

9th March 2018

SCR CA/LEP Revenue Budget 2018/19

Purpose

This paper presents final proposals for the Sheffield City Region CA/LEP Revenue Budget for financial year 2018/19.

Thematic Priority

All

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

This paper is available under the Combined Authority's publication scheme.

Recommendations

It is recommended that Leaders:

- Approve the proposed CA/LEP revenue budget and associated programmes for 2018/19
- Approve the proposed CA Group reserves strategy and associated Section 73 Officer recommendations at paragraph 2.22
- Note that subscriptions payable by partner authorities will be frozen at 2017/18 levels
- Note that a medium term financial strategy will be brought back to the CA in Summer 2018

1. Issue

- 1.1** The revenue budget and programmes proposed in this paper have been prepared on the basis that any funding directly connected to the SCR devolution deal, for instance gainshare, will not be available in 2018/19.
- 1.2** In the absence of gainshare, the CA/LEP will depend heavily on retained business rates from enterprise zones to resource the core budget. This source of income is susceptible to a variety of risks, further details of which are described in section 2.
- 1.3** The CA is entering a new phase in its development with the acquisition and consolidation of a number of properties which generate a modest but important income stream. However, like business rates there are a number of risks associated with this property portfolio which the CA will need to manage carefully.

- 1.4 The main additional cost to be borne by the CA in 2018/19 relates to the mayoral election which will predominantly be funded through reserves.
- 1.5 In light of these significant financial risks, sensitivity analysis has been undertaken to assess the CA's exposure and to ensure that the CA has a robust reserves strategy. This strategy is set out in **Appendix 3**.
- 1.6 The CA is also required to approve its treasury management strategy (TMS) for the forthcoming year. This is the subject of a separate report due to the level of detail, however it is important to note that the TMS has a pivotal bearing on the CA's investment income budget.

2. Proposal and justification

2.1 This section covers:

- CA/LEP Revenue Budget
- CA/LEP Revenue Programme Activity
- CA Group Reserves Strategy

CA/LEP Revenue Budget

2.2 This paper proposes a core revenue budget of £5.4m plus one-off costs of £2.0m, most of which is for the mayoral election in May 2018. The following section summarises the main components of forecast income and expenditure. A more detailed breakdown of the proposed CA/LEP revenue budget for 2018/19 is shown in **Appendix 1**.

	Ongoing	One-off	Total
	£'000	£'000	£'000
Core Budget			
Core Operational Net Expenditure	£5,356		£5,356
Mayoral Election		£1,885	£1,885
Strategic Asset Management Strategy		£125	£125
Resourced by:			
Income	£5,356	£125	£5,481
Use of Reserves		£1,885	£1,885
	£5,356	£2,010	£7,366

2.4 Core Operational Net Expenditure comprises the CA/LEP's typical day-to-day running costs.

Budget by Cost Type		
	£'000	%
Net Revenue Expenditure		
Staff	£2,370	44%
SEP Development	£1,203	22%
Marketing & Comms	£669	12%
Business Support	£566	11%
Supplies & Services	£373	7%
Transport	£88	2%
Premises	£87	2%
	£5,356	

2.6 The largest cost category is staffing, which accounts for 44% of total core operational net expenditure. This assumes that (a) £2.1m will be recharged to revenue and capital programmes in 2018/19 to bring the net cost down to £2.4m (as stated above), and (b)

current staffing levels are maintained throughout 2018/19, with recruitment requests assessed by the Senior Leadership Team on a case-by-case basis. Staff recharges as a proportion of 2018/19 proposed and potential revenue and capital programmes is 2.4%.

- 2.7** Taken together, the SEP Development and Marketing & Communications budgets account for 34% of total core operational net expenditure. It is proposed to maintain these budgets at broadly the same level as budgeted in 2017/18, and further to retain central control in order to ensure that the money is targeted at those propositions which will accelerate the delivery of the SCR Inclusive Industrial Strategy.
- 2.8** The Business Support budget covers the cost of professional support services provided to the CA/LEP by partner authorities. Such services include finance, HR, internal audit, legal, member support, payroll and procurement.
- 2.9** The remaining 11% of core operational net expenditure is grouped into 3 categories (Supplies & Services, Transport and Premises) and consists of a wide range of organisational running costs, including external audit, facilities management, insurance, IT and staff travel.
- 2.10** In addition to setting a budget for core operational net expenditure, the CA is asked to approve one-off expenditure of circa £1.9m for the South Yorkshire mayoral election due to take place in May 2018, and to note that it has already approved £125k of expenditure to undertake a strategic asset management review of all of the CA group's fixed assets. Due to the scale of the latter project (SYPTTE is investing £375k in the project), it will be reported as a revenue programme.
- 2.11** In order to fulfil the CA's legal responsibilities to plan and prepare for the election, the CA must ensure that adequate resources are in place for the CARO (Combined Authority Returning Officer). By setting a budget, it is not intended to imply a settled policy position within the CA over the issue of the mayoral election.

