

Mayoral Combined Authority Board

20 September 2021

Budget and Business Plan Development 2022/23

Is the paper exempt from the press and public? No

Purpose of this report: Governance

Is this a Key Decision? No

Has it been included on the Forward Plan? Not a Key Decision

Director Approving Submission of the Report:

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Executive Summary

This report provides an outline on the process for developing the budget and supporting business plan for the new financial year. The report notes the challenging environment in which this process is taking place, the policy decisions that will drive the financial strategy, and the need for engagement with partners.

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

The MCA's financial plan, as manifested through its budget, provides the resource to deliver upon South Yorkshire's aspirations. The developing business plans and accompanying budgets will determine how, where, and to what level the MCA invests in the region in the coming years and will set out how that investment is to be funded.

Recommendations

- Note the budget and business planning process being undertaken within the MCA;
- Note the significant uncertainties shaping the process; and,
- Note the proposed approval timeline.

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

None

1. Background

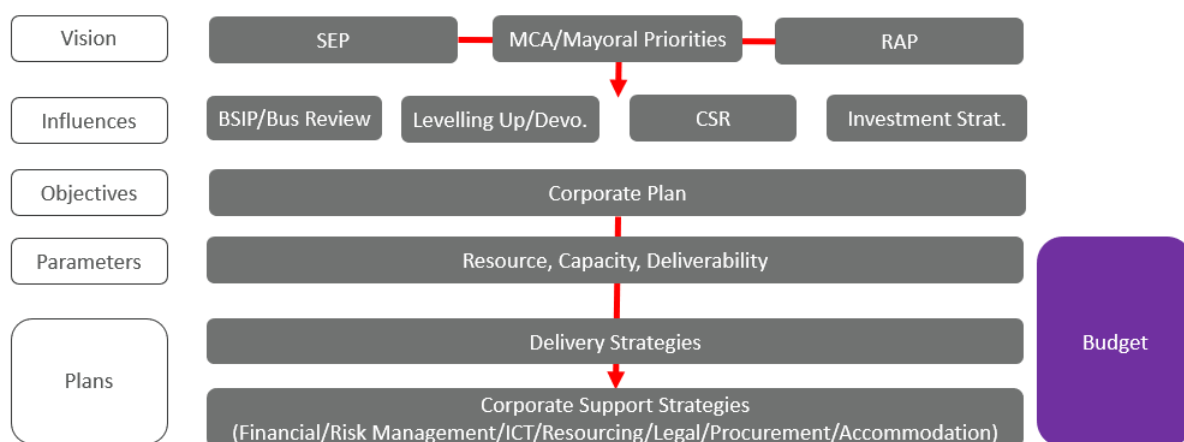
- 1.1 In common with other public bodies and local partners, the MCA Group is required to set a balanced budget each financial year. This budget must be approved by Members ahead of the new year and be supported by a medium-term financial strategy that takes account of forecast future expenditure, funding flows, and the requirements for use of reserves.
- 1.2 The budget represents the financial plan and is in turn derived from the Corporate Plan and service level Business Plans. Collectively, these plans set out a defined body of activity for the year, and the ways and means through which the MCA will deliver upon it.
- 1.3 Whilst significant organisational focus continues to be placed on the immediacy of the response to the pandemic, planning is now also underway across the MCA Group for the activity and resource required in the forthcoming financial year to allow the MCA to support South Yorkshire's transition to the post-pandemic environment.
- 1.4 In common with other partners, however, the MCA's ability to plan is constrained by significant uncertainties. Principally, the MCA's activity will be heavily influenced by the evolving trajectory of the pandemic, the ongoing governmental response, and the resultant impact on public finances. Alongside this, the MCA is meeting a number of generational policy and strategy choices that will shape both the role of the organisation and its means of delivery into the future.
- 1.4 As in the previous budget and business planning cycle, the MCA will undertake a Group wide process that allows for activity and resource to be both rolled up at the Group level and disaggregated to the single entity level as necessary. This will support the ongoing integration activity and better enable management of resource between SYPTE and the MCA Executive.
- 1.5 This report outlines the business planning process that will be undertaken and notes the challenges ahead. At this stage of the planning cycle the report does not contain proposals for the transport levy or other member contributions but does set out the engagement path that will help to inform those proposals.
- 1.6 Formal agreement will be required for the South Yorkshire Transport Levy at the MCA's meeting of the 24th January. Should one be proposed, the MCA will also need to consider a Mayoral precept by early February. The Board will be asked to consider final budget proposals in March.

