Sheffield City Region
COMBINED AUTHORITY

SCR Combined Authority

30th January 2017

Draft South Yorkshire Transport Revenue Budget & Capital Programme 2017/18

Purpose

The Combined Authority's revenue budgets and capital programmes are split between region wide activity in support of the CA/LEP Strategic Economic Plan and South Yorkshire activity in support of the South Yorkshire Transport Plan.

Though the two plans are complementary, they are differentiated by geography and how they are funded.

This paper presents final proposals for the South Yorkshire Transport Revenue Budget for financial year 2017/18.

This revenue budget principally resources the South Yorkshire Passenger Transport Executive to deliver the South Yorkshire Transport Plan, and is resourced itself through a levy on the South Yorkshire partners.

To meet statutory deadlines a transport levy must be set at this meeting. It is proposed that the CA/LEP revenue budget and capital programme also be approved in March.

1. **Issue**

1.1 This paper provides final proposals for the South Yorkshire Transport revenue budget for 2017/18.

1.2 The activity funded by this money supports the delivery of the South Yorkshire Transport Plan (SYTP).

1.3 The revenue budget comprises the costs of the South Yorkshire Passenger Transport Executive (SYPTE) - who are an executive arm of the Combined Authority - and those costs relating to the SYTP that are managed at the Combined Authority level itself.

1.4 The South Yorkshire Transport Capital Programme will go to Leaders for approval on March 22nd.

1.5 The revenue budget is principally resourced through a levy on the South Yorkshire partners. This levy is negotiated annually. Accordingly, it is important that SYPTE/CA present budget proposals that are reflective of partner funding pressures, and that partners themselves clearly set out priority activity for South Yorkshire transport.

1.6 Policy and strategy direction is provided at an officer level through the SYPTE Executive Board which comprises representatives of the South Yorkshire districts and the SYPTE Director General. On resourcing there is also collaboration through the Directors of Finance forum, chaired by the CA's Director of Finance.

1.7 The revenue budget proposals within this paper have been developed to achieve three principal objectives:

1. Support revenue budget pressures in the South Yorkshire funding authorities by reducing the levy;
2. Efficiently resource SYPTE to be an effective delivery partner; and,
3. Achieve South Yorkshire transport budget sustainability once the transport levy reduction reserve is exhausted.

These objectives combine to offer a medium-term funding plan for SYPTE that seeks to protect valued services whilst operating as efficiently as possible.

1.8 The proposals in this paper have previously been shared with CA Leaders on the 5th December, and have been discussed in detail with the Directors of Finance to support briefings. The proposals have also been approved by the SYPTE Executive Board.

1.9 To meet statutory deadlines for providing funding authorities with levy requirements, the transport levy must be set at this meeting.

1.10 Draft CA/LEP revenue budget proposals are presented in a separate paper within this pack.

1.11 The CA/LEP's capital programme is also being refreshed to incorporate the early commissioning process proposals. The refreshed programme will be presented alongside the revenue budget.

1.12 Unlike the transport levy, CA/LEP activity does not require approval until the CA Leaders meeting on March 22nd.

2. Recommendations

2.1 Leaders approve a transport levy for financial year 2017/18 of £57,483k noting that this represents a 5% reduction on the prior year.

2.2 Leaders note that proposed savings have arisen from demand-led reductions and operational efficiencies, rather than policy-led changes to services.

2.3 Leaders agree to the change in Minimum Revenue Provision policy (3.72-3.75) to enable proposed budget savings.

3. **Background Information**

Summary

Executive Summary

For financial year 2017/18 partners asked for levy reductions of 5%, to be followed by further reductions of 2.5% for three concurrent years to 2020/21.

The CA and SYPTE have identified net cost savings and mitigations that will allow the levy to be reduced by 5% (£3.025m) in 2017/18.

This has been achieved through efficiencies, demand reductions, and use of reserves. Policy-led savings are not required to meet this value.

For 2017/18 the transport levy is proposed at £57,483k:

			Levy		
Authority	**Population***	**Population Share**	**2017/18**	**2016/17**	**Variance**
		%	**£'000**	**£'000**	**£'000**
BMBC	239,319	17.41%	£10,007	£10,537	-£529
DMBC	304,813	22.17%	£12,746	£13,476	-£730
RMBC	260,786	18.97%	£10,905	£11,521	-£616
SCC	569,737	41.45%	£23,824	£24,974	-£1,150
	1,374,655		**£57,483**	**£60,508**	**-£3,025**

**Population figures are taken from 2016 mid-year figures from the Office for National Statistics.*

At the last reporting date, officers reported that further savings and efficiencies had been identified that would allow the CA to reduce the levy in the two following years by 2.5% as requested. However, against the final year target of 2.5% savings of only 1.06% had been identified.

Further work has been undertaken in consultation with the CA's external auditors concerning adjustments to the Authority's strategy for providing for debt. These adjustments would serve to slow down the accumulation of cash, and in so doing reduce the charge to the revenue account. This is a measure similar to that taken by other South Yorkshire partners.

Should this proposal be approved by the Leaders the levy reduction of 1.06% could be increased to 2%. Officers would then continue to work to identify further savings to bring the 2020/21 saving in on target in the intervening years.