2.12	Gross cost	Income	Net cost
	£'000	£'000	£'000
Election costs incurred by 4 districts	£1,500		£1,500
Mayoral Address Booklet - printing & postage	£273		£273
Programme management	£87	-£50	£37
Specialist legal advice	£25		£25
Election website development	£0		£0
CARO & LRO fees	£0		£0
Total	£1,885	-£50	£1,835

- 2.13** The CA will need circa £7.3m of resources to fund the 2018/19 budget. £1.9m of the required funding will be drawn down from the CA's limited revenue reserves. The remaining £5.4m will come from four main sources:

- Retained business rates from enterprise zones
- CA/LEP subscriptions from partner authorities
- Investment income
- Government grant

- 2.14** Of the four main sources listed above, only CA/LEP subscriptions and Government grant can be regarded as relatively fixed. Together they account for £1.7m, less than a third of the amount required to fund core operational net expenditure.

2.15	2018/19	2018/19	2018/19
-------------	----------------	----------------	----------------

Income Stream	£'000	£'000	£'000
LEP income			
EZ Business Rates - LA forecasts	£3,444		
EZ Business Rates - Current Year Adjustments	-£300		
EZ Business Rates - Prior Year Adjustments	£1,025		
EZ Business Rates - transfer to risk reserve	-£1,025		
		£3,144	
Transport Hub Subscriptions	£1,000		
Base LEP Subscriptions	£205		
		£1,205	
LEP Grants		£500	
Total LEP Income			£4,849
CA income			
Investment Income - Treasury		£195	
Investment Income - Property Portfolio		£185	
Traded Income - AMPTC		£252	
Total CA income			£632
Total CA/LEP Income			£5,481

- 2.16** Retained business rates account for around £3.1m of budgeted income which is generated from four enterprise zones (EZ) across the city region. This income stream has been proving to be difficult to predict for a variety of reasons, which has made it necessary to take a different approach to forecasting how much income should be recognised for the purposes of setting the 2018/19 budget.
- 2.17** The SCR Finance team has worked with its counterparts in the four billing authorities to calculate the business rates payable for every single property liable to business rates on the four EZ sites, followed by a risk assessment which has resulted in a downgraded forecast in some cases.
- 2.18** For 2018/19, the CA is expected to receive around £3.1m of business rates payable next year (£3.4m gross, but reduced by £300k to take account of risk factors). It is also expected to receive a further £1m of business rates in respect of business rates payable in 2017/18, which reflects in net terms the difference between current year budget and forecast outturn. The latter amount is however a one-off gain for the CA, and it would not be deemed prudent to rely on this income when setting a sustainable budget. Furthermore, the risk assessment process has highlighted that unlike many billing authorities, the CA does not have any financial resilience to cope specifically with unforeseen events such as business closure, revaluation, the award of reliefs or appeals. It is therefore proposed to transfer the £1m to a new earmarked reserve.

CA/LEP Revenue Programme

- 2.19** This paper also proposes a revenue programme totalling £12.0m. A detailed breakdown of the proposed CA/LEP revenue programme for 2018/19 is shown in **Appendix 2**.

CA Group Reserves Strategy

- 2.20** The Chief Finance Officer (also known as the Section 73 Officer) has a duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the Combined Authority is considering its budget requirement.

2.21 An assessment of the adequacy of the level of reserves held by the Combined Authority has been undertaken by the Section 73 Officer. Further details can be found in **Appendix 3** of this report. Given the degree of risk in the 2018/19 revenue budget, the level of CA/LEP reserves is considered low but not inadequate.

2.22 The Section 73 Officer recommends that:

- The CA/LEP General Fund balance be held at around £1m;
- Any underspends on the 2017/18 CA/LEP revenue budget be returned to the General Fund balance to be made available to fund the mayoral election;
- One new CA/LEP earmarked revenue reserve be established to ensure that the CARO has sufficient resources to fund the cost of the mayoral election;
- Two new earmarked reserves be established to provide financial resilience against the two principal risks facing the Combined Authority in respect of business rates and asset management.

2.23 As part of refreshing the MTFS in Spring, the review of all reserves in the context of the long term financial plan will be completed, by which point the 2017/18 outturn position and the outcome of the mayoral election will be known. The results of the review will help to identify how much capacity within reserves is available to provide funding for either revenue budget support or investment in transport services and/or assets.

3. Consideration of alternative approaches

3.1 Do nothing – this is not an option due to the statutory requirement to set a revenue budget in advance of the forthcoming year.

4. Implications

Financial

4.1 The financial implications are clearly set out in Section 2 and the accompanying appendices of this report.

Legal

4.2 None

Equality, Diversity and Social Inclusion

4.8 None

Risk Management

4.9 In formulating the assumptions which underpin the proposed budget, officers have taken a prudent approach in order to mitigate all known risks.

4.10 At paragraph 2.18, the approach being taken to mitigate the risk of unpredictable income streams is explained in detail, including the proposed use of reserves.

5. Communications

5.1 Consultation with key stakeholders has been undertaken at various stages of the 2018/19 business planning process. For instance, the CA Leaders were briefed on the budget strategy in December 2017. Chief Executives and Directors of Finance have also been briefed in advance of the CA meeting on 9 March.

6. Appendices / Annexes

- 6.1**
1. Proposed CA/LEP revenue budget 2018/19 – supporting information
 2. Proposed CA/LEP revenue programme 2018/19
 3. Proposed CA Group reserves strategy

REPORT AUTHOR POST

	Mike Thomas
	Senior Finance Manager
Officer responsible	Eugene Walker – Chief Finance Officer
Organisation	Sheffield City Region Combined Authority
Email	Eugene.Walker@sheffield.gov.uk
Telephone	0114 273 5167

Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ

Other sources and references: None

Proposed CA/LEP revenue budget 2018/19 – supporting information**1. Subscriptions from partner authorities**

It is proposed that subscriptions for 2018/19 will be payable as follows:

	2018/19	2018/19	2018/19	2017/18	
	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	£223	£264	£264	£0
North East Derbyshire	£4	£0	£4	£4	£0
Rotherham	£36	£190	£226	£226	£0
Sheffield	£76	£413	£489	£489	£0
	£205	£1,000	£1,205	£1,205	£0

Base subscriptions are charged in accordance with the mechanism agreed in 2013, whilst transport hub contributions totalling £1m are split according to population estimates across South Yorkshire, i.e. on the same basis as the transport levy.

2. Retained business rates

Retained business rates from the SCR LEP's four enterprise zones in 2018/19 are projected as follows:

	£'000	£'000	£'000
Barnsley	£815		
Chesterfield	£1,504		
Rotherham	£544		
Sheffield	£581		
Total LA forecasts - 2018/19		£3,444	
Risk-based Adjustments		-£300	
			£3,144
Barnsley	£307		
Chesterfield	£463		
Rotherham	£254		
Sheffield	£1		
Total Estimated Surplus - 2017/18		£1,025	
Proposed transfer to risk reserve		-£1,025	
			£0
Total Retained Business Rates			£3,144

3. Recharged Income

In addition to the £5.5m of income which the CA expects to receive in 2018/19 from retained business rates, partner subscriptions, central government grants and investment income, the CA will also aim to recharge costs into revenue and capital programmes where it is appropriate to do so.

This approach ensures that costs are apportioned to the activities which influence them, subject to:

- Compliance with grant terms and conditions;
- The programme being approved and active;
- The staffing structure being in place to support the programme.

	2018/19	2018/19
Resource	£'000	£'000
Gross Income		£5,481
Recharges:		
Revenue programmes	£1,238	
Capitalisations	£971	
Total Recharges		£2,209
Total Resource		£7,690

SCR CA/LEP Revenue Programme Activity

As referenced in paragraph 2.19 of the CA/LEP Revenue Budget 2018/19 report, it is proposed to spend £12.0m on revenue programme activity in 2018/19. A breakdown by individual workstream is shown in the table below.

Next year's activity is forecast to increase by £5.3m over the current year. This is primarily due to the Health Led Employment Support Trial (£5.5m in 2018/19) which is moving to full implementation in 2018.

Of the 18 workstreams shown in the table below, the funding for 3 workstreams is expected to come to an end by 31 March 2018. These 3 workstreams are:

- Skills Bank 1 (to be superseded by Skills Bank 2)
- Work & Health Programme (current design phase is complete – will now move to implementation phase which is covered by the Health Led Trial)
- Apprenticeship Grant for Employers

Programme Activity	Thematic Area	2017/18	2018/19
		Outturn	Budget
		£'000	£'000
Health Led Employment Support Trial	Skills & Employment	£362	£5,540
Skills Bank 1	Skills & Employment	£767	£0
Skills Bank 2	Skills & Employment	£0	£221
Work and Health Programme	Skills & Employment	£86	£0
Apprenticeship Grant for Employers	Skills & Employment	£671	£0
Enterprise Advisor Pilot	Skills & Employment	£63	£85
Gatsby/STEM	Skills & Employment	£70	£81
Hub enhancement	Business Growth	£134	£478
RISE	Business Growth	£50	£50
Launchpad	Business Growth	£130	£134
Growth Hub	Business Growth	£840	£815
Access to Finance	Business Growth	£264	£342
Y Accelerator	Business Growth	£0	£70
One Public Estate	Housing	£281	£245
Planning Delivery Fund	Housing	£0	£120
HS2 Growth	Transport	£480	£770
Sustainable Travel Access Fund	Transport	£2,500	£2,500
Strategic Asset Management Strategy	Infrastructure	£0	£500
Total		£6,698	£11,951

Skills & Employment

7 workstreams totalling £5.9m are shown in the table above, the largest of which is the Health Led Employment Support Trial which is moving to full implementation in 2018/19. CA approval has already been granted for this programme, and the funding has been secured. Contract arrangements with NHS Sheffield Clinical Commissioning Group are also in place.

In 2017/18 there was discussion with central government around the devolution of significant powers and funding for adult education budgets and an employment support pilot. Discussions are currently on hold, so at this stage neither programme is assumed to proceed in 2018/19 (hence their exclusion from the table on the previous page).

Business Growth

In 2015 SCR agreed with central government to 'swap' £4m of Local Growth Fund capital resource for revenue grant, on condition that the funding would be spent on business growth activity.

The revenue grant was transferred to earmarked revenue reserves and has been released on an annual basis to meet the majority of the costs of the Growth Hub and Access to Finance teams, along with individual projects such as Hub Enhancement, RISE and Launchpad.

The remaining funding to support business growth activity comes from central government (£410k per annum, confirmed to the end of 2019/20) and the European Structural Investment Fund (ESIF). £217k of ESIF is used specifically in support of Hub Enhancement and Launchpad.

	Gross	Grant	Net
	£'000	£'000	£'000
Growth Hub	£815	-£410	£405
Hub Enhancement	£478	-£200	£278
Access to Finance	£342	£0	£342
Launchpad	£134	-£17	£117
Y Accelerator	£70	£0	£70
RISE	£50	£0	£50
Total	£1,889	-£627	£1,262

The Growth Hub team is planning to launch a new project in 2018/19 called 'Y Accelerator' which is expected to cost £70k.

In 2018/19 it is proposed to draw down around £1.3m from the earmarked reserve. This will leave £1.0m available in the reserve to fund business growth activity from 2019/20.

Housing

One Public Estate (OPE) is expected to continue in 2018/19 at a slightly reduced level compared to 2017/18.

A new workstream – Planning Delivery Fund – is expected to commence in 2018/19 at an estimated value of £120k, with a further £156k of activity in 2019/20. The funding (£276k) is payable in advance by MHCLG. The areas of activity are expected to include:

- Development of a comprehensive and robust strategic housing and planning evidence base to support joint approaches to housing growth and the infrastructure / funding packages to support housing development, particularly for priority housing growth sites;
- Development of shared approaches to implementation, including addressing planning barriers to housing development; and
- Additional project management capacity for Local Authorities to call-off, to help fill capacity gaps and accelerate housing development for housing schemes across the SCR.

Transport

2 workstreams in the area of Transport continue into 2018/19:

- Sustainable Travel Access Fund (STAF) £2.5m
- HS2 Growth Strategy £770k

STAF is a 3-year programme running from 2017/18 to 2019/20. Also known as 'Access' grant, this is the sole revenue programme managed by SYPTTE (through the LTP team). At Q3 all partner authorities reported to the LTP team that they would spend to budget in 2017/18, hence no slippage is assumed in the main table.

The CA received £625k from the Department for Transport (DfT) in 2017/18 to prepare an HS2 Growth Strategy for SCR to ensure that the region takes full advantage of the economic benefits arising from the HS2 project, both during construction and operation. Due to resource capacity constraints, the focus in 2017/18 has been commissioning an evidence base report and a connectivity study, whilst the business, skills and employment workstream has been postponed. Consequently, a slippage request of £145k was submitted to and approved by the CA on 29 January 2018 to ensure that there is sufficient funding to cover the latter workstream in 2018/19. A second tranche of £625k is expected to be announced shortly.

Infrastructure

The Strategic Asset Management Strategy (SAMS) was approved to spend by the CA on 29 January 2018. The SCR Executive team is working with SYPTTE to jointly commission an asset management review at an estimated cost of £500k which will be undertaken in phases, covering all assets owned by the CA group. The CA will fund £125k of the costs (shown as a separate one-off cost in the CA/LEP revenue budget for 2018/19), and the remaining £375k will come from SYPTTE (to reflect that SYPTTE contribute fully to the costs of the Supertram review and 50% to the general non-Supertram asset review).

CA Group Reserves strategy

1. Introduction

There are a number of regulatory requirements to be considered in developing a reserves strategy:

- Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- Chief finance officers have a duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement
- The Prudential Code requires full regard to be given to affordability when making recommendations about future capital investment, including, the level of long term revenue commitments

In addition, section 114 of the Local Government Finance Act 1988 requires the chief finance officer in England and Wales to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.

2. Assessing the adequacy of reserves

The adequacy of unallocated general reserves should be considered against the strategic, operational and financial risks facing the authority. Financial risks should be assessed in the context of the authority's overall approach to risk management which should, in turn, comply with the best practice set out in the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*.

They also need to be set in the context of an authority's medium and longer term financial plans.

Any plans for using reserves in the short term will need to consider the need and ability of the authority to replenish the reserves, and the risks to which the authority will be exposed whilst replenishing the reserves.

LAAP Bulletin 99 offers guidance on budget assumptions which can give rise to financial risk and therefore have a bearing on the adequacy of the level of general reserves. These include:

- Inflation and interest rates
- Demand led pressures
- Delivery of efficiency savings / productivity gains
- Inherent risks in any significant new partnerships, outsourcing or major capital projects
- Level of government support
- Ability to generate new sources of income

Where earmarked reserves are held by a local authority to meet specific purposes, there should be a clear rationale setting out:

- the reason for / purpose of the reserve;

- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

3. Statement of the Section 73 officer

An assessment of the adequacy of the level of reserves held by the Combined Authority has been undertaken during the 2018/19 business planning process. Given the degree of risk in the 2018/19 revenue budget, the level of CA/LEP reserves is considered low but not inadequate. The following recommendations are made for approval at the CA on 9th March 2018:

- The CA/LEP General Fund balance be held at around £1m;
- Any underspends on the 2017/18 CA/LEP revenue budget be returned to the General Fund balance to be made available to fund the mayoral election in May 2018;
- One new CA/LEP earmarked revenue reserve be established to ensure that the Combined Authority Returning Officer (CARO) has sufficient resources to fund the cost of the mayoral election;
- Two new CA/LEP earmarked revenue reserves be established to provide financial resilience against the two principal risks facing the Combined Authority in respect of business rates and asset management.

4. CA/LEP reserves

At the end of the financial year 2016/17, the CA/LEP held usable revenue reserves of £5.7m but £nil of capital reserves. The following section sets out the composition, purpose and proposed use of these reserves.

		Balance b/f 1.4.2017	Forecast in-year movement	Balance c/f 31.3.2018	Forecast movement in 2018/19	Balance c/f 31.3.2019
		£'000	£'000	£'000	£'000	£'000
CA/LEP General Reserve	Unearmarked	£2,455	-£1,477	£978	£0	£978
CA Mayoral Election Reserve	Earmarked	£0	£1,835	£1,835	-£1,835	£0
CA/LEP Business Rates Resilience Reserve	Earmarked	£0	£0	£0	£1,025	£1,025
CA/LEP LGF Reserve	Earmarked for Business Growth Hub	£3,246	-£904	£2,342	-£904	£1,438
CA/LEP Property Reserve	Earmarked for asset management	£0	£550	£550	£0	£550
Total CA/LEP Revenue Reserves		£5,701	£4	£5,705	-£1,714	£3,991

CA/LEP General Fund balance

The CA/LEP General Fund balance was £2.5m at the end of 2016/17. The CA/LEP 2017/18 revenue budget assumed that £935k would need to be drawn down from this reserve due to the shortfall in other sources of income. The CA subsequently approved an increased contribution of £1.5m from this reserve when later forecasts of retained business rates income were confirmed.

At Q3 2017/18 it was forecast that only £477k would be required from this reserve, leaving a further £1m available (within the £1.5m approved drawdown) to contribute towards the costs of the mayoral election in May 2018.

It is proposed to hold this reserve at the level of £1m to cover unforeseen costs and contingencies relating to the CA/LEP's operating activities in the short to medium term.

CA/LEP LGF reserve

The balance on the CA/LEP LGF reserve was £3.2m at the end of 2016/17. This reserve is earmarked specifically for funding the activities of the SCR Growth Hub and cannot be used for any other purpose. The CA/LEP 2017/18 revenue budget assumed that around £900k would need to be drawn down from this reserve to support the Growth Hub (shown as a revenue programme). A similar level of drawdown is assumed in 2018/19.

CA/LEP earmarked reserves

No other earmarked reserves were held by the CA/LEP at the end of 2016/17. During the course of 2017/18, the business and assets and liabilities of SYITA Properties Ltd transferred to the CA as a going concern. The draft accounts of SYITA Properties Ltd indicate that up to £550k of retained profits will transfer to the CA, however the accounts are subject to external audit. It is proposed that these profits be ring-fenced in the short term for property-related issues. Given that the CA's borrowing powers are currently restricted to transport, these profits would provide a much-needed source of funding for capital works on the CA's newly established property portfolio.

The income risk assessment process undertaken as part of the 2018/19 business planning process has highlighted that unlike many billing authorities, the CA does not have any financial resilience to cope specifically with unforeseen events such as business closure, revaluation, the award of reliefs or appeals.

In order to mitigate this risk, it is proposed to create a new earmarked reserve of £1m from the estimated surplus of business rates payable in 2017/18, which reflects in net terms the difference between current year budget and forecast outturn. The latter amount is a one-off gain for the CA, and it would not be deemed prudent to rely on this income when setting a sustainable budget.

CA/LEP capital receipts

The CA/LEP does not currently hold any capital reserves. However, this position will change over time due to two main factors:

- The CA/LEP has entered into contracts to award capital loans through various workstreams of the Local Growth Fund programme. When these loans are repaid to the CA, the 'principal' element of the loan will be held in the capital receipts reserve. Any interest received will be recognised in the Comprehensive Income and Expenditure Account.
- In later phases of the CA Group's Strategic Asset Management Review, it is possible that some of the CA/LEP's assets will be identified for disposal. Any proceeds from the sale of those assets will be held in the capital receipts reserve.

5. Transport reserves

The CA Group's reserves strategy in relation to its transport activities is set in the context of the long term financial plan that has been developed which aims to bring the transport base budget into convergence with the levy by 2024/25.

As shown in the table below, the CA Group held £53.0m of transport revenue reserves as at the end of 2016/17. The forecast movement in those reserves during 2017/18 is a net decrease of £3.4m.

		Balance b/f 1.4.2017	Forecast in- year movement	Balance c/f 31.3.2018	Forecast movement in 2018/19	Balance c/f 31.3.2019
		£'000	£'000	£'000	£'000	£'000
CA General Balances	Unearmarked	£5,888	£0	£5,888	£0	£5,888
CA Levy reduction reserve	Earmarked	£31,754	£-2,843	£28,911	£-5,127	£23,784
CA PFI reserve	Earmarked	£6,884	£1,505	£8,389	£1,505	£9,894
SYPTe Operational Reserve	Unearmarked	£-81	£0	£-81	£0	£-81
SYPTe Earmarked Reserve	Earmarked	£8,528	£-2,100	£6,428	£0	£6,428
Total CA Transport Revenue Reserves		£52,973	£-3,438	£49,535	£-3,622	£45,913

Levy Reduction reserve

At present, the base budget for transport (SYPTe operational budget plus SCR CA former ITA budget) exceeds the transport levy by c. £5m to £6m.

Over time the base budget is set to fall due to SYPTe capital financing costs reducing as SYPTe's loan portfolio is repaid.

The current long term financial plan aims to bring about convergence no later than 2024/25.

In order to sustain levy reductions below base budget until convergence, the Levy Reduction Reserve is being used to make good the shortfall.

The Levy Reduction reserve was established as a result of the CA awarding SYPTe a second capital grant to the value of £72.9m in 2014/15 (the first being a capital grant of £30.5m awarded by the ITA to SYPTe in 2013/14 to eliminate the deficit on the PTE's capital financing reserve).

The second capital grant led to the creation of the levy reduction reserve of £39.7m in the CA and unapplied grant in the PTE of £33.2m. The overall figure of £72.9m represents the total identifiable figure of prior capital expenditure that the PTE has resourced itself that could have been funded by CA/ITA capital grant. The award of the capital grant of £72.9m therefore reset the position to what it would have been had grant been awarded from the CA / ITA to the PTE in the year in which the related capital expenditure was incurred.

The long term financial plan assumes that the levy reduction reserve will be the principal means by which levy reductions below base budget are sustained until convergence with the levy takes place.

Its purpose is to absorb the impact on the long term financial plan of significant financial risks faced by the CA / SYPTTE. These include for example:

- expenditure on demand led Concessionary fares, which has been falling over the short term but is anticipated to rise in the medium to long term due to the unwinding of pension age equalisation and increasing longevity;
- returns on investments being lower than expected;
- accelerating MRP in response to revised statutory MRP guidance expected published late in Q4 of 2017/18.

Projections based on a review of the medium term outlook in Autumn 2017 are that at least £17.2m of the levy reduction reserve will be required to sustain levy reductions below base budget until convergence is achieved in 2024/25.

CA General Fund balance and SYPTTE operational reserve

Assuming the Levy Reduction Reserve is to be used as the principal means of absorbing the impact on the long term financial plan of significant financial risks faced by the CA / SYPTTE then the CA General Fund balance and SYPTTE operational reserve are only needed to cover unforeseen costs and contingencies relating to the CA and SYPTTE's operating activities in the short to medium term.

These risks (excluding the strategic and financial risks covered by the Levy Reduction reserve) should be evaluated as part of the annual business planning and budget setting process to determine what balance should be held.

The SYPTTE operational reserve is currently £81k in deficit, and should be returned to £nil as soon as possible. The Section 73 officer will exercise his delegated powers to approve a virement of £81k from SYPTTE's earmarked reserve to resolve the deficit position.

Historically, there have been significant doubts over the availability of the CA's General Fund balance of £5.9m due to questions surrounding SYITA Properties Ltd's ability to settle a declared dividend of £4.2m. With the transfer of the business and assets and liabilities from SYITA Properties Ltd to the CA as a going concern on 2 November 2017, this risk should be virtually eliminated subject to the former property company's accounts being audited and approved.

CA PFI reserve

The PFI reserve is credited with PFI grant receivable in the year from central government and charged with the amount drawn down by SYPTTE to meet the cost of the unitary payment to the PFI provider for the design, build, maintenance and operation of Doncaster Interchange.

The PFI reserve has been created due to Government funding (£3.9m p.a. fixed over the duration of the PFI contract to 2039) being greater than the amount of the unitary payments in the early years of the PFI contract with the difference being set aside to meet higher unitary payments in later years.

Further work is currently being undertaken to establish what liabilities SYPTTE has at the end of the PFI contract when the interest in Doncaster Interchange reverts to the PTE. This will inform consideration of what Sinking Fund balance needs to be set aside within the PFI reserve to cover potential liabilities and what balance needs to be held to cover uncertainties around future indexation of the unitary payment for inflation.