2. Key Issues

MCA Group Business Planning Exercise

- 2.1 Building upon an inaugural exercise undertaken in the previous financial year, the MCA Group – consisting of the MCA Executive and the South Yorkshire Passenger Transport Executive (SYPTE) – have committed to undertaking an integrated business planning exercise for the forthcoming financial year.

- 2.2 This exercise will drive corporate focus on the objectives for the year, help shape activity plans, and allow for resource to be deployed to agreed priorities. On the back of this exercise a budget and medium-term financial plan can be set. An integrated approach across the Group will also support better alignment in planning and use of shared resource.
- 2.3 The business planning process is fed from the MCA's anchor vision statements and influenced by a number of national policy issues such as the forthcoming Spending Review – in particular how it reacts to the state of public finances - and the evolving approach to devolution now framed within the Levelling Up agenda. Local policy issues such as the Bus Review and how it dovetails with the government mandated Bus Service Improvement Plans (BSIP) and approaches to the deployment of gainshare resource overlay these national issues and help shape how South Yorkshire will deliver locally.
- 2.4 The Corporate Plan, currently in development, will capture these issues and shape agreed objectives for the coming year. Parameters for delivery plans are then set by the financial resource available and organisational capacity. These issues determine deliverability – what can be achieved.
- 2.5 Within these parameters, delivery plans will then be developed by individual teams, in turn shaping the corporate support strategies. Collectively, these plans will then feed the budget requirements for the year.
- 2.6 The process can be exemplified as follows:



South Yorkshire Passenger Transport Executive (SYLTE)

- 2.7 In the forthcoming financial year SYLTE and the MCA Group will face the dual challenge of:
1. Continuing to react to significant short to medium-term concerns around the commercial sustainability of the South Yorkshire public transport network; and,
 2. Meeting the longer-term implications of decisions that will be required in the Autumn around the Bus Service Improvement Plan (BSIP).
- 2.8 Whilst patronage on buses and tram has improved it is still short of commercially sustainable levels, currently running at around 60% of the seasonal average across both modes. Reduced patronage results in reduced revenue for the commercial operators and

increases the likelihood of services being withdrawn to the detriment of South Yorkshire's communities, businesses, and the recovery effort.

- 2.9 Patronage continues to be affected by a number of factors including passenger confidence; increased home-working; reduced social, retail, and leisure demand; and currently a lack of drivers and other personnel to service both bus and tram services.
- 2.10 To-date, lost-fare revenue has been mitigated by local and national interventions. SYPTE has continued to pay concessionary-fares at pre-Covid volume levels, whilst government has provided grant support directly to bus operators and tram support to the MCA. The MCA has further committed local resource to priming demand for services and supporting social mobility through the commitment of funding for a twelve-month 18-21 year-old concessionary discount and the roll out of a 25% discount for journeys over an eight-week summer period.
- 2.11 All these measures have supported the continuing provision of services at close to 100% of pre-pandemic levels and helped to increase patronage from the depressed levels seen earlier in the year. Maintaining the scale of the network before patronage returns to sustainable levels will, however, require an ongoing commitment from government to complement local measures.
- 2.12 At the time of writing government has committed to maintaining bus funding to the end of March 2022 on the condition that the MCA enters into BSIP processes. The MCA has committed to this, and so expects near term stability on bus support until the end of the financial year. Beyond this point is, however, unclear and whilst government have announced BSIP revenue funding it is uncertain as to what level and longevity, and on what condition, any support will be made available.
- 2.13 Government support for the tram network remains even less certain. To-date, support is only committed until the end of March 2022 with no successor funding stream identified at this stage. Opportunities may exist to lobby for a continuation of funding – in some form – through the Spending Review process. The continued differentiation in approach to government support for the bus and tram networks remains problematic when planning for local support.
- 2.14 In the event of a cessation or reduction in government support to operators before patronage recovers to sustainable levels, SYPTE is likely to see calls for increased local financial support. Such support will be difficult to achieve without significant change to the limited discretionary elements of the SYPTE budget, or recourse to reserves in the short-term and levy increases in the longer-term.
- 2.15 Accordingly, the ongoing commercial sustainability of the bus and tram networks will remain a key concern for the MCA over the forthcoming financial planning cycle. These macro issues are largely outside the MCA's direct control but will be strongly influenced by the local policy decisions that will be taken over the Autumn around the future of bus services and the MCA's role in the delivery of those services.
- 2.16 Previously approved Bus Review implementation work is now framed by the requirements of the BSIP activity, mandated by government as a precondition of access to continued bus funding. This workstream will support the MCA in determining how bus services should be run in South Yorkshire into the future, with the current crisis and the Bus Review findings providing a potential catalyst for change.

