Public Document Pack

25 January 2017

To: Members of the Sheffield City Region Combined Authority
Appropriate Officers

This matter is being dealt with by:
Gill Richards grichards@syjs.gov.uk 01226 772806

Dear Member

SHEFFIELD CITY REGION COMBINED AUTHORITY
Monday 30 January 2017

Please find enclosed the item(s) marked to follow on the above agenda – item 15, CA LEP Draft Budget Report and item 18, South Yorkshire Passenger Transport Pension Fund.

Yours sincerely

Gill Richards

Gill Richards
Democratic Services Officer

Encs.

SHEFFIELD CITY REGION COMBINED AUTHORITY

AMP TECHNOLOGY CENTRE, WAVERLEY, ROTHERHAM, S60 5WG 2.00 PM, 30 JANUARY 2017

SUPPLEMENTARY AGENDA

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SCR Combined Authority

30th January 2017

CA/LEP Draft Revenue Budget & Capital Programme

Purpose of Report

This report provides a first draft overview of the resources available to the CA/LEP for the forthcoming financial year.

The report is prepared on the basis that no devolution monies will be received, curtailing the proposed growth in the SCR Executive's structure. Planned revenue activity will be scaled back to meet existing resource.

Capital programme forecasts are at this stage indicative, based upon partner returns from December but also including the LGF3 grant allocations announced on the 23rd January. Forecasts show that the Authority continues to remain materially over-programmed, restricting opportunities for new commissioning.

It is likely that the figures within this report may change before March as options are reviewed.

Thematic Priority

All

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

This paper will be available under the Combined Authority Publication Scheme.

Recommendations

It is recommended that Leaders note that at this stage local authority subscriptions will be frozen for the forthcoming financial year.

It is recommended that Leaders note the on-going difficulty in preparing medium-term revenue budgets on un-committed and volatile income streams.

It is recommended that Leaders note the significant potential growth in revenue programme activity in the skills and employment area in future years, and the concerns around the Authority's ability to adequately resource the activity without gainshare resource.

It is further recommended that Leaders note that despite the LGF3 award, the Authority is still over-programmed on its LGF capital programme. This will require management in the next financial year.

1. Introduction

Executive Summary

1.1 The revenue programmes and budgets discussed in this paper have been prepared on the basis that devolution monies will not flow. In 2016/17 a revenue budget was prepared on a one-year basis in the anticipation that gainshare funding would be received at some point in the year, which would trigger a revised budget.

1.2 It is not now anticipated that the region will receive gainshare in the near-term as uncertainties persist. Accordingly, a medium-term budget will be prepared that allows us to take a longer-term view of existing resource. Activity plans will now be scaled back to meet resource, whilst proposed programme growth will be considered in the context of the capacity of the existing staffing structure.

1.3 The capital programme has been prepared on the basis of LGF3 grant award figures that were released on the 23rd January. At this stage, quarter three forecasts have not been received so returns provided in December have been used. The figures may materially change between now and March. The paper highlights continued over-programming, with an expectation that there will be no further rounds of Local Growth Fund allocations.

1.4 Revenue programmes have been developed on the basis of known commitments from government for funding discreet programmes. At this stage, negotiations are underway with government for a number of material strands of activity that are linked to the devolution agenda.

1.5 Of note in the preparation of these budgets and programmes is:

1. Material future year uncertainty around our income streams, in particular retained business rates and capacity grants awarded by government to LEP areas;
2. Insufficient resource to fully recruit to the new SCR Executive structure now that gainshare resource is unavailable
3. The potential need to fund further rounds of devolution consultation, and allocate resource to cover another legal challenge
4. The need to consider the sustainability of our business growth activity that is currently resourced from the finite LGF revenue reserve
5. The potential significant growth in revenue programmes to be operated in the skills and employment work streams which draw into question the Authority's ability to adequately control and resource the activity within existing capacity
6. Over-programming on the capital programme despite the announcement of a further £36m of resource for the region through the LGF3 award, with no further LGF funding anticipated

1.6 The Authority will be confronted with a number of challenges in the coming years as it attempts to manage a number of financial difficulties from a position of relative weakness.

1.7 Revenue income streams from government are committed on a year-by-year basis, whilst retained business rates due to the region from the Enterprise Zone remain stubbornly difficult for partners to accurately forecast. This makes medium-term planning difficult, and prejudices the Authority's ability to resource the SCR Executive staffing structure with confidence.

1.8 The region is also exposed to unpredictable costs as the issues around the judicial review and devolution consultation have shown. Provision will be taken within the Authority's budgets to manage these risks, restricting the amount of resource available for other priorities.

1.9 These issues will be exacerbated by the level of risk the region could be exposed to if it is to proceed with plans to take on major new strands of activity around adult education and work and health budgets from government. Material concerns persist that the Authority does not have the balance sheet strength nor staffing capacity to take on significant complex net spheres of activity without more financial and human resource.

1.10 Set against this, the Authority continues to operate with a relatively low level of reserves to help guard against financial shock. These reserves were depleted during the year to manage devolution costs, but are now likely to be restored through judicious use of in-year staffing underspends. In the future, we are unlikely have the benefit of such underspends.

1.11 Without gainshare the Authority must seriously consider its funding mix and the call upon partners for resource.

1.12 This paper presents only draft proposals at this stage. The paper presents a budget broadly similar to that operated to in 2016/17, but with concerns over future funding and financial exposure. Proposals within this paper are likely to change as officers consider options. A budget and capital programme will be brought to the Leaders on the 22nd March for approval.

2 Background

2.1 The resource available to the region to deliver upon its SEP comes in the form of capital and revenue funding.

2.2 The capital programme and revenue budgets set out how that resource will be used in both the forthcoming financial year, but also future years.

2.3 The CA/LEP revenue budgets and capital programme are still relatively immature, reflecting that the Authority is still very much a ‘start-up’.

2.4 Activity is growing rapidly, and cost mixes have changed. The SCR Executive has recently undergone a major restructuring exercise that would see staffing numbers grow from c. 30 posts to 97 if fully staffed.

2.5 The capital programme has also grown rapidly, from £0 in 2014/15 to £97m in 2016/17.

2.6 Managing this growth in the face of uncertain income streams is difficult.

2.7 The Authority has a significant capital programme, but limited revenue resource for core functions. This means that the Authority is acting with a relative imbalance in its funding. Revenue resource would allow us to resource teams to ensure that we deploy our capital resource in an efficient and effective manner. Without that revenue resource the Authority continues to operate with under-staffed teams, placing strain on both officers and process.

