

## Mayoral Combined Authority Board

14 November 2023

### Quarter 2 Budget Update & 2024/25 Budget Planning

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

#### Director Approving Submission of the Report:

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#### Executive Summary

This report provides an update on the Authority's budget position after Quarter 2 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. This statement recognises the strong performance on cash management as interest-rates remain high, and the decision to exploit an opportunity to affect an early repayment of a lender-option-buyer-option (LOBO) bank loan.

This report also seeks a delegation from the Board to officers to enable the disposal of an MCA owned asset.

#### 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.

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## Recommendations

1. Approve the revised budget estimates;
2. Approve the set aside of windfall treasury management income to meet the costs of the May 2024 election and Office for Police and Crime Commissioner (OPCC) integration;
3. Approve the set aside of £4m of forecast windfall treasury management income to the Capacity and Capability Reserve;
4. Note the potential for up to £4m further treasury management income available for investment into MCA priorities;
5. Approve the Programme Approvals report recommendations set out in Appendix iii; and,
6. Delegate authority to the statutory officers to make arrangements for the disposal by sale or lease of the Ashes Building site in the most efficient and effective manner possible.

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

None.

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### 1. Background

1.1 This report provides an update after the second 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 After the first six months of the financial year there are a number of prominent budget issues:

1. The confirmation that Government will table legislation for the transfer of Police & Crime Commissioner powers to the MCA will precipitate the need to prepare for an early election and a significant unbudgeted integration event in the current financial year at a forecast in-year cost of c. £2.5m;
2. Further slippage in the transport capital programme has been identified, leading to higher-than-expected cash balances;
3. This cash continues to attract significant returns as interest-rates hold above expectation, with additional windfall investment-income of c.£10m now forecast by the year-end;
4. This income windfall offering an opportunity to invest in organisational capacity and other priorities;
5. The unexpected interest-rate environment has also allowed for the MCA to exercise an option to repay £20m of bank loans ahead of schedule, generating a material net ongoing saving; and,
6. At the time of writing Government announcements indicated that the MCA could expect to receive up-to £7.80m in further bus funding for the forthcoming financial year.

1.3 Windfall investment income offers the MCA the opportunity to meet unexpected financial pressures – such as the early election and unexpected integration event – along with addressing ongoing capacity challenges.

1.4 Of the £10m forecast windfall, this report proposes that £2m is set aside to meet the costs of the OPCC transfer and election, with a further £4m set aside in the

Capacity & Capability reserve to invest in core organisational capacity. It is proposed that the residual £4m be held to invest in unfunded priorities.

1.5 This report also provides an update on the budget planning process for the forthcoming financial year. Four rounds of engagement sessions have now been undertaken with the South Yorkshire Directors of Finance Group, building upon the medium-term planning undertaken ahead of Levy setting in the previous year.

1.6 In line with new regulatory requirements, a quarterly Treasury Management Review is also provided within the appendices. This review updates on Treasury Management performance.

1.7 Finally, the report requests delegated authority to affect the disposal of an MCA owned asset at Halfway, Sheffield.

## 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 a revised full-year revenue budget of c. £185m with all expenditure fully funded from grant, locally generated income, or existing reserve commitments. This represents an increase on base budget forecasts of £16m and an increase on Quarter 1 projections by £3m.

2.2 Budget movements across thematic areas are shown below:

Revenue Forecast	Base Budget £k	Q1 Forecast £k	Q2 Forecast £k	Variance To Base £k
Transport & Environment	£68,592	£74,573	£75,197	−£6,605
Housing & Infrastructure	£1,268	£2,516	£1,975	−£707
Skills & Employment	£44,632	£50,811	£50,954	−£6,322
Business Growth & Recovery	£3,534	£3,510	£3,778	−£244
	<b>£118,026</b>	<b>£131,410</b>	<b>£131,904</b>	<b>−£13,878</b>
MCA Executive	£17,473	£18,091	£20,745	−£3,272
Mayoral Office	£589	£619	£669	−£80
Project Feasibility Fund	£12,000	£12,000	£12,000	£0
UK Shared Prosperity Fund	£7,706	£6,475	£8,027	−£321
Debt & Finance	£12,650	£12,546	£11,226	£1,424
<b>Total</b>	<b>£168,444</b>	<b>£181,141</b>	<b>£184,572</b>	<b>−£16,128</b>

2.3 Transport variations reflect the additional resource provided for tendered services as agreed at Quarter 1, along with the extension of some of the concession offers. Since the last reporting date forecasts have also been adjusted to reflect more activity on the tram concession-end project, funded from the project reserve.

