paid to local authorities to support their local response to the pandemic, and a draw on the Skills Bank reserve (£0.85m) to support the approved interim programme. A further draw (£0.50m) is proposed to support the integration project, funded from the earmarked Bus Review Project which was approved as part of the adopted Reserves Strategy to fund the implementation of the seven-point plan.

- 2.8 This report provides further detail by thematic theme. Further budget revisions will be presented after each quarter.

Analysis by Theme: Transport and Environment

- 2.9 The Transport and Environment area includes the local transport authority activity of the South Yorkshire Passenger Transport Executive along with the strategic planning activity undertaken within the MCA Executive. The area captures a significant part of the capital programme, representing the scale of the Transforming Cities Fund and Active Travel funding.
- 2.10 This report proposes new budget estimates for this area that will lead to a net reduction in activity of £10.95m. This movement largely reflects the deferral, reprofiling, and correction to a number of capital schemes, offset in part by the receipt of new revenue funding:

Transport and Environment	Original £k	Revision 1 £k	Variance £k
Capital	£147,368	£127,364	-£20,004
Revenue	£66,583	£75,638	£9,055
Total	£213,951	£203,002	-£10,949

- 2.11 Within the thematic area, the variances are contained to the Strategic Transport management area, which includes the weight of the capital activity. Reductions in capital activity is offset by the receipt of £5.2m of revenue funding that is available to prime the MCA's submission into the Inter City Transport Fund (£4bn) and support the work that is underway around the Bus Service Improvement Plan and the MCA's response to the proposed changes in the bus regulatory environment.

Transport and Environment	Original £k	Revision 1 £k	Variance £k
Strategic Transport	£130,310	£119,361	-£10,949
Transport Operations (SYPTTE)	£26,194	£26,194	£0
Customer Services (SYPTTE)	£37,386	£37,386	£0
Debt and Finance	£20,061	£20,061	£0
Total	£213,951	£203,002	-£10,949

- 2.12 Whilst at this stage SYPTTE is forecasting a near break-even position, there are significant uncertainties that could influence this position over the remainder of the financial year.
- 2.13 Principally, the government's commitment, in both scale and longevity, to supporting the passenger transport network remains unclear.
- 2.14 In recent days the DfT have formally announced the end of Covid-19 Bus Services Support Grant (CBSSG) and its replacement with recovery funding from September

2021 through to the end of the financial year 2021/22. A commitment to the end of the financial year does suggest some welcome near-term certainty for both the MCA's financial position and the travelling public, but the detail of the proposed settlement will need to be considered before the MCA is able to properly understand the local implications. It is expected, however, that to access new funding the MCA will be required to continue to contribute local support through the payment of concessionary support on a flat pre-pandemic level.

- 2.15 Of more concern at this stage is government's intentions for support to the tram network. Government support for the network remains on a very short-term basis, with the funding package that ran from April – June only extended to July. At the time of writing, whilst we do expect an extension the current support package will end on July 19th.
- 2.16 The MCA's financial plan supports the ability to continue to play its role in supporting the commercial sustainability of the region's transport operators. The revenue budget can afford to stand a local contribution via the payment of concessions on flat pre-pandemic basis, whilst a finite earmarked reserve is available to supplement existing support.
- 2.17 At the time of writing, the MCA had launched its new flagship concession aimed at supporting 18-21 year olds with affordable public transport. Whilst the scheme was under-way it was too early to judge longer-term take-up, with this budget revision retaining base assumptions.
- 2.18 Expenditure within this thematic area is also heavily sensitive to the performance of the capital programme. Programme monitoring is highlighting pressures across the region in both partner delivery teams and the external supply chain.
- 2.19 These pressures are likely to heighten the challenge in meeting the budgeted activity and in-year funding deadlines in the Active Travel programme, whilst programme slippage that is being identified on in-year TCF activity will have a knock-on impact on the ability of the MCA and partners to meet expenditure targets falling due in the next financial year.
- 2.20 Officers from across the MCA and partner authorities are collaborating on how best to manage pressures and deadlines, with significant focus being placed on a number of TCF schemes.
- 2.21 Further analysis is presented in the appendices around the SYPTE position.

Analysis by Theme: Skills and Employment

- 2.22 The Skills and Employment thematic area includes both capital and revenue activity and is split into three management areas. This report proposes a budget adjustment to accommodate £5.18m of additional revenue activity:

Skills and Employment	Original	Revision 1	Variance
	£k	£k	£k
Capital	£3,451	£3,451	£0
Revenue	£33,490	£38,668	£5,178
Total	£36,941	£42,119	£5,178

2.23 New activity is planned across the management areas:

Skills and Employment	Budget	Revision 1	Variance
	£k	£k	£k
Skills Priorities & Investment	£23,507	£27,695	£4,188
Education & Skills for Employment	£5,730	£5,751	£21
Skills for Business & Growth	£7,704	£8,674	£969
	£36,941	£42,120	£5,178

2.24 The largest driver of growth - as reflected in the increase in expenditure in the Skills Priorities and Investment management area - is a re-profiling of AEB funding across financial years. At the time of setting the budget AEB resource was profiled in twelfths over the academic year which straddles financial year 2021/22 and 2022/23. Since that point, the inaugural procurement exercise has concluded and delivery plans have been received from grant recipients, allowing for the budget to be realigned to new delivery information.