2.8 This remainder of the report will be divided into the following sections:

1. Forecast revenue budgets for the forthcoming years
2. Forecast revenue programmes for the forthcoming years
3. Forecast capital programme for the forthcoming years

2.9 The paper will seek to highlight the key financial challenges facing the authority over this period.

2.10 At this stage proposals are only in draft form. This recognises that income forecasts have only been received in the last fortnight. Work is underway to identify what posts from the new SCR Executive structure can be afforded from current and forecast resource on a prioritisation basis.

3 CA/LEP Revenue Budget

<u>Reserves</u>

3.1 The starting point for the CA/LEP revenue budget is to consider the forecast outturn position as at quarter 3, and the associated impact on the reserves position.

3.2 This shows that the region expects to return a surplus on its activity of c. £700k.

3.3 This material underspend has arisen for two principal reasons:

1. On-going staffing underspends that have accrued whilst the SCR Executive restructured its establishment structure; and,
2. A material correction of £585k on retained business rates due to the region from the Enterprise Zone recognised in financial year 2016/17.

3.4 The second issue is an on-going problem that highlights the difficulty partners have in accurately forecasting what rates will be due to the Authority in any one year, let alone future years. The correction recognises that forecasts for income due to the Authority were much lower than actually accrued.

3.5 Accordingly, the Authority expects to go into financial year 2017/18 with general fund reserves of:

CA/LEP Reserves	Status	2016/17	Draw	Contribution	2017/18
		£'000	£'000	£'000	£'000
General Contingency	Available	£646	£0	£700	£1,346
LGF Business Growth	Earmarked	£3,869	-£1,064	£0	£2,805
		£4,515	**-£1,064**	**£700**	**£4,151**

3.6 The LGF business growth reserve is earmarked under agreement with government for business growth activity including the Growth Hub and Access to Finance teams.

<u>Income</u>

3.7 In 2016/17 the CA/LEP budget forecast to have general income streams of £5,052k. This was revised upwards by £585k at quarter 3 to reflect the correction to Enterprise Zone retained rates.

3.8 The Authority's income forecasts for 2017/18 are materially lower than this at £4,315:

			2016/17	2017/18	Variance
Forecasts	**Funder**	**Status**	**£'000**	**£'000**	**£'000**
Enterprise Zone Business Rates	Local Partners	Forecast	£2,724	£3,133	-£410
Adjustment for Prior Year Enterprise Zone Business Rates	Local Partners	Forecast	£904	-£711	£1,615
Total Enterprise Zone Business Rate Income	**Local Partners**	**Forecast**	**£3,628**	**£2,423**	**£1,205**
Base LEP Subscriptions	Local Partners	Committed	£204	£204	£0
Transport Hub LEP Subscriptions	Local Partners	Committed	£1,000	£1,000	£0
LEP Grants	Government	Committed	£500	£500	£0
Investment Income	SCR	Forecast	£284	£188	£96
Traded Income	SYITA Properties	Committed	£20	£0	£20
Total Revenue Resource			**£5,636**	**£4,315**	**£1,321**

3.9 Again, the considerable variance is due to a forecast correction on the Enterprise Zone rates due to the region in this financial year. This has arisen because of delays in build completion to a number of significant units opening at Markham Vale, the rates for which had been budgeted.

3.10 Forward forecasting by Chesterfield colleagues indicates that they expect business rates accrued at Markham Vale in 2016/17 to be around £724k below budget assumptions. Final certification of these results will come in the autumn of the next financial year, but means that it is prudent to recognise this write down in income at budget setting.

3.11 It has been previously recognised that the business rates generated from the Enterprise Zone are unsuitable for resourcing sticky costs such as salaries. Inherently, growth on the Enterprise Zone is difficult to forecast, since there are many variables which are outside of the control of billing authorities. In recent years there have been material corrections to budgeted numbers to recognise both shortfalls in income and growth:

3.12

	2015/16	2016/17	2017/18
Total	**£'000**	**£'000**	**£'000**
Base Forecasts	£1,208	£2,724	£3,133
Budgeted Adjustments	£0	£319	-£711
Unbudgeted Adjustments	-£15	£585	£0
	£1,193	**£3,628**	**£2,423**

3.13 At the time of writing the Authority's Chief Financial Officer has recommended that the Authority take the surplus generated this year (16/17) immediately to its reserves to be offset against the forecast write down on rates for the following year.

3.14 This will have the benefit of smoothing the spike in income this year and the loss of income in the following year:

	2014/15	2015/16	2016/17	2017/18	2018/19
EZ Rates	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Forecast Budget	£581	£1,208	£2,724	£3,133	£3,133
Prior Period Adjustments	£0	£0	£319	-£711	£0
Reserve Contributions	£0	£0	£0	£585	£0
Total EZ Resource	**£581**	**£1,208**	**£3,043**	**£3,008**	**£3,133**

3.15 That the Authority is able to do this is largely fortuitous. Had the Authority had to write down 2017/18 income by over £700k without recourse to the unexpected surplus, the Authority would have had to reduce operating budgets considerably or expend the entirety of its general revenue reserve.

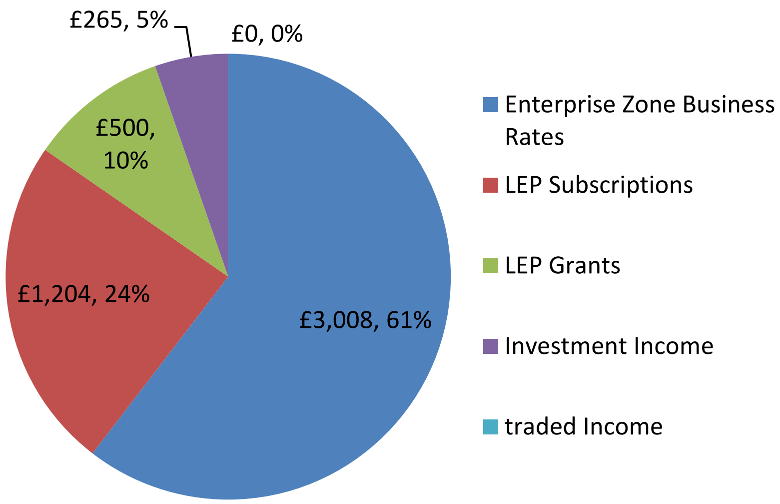
3.16 Managing EZ rates in this manner means that our income profiles for the year are only marginally changed against 2016/17 levels:

	2016/17		2017/18		
	Base Budget		**Base Budget**		**Variance**
Forecasts	**£'000**	**%**	**£'000**	**%**	**£'000**
Enterprise Zone Business Rates	£3,043	60%	£3,008	60%	£35
LEP Subscriptions	1205	24%	£1,204	24%	£1
LEP Grants	£500	10%	£500	10%	£0
Investment Income	£284	6%	£265	5%	£19
traded Income	£20	0%	£0	0%	£20
	£5,032		**£4,977**		**£55**

3.17 Investment income had been forecast to reduce to reflect that we will hold less cash on deposit. Traded income arose from the staffing of SYITA Properties Ltd from SCR officers. This company will be liquidated in the new financial year, with the assets and cash flows managed through the South Yorkshire transport side of the region's budgets.

