Mayoral Combined Authority Board

03 March 2022

South Yorkshire Renewal Fund Investment Strategy

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

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Executive Summary

This report provides an update on the progress made in developing the South Yorkshire Renewal Fund Investment Strategy. The report builds upon that received by the Board in January.

The report and its recommendations represent an interim staging post in the development pathway: recognising the strong collaboration that has enabled core principles to be developed, but also the need for an interim step.

The report notes that this interim step offers the opportunity for all partners to complete Place-Based Investment Plans and Transformational Impact Plans that will support the future investment programme and which will draw on devolution funding and leverage greater investment from elsewhere. The report recognises that to support this activity, significant revenue resource is required to provide capacity and skills, with proposals made for the distribution of resource.

The interim step should not mean ready investment projects are stalled or deferred. Instead, the report proposes that funding should be made available to exploit delivery ready opportunities and manage delivery risk across other programmes as inflationary pressures bite. To provide additional flexibility for capital investment, the report further proposes that revenue resource be made available to support borrowing headroom.

The report concludes by looking beyond this interim step to the future and the following 26 years of gainshare funding. Whilst the question of ‘where’ funding will be targeted will be shaped by the emerging investment plans, policy around the process for equitably distributing that funding and achievement of outcomes requires further development.

The report proposes allocations of resource across the five partners from the Feasibility Fund and the commitment of longer-term allocations.

The report notes that, to-date, over £69m of gainshare commitments have been made. The proposals in this report will commit a further £51m. This will leave £780m residual gainshare resource available for commitment to support the emerging plans.

What does this mean for businesses, people and places in South Yorkshire?
The South Yorkshire Renewal Fund represents the single pot through which the region will invest in its aspirations.

Recommendations
1. Note the progress made in the development of the Renewal Fund Investment Strategy and the collaboration through the officer group.
2. Approve the proposed allocations of interim revenue resource through the Project Feasibility Fund to the MCA and LAs.
3. Approve the proposed allocation of capital resource to support delivery ready investment opportunities.
4. Approve the development of Place Based Investment Plans and the South Yorkshire Transformational Impact Investment Plan.
5. Approve the proposed allocations of longer-term gainshare funding to support the delivery of the Plans in recommendation four (4) above.

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

Mayoral Combined Authority Board	24 January 2022
Mayoral Combined Authority Board	20 September 2021

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1. Background

1.1 The South Yorkshire Renewal Fund (SYRF) was agreed in March 2021 as the “Single Pot” for all MCA bequeathed funds including Gainshare, City Region Sustainable Transport Settlement (CRSTS), Shared Prosperity Fund (SPF), and Brownfield Housing. The Investment Strategy will provide the framework to guide how the fund is accessed and deployed, and for what purposes and outcomes.

1.2 SYRF cannot, however, fund everything. The scale of the region’s needs is beyond the quantum available from existing funds. Choices will still have to be made regarding the sequence of programme delivery and projects in the pipeline. SYRF forms the platform for the MCA’s ambitions, but challenges are entrenched and require a long-term sustainable solution. Ultimately, that solution is only deliverable through a strong economy underpinned by a robust private sector. Stimulating that growth is at the heart of the Investment Strategy.

1.3 This paper sets out the interim position regarding the development of the SYRF Investment Strategy. The paper builds on the phased approach agreed by the Board at its January 2022 meeting and presents more detail on how phase one could be delivered. Therefore, this paper does not contain the totality of work underway by the officer group.

1.4 The January 2022 MCA Board meeting acknowledged the capital heavy nature of the current portfolio, capacity challenges across all five partners, the extent of programme slippage and the need to correct this urgently, and the need to invest revenue now to develop ideas and build a pipeline of investment programmes and projects. This paper represents a key staging post; and will enable the following:

- Project Feasibility Fund scheme development resources totalling up to **£24m** over two years and the injection of capacity into each of the four Local Authorities and the MCA
- Immediate capital funding of up to **£26m** to deliver priority, ready schemes ahead of the development of the place and transformational impact investment plans
- Additional capital flexibility generated via revenue budget headroom of £1m p/a to enable borrowing up to c. **£40m**.

