

Mayoral Combined Authority Board

31 July 2023

Quarter 1 Budget Update & 2024/25 Budget Planning

Is the paper exempt from the press and public?	No
<i>Reason why exempt:</i>	Not applicable
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

Director Approving Submission of the Report:

Gareth Sutton, Executive Director Resources & Investment/s73 Officer

Report Author(s):

Gareth Sutton, Executive Director Resources & Investment/s73 Officer

gareth.sutton@southyorkshire-ca.gov.uk

Andy Sidney, Head of Finance

andy.sidney@southyorkshire-ca.gov.uk

Executive Summary

This report provides an update on the Authority's budget position after Quarter 1 of 2023/24.

The report further provides information on the process for setting the budget for the forthcoming 2024/25 financial year.

Appended to this report are detailed tables along with the Quarterly Treasury Management Review that is now required. This statement recognises the strong performance on cash management as interest rates and cash balances remain high.

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

The MCA's financial budget affords it the means to deliver upon its aspirations.

Recommendations

Approve the revised budget estimates.

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

None.

1. Background

- 1.1 This report provides an update after the first quarter of financial year 2023/24 on three principal issues:
1. The revenue and capital budget position;
 2. Treasury Management performance to-date; and,
 3. The process for setting the budget for the forthcoming financial year.
- 1.2 At Quarter 1 there are a number of prominent budget issues:
1. The budget has been re-set to accommodate the bus and tram investment proposals and associated funding package that are included on this meeting's agenda;
 2. Capital programme activity has slipped further as inflationary pressures have forced scheme redesigns on many projects;
 3. Higher cash balances and rising interest rates are expected to lead to further Treasury Management windfall, with the investment income target likely to be exceeded by c. £4m;
 4. Inflationary pressures and labour market pressures are biting in some areas with difficulties in recruitment prominent, and an expected £1m pressure arising on the cost of the national concessionary travel scheme; and,
 5. Subject to Government consents and legislation, the prospect of a Mayoral election in May 2024 will lead to costs being incurred in the current financial year.
- 1.3 This report also provides an update on the budget planning process for the forthcoming financial year. A second round of engagement sessions has now commenced with the South Yorkshire Directors of Finance Group, building upon the medium-term planning undertaken ahead of Levy setting in the previous year.
- 1.4 In line with new regulatory requirements, a quarterly Treasury Management Review is also provided within the appendices. This review updates on Treasury Management performance.

2. Key Issues

Revenue Budget Performance

- 2.1 This report proposes a number of budget variations to accommodate changes to expenditure profiles and new funding that has become available. In total, this report proposes an increase to the revenue budget of £12.70m, with all expenditure fully funded from grant or existing reserve commitments.
- 2.2 Budget movements across thematic areas are shown below:

Forecast	Base Budget £k	R1 Forecast £k	Total £k
Transport & Environment	£68,592	£74,573	£5,982
Housing & Infrastructure	£1,268	£2,516	£1,249
Skills & Employment	£44,632	£50,811	£6,178
Business Growth & Recovery	£3,534	£3,510	£-25
	£118,026	£131,410	£13,384
MCA Executive	£17,473	£18,091	£619
Mayoral Office	£589	£619	£31
Project Feasibility Fund	£12,000	£12,000	£0
SPF Communities & Place	£7,706	£6,475	£-1,230
Debt & Finance	£12,650	£12,546	£-104
Total	£168,443	£181,141	£12,699

2.3 Transport variations reflect the investment proposals into tendered services and concessions, along with a number of pressures, notably on the national concessionary travel scheme (£1m). This increase in expenditure is fully funded from grant, earmarked reserves, and a draw on surplus treasury management income.

2.4 Housing and infrastructure variations reflect the adoption of new Local Electric Vehicle Infrastructure funding and a number of discrete grant funded studies around housing and energy priorities.

2.5 The significant increase in the skills and employment area reflects re-profiling of Adult Education Budget activity, with underspend that was shown at outturn now catching up in the new year.

2.6 At this stage no additional expenditure is being budgeted for the costs of a May 2024 Mayoral election. In the event of the election proceeding at this date and no funding from Government being forthcoming, the MCA will need to meet all costs ahead of schedule. This may require a draw on reserves to cash flow costs before planned appropriations can be made.