3.18 This lost income could be made up from the balance of the Authority's forecast underspend for the current financial year (£115k after adjustment for the EZ rates taken to reserves).

3.19 The following graphs highlight that the region remains sensitive to Enterprise Zone income:



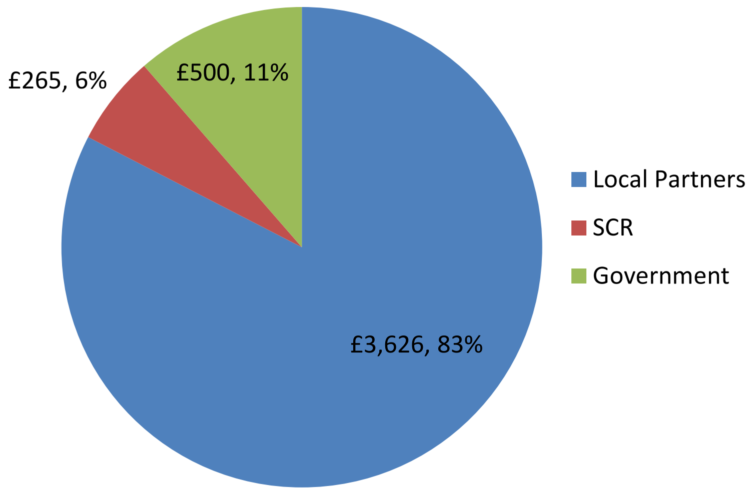
3.20 Reliance on this income stream is problematic when around 14% of the Authority's other sources of funding are uncommitted or susceptible to interest rate fluctuations. The following table shows future year forecasts. At this stage, there is material uncertainty on whether government will continue to pay LEP capacity grants beyond the forthcoming year:

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Income Stream	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
EZ Business Rates	£3,043	£3,008	£3,133	£3,133	£3,133
LEP Subscriptions	1205	1205	1205	1205	1205
LEP Grants	500	500	*500*	*500*	*500*
Investment Income	£284	£265	*225*	*255*	*285*
	£5,032	**£4,978**	**£5,063**	**£5,093**	**£5,123**

3.21 Should the Authority lose government support it will be required to reduce its operational budgets by c. 10% or look for other funding streams.

3.22 Currently, most funding comes from local partners. This is principally through the retained business rates, but also through subscriptions. Subscriptions consist of the 'base' LEP subscriptions of £204k, supplemented by £1m for the costs of the strategic transport hub which was migrated from SYPTE to the SCR Executive.

3.23



3.24 It is proposed that subscriptions for the coming year will be allocated as follows:

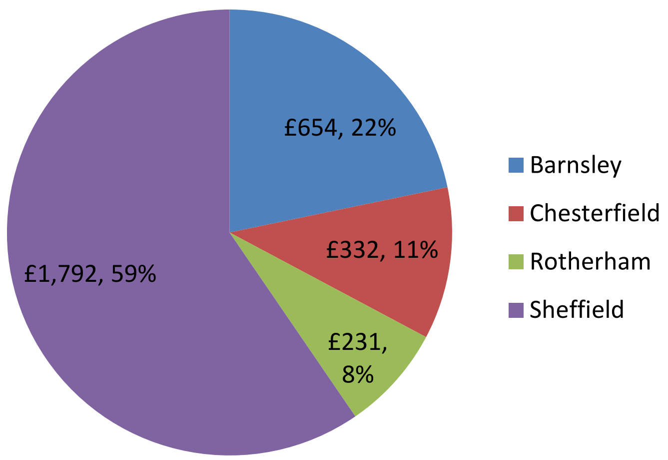
3.25

	2017/18	2017/18	2017/18	2016/17	
	Base	**Transport**	**Total**	**Total**	**Variance**
Partner	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Barnsley	£32	£174	£206	206	£0
Bassetlaw	£4	£0	£4	4	£0
Bolsover	£4	£0	£4	4	£0
Chesterfield	£4	£0	£4	4	£0
Derbyshire Dales	£4	£0	£4	4	£0
Doncaster	£41	£222	£263	264	-£1
North East Derbyshire	£4	£0	£4	4	£0
Rotherham	£36	£190	£226	226	£0
Sheffield	£76	£415	£491	489	£2
	£205	**£1,000**	**£1,205**	**£1,205**	**£0**

3.26 Base subscriptions are charged based upon a mechanism agreed in 2013 which has not been revisited since, whilst transport hub contributions are allocated based upon population size at the South Yorkshire level, per the agreement made as part of last year's budget setting process. Variances to 2016/17 represent growth in Sheffield's population compared to the other South Yorkshire districts.

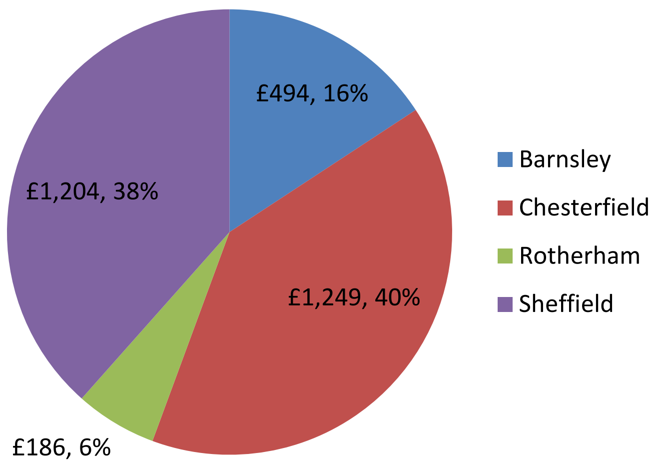
3.27 Enterprise Zone retained rates are forecast to come from the following partners in 2017/18:

3.28



3.29 The figures used for the graph above include adjustments for prior year under and over forecasting. Adjusting these numbers for base 2017/18 forecasts changes the position markedly:

3.30



3.31 On top of its general resource the Authority will also look to recharge costs into grant programmes where it is appropriate to do so. This recognises that the costs incurred in delivering programmes should be apportioned to that activity such that there is full cost transparency.

3.32 For the forthcoming year, what we can charge depends largely on:

- What programmes are run;
- What the terms and conditions of grants are; and
- What staffing structure the CA operates.