- 2.17 The options that will likely be presented to the MCA over the Autumn cover the potential for new relationships with operators with varying degrees of control, spanning enhanced partnerships (as a minimum) and franchising with alternative models between. Each option will require costing, with the likelihood that more aspirational options will require material investment.
- 2.18 Any such investment may attract support from the previously announced BSIP revenue funding but may also require material local contributions. The ability to meet this from existing levy resource is limited without the displacement of existing commitments and priorities. Accordingly, decisions taken in the Autumn will likely have a significant impact upon the financial strategy for the transport levy.
- 2.19 Decisions taken in the Autumn are likely to be a further factor in any considerations around the continuation or launch of further discretionary travel concessions in the new year. The existing time-limited concessions - launched in the current-year to prime demand and support mobility - are not funded beyond their current envelope. Whilst demand on the 18-21 concession has to-date been lower than forecast a truer view of longer-term demand will not be realisable until the return of students and pupils at the start of the new academic term.
- 2.20 In the new year SYPTE and MCA Group will also need to begin enacting plans for both the Mass Transit Renewal programme and the likely repatriation of operational tram responsibilities from 2024 onwards.
- 2.21 Whilst the MCA is hopeful that the cost of capital renewals can be met in the first instance through matching a modular investment approach to the new City Region Sustainable Transport Settlement (CRSTS) funding, a more pressing planning concern is the likely exposure to the financial risk and reward of operational services which over the last decade have been borne by Stagecoach under the long-term concession arrangement that ends in 2024.
- 2.22 In the new year the MCA will need to explore operating models that best allow it to maintain operations whilst limiting the financial exposure. Noting the existing commercial challenges in this market, for planning assumptions it will be prudent to assume that a commercial engagement similar to the existing concession will be difficult to achieve and that there will be a requirement for public subsidy.
- 2.23 Other challenges and risks facing SYPTE in the new year include, but aren't limited to, considering:
- How to respond to likely operator behaviour around the cost of concessionary fares once the current SYPTE commitment to paying on pre-pandemic volumes ends;
 - How to react to likely ongoing disruption to commercial income streams; and,
 - How to meet general inflationary pressures, which are now running ahead of previous planning assumptions.
- 2.24 All these challenges will be framed within the context of the existing financial strategy that is based on a gradual release of a finite 'levy reduction reserve'. This approach seeks to support partners' pressures by suppressing the need for levy contributions in the medium-term by releasing reserves as a bridge to a falling cost-base. Cost-base reductions are

achieved through the retirement of legacy debt, generating revenue savings from interest payments.

- 2.25 Whilst this strategy is likely to hold in the short-term under existing assumptions, the addition of new cost items, or an increase in cost of existing items from inflationary pressures, will place pressure on it in the medium-term and may precipitate levy increase requirements.

MCA/LEP

- 2.26 The activity of the MCA/LEP is largely driven by access to ongoing funding streams for the delivery of capital and revenue programmes. Other, non-programme activity, such as policy development, business support, inward-investment, communications, and the delivery of statutory functions, is funded from an irregular and often unpredictable mix of funding streams.
- 2.27 The ability to forecast which of these funding streams will continue, and/or to what quantum, in the new year represents one of the most prominent planning obstacles for the MCA in the current planning cycle. This uncertainty is exacerbated by the planned government Autumn Spending Review and government's review of LEPs nationally.

Whilst it is possible that the MCA/LEP will lose a number of funding streams which underpin investment and organisational resourcing, it is also likely that the MCA/LEP will have significant challenges in delivering at pace a number of time-limited capital investment programmes, continuing to deliver new revenue programmes, all whilst operationalising a new gainshare funded investment strategy.

Key financial challenges for the MCA/LEP in the new year include:

- Operationalising the new gainshare funded investment strategy
- Reacting to the government's latest Spending Review
- Adjusting the organisation to the potential loss of time-limited funding streams which cumulatively provide c.£1.5m in support to organisational costs including:
 - LEP capacity funding which has resourced core costs since 2014; and,
 - The Mayoral Capacity Fund grant which supports Mayoral Office costs.
- Delivering, at pace, an extensive capital programme including:
 - Existing commitments from:
 - Slipped gainshare activity;
 - Slipped Getting Building Fund activity;
 - Slipped and in-year Transforming Cities Fund activity;
 - Slipped and in-year Brownfield Housing Fund activity; and,
 - Slipped and in-year Active Travel Fund activity.
 - New allocations from:
 - Gainshare;
 - Levelling Up Fund;
 - Community Renewal Fund; and,
 - City Region Sustainable Transport.
- Delivering a growing body of revenue programmes, including:
 - The Adult Education Budget (AEB);
 - A Skills Bank successor programme; and,
 - Renewal Action Plan programmes funded from committed gainshare.
- Effectively forecasting income flows from commercial income streams sensitive to the economic recovery
- Managing the integration with SYPTE.