2.25 Growth in the Skills for Business and Growth activity reflects the decision to run an interim extension to the region's hugely successful Skills Bank programme. This extension will allow for a continuation of provision and come at a forecast cost of c. £0.85m.

2.26 Over £7m of activity budgeted in this thematic area relates to the delivery of gainshare funded Renewal Action Plan projects. Work is underway to develop the business cases for that activity, whilst initial procurement activity is also underway.

Analysis by Theme: Business Growth and Recovery

2.27 This report proposes an adjustment to the Business Growth and Recovery thematic area to reflect the adoption of new revenue funding and some minor capital slippage:

Business Growth & Recovery	Budget	Revision 1	Variance
	£k	£k	£k
Capital	£3,406	£3,531	£125
Revenue	£18,213	£28,054	£9,841
	£21,619	£31,585	£9,966

2.28 Activity growth is reflected in the Business Assistance area, reflecting the unlocking of the third tranche of Additional Restrictions Grant and New Burdens funding, whilst the growth in the Digital Area reflects the receipt of the Made Smarter Grant.

Business Growth and Recovery	Original	Revision 1	Variance
	£k	£k	£k
Development Hub	£4,129	£4,076	-£53
Innovation & Investment	£4,402	£4,135	-£268
International Hub	£364	£364	£0
Digital	£0	£1,848	£1,848
Business Assistance	£12,500	£17,587	£5,087
Special Projects	£225	£225	£0
Emergency Recovery	£0	£3,352	£3,352
Total	£21,620	£31,586	£9,966

- 2.29 'Emergency Recovery' activity relates to the previously approved gainshare funded recovery grants that are due to the South Yorkshire local authorities to support their locally developed recovery efforts. This activity was expected to conclude in the last financial year, but ultimately slipped into the new year.
- 2.30 Over £4m of gainshare funded Renewal Action Plan activity is included in this budget area. Work continues to develop initial proposals into business cases, whilst initial procurement activity is also underway in a number of areas.
- 2.31 At the time of writing, the MCA and partners had distributed over £45.69m of financial support into the regional economy through the locally designed and locally administered South Yorkshire Business Support Scheme. This level of expenditure has allowed the MCA to access a third tranche of support totalling £7.36m. Whilst the majority of this funding has been pre-committed to previously agreed schemes, decisions will be brought to Leaders outside of formal session in the coming weeks on how to deploy the final balance of funding.

Authority	Grants	£k
BMBC	4,309	£7,516
DMBC	5,036	£9,305
RMBC	4,047	£8,097
SCC	9,994	£20,774
	23,386	£45,693

Analysis by Theme: Housing & Infrastructure

- 2.32 The Housing and Infrastructure thematic area includes a significant part of the capital programme that is funded by the Getting Building and Brownfield grant programmes. It is supplemented with some revenue funding for core activity, and the revenue grant made available by government to prime the Brownfield activity.
- 2.33 The budget estimates in this report note the reduction of capital expenditure, forecasts with an increase in revenue activity:

Housing & Infrastructure	Budget £k	Revision 1 £k	Variance £k
Capital	£67,170	£61,537	£-5,633
Revenue	£897	£1,587	£690
	£68,067	£63,124	£-4,943

- 2.34 These variances are largely contained with the Strategic Infrastructure and Housing & Planning management areas:

Housing & Infrastructure	Budget £k	Revision 1 £k	Variance £k
Digital	£5,500	£5,500	£520
Strategic Infrastructure	£39,924	£34,291	£-5,633
Housing & Planning	£20,443	£21,132	£170
Net Zero	£2,201	£2,201	£0
	£68,067	£63,124	£-4,943

- 2.35 The reduction in capital forecasts reflects the anticipated withdrawal of a major scheme from the Getting Building Fund programme. This withdrawal itself reflects

the inability to deliver the complex scheme within the tight funding window prescribed by government.

- 2.36 The MCA is working with the partner authority and government to identify potential 'swaps' that could be made to safeguard the money and the societal benefits that money would have bought.
- 2.37 This issue is a symptom of the considerable pressures that are being faced within this thematic area to both deliver the Getting Building Fund programme by March 2022, and to meet imposed expenditure targets on the Brownfield programme by the end of the year (£20m).
- 2.38 At this stage of the year, whilst expenditure forecasts are relatively unchanged, there is growing concern that some schemes may not complete by the end of the financial year. Officers from across the region are working collaboratively to identify risk and seek mitigations, whilst the MCA is also engaging with government for additional flexibilities where they may be possible.