It is recommended that Leaders consent to the change in MRP policy, and approve a medium-term financial strategy that works to a levy as follows:

	2017/18	**2018/19**	**2019/20**	**2020/21**
	£'000	**£'000**	**£'000**	**£'000**
Levy Requirement	£57,483	£56,046	£54,644	£53,551
Reduction (£)	£3,025	£1,437	£1,402	£1,093
Reduction (%)	5%	2.5%	2.5%	2%

Levy savings would accrue as follows:

			Cumulative Levy Reduction Share			
Authority	**Population**	**Population Share**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
		%	**£'000**	**£'000**	**£'000**	**£'000**
BMBC	239,319	17.41%	£529	£779	£1,023	£1,213
DMBC	304,813	22.17%	£730	£1,048	£1,359	£1,601
RMBC	260,786	18.97%	£616	£889	£1,155	£1,362
SCC	569,737	41.45%	£1,150	£1,746	£2,327	£2,780
	1,374,655		**£3,025**	**£4,462**	**£5,864**	**£6,957**

Background

3.1 South Yorkshire transport activity is principally resourced through levy contributions paid by the four South Yorkshire partner authorities.

3.2 As partner budgets have come under increasing pressures, the levy has been reduced. Since the CA was incepted in 2014 the levy has fallen by a cumulative £26m p/a (or 30%), from £86m in financial year 2013/14 to £60.5m in financial year 2016/17.

3.3 To enable these levy reductions SYPTE and the CA have cut costs. SYPTE is now a smaller organisation in both scale and scope of activity.

3.4 Operational efficiencies have been delivered on the back of the White-Young-Green report's recommendations, and a number of difficult policy-led decisions have been made around the services SYPTE offers, and which areas it subsidises and to what extent.

3.5 A significant amount of SYPTE's expenditure is also influenced by demand. Rules around senior concessionary travel are set nationally, but the costs of the concessions are inevitably influenced by patronage (bus journeys). In recent years the cost of this activity has fallen as demand has reduced.

3.6 Some of this demand fall has been driven by changes to the eligibility criteria for bus passes, but there also other factors around travel habits that are less well understood, and which makes forecasting problematic.

3.7 The CA has also undertaken significant restructures of SYPTE's capital financing liabilities to find more efficient ways of providing for debt obligations. These restructures were made possible through the award of £103m of capital grants from the CA to SYPTE that had the effect of transferring debt from SYPTE's balance sheet to the CA's.

3.8 In restructuring these liabilities the CA created a revenue reserve of £73m. This reserve is pivotal to the CA's reserve strategy of sustainably releasing reserves to underpin levy reductions in the medium-term.

3.9 Currently, reserve release stands at £7m p/a, and means that valued services can be protected and the levy be reduced concurrently.

Budget Challenge

3.10 Against this background, the South Yorkshire partners have asked for further levy reductions to support their budget positions. These reductions are lower than those asked for in previous years, reflecting that much has already been done.

3.11 Directors of Finance have asked for four years of further reductions at a cumulative 11.95%, on the following path:

Year	Saving	Saving	Saving Cumulative	Levy
	%	£'000	£'000	£'000
2017/18	5.0%	£3,025	£3,025	£57,483
2018/19	2.5%	£1,437	£4,462	£56,046
2019/20	2.5%	£1,401	£5,864	£54,644
2020/21	2.5%	£1,366	£7,230	£53,278

3.12 These reductions would take the levy to £53m by 2020/21, representing cumulative reductions of 38% from the 2013/14 levels. Over the appraisal period to 2031, it would see South Yorkshire partners pay £93m less to the CA than they would if the levy was frozen at today's rates.

Planning for the reductions

3.13 Managing multi-year reductions in this manner encourages the CA/SYPTE to take a longer-term view of activity, cost-management, and use of reserves. Modelling has been conducted over a 15 year timeframe to 2031. Modelling over such a long period presents problems with the quality of information. This modelling and the assumptions used will need to be updated regularly to ensure it remains relevant.

3.14 To achieve the reduction asks the CA and SYPTE have considered all matters, grouping proposals into the three basic areas:

1. Operational efficiencies
   Doing things cheaper and more efficiently
2. Financing interventions and use of reserves
   Finding technical accounting treatments to defer costs, and release reserves that have already been created from prior interventions
3. Policy-led decisions
   Deciding what SYPTE should do and to what extent

Some costs will also drop out of the budget over time. This is particularly the case with debt related costs that fall as loans are repaid.

3.15 Effort has been concentrated in attempting to secure savings primarily through operational efficiencies, with reserves and other financing interventions used to meet the balance.

3.16 However, in-line with the reserve strategy those reserves will be used in a sustainable manner. This means that the CA will use the reserves strategically taking account of other factors relating to SYPTE's cost-base to ensure that we can hold levy reductions in the medium-term.

3.17 Policy-led decisions concern SYPTE's discretionary activity. This activity includes child concessionary fares and subsidised bus services. This activity is often scaleable: we can choose how we undertake activity, and to what level. These choices determine the cost.

3.18 At this stage, the CA have looked to protect this valued activity by finding savings elsewhere. However, as budgets continue to come under pressure Leaders may wish to better understand these costs to determine how valued they are in comparison with other under-pressure services.

Pressures Identified

3.19 Multi-year modelling has flagged a number of ‘pressures’ that will need to be met just to stand-still on the current levy for the forthcoming year. These include:

1. Pay and price inflation;
2. Inflation linked contracts;
3. Reduced income generation;
4. The potential capital financing costs associated with two capital schemes SYPTE are contractually obliged to undertake in some form; and,
5. The need to sustain prior year savings achieved through the use of reserves.

These pressures total £8.5m for the year.

3.20

	£’000
Combined Authority	
Pay and price inflation	£3
Reduced investment income	£391
Use of reserves	£5,473
	£5,867
SYPTE	
Contract inflation	£106
Pay inflation	£124
Reduced income	£154
Use of reserves	£2,030
	£2,414
Costs of financing for capital schemes	**£183**
Total Pressures	**£8,464**

3.21 Accordingly, to accommodate a 5% reduction on the levy, the CA and SYPTE are required to find savings and mitigations totalling £11.5m:

	£'000
Total Pressures	£8,464
Levy Reduction Required @ 5%	£3,025
Total Savings & Mitigations Required	**£11,490**

3.22 The CA/SYPTE are required to meet these savings, and then retain them into the future to avoid the levy increasing at some point. This requires savings and mitigations to be sustainable.

