

18th November 2019

Draft Financial Strategy 2020-25 and Budget 2020-21

Purpose of Report

This report outlines the current financial position of Mayoral Combined Authority then sets out the principles underpinning a 5-year financial strategy for an organisation to deliver on its ambitions within the resources available.

Thematic Priority

Cross cutting - Financial

Freedom of Information and Schedule 12A of the Local Government Act 1972

The paper will be available under the Mayoral Combined Authority Publication Scheme

Recommendations

1. MCA consider and approve the overall Financial Strategy 2020 to 2025 identified in the report.
2. MCA approve this strategy as the basis of developing the detailed 2020/21 budget to be brought back in early 2020 for formal approval.

1. Introduction

- 1.1** The nature of the MCA as a strategic organisation means that it has few demand-led pressures on its budget unlike the constituent authorities.

This report focuses specifically on the key financial risk to the MCA/LEP. Reduction in income is a significant factor as is the availability of revenue funding to create and deliver future programmes and attract significant investment into the region.

- 1.2** This paper looks to set out a balanced 5-year Financial Strategy that identifies the resources to deliver the ambitions for Sheffield City Region (SCR) identified by the emerging Strategic Economic Plan. It will look at immediate issues to address 2020/21 budget development and consider longer term positions on costs and income.

- 1.3** Members will be aware that the immediate pressure on future budgets is a significant reduction in income from April 2020. £1m is lost in business rates from the changes to SCR boundaries. Initial indication was that there would also be the loss of Mayoral Capacity Fund (MCF) in 2020/21. Whilst MCF has now been granted for an additional year, a budget review was instigated, and actions identified to reduce costs and deliver a balanced financial position over the medium term to March 2025.

- 1.4 Major changes to funding for the MCA will take place over the period of the strategy. Transforming Cities Fund (TCF) is likely to be made available for 2020 to 2024. The Local Growth Fund programme (LGF) finishes in March 2021 but will be replaced by Shared Prosperity Fund (SPF) that will support the delivery of the priorities within local SEPs. Whilst the level of that funding is not yet known, some assumptions around the structure to deliver on the SEP priorities have been made in developing the overall financial envelope.

2. Proposal and justification

- 2.1 The Financial Strategy below identifies a financial envelope for the next 5 years and a high level break down on the areas of expenditure that will be incurred. The current year budget has been included for completeness. Slightly more detail has been included for 2020/21 as these are likely to be the main thrust to develop the actual programmes to deliver the SEP outcomes.

Financial Strategy 2020 to 2025

	19/20	20/21	21/22	22/23	23/24	24/25
Income Stream	£'000	£'000	£'000	£'000	£'000	£'000
EZ Business Rates	£3,024	£2,009	£2,009	£2,408	£2,508	£2,608
Traded Income – AMP	£1,428	£1,620	£1,620	£1,620	£1,620	£1,620
Subscriptions	£1,204	£1,184	£1,184	£1,184	£1,184	£1,184
LEP Grants	£500	£500	£500	£500	£500	£500
Investment Income & Treasury Management	£195	£400	£295	£295	£285	£161
Investment Income - Property Portfolio	£155	£155	£155	£155	£155	£155
	£6,506	£5,868	£5,763	£6,162	£6,252	£6,228
Expenditure						
Staffing – Core	£2,519	£2,200	£2,142	£2,185	£2,229	£2,273
Centralised budgets	£1,761		£1,600	£1,600	£1,600	£1,600
Business Investment Revenue Programme		£200				
Skills Programme Development		£200				
Transport Programme Development		£200				
Housing and Infrastructure		£100				
Policy, Research & Evaluation		£150				
Governance (MCA/LEP)		£75				
Organisational Development		£75				
Regional Placement		£200				
Trade & Investment		£250				
Communications, campaigns & marketing		£150				
AMP	£1,022	£1,022	£1,022	£1,022	£1,022	£1,022
Business Support, Supplies & Services	£975	£938	£1,004	£1,012	£1,140	£1,140
Other Property Costs	£229	£394	£394	£264	£264	£264
	£6,506	£6,154	£6,162	£6,083	£6,255	£6,299
Use of (Contribution to) Reserves	-£0	£286	£399	-£79	£3	£71

2.2 The next section of the report identifies the assumptions behind this strategy. Current budget management information, which is reported separately on this agenda, provides a strong basis for the proposals before the Board.

2.2.1 **Income**

- Enterprise Zone Business Rate receipts fall in 2020/21 by £1m. They have been increased by £0.1m in 2023/24 and £0.2m to reflect some current investment decisions being realised.
- Additional income has been realised in the current year for the Advanced Manufacturing Park. This will continue across future years and has been built into the strategy.
- Treasury management receipts have been thoroughly reviewed. Additional income is predicted on an on-going basis with a slight spike in 2020/21 to reflect the end of the LGF programme and phasing of project funding.

2.2.2 **Staffing**

- The predicted outturn in Q2 report elsewhere on the agenda highlights a saving in salaries from active establishment management in the year. Following management review of the current establishment, the proposal is to reduce core staffing costs by £319k in net terms. The actual reduction is £608k (12% of the establishment) but some of this is met directly from specific funding sources. This assumes no redundancies.
- MCF has been spread over 2 years to meet the staffing costs of supporting the Mayor's Office. These costs are absorbed in future years.
- Further synergies will be achieved from integration of the Group. These are built into future staffing costs.
- New funding streams such as TCF and SPF will be coming to MCA over the period of the plan. It is assumed that these will meet any programme management costs and not fall to core funding.
- The numbers in this line represent the broad cost that is affordable to fund the structure of SCR. This undoubtedly will change over the period but the strategy identifies how much is available and proposed for approval.

2.2.3 **Other Core Budgets**

The emerging SEP requires revenue funding to develop the schemes and programmes to both achieve funding and deliver the desired outcomes. Some focus has been attributed to 2020/21 budget. Future years will need revenue input to achieve delivery, but the focus may change. Many of the other MCAs have identified the need to secure revenue funding to bring forward feasibility work and early scheme programmes as a budget requirement in their current financial planning period.

A budget review of the centralised budget line has been undertaken and identified a reduction of 9% in light of the budget challenge. Focussing this resource will place the MCA/LEP in the best place to draw down funding from new sources such as SPF when they become available.

2.3 **Overall Strategy**

The Financial Strategy before Members sets the financial envelope and the broad budgets for delivering the necessary operations to deliver on the SCR ambitions. It identifies a shortfall on income in the 2020/21 and 2021/22 of £685k but is broadly balanced over the rest of the period. It is recommended that revenue reserves are used to smooth out this transition. The level of general reserve currently sits at c.£1.7m and the savings generated by active establishment management will deliver a further saving of c£330k which will

increase the general reserve to c.£2m. Identifying £685k of this reserve is a sensible approach that does not jeopardise the future financial security of the MCA.

At this stage, this is a broad indication of how reserves will be used as part of the financial strategy. The reserves strategy will be brought forward as part of the detailed budget report, along with the Section 73 Officer advice, in early 2020.

3. Consideration of alternative approaches

- 3.1** Do Nothing – this is not considered to be a viable option 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.
- 3.2** Invest further revenue funding to bring forward feasibility work and early scheme programmes. If Members are minded to explore this option in more detail, the additional investment would need to come from reserves.

4. Implications

4.1 Financial

The financial implications are clearly set out in Section 2 of this report.

4.2 Legal

There are no legal implications arising directly from this report.

4.3 Risk Management

In formulating the assumptions which underpin the proposed financial strategy, 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. This issue has been discussed previously with Members as part of the 2019/20 budget-setting process. However, the most significant element of this risk has now crystallised, namely the loss of £1m due to changes to SCR boundaries.

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. The level of reserves remains sufficient to mitigate these risks, and as stated above the reserves strategy will be included as part of the 2020/21 budget report in early 2020.

4.4 Equality, Diversity and Social Inclusion

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.

5. Communications

- 5.1** Consultation with key stakeholders has started and will continue through the various stages of the 2020/21 business planning process, including the Mayor & MCA Leaders, LEP Board, Chief Executives and Directors of Economic Development and Finance.

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