2.4 Housing and infrastructure forecasts were adjusted at Quarter 1 to reflect the adoption of Local Electric Vehicle Infrastructure funding. Over Quarter 2 these forecasts were refined with expenditure profiles partly moved into the new financial year.

- 2.5 At Quarter 1 the Skills and Employment expenditure line was significantly increased to reflect slipped Adult Education Budget (AEB) activity from the previous financial year. Over Quarter 2 forecast AEB activity has risen by a further £0.44m, offset by a reduction in forecast Skills Bank activity of £0.57m.
- 2.6 Business Growth activity has marginally increased since Quarter 1 reporting to reflect the expectation that a number of projects commissioned by the Business Growth and Recovery Board will now commence in year.
- 2.7 The significant increase in expenditure within the corporate functions of the MCA since the last reporting date largely reflects the expected transfer of the powers of the Office of the Police and Crime Commissioner in May 2025. The costs of an election and resource for the integration project have been included at c. £2.5m.
- 2.8 Expenditure profiles for the UK Shared Prosperity Fund have been reforecast following a raft of submissions with activity now back on track and an estimated outturn forecast c.£0.3m ahead of base budget forecasts.
- 2.9 Finally, debt and finance related expenditure is now forecast to outturn c. £1.4m under budget largely due to the early repayment of a legacy bank loan taken by the former Passenger Transport Executive.

#### Capital Programme Performance

- 2.10 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 report recommends a full-year capital programme envelope of c.£175m, representing a c.£44m reduction on the base budget and a c.£9m reduction on the Quarter 1 forecasts. Totals and variances by theme are shown below:

Capital Forecast	Base Budget £k	Q1 Forecast £k	Q2 Forecast £k	Variance to Base £k
Transport & Environment	£175,156	£149,629	£123,265	£51,891
Housing & Infrastructure	£36,174	£22,910	£30,317	£5,857
Skills & Employment	£0	£0	£0	£0
Business Growth & Recovery	£5,816	£10,164	£18,609	£-12,793
	£217,146	£182,703	£172,191	£44,955
MCA Executive	£1,271	£1,273	£1,304	£-33
UK Shared Prosperity Fund	£0	£0	£1,416	£-1,416
<b>Total</b>	<b>£218,417</b>	<b>£183,976</b>	<b>£174,912</b>	<b>£43,505</b>

- 2.11 Since the last reporting date further slippage has been shown in the Transport programmes, with an additional c. £26m of activity slipped into the next financial year. Of this movement a net c. £14m relates to Active Travel activity funded from the Transforming Cities Fund (TCF) and City Region Sustainable Transport Settlement (CRSTS) programmes. A further £9m of the movement reflects a reprofiling of the Local Neighbourhood Transport element of the CRSTS programme.

- 2.12 Slippage on Transport schemes largely reflects known issues, with inflation requiring scheme redesigns and a tight labour market impacting on capacity. Good collaboration on managing these issues means that 81% of the TCF programme (by scheme) have now completed or are in delivery, with the final schemes now at the Full Business Case stage. Solid progress has also been made on the CRSTS programme, with schemes passing through assurance processes at a faster pace than seen previously. To-date c. £28m of CRSTS projects are into delivery with a further c. £93m at final business case stages.
- 2.13 Since the last reporting date forecast capital activity in the Housing and Infrastructure area has increased by c. £7m, leaving forecast spend c. £6m under the base budget. Increases on Quarter 1 reflect the progression at pace of a number of Housing schemes funded from the Brownfield Housing Programme. At the mid-year mark 60% of the £53m of this programme funding was allocated to schemes in delivery or at the final stages of business case design. A report on this agenda seeks approval to run an open call for further schemes for this programme, enabling an over programming position which will help to mitigate against the risk of falling short of deploying all programme funding by 2025.
- 2.14 Forecasting for capital activity in the Business Growth area now shows expenditure c. £13m higher than at the base budget. This largely reflects the in-year expenditure associated with the adoption of the AMRC/Boeing scheme and the provision of funding to support the South Yorkshire Airport City scheme since the last reporting date.
- 2.15 Since the last reporting date UK Shared Prosperity Fund capital expenditure has also been confirmed, with the profiles of this activity now included within the proposed capital programme.