Analysis by Theme: MCA Executive

- 2.39 This report proposes an adjustment to the MCA Executive budget of £0.65m. This additional revenue resource would be funded from a draw on earmarked reserves and additional grant:

MCA Executive	Budget £k	Revision 1 £k	Variance £k
Capital	£3,443	£3,443	£0
Revenue	£12,762	£13,407	£645
	£16,205	£16,850	£645

- 2.40 Additional expenditure is largely related to the integration activity. At the time of setting the budget the shape and costs of the project were largely unknown, with resource instead provided for within the Bus Review Project Reserve, as part of the wider Reserves Strategy. This ensured that resource would be available to support the project once a more informed view of requirements could be made.
- 2.41 Work has commenced to shape the integration project, setting out a delivery path and mapping pressures and associated capacity and skills requirements. These requirements will ensure that the MCA capitalises on this generational opportunity to deliver the integration in an ambitious and safe manner whilst managing the other significant pressures in the wider operating environment.
- 2.42 Whilst the majority of the integration activity is being absorbed from within the Group's teams and existing budgets, there is a requirement for additional skills and capacity to enable the organisation to balance all its competing priorities. This report proposes a draw on the earmarked project reserve of c. £0.5m to fund a range of advisory, capacity, technical requirements:

Description	£k
Strategic partner advice	260
Additional capacity	170
Job evaluation	69
	499

2.43 For presentational purposes the additional cost of the integration activity is shown within the Deputy Chief Executive's management area.

MCA Executive	Budget	Revision 1	Variance
	£k	£k	£k
Deputy Chief Executive's Office	£4,793	£4,918	£645
Finance/IT/Programme & Performance	£6,915	£6,915	£0
Governance/Communications/Marketing	£3,963	£4,483	£0
Legal	£535	£535	£0
	£16,205	£16,850	£645

Acceptance of Grant

2.44 Approval is sought for the acceptance of two new grants.

City Deal £12.7m

In the original City Deal agreed by Leaders, government committed to establishing certainty on transport capital funding for 10 years. To date, the MCA has received around £62.7m covering six out of ten years. Whilst an indicative allocation of £50.9m was previously identified by DfT for the remainder of the 10-year period, a figure for 2021/22 had not been confirmed prior to the Spending Review in Autumn 2020. Following lobbying from the Mayor, the Department for Transport has offered the MCA a one-year settlement for 2021/22 of £12.7m. Proposals on how this capital funding will be deployed will be brought back to the LEP and MCA.

Careers and Enterprise Company (CEC) £0.41m

The MCA, as accountable body for the LEP, already has an agreement in place with the CEC and also with LAs for the established Careers Hub and Network in the region. This activity will be an extension to the current agreement with the CEC.

Debt Cap Negotiations

2.45 The MCA has previously authorised the Group Finance Director to negotiate a debt-cap with government. The agreement of such as cap is a necessary precursor to the receipt of the non-transport borrowing powers available to the MCA as a result of the devolution settlement.

2.46 Discussions have begun with government and the first submission - as part of an expected iterative exercise - has been made.

2.47 Of note for Board is that government have indicated that the debt cap will be set for the period up to March 2022 only. Given that the MCA's debt-funded activity over this period is forecast to be limited, it is likely that a relatively low cap will be initially set with a further cap set for the next period in the Autumn.

2.48 Whilst the agreement of an initial cap is required to enable the necessary legislation to be passed, the cap can be changed cyclically without further orders.

2.49 As negotiations progress, further detail will be brought before the Board.

3. Options Considered and Recommended Proposal

3.1 **Option 1**

Adopt the budget revisions presented in this paper.

3.2 Approve the acceptance of grants noted.

3.4 **Option 1 Risks and Mitigations**

The budget estimate proposals within this report are fully funded and do not expose the MCA to any additional risk that has not been shared with the Board.

Adopting new grants will place additional capacity constraints on the MCA. This may be mitigated in the part through implementation of the MCA's existing policy of top-slicing new funding to meet the costs of managing and administering the grant.

3.5 **Option 2**

The MCA could choose to not adopt the new budget estimates.

3.6 The MCA could choose to reject the grants detailed in this report.

3.7 **Option 2 Risks and Mitigations**

Should the MCA choose not to adopt the new budget estimates work on a number of the MCA's key priorities would have to cease or be deferred.

Should the MCA choose not to accept the new grants, the CEC project would not commence at the expense of the policy objectives, whilst the MCA would have to forego the £12.5m of un-ringfenced transport capital on offer.

3.8 **Recommended Option**

Option 1.

4. **Consultation on Proposal**

4.1 None

5. **Timetable and Accountability for Implementing this Decision**

5.1 The Group Finance Director will be responsible for implementing budget adjustments and the adoption of the grant proposed.

6. **Financial and Procurement Implications and Advice** *(to be written by the relevant Finance Officer and the Head of Procurement on behalf of s73 Officer)*

6.1 This is a financial report the details of which are in the main body of the document and supporting appendices.

7. **Legal Implications and Advice**

7.1 None.

8. **Human Resources Implications and Advice**

8.1 None

9. **Equality and Diversity Implications and Advice**

9.1 None.

10. Climate Change Implications and Advice

10.1 None.

11. Information and Communication Technology Implications and Advice

11.1 None

12. Communications and Marketing Implications and Advice

12.1 None

List of Appendices Included

- 1 Appendix Summary of Budget Changes by Directorate including:
 - Gross expenditure by thematic area, directorate and management area
 - Revenue Budget Variations
 - Capital Programme Variations

Background Papers

None