3.33 Under current proposals it is anticipated that the region could recharge costs as follows:

3.34

	2017/18
Resource	**£'000**
Forecast gross Income	£4,978
Forecast Recharges:	
Revenue programmes	£571
Capitalisations	£793
Total Recharges	£1,365
Total Forecast Resource	**£6,343**

3.35 Accordingly, the region has gross resource for around £6.3m of activity in 2017/18 (£6.5m 2016/17).

Expenditure

3.36 The Authority's expenditure budgets are largely made up of staffing costs.

3.37 Gross staffing costs made up around 52% of the revenue budget in 2015/16, though the budget for staffing in the year is around £1.3m underspent before the costs of agency staff and consultants.

3.38 This significant underspend has accrued as a result of the SCR Executive's restructure which has taken most of the year to conclude. Whilst this restructure was underway, posts were held vacant and departing officers were not back filled. This placed considerable strain on officers and systems.

3.39 The SCR Executive's restructure has now concluded. The new structure was designed to reflect an operating environment in which gainshare monies would flow, and the Authority would have additional burdens to manage. The structure anticipated 97 officers.

3.40 The cost of this new structure would stand at £4.9m p/a before recharges, and net £3.6m after deductions for rechargeable activity.

3.41 This would represent a material increase on the 2016/17 budget for staffing, with an increase of 35 officers:

3.42

	2016/17	2017/18	Variance
Item	**£'000**	**£'000**	**£'000**
Gross Staffing	£3,285	£4,873	-£1,588
Recharges	£651	£1,258	-£607
Net Staffing	**£2,634**	**£3,615**	**-£981**
FTEs	**62**	**97**	**-35**

3.43 Without the associated increase in resource that would have flowed from gainshare, this level of staffing cost would not be sustainable without significantly reducing the other budgets that make up the balancing 48% of the authority's net revenue budget in 2016/17.

3.44 These include budgets for marketing and communications, SEP development, supplies and services, and business support functions provided by partners:

3.45

2016/17 Budget by Cost Type	Revised Budget	
Net Revenue Expenditure	**£'000**	**%**
Staff	£2,634	52%
SEP Development	£988	20%
Supplies & Services	£346	7%
Business Support	£280	6%
Transport	£59	1%
Premises	£100	2%
Marketing & Comms	£645	13%
	£5,052	

3.46 Recognising that a devolution proof structure is not affordable without devolution monies, finance officers have worked with SCR leadership to conduct a resource rationing exercise that helps determine what costs would be affordable from the more limited resource available to the Authority.

3.47 This exercised has produced a prioritised structure, with effective ranking of posts into three generic pools:

1. Committed posts;
2. Business critical posts; and,
3. Activity/resource contingent posts

3.48 This ranking allows us to determine which posts we are currently funding and will continue to do so; those that are critical for the effective running of the Authority; and those that would be recruited to if activity and resource flowed at a later date. Business critical posts reflect those that have been largely filled by temporary resource whilst a recruitment freeze was maintained.

3.49 The aim of this exercise was to fill as many of pools 1 and 2 as possible, whilst also taking account of the associated overhead costs for officers, and the incremental increase in business support costs that would come from more officers and more activity.

3.50 This exercise has resulted in a draft staffing structure based on 69 officers. Seven more than in the 2016/17 budget, but 28 (and 29%) short of the full structure. This structure resources most pool 1 and 2 posts.

3.51 At this stage, this is still a draft structure which may change materially as work continues in advance of March when the budget will be set. The following table shows the forecast net costs (after recharges into programmes) of the structure:

3.52

	FTE	Net Cost
		£'000
Business Support and Investment	3	£124
Corporate Services	9	£265
Growth Hub	11	£0
Growth Hub – ESF Enhancement	1	£0
Housing, Investment & Planning	3	£92
Investment	5	£255
Operational Contracts	6	£197
Programme Management Office	4	£0
Policy	6	£314
Programme Assurance	3	£81
Skills, Employment & Education	4	£203
Senior Leadership Team	4	£332
Strategy and Corporate Affairs	7	£322
Transport	3	£165
	69	**£2,350**

3.53 Despite the increase in officers this cost compares favourably against the current budget of £2.6m, and recognises – in part – the work done to properly apportion costs to programmes of activity.

3.54 The following table shows how the cost composition of the net budget (after recharges and capitalisations) fares against the prior year under current assumptions.

3.55

Net Revenue Budget Costs	2016/17		2017/18		Variance
	£'000		£'000		£'000
Staffing	£2,634	52%	£2,350	48%	£284
SEP Development	£988	20%	£980	20%	£8
Marketing & Communications	£645	13%	£645	13%	£0
Business Support	£280	6%	£464	9%	-£184
Supplies and Services	£346	7%	£324	5%	£22
Accommodation	£100	2%	£88	2%	£12
Travel	£59	1%	£123	3%	-£64
	£5,052		**£4,974**		**£78**

3.56 The increase in costs associated with business support reflect the request from the SCR Executive in consultation with the statutory officers for increased professional support as programmes develop, with the cost increase equating to one additional legal, finance, and procurement officer.

3.57 Total business support costs are forecast as follows:

	£'000
Finance	£200
Legal, Governance, HR	£210
Procurement	£50
Internal Audit	£25
	£485

3.58 Much work has been undertaken during the year to identify cost savings in supplies and services, and drive down accommodation costs by sharing services with SYPTE.

3.59 SEP development budgets are allocated on a bidding basis to ensure that there is focus and corporate control on the use of advisors. This budget has resourced 33 individual commissions in 2016/17 including the review into governance, the SEP refresh, and other key activities. In the new year, known pressures around the need for a transport strategy refresh, and a potential further round of devolution consultation and associated legal costs mean that it is prudent to retain a significant resource for this activity. After provision for these costs, the Authority will only have around £185k to resource all new asks including bid writing support, and any consultancy or agency staff required:

	2017/18	
SEP Development	**£'000**	**Comment**
Devolution Consultation	£320	Per 2016/17 assumptions
Legal Cost Provision	£400	Based on 2016/17 forecasts
Transport Strategy Refresh	£75	Known requirement
Uncommitted	£185	
	£980	

3.60 Marketing and communication budgets are similarly held corporately and distributed on a bidding basis. This budget is expected to resource the Horasis conference in 2017/18 (c. £300k) and continue to support LEP priority areas around communication.

3.61 The following table shows the inflationary impact of the expenditure items over time. Staffing costs have been inflated to reflect movement through the BMBC grading structure with pay awards at 1%, whilst other costs are also inflated by 2% for Bank of England target inflation:

	2017/18	2018/19	2019/20	2020/21
Net Budget Costs	**£'000**	**£'000**	**£'000**	**£'000**
Staffing	£2,350	£2,391	£2,422	£2,448
SEP Development	£980	£1,000	£1,020	£1,040
Marketing & Communications	£645	£658	£671	£684
Business Support	£464	£473	£483	£493
Supplies and Services	£324	£330	£267	£272
Accommodation	£88	£90	£92	£93
Travel	£123	£125	£128	£131
	£4,974	**£5,067**	**£5,082**	**£5,161**

3.62 Based on current income assumptions though the budget will be balanced broadly over the coming years, though cost inflation exceeds our income flows based on current forecasts:

	2017/18	2018/19	2019/20	2020/21
Net Revenue Budget	**£'000**	**£'000**	**£'000**	**£'000**
Total Costs	£4,974	£5,067	£5,082	£5,161
Total Income	£4,978	£5,063	£5,093	£5,123
Reserve Requirements	**£4**	**-£4**	**£11**	**-£38**

3.63 Work will continue between now and March to ensure that the cost mix is correct for the organisation, and that critical activity is adequately resourced.

4 Revenue Programme Activity

4.1 Revenue programme activity consists of the time-limited pieces of work that are funded discreetly from grant.

4.2 These grant work streams principally fall around the business growth and skills work streams.

4.3 Over the coming years this activity is forecast to increase dramatically in the skills and employment area as devolution of powers and funding could potentially progress three new work streams. It is worthy of note, however, that the two principal programmes were part of the devolution deal, with the final programme was linked to one of the devolution programmes.

<u>Business Growth</u>

4.4 In 2015, the region agreed with government to 'swap' £4m of capital resource for revenue grant. Government agreed to the request on the privso that the grant would be spent on business growth activity.

4.5 This grant was taken to the Authority's reserves and is now released on an annual basis to meet the costs of the Growth Hub and Access to Finance teams, along with individual projects that support the business growth aspirations.

4.6 This activity has also been supported for the past two years by direct government grant funding for the Growth Hub, which has allowed the region to extend the period over which the Hub would operate by a further year. The region will receive a further tranche of £410k funding for the Hub in 2017/18.

4.7

Business Growth Revenue Programme	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Growth Hub	£580	£540	£500	£500	£0
Access to Finance team	£373	£0	£0	£0	£0
Launchpad	£117	£117	£0	£0	£0
RISE	£50	£50	£0	£0	£0
Hub Enhancement	£110	£109	£0	£0	£0
Total Spend	£1,230	£816	£500	£500	£0

4.8 The table usefully highlight that activity cease under current forecasts by 2020, presenting the region with a cliff-edge in provision.

4.9 The activity's funding principally comes from the LGF reserve:

Business Growth Revenue Programme	2017/18	2018/19	2019/20	2020/21	2021/22
Funding	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Growth Hub grant	£410	£0	£0	£0	£0
LGF Reserve	£820	£816	£500	£500	£0
Total Resource	**£1,230**	**£816**	**£500**	**£500**	**£0**

4.10 The LGF reserve profile is forecast to be in credit over this period principally due to the delay in AFCOE activity in 2015/16:

4.11

LGF Revenue Reserve	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Forecast balance b/f	£2,805	£1,985	£1,169	£669	£169
Draws	-£820	-£816	-£500	-£500	£0
Forecast balance c/d	£1,985	£1,169	£669	£169	£169

4.12 This balance could be used to support an extension of AFCOE's activity into the future. AFCOE provide advice to business seeking financial support for growth, but also provide the Business Investment Fund work stream with financial appraisals on businesses seeking grant from the fund.

4.13 Without this provision, the BIF panel of LEP members and SCR officers would be unable to make informed decisions on a businesses' suitability for support. As such, it is likely that the role AFCOE play will need to be replicated even if the delivery model does not remain the same.

4.14 Equally, the region faces a cliff-edge in provision relating to the activity of the Growth Hub. The Hub is staffed with officers on fixed –term contracts, so theoretically the activity could be stopped once funding runs out.

4.15 However, should the region and partners wish to sustain the activity into the future, a new funding source will be required to enable it to continue.

<u>Skills and Employment</u>

4.16 The SCR skills and employment team have been successful over the last few years in attracting government grant for their activity.

4.17 This activity is normally delivered by partner organisations on an agency basis, with the SCR acting as strategic commissioners.

4.18 In 2017/18 it is likely that number of grant funded activities will be under way, whilst there is also ongoing discussion with government around the devolution of significant powers and funding for adult education budgets, an employability pilot, and a working health trial.

4.19

Skills & Employment Revenue Programmes	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Apprenticeship Grant for Employers	£657	£0	£0	£0	£0
Skills Bank	£221	£0	£0	£0	£0
Work and Health Programme	£58	£0	£0	£0	£0
Adult Education	£0	*£25,000*	*£25,000*	*£25,000*	*£25,000*
Employment Support Devolution Pilot	£0	*£3,000*	*£3,000*	*£3,000*	£0
Health Led Employment Support Trial	£0	*£5,500*	*£5,500*	*£0*	*£0*
	£936	£33,500	£33,500	£28,000	£25,000

4.20 At this stage there is material uncertainty on the three large programmes to commence in 2018. All programmes are still under negotiation with government as they are within the existing devolution framework; these negotiations could impact upon both the timing and value of the programmes.

4.21 A working group has been set up with the SCR Executive that is considering implementation plans, and the possibility of using European resource to increase the value of the activity. Programme management and administration costs have been built into the draft implementation plans to ensure the work stream can be adequately managed.

4.22 Should these programmes progress the region will need to consider the financial risk around operating such large programmes on both its current capacity and balance sheet strength.

4.23 The larger and more complex the programmes the SCR will enter into, the more it will require stable and adequate reserves to manage the inevitable risk on activity. It is unlikely that the current level of reserves will remain appropriate should these programmes be entered into. Operating complex programmes to this value will also place serious strain on existing capacity, systems, and structures. The Authority will need to seriously consider whether it can adequately resource and control this activity without the gainshare resource that would have resourced the larger SCR structure.

<u>Reserve Profile</u>

4.24 Should the Authority proceed with revenue budgets as detailed in this paper, reserve profiles would change as follows:

4.25

CA/LEP Reserves	Status	2017/18	Draw	Contribution	2018/19
		£'000	£'000	£'000	£'000
General Contingency	Available	£1,346	-£585	£0	£761
LGF Business Growth	Earmarked	£2,805	-£820	£0	£1,985
		£4,151	**-£1,405**	**£0**	**£2,746**

5 LGF Capital Programme

5.1 The LGF capital programme is the programme funded through the Authority's Growth Deals with government, and is the centre piece of the Authority's investment programme.

5.2 The LGF programme is differentiated from the South Yorkshire Transport programme in scope, funding, and scrutiny.

5.3 The LGF programme is managed and commissioned from the SCR Executive, and monitored by the CA Leaders group. South Yorkshire Transport capital activity is monitored through the Transport Committee.