#### Treasury Management Review

- 2.16 Regulation now requires that a quarterly review of Treasury Management performance is provided to the Board.
- 2.17 At Quarter 2, persistently high cash balances and ongoing interest-rate increases mean that investment income performance continues to exceed expectations.
- 2.18 Investment income has generated c. £10m over the first six months of the year with an expectation that a cumulative c. £14m will be generated by Christmas and potentially up to £17m by the year-end.
- 2.19 To-date £7m of investment income has been committed to supporting the budget, leaving up to £10m available for investment in future periods - should returns meet the current forecasts.
- 2.20 At the last reporting date it was also noted that the movement on interest-rates was likely to generate a risk or opportunity around the MCA's legacy LOBO loans inherited from the former PTE.
- 2.21 Over Quarter 2 the MCA has exploited an opportunity to exercise options to prematurely repay £20m of these LOBO loans. In so doing, an annual net interest saving c. £0.85m has been generated. In the near-term, this saving will likely be offset by the opportunity cost of foregone investment-income (factored into the

forecasts noted above) but in the longer-term it is anticipated that this early repayment will generate present value benefits of c. £3.8m. The unwind of technical interest-rate accounting inherited from the PTE will also yield a one-off windfall in the current year of c. £0.86m.

- 2.22 The MCA retains sufficient cash balances to continue its current strategy of retiring legacy loans as they mature in-year. The interest savings associated with these repayments are factored into the medium-term financial plan.

#### Budget Planning 2024/25

- 2.23 Work continues to develop the budget 2024/25 estimates for the MCA's core local transport authority (LTA) activity and its wider portfolio of activity.

- 2.24 Since the last reporting date a further tranche of BSIP+ transport funding has been announced, with an indication that the MCA will receive £7.80m in funding in 2024/25.

- 2.25 At the time of writing, it was unclear whether this funding would be in addition to £3.20m of BSIP+ funding previously announced or inclusive of it.

- 2.26 The receipt of more funding will, however, complement the package of funding the MCA has put in place for financial years 2023/24 and 2024/25, potentially allowing the region to consider both the longevity and mix of support it is able to put into the network.

- 2.27 Inflation pressures continue to be a source of forecasting instability. Whilst in-year figures remain stubbornly high, official OBR forecasts continue to show a significant fall-off in future periods.

- 2.28 The repayment of the LOBO loans will provide some budget respite against these inflationary pressures whilst the pivot of the Treasury Management Strategy to locking in investment returns through longer-term loans should also provide some near-term stability in income generation.

- 2.29 Four rounds of engagement sessions have now been undertaken with the South Yorkshire Directors of Finance Group, with revised transport levy modelling indicating that the current strategy of sustained 2% increases is likely to hold until later in the decade. Accordingly, at this stage it is recommended that the existing approach of gradual levy increases is maintained.

- 2.30 Ongoing work to develop business plan priorities for the wider business is beginning to shape capacity and resource requirements. Windfall treasury income could be a source of funding for emerging investment priorities.

### **3. Options Considered and Recommended Proposal**

#### **3.1 Option 1**

Approve the budget estimates, the proposed use of the windfall investment income, and the delegations to officers to affect the disposal of an asset.

#### **3.4 Option 1 Risks and Mitigations**

None.

**3.5 Option 2**

Reject one or more of the recommendations.

**3.8 Option 2 Risks and Mitigations**

Should the budget estimates not be approved the MCA's budget ceiling will not be sufficiently high to accommodate all planned activity.

Should the proposals around the use of windfall investment income not be approved the resource will be held until alternative investment opportunities be identified.

Should the proposal not to grant authority to authority to dispose of the asset not be approved the site will be marketed for lease or be held vacant.

**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 & Investment will implement decisions immediately.

**6. Financial and Procurement Implications and Advice**

6.1 This is a Finance 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 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**

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11.1 None.

**12. Communications and Marketing Implications and Advice**

12.1 None.

**List of Appendices Included**

A	Quarter 2 Budget Detail
B	Quarter 2 Treasury Management Review
C	Programme Approvals Report
D	Programme Approvals Assurance Summary Fargate Future High Street
E	Programme Approvals Delegated Authority Tracker
F	Asset Disposal Report