3.23 The CA/SYPTE’s approach to sustainable savings and mitigations is largely based around a dual track of delivering a cost-effective service and using reserves to smooth the falls in the CA’s and SYPTE’s cost base that will take place over the coming years as expensive loans are repaid. The saving from repaying these loans will be £13m p/a by 2030/31. As such, the challenge is to effectively bridge the gap between these future savings and present day pressures.

Meeting the budget challenge: almost there – but not quite

3.24 Much work has been undertaken since the summer to deliver these savings. However, achieving the full 11.95% of sustainable savings has (at the time of writing) not been possible.

3.25 Levy reductions at this rate would mean that by the end of the appraisal period (2031) the levy reduction reserve would have been exhausted, the general contingency reserve would have been exhausted, and the budget would still require support of c. £0.5m p/a.

3.26 Simply, a levy reduction at this rate cannot be sustained based upon the cost savings and mitigations identified at this point.

3.27 It would not be acceptable for the CA to operate without general contingency reserves, and it is important that the CA and SYPTE continue to work towards a goal of budget sustainability where the levy is not artificially supported by finite reserves.

Current Achievable Reductions

3.28 Modelling to-date suggests that against the cumulative multi-year levy reduction requirement of 11.95% the CA/SYPTE will be able to achieve an 11.5% reduction by 2020/21. Crucially, early year savings are possible with the balance being a further reduction required in 2020/21:

	2017/18	2018/19	2019/20	2020/21
	%	%	%	%
Levy reduction requirement	5%	2.50%	2.50%	2.50%
Levy reduction achievable	5%	2.50%	2.50%	2.00%
Variance	**0%**	**0%**	**0%**	**0.5%**
	£'000	**£'000**	**£'000**	**£'000**
Levy reduction requirement	£3,025	£1,437	£1,401	£1,366
Levy reduction achievable	£3,025	£1,437	£1,401	£1,093
Variance	**£0**	**£0**	**£0**	**£273**

3.29 Expressed cumulatively, the savings arising from the achievable levy reductions (cumulative 11.5%) would be distributed as follows (based upon 2016 population figures):

			Cumulative Levy Reduction Share			
Authority	**Population**	**Population Share**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
		%	**£'000**	**£'000**	**£'000**	**£'000**
BMBC	239,319	17.41%	£529	£779	£1,023	£1,214
DMBC	304,813	22.17%	£730	£1,048	£1,359	£1,601
RMBC	260,786	18.97%	£616	£889	£1,155	£1,362
SCC	569,737	41.45%	£1,150	£1,746	£2,327	£2,780
	1,374,655		**£3,025**	**£4,462**	**£5,864**	**£6,956**

**reduction figures in 2017/18 are based on comparison to 2016/17 figures, reflecting movements in population. Future years share of savings are based on 2016 population figures.*

3.30 Levy reductions at this level are sustainable as reserve support can be sustained by the earmarked levy reduction reserve.

3.31 Savings to achieve the 11.5% cumulative reduction have been forecast from a number of areas. Some of these savings are demand led (concessionary fares for adults), some are natural wastage (falling debt costs), and some are from efficiencies.

3.32

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Reduction achieved by:				
Combined Authority				
Cost of Debt	£210	£262	£240	£219
Better Investment Income	£0	£49	£112	£166
	£210	**£311**	**£352**	**£385**
SYPTE				
Cost of debt	£324	£1,728	£0	£3,615
Bus tendered services	£400	£146	£142	£139
Community transport	£0	£41	£41	£39
Concessionary fares (adults)	£1,600	£250	£425	£0
Concessionary fares (children)	£126	£0	£0	£0
Net operational savings	£633	£240	£234	£228
	£3,083	**£2,405**	**£842**	**£4,021**
Savings made	**£3,293**	**£2,716**	**£1,194**	**£4,406**

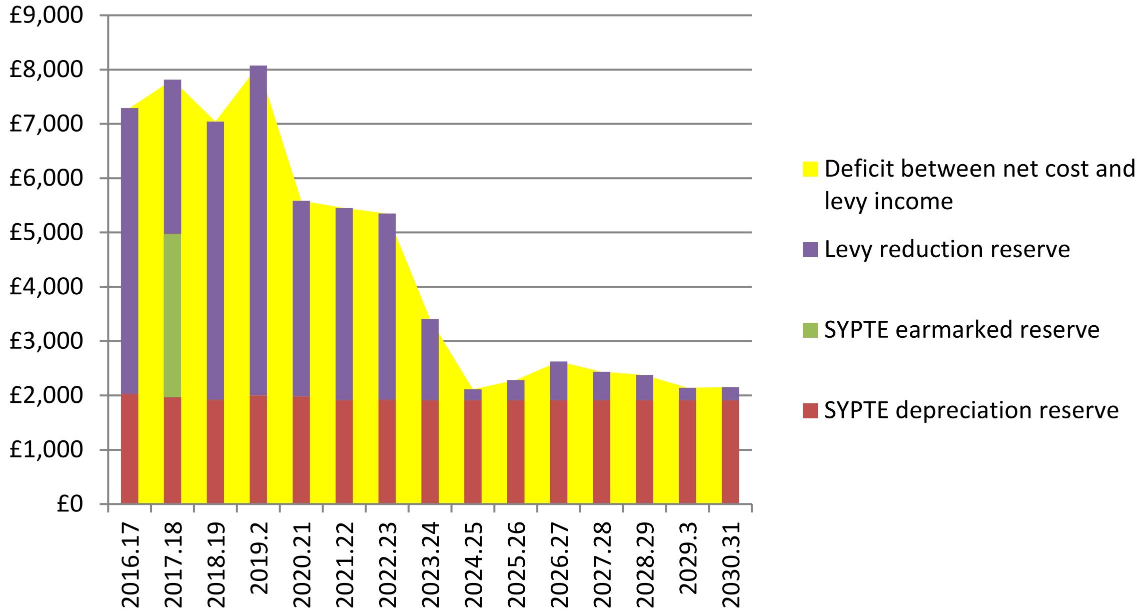
3.33 These savings are insufficient to meet the requirements of both the levy reduction and the need to backfill prior year reductions generated from the use of reserves in full.