Capital Programme Performance

2.7 This report proposes a number of budget variations to the capital programme, reflecting slippage on existing schemes and the adoption of a number of new schemes. In total, this represents a £34m reduction in the programme, with revised profiles across the thematic areas as follows:

Forecast	Base Budget £k	R1 Forecast £k	Total £k
Transport & Environment	£175,156	£149,629	£-25,528
Housing & Infrastructure	£36,174	£22,910	£-13,264
Skills & Employment	£0	£0	£0
Business Growth & Recovery	£5,816	£10,164	£4,348
	£217,147	£182,703	£-34,444
MCA Executive	£1,271	£1,273	£2

Total	£218,418	£183,976	-£34,442
--------------	-----------------	-----------------	-----------------

2.6 Transport variations reflect known challenges in the delivery of Transforming Cities Fund (TCF) and City Region Sustainable Transport Settlement (CRSTS) schemes. A number of productive meetings have been held with partners to address these issues.

2.7 Variations in the Housing and Infrastructure theme represent a number of net movements. Principally, a number of schemes that were selected for unexpected DLUHC capital funding around Christmas 2022 were accelerated through processes and into contract by the end of financial year 2022/23. Accordingly, this money (£12.4m) was spent in advance of expectation. This underspend is offset slightly by higher-than-expected Place Plan activity that is now expected to progress in the new year.

2.8 Movements on the Business area reflect the adoption of the Hybrid Air Vehicle scheme since the budget was set.

Treasury Management Review

2.9 Regulation now requires that a quarterly review of Treasury Management performance is provided to the Board.

2.10 At Quarter 1, high cash balances and increasing interest-rates mean that the MCA should exceed its investment income forecast by c. £4m.

2.11 The Treasury Management Strategy for the year also sees the retirement of £50m of legacy loans. Sufficient cash remains available to meet these repayments.

2.12 As interest-rates rise there is an emerging potential risk/opportunity around the MCA's lender-option-buyer-option (LOBO) loans. With interest-rates now higher than the coupon rates on those loans, these may be 'called' by the banks with an opportunity to either repay the loans early or refinance at a higher rate.

Budget Planning 2024/25

2.13 In January 2023 the MCA set the transport levy for the year and agreed a medium-term financial plan for local transport authority activity.

2.14 That plan was centred on protecting as many transport services as possible in the short-term, whilst in the long-term addressing structural sustainability issues.

2.15 This plan required the use of reserves for short-term interventions and gradual transport levy increases to meet longer-term sustainability challenges.

2.16 Since the levy has been set there have been a number of changes to the funding and broader operating environment.

2.17 The MCA is now in receipt of a two-year funding settlement for bus which allows it to develop a sustainable two-year near-term plan. However, the longer-term picture is complicated by the challenging inflationary environment, in part offset by expected stronger returns on investment income.

2.17 Two rounds of engagement sessions have now been undertaken with the South Yorkshire Directors of Finance Group, with revised modelling indicating that the current strategy of 2% increases is likely to hold until c. 2027. Accordingly, at this stage it is recommended that the existing approach of gradual levy increases is maintained.

2.18 This strategy is particularly sensitive to inflation assumptions and the financial performance of the tram system. Modelling will continue over the summer and autumn, with two further rounds of engagement sessions planned before Christmas.

3. Options Considered and Recommended Proposal

3.1 Option 1

Approve the revised budget estimates.

3.4 Option 1 Risks and Mitigations:

None.

3.5 Option 2

Reject the revised budget estimates.

3.8 Option 2 Risks and Mitigations:

Rejecting the revised budget estimates will mean that the MCA will need to work to the budget adopted in March. Working to this ceiling and investment mix will mean that officers could not increase expenditure to meet the investment proposals presented on this agenda.

3.13 Recommended Option

Option 1

4. Consultation on Proposal

4.1 None.

5. Timetable and Accountability for Implementing this Decision

5.1 The Executive Director Resources and Investment will implement these changes immediately.

6. Financial and Procurement Implications and Advice

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

7. Legal Implications and Advice

7.1 None.

8. Human Resources Implications and Advice

8.1

9. Equality and Diversity Implications and Advice

9.1

10. Climate Change Implications and Advice

10.1

11. Information and Communication Technology Implications and Advice

11.1

12. Communications and Marketing Implications and Advice

12.1

List of Appendices Included

- A Budget Revision 1 Detail
- B Quarter 1 Treasury Management Review