- 2.28 Flexing organisational design to manage funding fluctuations such as those outlined above will be a fundamental challenge and re-emphasises the MCA's sensitivity to the vagaries of government funding and the volatility of commercial income streams.
- 2.29 Whilst the future of LEPs nationally remains uncertain it is prudent to assume that the core capacity funding received each year since 2014 (£0.50m) may not be received in the new year. Though the loss of that funding may not seem material in the context of the MCA's overall funding package it does represent c. 10% of the MCA's overall unrestricted revenue funding.
- 2.30 The loss of that funding coupled with ongoing uncertainty around Mayoral Capacity Funding (£1m) and volatility around the quantum of retained business-rates, rental income, and investment returns is a fundamental impediment to long-term planning and capacity building.
- 2.31 The MCA remains reliant on recharging into the programmes of activity it delivers to ensure that it receives a stable and consistent level of funding to discharge its obligations in delivering that activity. This reliance requires that - where funding conditionality allows – the MCA recovers the incremental costs of delivering activity and affords itself a contribution towards overheads that it would not otherwise incur if it were not running programmes at the scale it does.
- 2.32 Whilst much of the MCA/LEP's financial position reflects its reliance on government funding decisions the receipt of devolution powers and funding offers South Yorkshire the opportunity to build up its own financial resilience.
- 2.33 Work is underway with partners to develop a new investment strategy concept that will afford the MCA and partners the ways and means to deliver on South Yorkshire priorities with South Yorkshire resource. The operationalisation of this concept in the new financial year will represent a key milestone in the region's devolution journey.
- 2.34 Negotiations continue with government around the agreement of a 'debt-cap': the necessary precursor to receiving the vires to be able to raise debt for non-local transport authority activity. Receipt of this new power will represent a new, critical tool in the MCA's financial armoury.
- 2.35 The deployment of gainshare gives the MCA the ability to complement government funding streams. This is particularly important when government funding is in scarce supply – as may be the case after the Spending Review – or when government priorities do not neatly match local ones. In particular, whilst the quantum of government funding for the MCA is currently at an all time high there remain gaps in the breadth of funding, with no resource available for business support curtailing the previously successful LGF activity.

Engagement

- 2.36 Following the practice used in prior years it is proposed that MCA Group officers conduct a series of one-to-one sessions with partners outside of the formal MCA cycle.
- 2.37 Initial financial planning sessions have been diarised with each of the South Yorkshire Directors of Finance in early September. These sessions will allow the MCA to better

understand partner pressures and aspirations and help shape partner thinking on matters such as the potential financial implications of the emerging BSIP and the operationalisation of the investment strategy.

- 2.38 More detailed budget assumptions will be prepared for the MCA Board in the November cycle. This will be informed by the publication of the initial BSIP in October, better information on concession demand, and better information on the likely outcome of the governmental Spending Review in the Autumn. At this stage, proposals will be brought forward to the MCA on levy and precept requirements.
- 2.39 Subject to the November Board levy and precept proposals will be developed with partners ahead of the January Board cycle.
- 2.40 Work with partners will continue on the gainshare funded investment strategy with a view to agreeing the shape of the strategy in January and the processes by March ahead of the new financial year.

Budget Approval Timeline

- 2.40 Under law, the South Yorkshire transport levy must be approved by the middle of February, and a balanced budget be agreed by the end of March.
- 2.41 The MCA will also need to consider a Mayoral budget and proposals for a Mayoral precept. The MCA must consider initial budget proposals by the 1st February and has until the 8th February to propose changes. Any precept must be agreed by the 1st March.
- 2.42 It is proposed to use the MCA's meeting on January 24th to formally consider levy and precept proposals. Should there be agreement at this stage, it is proposed that the full revenue budget and capital programme be approved at the MCA's meeting on March 22nd. Should there be dissension from the proposals for the non-transport levy budget in January, an additional MCA meeting may be required in February.

3. Options Considered and Recommended Proposal

- 3.1 **Option 1**
Note the report.
- 3.4 **Option 1 Risks and Mitigations**
None.
- 3.13 **Recommended Option**
None the report.

4. Consultation on Proposal

- 4.1 Directors of Finance have been engaged in early September, whilst an engagement path is detailed in this report,

5. Timetable and Accountability for Implementing this Decision

- 5.1 Not applicable.

6. Financial and Procurement Implications and Advice

6.1 This is a financial report, the details of which are in the main body.

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

None

Background Papers

None