3.34 Even at the achievable levy reduction target net costs run above the income that would be generated by the levy. This leaves a resource gap. This gap would ordinarily have to be filled by a further reduction in costs, or an increase in the levy.

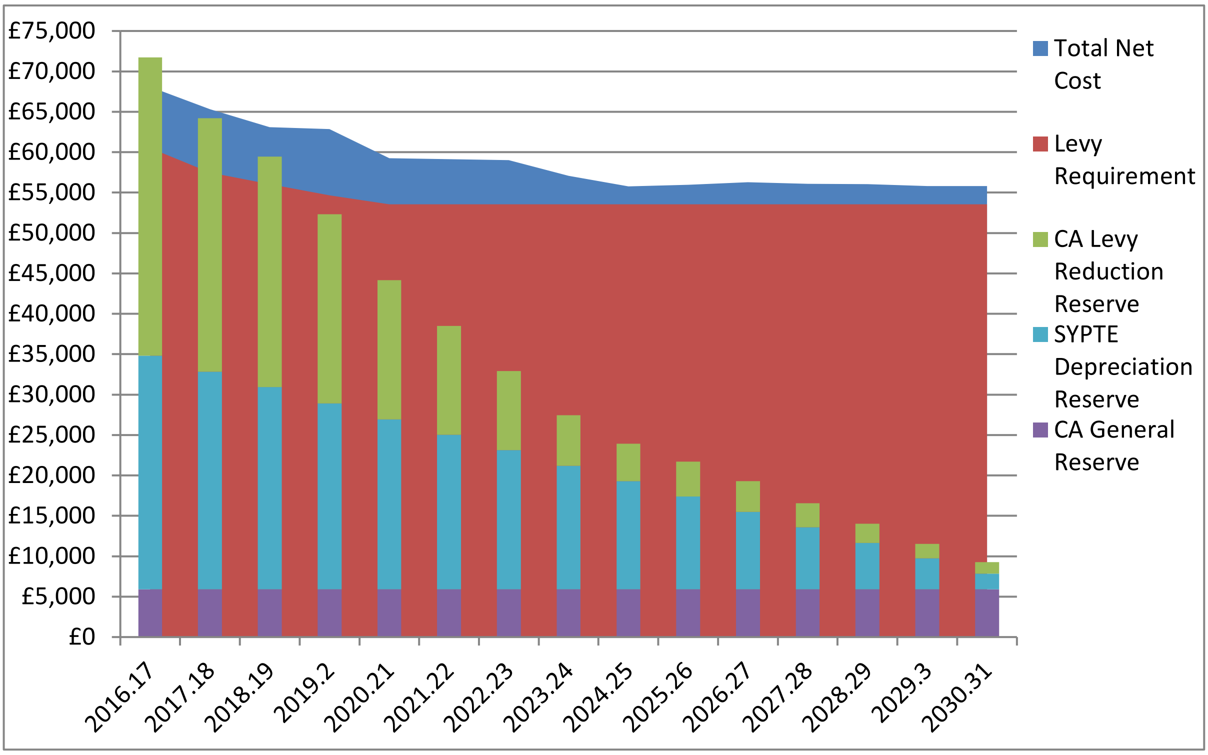
3.35 However, because of the work undertaken to restructure SYPTE's capital financing liabilities, the CA and SYPTE can feed in reserves to meet that gap:

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Total Net Costs	£65,299	£63,089	£62,720	£59,136
Levy Requirement	£57,483	£56,046	£54,644	£53,552
Resource Gap	**£7,816**	**£7,044**	**£8,076**	**£5,584**
Gap met by:				
SYPTE depreciation reserve	£4,973	£1,917	£2,000	£1,980
SYPTE revenue reserves	£3,000	£0	£0	£0
CA reserves	£2,843	£5,127	£6,076	£3,604
	£7,816	**£7,044**	**£8,076**	**£5,584**

3.36 Reserves are a finite resource. At a 11.5% cumulative reduction, reserves can be used sustainably over the appraisal period to ensure we can always meet the forecast resource gap and hold the levy at its reduced rates. The following graph exemplifies this:



3.37 The table above (through the yellow block) highlights that over time the resource gap falls as expensive loans are repaid, with eventually there only being a need for the depreciation reserve to meet the legacy depreciation costs – at this point budget sustainability is achieved. Our approach to using reserves to bridge this gap also sees those reserve balances fall in a similar vein:



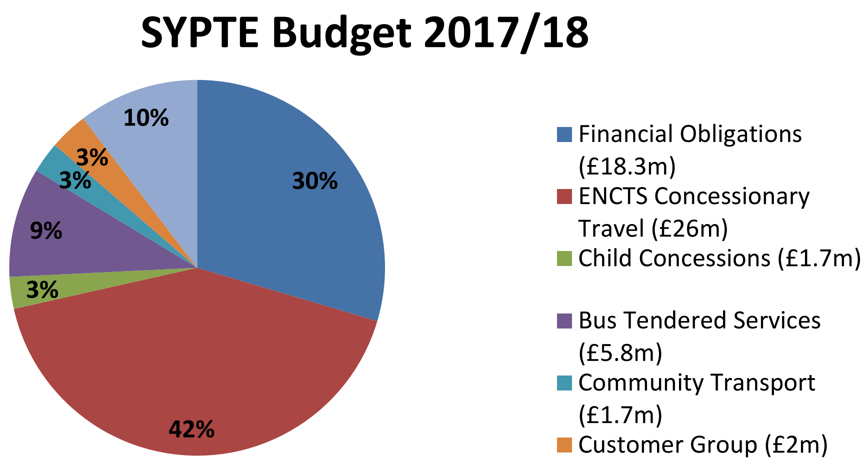
3.38 The above graph highlights that by financial year 2030/31 the CA is still forecast to hold reserves totalling £11m, consisting of the general reserve held for contingency, and a small amount of levy reduction reserve that could be released on an ad-hoc basis.

3.39 Further consideration will be given on how to use these reserves to help meet the balance of saving targets.

Budget Composition

3.40 The budget achievable at a cumulative 10.6% reduction will allow the CA and SYPTE to continue to operate without more sensitive policy-led savings being necessary.

3.41 SYPTE's costs comprise the majority of the overall budget, with the high cost of providing statutory senior concessions (ENCTS) making up most of the budget:



CA/SYPTE MTFS 2016/17 Onwards	Budget 2016/17 £000	Budget 2017/18 £000	Change £000	Budget 2018/19 £000	Change £000	Budget 2019/20 £000	Change £000	Budget 2020/21 £000	Change £000
CA Admin	318	321	3	324	3	328	3	331	3
MRP	3,422	3,079	(343)	3,066	(13)	3,066	0	3,037	(30)
Interest	1,388	1,388	0	1,388	0	1,388	0	1,388	0
Property Portfolio	0	0	0	0	0	225	225	225	0
Investments	(1,989)	(1,598)	391	(1,647)	(49)	(1,759)	(112)	(1,925)	(166)
Total CA net expenditure	**3,139**	**3,190**	**51**	**3,131**	**(58)**	**3,247**	**116**	**3,055**	**(193)**
Financial Obligations	18,649	18,325	(324)	16,597	(1,728)	16,627	30	13,012	(3,615)
ENCTS Concessionary Travel	27,559	25,959	(1,600)	25,709	(250)	25,284	(425)	25,534	250
Child Concessions	1,825	1,699	(126)	1,699	0	1,699	0	1,699	0
Bus Tendered Services	6,241	5,841	(400)	5,695	(146)	5,552	(142)	5,414	(139)
Community Transport	1,657	1,657	0	1,616	(41)	1,575	(41)	1,535	(39)
Customer Group	2,072	2,037	(35)	1,986	(51)	1,937	(50)	1,888	(48)
Infrastructure & Support Departments	6,945	6,430	(515)	6,241	(189)	6,057	(184)	5,878	(179)
Total PTE net expenditure	**64,947**	**61,948**	**(2,999)**	**59,543**	**(2,405)**	**58,731**	**(812)**	**54,960**	**(3,771)**
New Capital Schemes	**0**	**161**	**161**	**415**	**254**	**742**	**327**	**1,121**	**379**
Depreciation which will be matched by Grant release	(2,030)	(1,973)	57	(1,917)	56	(2,000)	(83)	(1,980)	20
Use of earmarked reserves	0	(3,000)	(3,000)	0	3,000	0	0	0	0
General reserve release	(5,548)	(2,843)	2,705	(5,127)	(2,283)	(6,076)	(949)	(3,604)	2,471
Total combined PTE & CA net expenditure	**60,508**	**57,483**	**(3,025)**	**56,046**	**(1,437)**	**54,644**	**(1,401)**	**53,552**	**(1,093)**
			-5.0%		-2.5%		-2.5%		2.00%

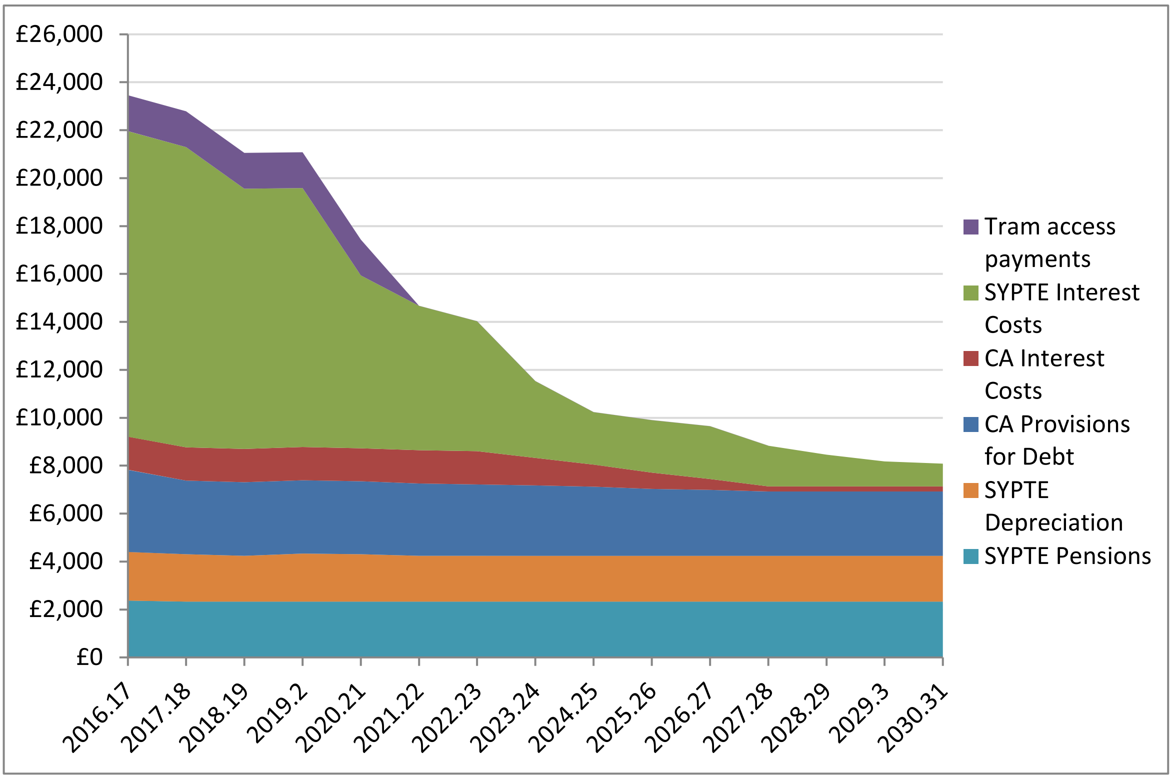
3.42 It is noteworthy that the costs of senior concessions (ENCTS) are shown as falling up to 2019/20, before they are expected to rise in the following year. This movement is due in part to a governmental policy known as 'age-equalisation' where eligibility for concessionary travel passes was adjusted to match state pension eligibility.