5.4 Funding is received from government in the form of Local Growth Fund allocations. Under Growth Deals 1 and 2 the region was awarded £325m along the following profile:

Programme Funding	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	21+	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Yearly allocation	£39,848	£75,622	£78,038	£35,363	£38,663	£42,999	£13,994	£324,527
funding bf	£-	£18,270						
funded position	**£39,848**	**£93,893**	**£78,038**	**£35,363**	**£38,663**	**£42,999**	**£13,994**	**£324,527**

5.5 Throughout 2016/17 there have been concerns around programme underspend and what this may mean for the resource. Government has previously indicated that unspent resource would be clawed back, or impact upon future year allocations.

5.6 In 2016/17 an ‘early-call’ was initiated to enable the Authority to fund shovel-ready schemes that met our Assurance Framework criteria. It was anticipated that this would allow the Authority to manage the underspend, but would in turn create a converse problem by going over-programmed.

5.7 The early-call has resulted in proposals for £45m of schemes to be progressed, which would put the Authority over-programmed by that value. This over-programming means that the in the medium-term the Authority would not have enough resource to fund its programme.

5.8 The following table indicates that the Authority would run out of resource by 2017/18 without additional funding becoming available:

5.9

Cumulative	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	21+
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Funding	£39,848	£115,470	£193,509	£228,871	£267,534	£310,533	£324,527
SCRIF spend	£18,035	£52,088	£99,078	£135,807	£174,961	£200,627	£217,148
Early Commission spend	£-	£39,574	£45,433	£45,433	£45,433	£44,233	£44,233
Transport spend	£3,075	£12,870	£26,578	£27,578	£27,578	£27,578	£27,578
Skills spend	£319	£5,319	£17,308	£19,808	£23,000	£28,000	£28,000
BIF spend	£33	£4,733	£14,633	£24,733	£35,633	£46,733	£51,833
Corporate spend	£116	£886	£1,795	£2,596	£3,397	£4,198	£4,999
Total Spend	**£21,578**	**£115,470**	**£204,825**	**£255,955**	**£310,002**	**£351,369**	**£373,791**
Funding Surplus / Deficit	**£18,270**	**£0**	**-£11,316**	**-£27,084**	**-£42,468**	**-£40,836**	**-£49,264**

5.10 However, on the 23rd January government announced that the region had been awarded £36m through the Growth Deal 3 process.

5.11 This funding will flow from 2018/19 and significantly reduces the over-programming, but does not address the unfunded position in the forthcoming financial year, nor the two following year:

5.12

Programme / Funding	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	21+	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Yearly allocation	£39,848	£75,622	£78,038	£44,865	£50,947	£57,543	£13,994	£360,857
Funding bf	£-	£18,270						
Funded position	**£39,848**	**£93,893**	**£78,038**	**£44,865**	**£50,947**	**£57,543**	**£13,994**	**£360,857**
Spend	£21,578	£93,892	£89,355	£51,130	£54,047	£41,367	£22,422	373,791
In year under / overspend	-£18,270	£0	£11,317	£6,265	£3,100	-£16,176	£8,428	£12,934
% under / over programme	-46%	0%	15%	15%	7%	-28%	55%	4%

5.13 The above table shows that the Authority expects three years where on paper it does not have enough resource to meet commitments, leaving it £13m over-programmed over the course of the programme.

5.14 However, this needs to be considered in the context of the on-going programme slippage. Operating with a 15% over-programmed position in the forthcoming year is considered prudent when set against a 45% programme slippage figure for 2016/17.

5.15 Though over-programming is prudent in the near-term, the Authority will need to balance its programme over time. Without recourse to gainshare funding, and with doubts arising on further round of Local Growth Fund monies, this means that the Authority may have to balance the programme without recourse to new monies.

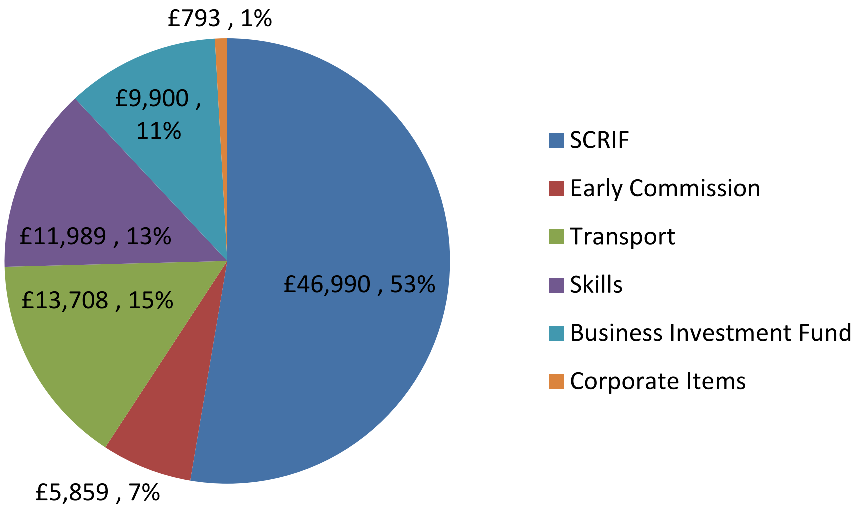
5.16 Inevitably, this will mean:

- Reviewing all programmes for project level efficiencies; and,
- Reviewing notional allocations for currently uncommitted activity which may be displaced.

Government have also indicated that there will be no further rounds of LGF allocations. Accordingly, it follows that without gainshare resource or access to a new funding stream there will be no further commissioning of priority schemes.

5.17 These issues have been discussed in detail through the SCRIF programme review which was recently taken to the Infrastructure Executive Board.

5.18 In 2017/18 spend will continue to be principally directed towards the SCRIF programme:



5.19 At this stage the following SCRIF schemes are expected to spend in year:

Scheme	Authority	Value
		£'000
Harworth and Bircotes Step Change Programme Road Improvements	BDC	£225
Harworth and Bircotes Phase 2	BDC	£500
Worksop Phase 2	BDC	£185
M1 Junction 36 – A6195 Dearne Valley Economic Growth Corridor (Phase 1 Hoyland)	BMBC	£2,470
Chesterfield Waterside	CBC	£610
Northern Gateway	CBC	£3,650
Peak Resort	CBC	£2,142
Doncaster Urban Centre - The Civic & Cultural Quarter (CCQ)	DMBC	£635
Doncaster Urban Centre - Colonnades	DMBC	£1,520
DN7 Unity - Hatfield Link Road	DMBC	£7,545
Finningley and Rossington Regeneration Route Scheme - Phase 2 (FARRRS)	DMBC	£6,280
Doncaster Urban Centre - Lakeside Power	DMBC	£1,275
Doncaster Urban Centre - Markets	DMBC	£3,039
Doncaster Urban Centre - St Sepulchre West / Station Forecourt	DMBC	£2,000
Doncaster Urban Centre - Waterfront West	DMBC	£750
Brookhill and IRR Junctions	SCC	£1,150
Claywheels Industrial Park	SCC	£2,353
Grey to Green Phase 1 - Sheffield Riverside Business District	SCC	£56
Knowledge Gateway	SCC	£2,000
Upper Don Valley Flood Alleviation Scheme	SCC	£150
G2G 2 - Castlegate	SCC	£500
Central Retail - SRQ	SCC	£1,521
Parkwood Springs	SCC	£500
EZ Funds	SCR	£2,500
Superfast South Yorkshire	South Yorks	£3,491
		£46,990

5.20 This can be shown on an Authority basis as follows:

Authority	Value	
	£'000	%
BDC	£910	2%
DMBC	£23,044	49%
SCC	£8,230	17%
RMBC	£0	0%
BMBC	£2,470	5%
South Yorks	£3,491	7%
CBC	£6,401	14%
SCR	£2,500	5%
	£47,046	

5.21 Transport spend is principally going towards the Sustainable Transport Exemplar Plan activity, which is now in its final year of funding. A £5m contribution is also proposed for line speed works at Market Harborough, a paper on which is within this pack for approval. £1m is also set aside for transport modelling costs, enabling the region to acquire information necessary to satisfy Department for Transport bid requirements:

Transport	£'000
Sustainable Transport Exemplar Plan	£7,708
Market Harborough Rail Improvements	£5,000
Transport Modelling Tools	£1,000
	£13,708

5.22 The skills programme is split between the competitive fund that is open to bids, and existing named schemes. The competitive fund was held over to allow for the Area Based Review to conclude before resource could be directed to priorities:

Skills	£'000
Glass Academy	£4,989
Rotherham College	£3,500
Competitive Fund	£2,500
Doncaster Rail	£1,000
	£11,989

5.23 The Business Investment Fund was allocated £52m under Growth Deals 1 & 2 with a notional 50:50 split of the fund for indigenous and inward investment. After a slow start, the Fund has now awarded support to 16 individual businesses across the region with negotiation under way to support a number of major inward investors.

5.24 In 2017/18 the BIF fund expects to release grant to a number of indigenous companies, and subject to conclusion of negotiations a major inward investor. The Access to Finance team have also developed a significant pipeline of businesses who may bring forward requests for support:

5.25

Business Investment Fund	£'000
Committed to Indigenous Companies	£1,544
Committed to External Companies	£4,000
Pipeline Projects	£4,356
	£9,900

6. Implications

6.1 Financial

This paper presents an early iteration of the CA/LEP revenue budget and capital programme.

These proposals are likely to change before the 22nd March when they will be presented for approval.

However, a number of key themes are presented including the instability of the revenue budget without gainshare resource. This issue is likely to be brought to the fore should the Authority proceed with proposals to take on a number of significant revenue programmes on the skills and employment area from 2018/19 onwards.

Despite the recent announcement of LGF3 monies, the capital programme is still over-programmed, though at much more manageable levels than previously. Indications from government suggest that there will be no further rounds of LGF money, meaning that there will be no new commissioning rounds.

6.2 Legal – None

6.3 Risk Management - None

6.4 Equality, Diversity and Social Inclusion - None

7. Communications

7.1 None

8. Appendices/Annexes

8.1 None

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Background papers used in the preparation of this report are available for inspection at:

Other sources and references:

SCR COMBINED AUTHORITY

30th January 2017

South Yorkshire Passenger Transport Pension Fund – Pooling Arrangements

Purpose of Report

To delegate to the Passenger Transport Pension Fund Committee approval of the final arrangements and relevant legal agreements for participation of the Fund within the proposed pension pooling arrangements of the Border to Coast Pool

To enter into an appropriate agreement with the South Yorkshire Pensions Authority for the delegation of the functions of the Combined Authority as administering authority of the South Yorkshire Passenger Transport Pension Fund ("SYPTPF") to facilitate participation of the Fund in the Border to Coast pooling arrangements

Recommendations

That the Passenger Transport Pension Fund Committee be given delegated authority to approve the final arrangements and relevant legal agreements for participation of the Combined Authority as administering authority of the South Yorkshire Passenger Transport Pension Fund in the proposed pensions pooling arrangements of the Border to Coast Pool

That the Authority enter into an agreement with South Yorkshire Pensions Authority for the delegation of the functions of the Combined Authority as administering authority of the South Yorkshire Passenger Transport Pension Fund to facilitate participation of the Fund in the Border to Coast pooling arrangements

1. Introduction

1.1 The Combined Authority is the administering body for the South Yorkshire Passenger Transport Pension Fund "SYPTPF") responsibility for which transferred from the former Integrated Transport Authority on 1 April 2014. South Yorkshire Pensions Authority was appointed by the ITA as managing agent to deal with the day-to-day administration of the Fund. This arrangement has continued following the formation of the Combined Authority.

1.2 The Combined Authority has delegated elected member responsibility for oversight of the Fund to a small Committee of members chosen from members of the Transport Committee. However the Authority retains overall responsibility for the Fund. The Committee has been overseeing the work which has been ongoing to establish pooling arrangements for the future management of the investment activities of the Fund in response to requirements of central government to establish such pooled arrangements.

1.3 At its meeting in June 2016 the Authority agreed the principle of participation in the proposed Borders to Coast Pool. The Authority resolved:

1. ***That the recommendation of the Committee with regard to participation in the future governance of the Border to Coast Pool through the South Yorkshire Pensions Authority be approved***

2. ***That the detailed work which has been undertaken through the Committee with regard to participation in the Border to Coast pool be endorsed***

3. ***That authority be delegated to the Committee to continue to consider relevant issues with regard to the development of the Border to Coast pooling arrangement***

4. ***That future reports be submitted to the Authority with regard to the progress of the pooling arrangements and the potential to transfer responsibility for the Fund to the South Yorkshire Pensions Authority as appropriate***

1.4 Work has continued in the meantime following a formal submission in July 2016 by the Borders to Coast Pool of administering authorities, in which the Fund alongside the South Yorkshire Pensions Authority have been looking to participate.

1.5 The Government has approved in principle the business case for the Borders to Coast Pool and detailed work has now reached an advanced stage in respect of the proposed legal and contractual arrangements that need to be established to bring the pooling arrangements into being. The Government requires these to be concluded by the end of March 2017.

1.6 South Yorkshire Leaders were briefed in June 2016 with regard to the detailed principles behind the pooling arrangements which have been established as a requirement by Central Government for future investment arrangements for funds within the Local Government Pension Scheme and the decision of the South Yorkshire Pensions Authority to participate in the Border to Coast Pool. The Combined Authority agreed at its June 2016 meeting to take a similar approach with regard to participation in the Borders to Coast Pool.

1.7 Leaders have been briefed further recently as to the outline of the proposed legal and contractual arrangements which are required to be established for the creation of the Borders to Coast Pool. A formal approval process is required for the Combined Authority to enter into these arrangements as administering authority of the SYPTPF. This report addresses that approval process.

2. Proposal and justification

2.1 Current Position

Transactional Arrangements
The legal and contractual arrangements to establish the pooling of investment activity of the Borders to Coast administering authorities are necessarily detailed and complicated. On behalf of the Combined Authority officers of the SYPA have been working with officers of the other Border to Coast administering authorities and with specialist legal and financial advisers.

2.2 The legal structure which is being proposed will be subject to certification by the Financial Conduct Authority. In outline the structure will provide for an inter authority agreement to secure appropriate governance arrangements to oversee the pooling activity at elected member level through a Joint Committee. A separate company will be formed in which the relevant administering authorities will have a shareholding (excluding the Combined Authority for the reasons explained at paragraphs 4.7 and 4.9 below) which will carry out the investment activity on behalf of the pooling authorities. The company will employ specialist investment staff.

2.3 This legal structure is considered to be fit for purpose and the work to establish the structure and the necessary agreements is being developed with appropriate specialist advice. The Joint Committee will provide for appropriate elected member oversight. Overall the governance arrangements are considered to be appropriate.

2.4 <u>Delegation to the Passenger Transport Pension Fund Committee</u>

A more detailed report is being developed to be considered by all the participating authorities in February 2017 to approve the final transactional arrangements. Some consideration needs to be given as to the most appropriate way to consider the proposals in an appropriate level of detail within the Combined Authority.

2.5 Given the approach which the Combined Authority has taken in delegating the oversight of the development of the pooling arrangements to the Passenger Transport Pension Fund Committee it is proposed that the Committee be given further delegated authority to consider this detailed report and approve the final arrangements. This would avoid the need to call a special meeting of the Combined Authority in February 2017.

2.6 The Committee will continue to act as the principal vehicle for elected member oversight within the Combined Authority of the implementation and subsequent operation of the pooling arrangements. This will involve periodic reporting of the activities of the inter authority Joint Committee and the pooling investment company. However reports will also continue to be presented to the Combined Authority periodically so that Leaders are appropriately informed of ongoing developments given their ultimate responsibility as custodians of the Fund.

2.7 <u>Delegation to the South Yorkshire Pensions Authority</u>

There have been concerns throughout that the cost of participating in the Borders to Coast Pool would have been prohibitively expensive for the South Yorkshire Passenger Transport Pension Fund in view of its small size given that the Pool has taken the view that each participating fund is expected to make an equal contribution to its costs of operation.

2.8 An alternative governance arrangement for participation of the Fund in the Borders to Coast Pool has therefore been progressed which would involve the South Yorkshire Pensions Authority, given it is itself already involved in the pooling arrangements, acting as agent for the Fund. Specialist legal advice has confirmed that such a delegated arrangement is lawful and is a suitable practical governance arrangement. The principle of the SYPA acting as agent was endorsed by the Combined Authority in June 2016 and the transactional documents for the pooling arrangements have been prepared on that basis.

2.9 The SYPA will represent the Combined Authority on the members Joint Committee and on the shareholders committee of the Pool investment company. The Combined Authority will not be a shareholder itself given the disproportionate costs of direct participation. Further legal advice is being sought to confirm that the this structure will be consistent with procurement rules for the carrying out by the pool investment company of the Combined Authority's investment activity but this issue is not anticipated to present a difficulty. It has also been confirmed that this structure will meet FCA requirements for the conduct of investment business.

2.10 In order to formalise this agency arrangement it is necessary to modify the existing agreement between the Combined Authority and the South Yorkshire Pensions Authority to provide for the CA's functions as administering body of the SYPTPF to be delegated to the SYPA under section 101 of the Local Government Act 1972. This goes beyond the scope of the existing agreement which provides essentially that the SYPA provides investment management and related Scheme administration services for the Combined Authority.

2.11 Future role of the Combined Authority as Administering Authority for the SYPTPF

Members were advised in June 2016 that the opportunity was also to be explored whether it would be possible to transfer responsibility for the administration of the Fund from the Combined Authority to the South Yorkshire Pensions Authority. This proposal has been submitted to the Minister for Local Government and is the subject of ongoing consideration and discussion with DCLG civil servants. This would provide a more appropriate long term approach to the oversight of the SYPTPF within the framework of the pooling arrangements given that the Fund is somewhat peripheral to the core business of the Combined Authority.

2.12 Whilst the initial response of the DCLG has been encouraging it is not realistic to contemplate that the necessary public consultation and amending regulations could be passed prior to the need for the Combined Authority to commit formally to the pooling arrangements. However although the legal framework for the pooling arrangements needs to be in place by the end of March 2017 the physical transfer of investments to be managed by the pool investment company will not take effect until 2018. This provides a window of opportunity to progress this alternative approach for the future discharge of the role of administrating authority for the SYPTPF.

3. Implications

3.1 Financial

The proposed participation of the Combined Authority in the governance arrangements of the Border to Coast Pool through delegation of functions to the South Yorkshire Pensions Authority represents a more cost-effective solution for the South Yorkshire Passenger Transport Pension Fund. The alternative would be for the Authority to meet the cost of direct participation in the pooling arrangements which would be disproportionate for the size of the Fund.

Whilst the overall policy rationale for the creation of pooling arrangements is to reduce investment management costs this is unlikely to provide any immediate benefit for the Fund given that it has the opportunity to benefit from the significantly lower costs arising from being an internally managed Fund through South Yorkshire Pensions Authority. However it is a statutory requirement to enter into pooling arrangements in respect of future investment management arrangements.

Most of the legal work and associated external costs associated with the pooling transaction is equally relevant to the participation of South Yorkshire Pensions Authority. So there is no general additional contribution required from the Combined Authority in addition to the resources provided by the SYPA to meet its share of the professional costs of establishing the Pool. However there has inevitably been some additional bespoke work undertaken by the external legal advisers to address some of the discrete issues relating to the SYPTPF. These are anticipated to be in the region of £7,500.

3.2 Legal

Specialist legal advice has confirmed that the proposed participation of the Combined Authority in the governance for the pooling arrangements through delegation of functions to South Yorkshire Pensions Authority can be satisfactorily accommodated.

3.3 Risk Management

None

3.4 Equality, Diversity and Social Inclusion

None

4. Communications

4.1 None

5. Appendices/Annexes

5.1 None

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Background papers used in the preparation of this report are available for inspection at:

Other sources and references:

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