This information will be used to reassess annually what balance needs to be retained on the PFI reserve going forward.

CA and SYPTE earmarked reserves

At the end of the financial year 2016/17, SYPTE held earmarked reserves of £8.5m to cover a variety of costs anticipated in the future, including: remedial works to its fixed assets, network maintenance consultation and upgrades, IT project work and customer service improvements. Current forecasts suggest that £2.1m will need to be drawn down from this reserve in 2017/18, £300k of which relates to IT project work. The reasons for drawing down the remaining £1.8m are set out below.

There were no earmarked reserves in the CA other than the PFI reserve.

Any earmarked reserves held within the CA group should be reviewed annually as part of the business planning and budget setting process to assess their adequacy and relevance.

The CA group should ultimately sign off any earmarked reserves in presenting the transport budget proposals to the CA for approval. In March 2017, CA Leaders approved the use of up to £3m from SYPTE's earmarked reserves to support the South Yorkshire Transport revenue budget in 2017/18. At Q3 2017/18 it was forecast that only £1.8m of this reserve would be required to achieve a balanced budget. If the in-year position on the revenue budget were to deteriorate in Q4, it would be necessary to draw down additional resources from earmarked reserves.

As part of refreshing the MTF5 in Spring, the review of all reserves in the context of the long term financial plan will be completed, by which point the 2017/18 outturn position and the outcome of the mayoral election will be known. The results of the review will help to identify how much capacity within reserves is available to provide funding for either revenue budget support or investment in transport services and/or assets.

Transport capital reserves

As shown in the table below, the CA Group held £103.6m of capital reserves as at the end of 2016/17, of £84m was classified in the accounts as 'unusable' (i.e. those that the CA is not able to use to provide services).

		Balance b/f 1.4.2017	Forecast in- year movement	Balance c/f 31.3.2018	Forecast movement in 2018/19	Balance c/f 31.3.2019
		£'000	£'000	£'000	£'000	£'000
Usable						
CA Transport capital receipts reserve	Earmarked	£5,343	£0	£5,343	-£3,343	£2,000
SYPTE capital receipts reserve	Earmarked	£1,338	£0	£1,338	£0	£1,338
SYPTE Capital Grants Unapplied	Earmarked	£12,904	£0	£12,904	£0	£12,904
Total Usable Reserves		£19,585	£0	£19,585	-£3,343	£16,242
Unusable						
SYPTE Deferred Capital Grants	Earmarked	£84,022	-£1,973	£82,049	-£1,977	£80,072

Total CA Transport Capital Reserves		£103,607	-£1,973	£101,634	-£5,320	£96,314
--	--	-----------------	----------------	-----------------	----------------	----------------

SYPTE deferred capital grants (unusable)

This account represents capital grant income that has been recognised in the year and set aside in the deferred capital grants account or which is transferred from the capital grants unapplied reserve having been applied in the year. An amount is then transferred annually from the Deferred Capital Grants Account to the Operational Revenue Reserve to offset the depreciation charge for the year of grant funded assets.

The purpose of the second capital grant referred to in the section above on the Levy Reduction reserve was to provide SYPTE with sufficient additional capital grant to ensure that there is no net depreciation charge to revenue over the remaining life of the assets to which it relates.

There is an issue as to whether it may be possible to de-couple the rate of release of grant from the depreciation profile of the assets concerned to accelerate its use but this has yet to be explored.

The total balance on the deferred capital grants account at the end of 2016/17 was £84m.

SYPTE capital grants unapplied reserve

This reserve contains the grants that SYPTE has received, where grant conditions have been satisfied but the expenditure has not been incurred at the balance sheet date. These grants will be transferred to the Deferred Capital Grants Account once the expenditure has been incurred in order to fund future depreciation charges.

CA and SYPTE capital receipts

At the end of 2016/17, the CA had a capital receipts reserve of £5.3m and SYPTE a capital receipts reserve of £1.3m.

As the CA has responsibility for the capital financing of all capital investment within the CA group including SYPTE, any decisions regarding the use of either the CA or SYPTE capital receipts reserve should be taken by the CA group.

Note that £2m of the CA capital receipts reserve is earmarked for use to support the LGF programme. This is because £2m of capital receipts earmarked to support re-railing phase 1 were not applied, as LGF was used instead to accelerate LGF spend.