3.43 This has the effect of reducing demand in the medium-term, before it returns to more 'normal' levels. However, there are also other factors in play around wider travel habits that are less well understood, and which have meant that in the recent past SYPTE has over-budgeted for the costs of these concessions as patronage has fallen. These falls have, in turn, prompted bus operators to demand larger per-journey concessions from SYPTE with an anticipated increase in costs of 2%. This additional cost partially offsets the saving from reduced demand.

3.45 Costs such as these - that are sensitive to demand and outside of the control of SYPTE - underscore why it is important for the financial group to maintain contingency reserves to enable us to deal with unforeseen costs.

3.46 Usefully, the above table also shows the falling costs of financial obligations on SYPTE over the coming years. These obligations include the costs of interest, depreciation, tram access payments, and pensions. Between now and 2030/31, these costs will fall from £18.3m to £5.8m. Smoothing these cost reductions through the use of reserves is a central tenet of our financial strategy.

3.47



3.48 The above table also highlights net savings of c. £500k on SYPTE's customer group and infrastructure and support departments in 2017/18. These are operational teams. There are a number of savings and costs within this number, the largest of which is a £544k saving on the rent SYPTE pay for occupation of a number of floors at Broad Street West.

3.49 Broad Street West is an asset of SYITA Properties Ltd, a company wholly owned by the CA. The CA has moved to exert control over this company through the appointment of directors and a company secretary. The company board of directors have voted to proceed with a solvent member voluntary liquidation of the company, with a view to bringing the assets back to the CA. The CA Leaders have previously endorsed this approach.

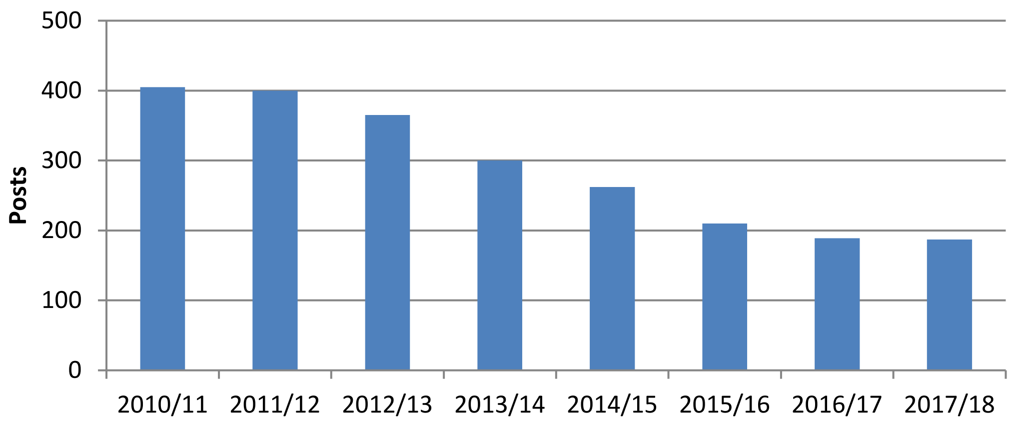
3.50 In so doing, all rents accrued from the assets will flow directly to the CA, and it thus becomes pointless for the CA to fund SYPTE for SYPTE to pay the CA rent. Rent and accrued profit previously accumulated within the company and would be paid over to the CA periodically (last dividend awarded was 2007). These rents are now fully recognised within the CA's medium term financial planning, with the activity of the portfolio broadly breaking even after foregoing SYPTE rent.

3.51 However, First have indicated that they will be vacating one of the company's properties (Midland Road bus depot, Rotherham) by 2019. This will leave an income shortfall of £225k, and thus represents a pressure to the CA.