1.5 This paper makes no proposals as to the nature of the interventions may be funded or whether and how this may be augmented by SPF and other funding allocations from national government and other sources. This is because there is still too much uncertainty.

2. Key Issues – Delivering the Phased Approach

2.1 **Work to-date**

In September 2021, the Board agreed the principles for the SYRF. These principles focussed on the need to ensure:

1. An equitable approach to the distribution of funding;
2. Subsidiarity, with activity happening at the right level; and,
3. Sustainability, with a desire to make the devolution monies work as hard as possible.

2.2 An officer working group was convened to support development of these principles that has led to fruitful collaboration. Detailed work has been undertaken on key issues like alignment of investment priorities, borrowing terms and conditions, and the project development and assurance process.

2.3 Work is underway across the four LAs to develop place-based investment plans in a consistent manner, using the early work of Barnsley MBC as an exemplar. At the same time, work is getting underway to develop the South Yorkshire Transformational Impact Investment Plan.

2.4 The officer group has further provided local intelligence to support both the agreed phased approach and the need for near term funding to support delivery ready investment.

2.5 Options and proposals have also been received from officers on how the near-term revenue investment in capacity and feasibility could be distributed on an equitable basis.

2.6 The output of this collaboration is recognised in the proposals presented in this report. The report also recognises the significant benefits of officer working groups. There is a clear need to review current arrangements and establish suitable, integrated and more permanent officer working structures with a clear remit and role. The Chief Executive Group will lead this work.

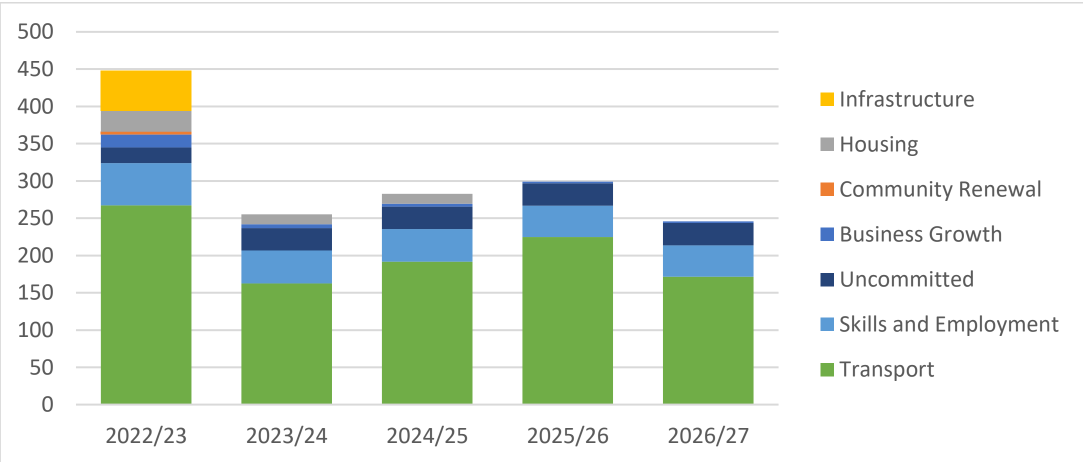
Delivering the Interim Stage
Phase One

2.7 The first phase, agreed by the Board in January 2022, consists of three main parts:
1. Deliver existing commitments;
2. Deploy revenue via the Project Feasibility Fund to the MCA and LAs; and,
3. Invest capital to deliver ready/urgent projects.

1. Delivering existing commitments

2.8 For 2022/23 alone, over £470m is projected to be available for investment in transport, skills, housing, and other infrastructure schemes. This represents over 80% more funding than that expected to be expended in 2021/22 and represents much of the fiscal stimulus from government's response to the pandemic.

2.9 The scale of funding also reflects the delivery challenges across all authorities with forecast programme slippage of over £140m. Labour shortages, supply chain saturation, and price inflation are contributing to an extremely challenging delivery environment.



2. Deploy revenue through the Project Feasibility Fund (PFF)

2.10 The PFF will help
   a) Relieve capacity constraints and improve capability
   b) Reduce reliance on external expertise
   c) Develop Plans into a pipeline of programmes and projects and ensure project lifecycle funding is available, particularly for revenue-based schemes

2.11 The PFF would be worth up to **£24m over the next two years** with funding drawn from the annual gainshare allocation and the original £3.6m identified. This can be deployed at risk, such that no clawback is applied if viable projects do not materialise. However, it is proposed that the fund supports the sustainable investment principle, with the revenue expended on capital projects being capitalised, where appropriate. As described at para 2.28 work on the technical process for this is continuing with Director of Finance.

Allocating the PFF

2.12 Firstly, the proposal is to invest £4m revenue to develop a transformational impact investment plan. This will be designed by all for the benefit of all, complementing local place-based investment plans and the MCA's region-wide aspirations. The officer group has been unanimous in its support for this fund.

2.13 For the remaining £20m, the proposal is to:

1. allocate a 20% top slice to develop MCA capacity (£4m)
2. allocate the remaining 80% on a per head of population basis to develop LA capacity to deliver existing commitments, local priorities, and complete the development of Place Based Investment Plans, as follows
    a. Sheffield – £6.66m
    b. Rotherham - £3.00m
    c. Doncaster – £3.54m
    d. Barnsley - £2.80m

Supporting Programme and Statutory Costs

2.14 Finally, it is also proposed to deploy some revenue towards currently unfunded statutory costs and the costs of supporting the overall programme. These include the four-yearly Mayoral election costs, the cost of programme management and monitoring and evaluation and capital financing provision to enable borrowing to boost capital investment. This equates to £2.1m p/a.

3. Invest capital to deliver ready/urgent projects

2.15 There is £26m in capital grant currently available for the next two years. It is proposed to supplement this in-year grant with borrowing capacity of c. £40m. So potentially, up to £66m of capital could be available for ready/urgent schemes.

2.16 This capacity affords the region a level of flexibility to support schemes beyond the in-year grant allocation. Borrowing will need to be agreed with HM Treasury and the rules and conditions will need to be agreed beforehand. The MCA has commenced negotiation with HMT on the borrowing cap for 2022/23.

2.17 It is proposed that capital schemes that can be delivered within the next two years be considered on their merit.

2.18 In considering schemes, the MCA will apply the principle that whilst every scheme must provide a return, not every scheme must provide a financial return. Economic, social, environmental, and financial returns will all be eligible for consideration. Whilst the ability to share in the value created by SYRF investment is an important part of the financial sustainability principle, it is recognised that public good schemes may not always support that goal.

Looking Beyond the Interim Stage

2.19 Phase 2 of the phased approach agreed by the Board in January focussed on the delivery of programmes of activity to be funded by the residual gainshare allocation.

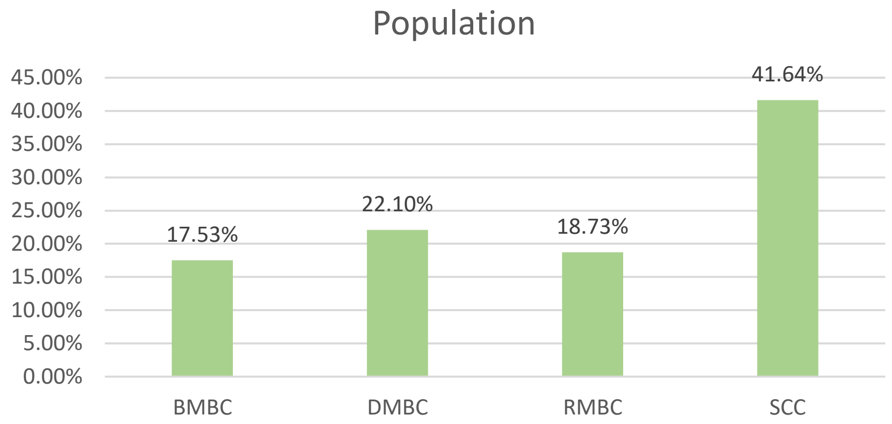
2.20 Based on 26 years of committed funding after the interim stage, **these future allocations equate to £468m of capital and £312m of revenue** (in nominal terms).

Longer-Term Equitable Funding Allocations

2.21 The proposal is based on a 20% top slice for MCA-led region level investment and an allocation for local authority led activity.

2.22 This approach would leave 80% of investment funds to support the delivery of Place-Based Investment Plans. The proposal is to broadly allocate this on a population per head basis.

2.23 The graphic below shows the relative share of population by local authority:



2.24 The table below shows how resource would be distributed based on the approach above.

Population Basis	Allocation %	Adjusted %	Capital £m	Revenue £m
MCA		20.00%	£94	£62
BMBC	17.53%	14.02%	£66	£44
DMBC	22.10%	17.68%	£83	£55
RMBC	18.73%	14.98%	£70	£47
SCC	41.64%	33.31%	£156	£104
	100.00%	**100.00%**	**£468**	**£312**

2.25 The Place-Based Investment Plans and Transformational Impact Investment Plan will be based on the SEP and on the agreed priorities and outcomes this contains. This work on outcomes to be secured will be presented to the MCA Board for approval.

2.26 The MCA Board, in conjunction with the advice of its Thematic boards, will approve the adoption of the plans when ready with programme and scheme specific approvals in line with MCA Board agreed delegations.

2.27 Work through the officer group will need to continue to address key questions such as whether to adopt investment periods, and how and how often to adjust baselines to reflect the inevitability of changes to metrics over the next 26 years.

2.28 Directors of Finance have also explored how borrowing could be most effectively managed. Key considerations around how the cost and burden of borrowing could be shared fairly, the implications of the timing of borrowing, and the balance between borrowing and revenue availability, all remain live issues, as does the financial mechanisms of capitalisation of any PFF costs. Options will be presented to the Board when sufficiently developed.

2.29 Consideration will also need to be given to the as yet unknown scale of other promised/signalled public funds– such as the Shared Prosperity Fund and any further Levelling Up Fund resource – and how that might be leverage through the gainshare matched private investment in co-investment models.

3. Options Considered and Recommended Proposal

3.1 **Option 1**
The Board could decide to stay all discussions and decisions until all investment plans are completed.

3.2 **Option 1 Risks and Mitigations**
This will delay the implementation of Phase One, making it even more difficult to deliver existing commitments, develop be ideas and deliver ready schemes.

3.3 **Option 2**
The Board could approve proposals for phase one as presented.

3.4 **Option 2 Risks and Mitigations**
This will ensure that Phase One can be initiated, giving existing commitments a better chance of delivery, and allowing the PFF to be deployed. This will also ensure ready schemes can be delivered.

3.5 **Recommended Option**
Option 2

4. Consultation on Proposal

4.1 The officer group has met regularly and intensively over a few months to develop these proposals. More work is underway as referred to earlier. MCA and LA Chief Executives have directed this work.

5. Timetable and Accountability for Implementing this Decision

5.1 If approved, Phase one will be rolled out incrementally from 1st April 2022. Further development work will continue and be implemented, in line with the Board’s wishes.

6. Financial and Procurement Implications and Advice

6.1 This report provides proposals on the use of gainshare funding from 2022/23 and 2023/24, along with the original £3.6m allocated to the Project Feasibility Fund. The proposals in this report are reflected in the revenue budget and capital programme.

6.2 The report proposes that revenue budget is made available to support borrowing headroom. The MCA's ability to borrow for non-transport activity is contingent upon the passage of secondary legislation through Parliament. That legislation is currently progressing. The MCA's ability to exploit those borrowing powers is also constrained through agreement of an annual borrowing cap with HM Treasury. At the time of writing initial engagement with the Treasury had commenced.

7. Legal Implications and Advice

7.1 N/A

8. Human Resources Implications and Advice

8.1 N/a

9. Equality and Diversity Implications and Advice

9.1 N/A

10. Climate Change Implications and Advice

10.1 N/A

11. Information and Communication Technology Implications and Advice

11.1 N/A

12. Communications and Marketing Implications and Advice Please

12.1 N/a

List of Appendices Included
None

Background Papers
None.