3.52 Aside from this savings SYPTE has also made marginal savings on the cost of its staffing structure, and other back office functions (figures shown in £):

Operational Savings		
	Pressure	**Saving**
Loss of income from departure charges	84,200	
Loss of car park charge income	70,000	
Additional income		(45,307)
Pay pressures	124,412	
Reductions in staffing		(69,845)
Non pay (contracts)	105,591	
Reduced utilitites costs		(59,015)
Reduced rates charges*		(36,043)
Increases in maintenance efficiency		(118,363)
Reduction in IT developments		(48,350)
Reduction in Admin costs		(9,716)
Rental income saving		(543,945)
	384,203	**(930,583)**
Overall position		**(546,380)**
Overall saving on net operational costs		**6.1%**

3.53 At this stage, it is not anticipated that SYPTE will make material changes to its structure as it pauses to allow for the implementation of a new management structure recently approved by the CA Leaders following the endorsement of the SYPTE Executive Board. The following chart highlights, however, that - in line with partner authorities - staffing has been reduced considerably in recent years:

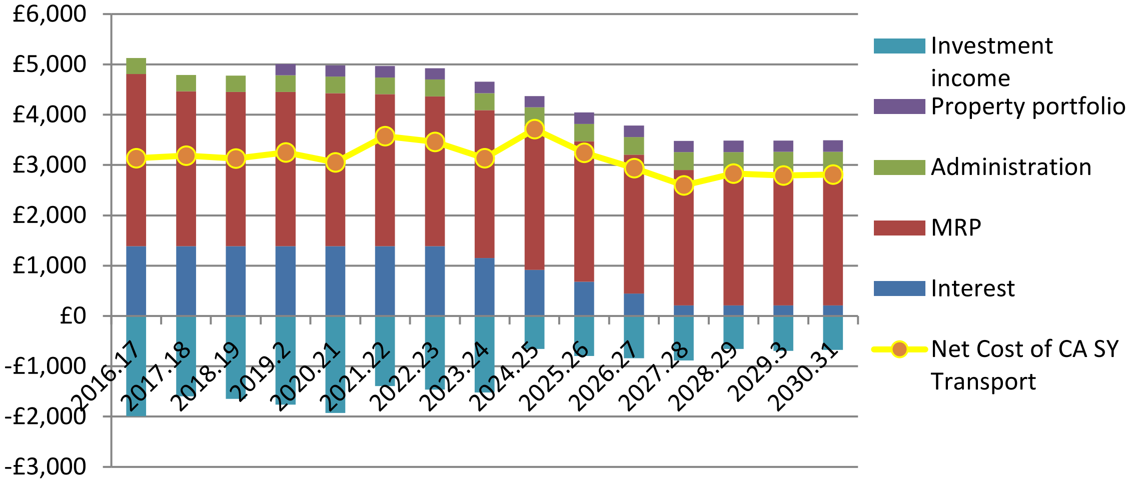


3.54 The CA's net cost base is itself highly sensitive to investment yields. The CA currently holds a significant investment portfolio of c. £200m, the majority of which relates to the cash SYPTE has accumulated to pay down the expensive loans previously referred to. This cash asset is placed on deposit to earn income until it is required.

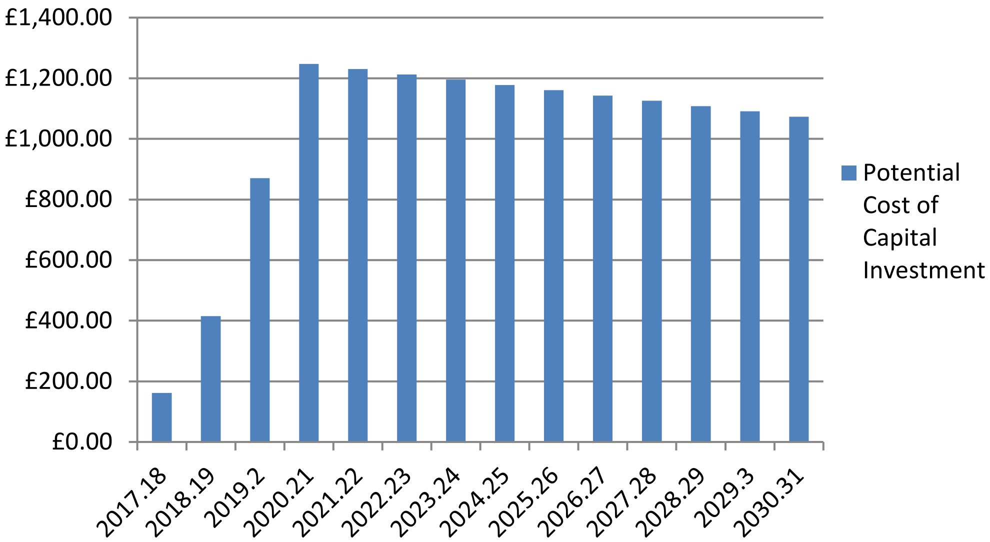
3.55 Following the EU referendum and falling value of the £ investment returns have worsened, and forecasts suggest they will not improve for some time. Erring on the side of prudency, treasury colleagues recommend that low investment yields be forecast for the foreseeable future. This reduces the amount of income generated from cash assets, and accounts for a c. £400k write down on our anticipated investment generated income for financial year 2017/18.

3.56 The CA will continue to lend cash to partner authorities who require it. Over the last two years, loans have been forwarded to Rotherham, Sheffield, and Doncaster at rates favourable to both the CA and those authorities. This creates a virtuous cycle where the income can be recycled into supporting the levy.

3.57 The following graph shows that over the appraisal period to 2031 the CA's net cost base remains around £3m, despite a number of fluctuations:



It is also noted that a new line has been added for the costs of borrowing to fund two capital schemes that SYPTE has a contractual liability to deliver. How these schemes proceed may change, but at this stage it is prudent to budget for costs per the mandates completed by SYPTE:



Next Steps

3.58 The CA and SYPTE are continuing to work to find savings and mitigations to deliver the levy reductions asked for in full.

3.59 These potential savings continue to fall into the three categories detailed earlier:

1. Operational efficiencies;
2. Financing interventions and use of reserves; and
3. Policy led decisions.

Operational efficiencies

3.60 The challenge continues to be that SYPTE must operate as efficiently as possible, and South Yorkshire partners have asked for reassurance that SYPTE is doing all it can to operate leanly.

3.61 On this matter it is noted that the recommendations of the White-Young-Green report have by-and-large been implemented. The appended SYPTE Executive Board report details SYPTE's budget plans and operational efficiencies in more detail.

3.62 It is also noted that the SYPTE Director General has recently secured approval from the Combined Authority Leaders for a new management structure endorsed by the SYPTE Executive Board. It is anticipated that once this structure is embedded a more informed review of the SYPTE structure could be undertaken.

3.63 Finally, SYPTE and the SCR Executive are working to collaborate more closely following the SCR's move to Broad Street West. The close proximity of the two teams encourages both sides to build upon shared governance and share services to avoid duplication and cost.

3.64 Work is already underway for SYPTE to provide ICT services and extend ICT infrastructure to the SCR. SYPTE and the SCR have also agreed to share a joint resources post to ensure collaboration on shared issues such as facilities management. Meetings have also taken place to better join up wider asset management for the two property portfolios.

3.65 Continued active oversight through the SYPTE Executive Board affords South Yorkshire partners the right to a proactive role in shaping SYPTE's future, and ensure that impending budget challenges are not simply a reactive financial management exercise.

Financing Interventions and Use of Reserves

3.66 Over the last few years most South Yorkshire partners have implemented changes to the way they provide for future debt repayments. These 'provisions' are a charge to the revenue account, and thus a budget line.

3.67 Most of the changes implemented work to slow or defer these provisions in the short to medium term, thereby freeing up budget resource.

3.68 In this way, the changes implemented by partners are similar to those implemented by the CA as part of the restructure of SYPTE's capital financing liabilities. That restructuring created the revenue reserves that are now enabling the sustainable levy reductions.

3.69 Since those reserves were created £12.5m has been released to support levy reductions, and to implement a 10.6% cumulative levy reduction we would release a further £58m by 2031. SYPTE's £30.5m reserve deficit was also extinguished in full, saving a net £6.6m since the restructuring in 2014/15.

3.70 However, these costs do still need to be met into the future. The costs have simply been slowed down. Slowing down debt provisions carries risk, since it is increases the likelihood of refinancing maturing debt rather than repaying it as it falls due because not enough cash has been accrued to meet repayments.

3.71 Of the £103m of capital grants awarded to SYPTE to enable the capital finance liability restructuring, over £40m is provided for on a 100 year asset life. This means that it will be charged to the CA's revenue account over the next 100 years. This represents a bullish approach to managing debt provisions, and is in line with the risk-appetite of partners.

3.72 The CA has committed to reviewing a number of further technical accounting measures that could slow down debt further. The CA's external auditors have asked to review these options in advance of any implementation, and the CA Finance Manager met with them in mid-November.

3.73 One option is recommended to the CA for adoption. This proposal would slow down provisions made to debt incurred before 2007 (when regulations changed) in a manner similar to that undertaken by partner authorities. This would save £2.2m by 2030/31, but cost more in the longer-term.

3.74 To achieve this change the CA will be required to approve a change to its MRP policy statement which will be presented to Leaders as part of the CA's Treasury Management Strategy in March.

3.75 It is recommended that CA Leaders approve the following MRP policy statement adjustment:

'For capital expenditure incurred before 1st April 2008, or which in the future will be Supported Capital Expenditure (expenditure which receives income support from government), MRP will be charged on a flat line basis over fifty years. This will ensure that all debt associated with Supported Capital Expenditure is fully provided for up to the Adjustment A level that is required of us by government within fifty years.

This approach better aligns the charges we make to the General Fund with the funding we receive from government and, importantly, accelerates the rate at which the Authority will provide for this debt over the Authority's previous policy of using the 'regulatory method'. This approach does, therefore, represent a more prudent way of ensuring the Authority can pay down debt in good time.'

3.74 The CA will also look again at how the levy reduction reserves and general contingency reserves could be used to bring forward sustainable savings. Consideration can also be given on an annual basis to releasing amounts from the PFI reserve held to meet the costs of the Doncaster Interchange PFI arrangement. This reserve has been created as PFI credits have exceeded the unitary charge cost (paid by SYPTE) due to inflation and GDP factors, and it is prudent to hold this reserve as a buffer against adverse movements in the future.

Policy-led decisions

3.75 Some of SYPTE's activity and cost-base is discretionary. For example, some valued but unviable bus routes are subsidised to enable their continued operation, whilst SYPTE also continues to support child bus fares.

3.76 Decisions made around this are sensitive politically, but also sensitive in terms of the cost to SYPTE and the funding partners.

3.77 In the past savings have been made through cutting free bus services, reducing the number of supported bus routes, and more recently adding 10p onto the cost of child-concessionary fares.

3.78 Work to-date has sought to protect these areas, with savings and mitigations being found elsewhere. In turn, this protects the end-user of the services.

3.79 However, the CA and SYPTE recognise that as partner budgets continue to come under pressure it is essential that cost transparency on activity is given to partners such that they can make informed judgements on where best to deploy their resource.

3.80 At the time of writing SYPTE could not provide cost information with respect to bus tendered services on a route-by-route basis due to impending changes to routes in Barnsley, nor could information be provided with respect to changes to the subsidisation of child concessionary fares.

3.81 The CA and SYPTE will work to provide this information for future papers.

4. Implications

i. Financial

This paper provides proposals for the South Yorkshire transport revenue budget.

Over a multi-year period the CA/SYPTE have not yet met the asks of the South Yorkshire partners, though they are very close and hope to be able to bridge the gap by the time the levy is set.

Savings and mitigations to-date have been achieved without recourse to difficult decisions around policy-led changes to scope and scale of activity.

However, it is likely that if partners require deeper savings than those currently asked for into the future then these issues will have to come into consideration.

ii. Legal - none

iii. Diversity - none

iv. Equality - none

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Background papers used in the preparation of this report are available for inspection at:
Other sources and references: