

Mayoral Combined Authority Board

25 July 2022

Financial Outturn 2021/22

Is the paper exempt from the press and public?	No
<i>Reason why exempt:</i>	Not applicable
Purpose of this report:	Governance
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 details the MCA's financial performance over financial year 2021/22. The report seeks approval for the carry-forward of resource into the new financial year to fund slipped activity and a number of adjustments to reserves.

What does this mean for businesses, people and places in South Yorkshire?

This report contains recommendations to carry-forward resource into the new financial year which will allow the progression of a number of key pieces of work in furtherance of the MCA's aspirations.

Recommendations

1. Note the financial outturn position;
 2. Note the treasury management outturn position noted in Appendix 2;
 3. Approve the carry forward of resource noted in Appendix 1; and,
 4. Approve the earmarking of reserves detailed in Appendix 1.
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1. Background

- 1.1 In common with public and private partners alike, the previous financial year has been extremely challenging for the MCA.
- 1.2 As the pandemic and resultant restrictions continued to impact upon all walks of life across South Yorkshire and nationally, pressures continued to bear down on the Authority's financial position as commercial income streams were disrupted, inflationary pressures emerged, and delivery plans were affected by waves of restrictions.
- 1.3 The Authority's balance of activity and capacity to deliver – directly and through partners - also came under strain as pandemic pressures coalesced with the adoption of new devolved activity and the delivery of emergency stimulus programmes.
- 1.4 These pressures were further exacerbated by the imperative to bid into new government funding rounds whilst also diverting organisational focus onto emerging policy imperatives such as the creation of the South Yorkshire Renewal Fund, the establishment of a Bus Enhanced Partnership, the exploration of a Bus Franchising Assessment, and the practical integration of the South Yorkshire Passenger Transport Executive with the MCA ahead of the formal parliamentary order.
- 1.5 These challenges have shaped the MCA's financial performance over the course of the year, but not impeded it in delivering for South Yorkshire.
- 1.6 Of note over the course of the year, the MCA and its partners have:
 1. Led the way nationally with one of the fastest roll outs of pandemic related business support schemes, supporting South Yorkshire businesses with over £51.60m of emergency support in just 18-months;
 2. Designed, procured, contracted and begun the administration of the region's first ever locally controlled Adult Education Budget programme;
 3. Navigated supplier and inflationary headwinds to invest c. £96m into capital investment schemes;
 4. Met challenging delivery timelines to ensure time-limited government funding was deployed without incurring clawback;
 5. Negotiated and received new powers to borrow for non-transport capital investment;
 6. Secured new investment for the region with the highest per-capita share of Community Renewal Fund across the MCAs nationally, and receiving commitment of £570m for transformational transport investment from the City Region Sustainable Transport fund;
 7. Designed the core foundations for the South Yorkshire Renewal Fund, reaching agreement to invest material amounts of revenue resource into the development of place-changing aspirational investment plans;
 8. Delivered practical integration of the Group on time and under budget, ahead of the formal dissolution of SYPTE;
 9. Earmarked resource following a reserve strategy review to a franchise assessment exercise; and,
 10. Critically, played its part in the stabilisation and continuation of the public transport network.

- 1.7 This report notes a number of issues that will now shape financial activity in the new year and beyond:
1. The stabilisation of the transport network with local and national subsidy obviated the need for an in-year call on the 'Protection of Priority Services Reserve' which remains available to support the forecast financial pressures that will arise at the end of the current subsidy round in October 2022;
 2. Despite a better than forecast outturn position the transport budget is still reliant on use of reserves, with that issue requiring sustainable resolution in the new year;
 3. Reporting reflects previously noted issues around the pace of delivery on the Adult Education Budget, with forecasts now suggesting a material full academic-year underspend with the potential for clawback on some funding in the new year;
 4. The report notes capital programme slippage of c. £129m which will now flow into the new year, further exacerbating existing system capacity pressures; and,
 5. Whilst no capital resource is currently at risk of clawback, slipped activity will now be exposed to the worsening inflationary environment placing cost pressure on schemes that will need to be delivered within defined funding envelopes.
- 1.8 This report seeks approval for the carry-forward of resource to support a number of non-programme workstreams that have slipped since the setting of the 2022/23 budget, and notes that savings and slipped activity preclude the need to draw on a number of reserves as had been forecast in the original base budget.
- 1.9 The report also seeks approval for the earmarking of funding to reserves, including c. £0.60m of government support from the 'sales, fees, and charges' scheme to the Income Resilience Reserve, and the reclassification of a previously held redundancy provision to an earmarked reserve (£0.18m).
- 1.10 The report further notes that following the Board's decision in March 2022 to pursue a bus franchise assessment, £3m of revenue resource has been un-earmarked from the PFI Reserve and re-earmarked to a dedicated Franchise Assessment Reserve.
- 1.11 Finally, the report notes the treasury management position as at outturn with further detail provided in Appendix 2.

2. Key Issues

2.1 Summary overview

The 2021/22 budget for the year was set at £358m, consisting of both revenue and capital expenditure. This expenditure was fully funded from a combination of grants, receipts, general income, and reserves:

Funding	£k	
Gross Expenditure	£358,194	
- Revenue	£133,356	37%
- Capital	£224,838	63%
Funded by:		
General Income	£4,978	2%
Release of Reserves/Provisions	£32,671	9%
Grants	£320,545	89%
	£358,194	

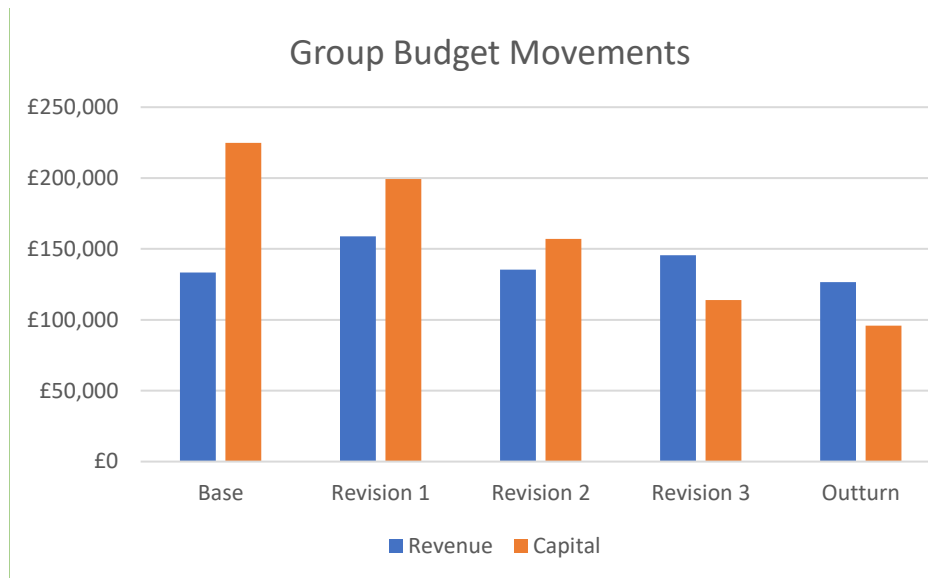
- 2.2 For the first time, the budget was structured around the MCA's thematic board areas, allowing for greater insight into how the MCA's investments are matched to its aspirations.
- 2.3 The weighting of expenditure reflects, in part, the MCA's local transport authority responsibilities and new responsibilities for devolved activity such as the Adult Education Budget. It is also heavily shaped by the grants that are available from government:

	Revenue £k	Capital £k	Total £k
Transport and Environment	£66,583	£147,368	£213,951
Housing, Infrastructure, Planning	£897	£67,170	£68,067
Skills and Employment	£33,490	£3,451	£36,941
Business Growth and Recovery	£18,213	£3,406	£21,619
	£119,183	£221,395	£340,578
MCA Executive	£12,762	£3,443	£16,205
Mayoral Office	£1,411	£0	£1,411
Total	£133,356	£224,838	£358,194

- 2.4 At outturn the financial results show that the MCA incurred expenditure of £223m, falling short of the base budget estimates by £136m. Analysis highlights that underperformance in the capital programme accounted for £129m, or 95%, of this underspend:

Budget Variances	Base £k	Outturn £k	Variance £k	Variance %
Revenue	£133,356	£126,667	-£6,689	-5%
Capital	£224,838	£95,846	-£128,992	-57%
Total	£358,194	£222,514	-£135,680	-38%

- 2.5 Whilst revenue activity came within 5% of the base budget this does mask a number of movements, as expenditure related to new funding streams not reflected in the initial budget offset underspends on previously forecast activity.
- 2.6 Over the course of the year the base budget has been varied to reflect the latest information and take account of changes to delivery plans and the adoption of new funding streams that became available as the year progressed. These budget revisions were undertaken after each quarter with trends appearing throughout the year. As the graphic below highlights, whilst capital expenditure forecasts have been consistently revised down there have been fluctuations in revenue forecasting:



- 2.6 Revenue fluctuations largely reflect the adoption of new grant streams that have become available throughout the year, offsetting unplanned underspend. Additional funding includes further tranches of Additional Restrictions Grant (ARG) that were released as the nation moved through the Delta and Omicron restrictions and then the adoption of CRSTS Revenue funding (£5.2m) and the movement of Project Feasibility Funding (£3.6m) from reserves to the budget ahead of release.
- 2.7 Whilst the MCA and partners successfully deployed all ARG funding via the South Yorkshire Business Support Scheme by March 2022, there were notable underspends against gainshare revenue resource and the Adult Education Budget, whilst CRSTS revenue and Project Feasibility Fund resource was reprofiled into the new financial year. These movements lead to a net underspend of c. £7m.
- 2.8 The pace of capital activity has been a cause for concern reported throughout the year. Across all of the funded programmes progress has been impacted by supply chain and labour market pressures that are impacting on design, development, and delivery capacity. Inflationary pressures are also now impacting on price, in many instances requiring further development activity to pare back designs to an affordable level.
- 2.9 Progress has been of particular issue in the Brownfield Housing programme where just £2m of expenditure was recorded against a Government target of £20m. Progress against the Transforming Cities Fund programme was also slower than forecast, with significant amounts of funding now rolled into the new year.
- 2.10 Capacity constraints have led to the prioritisation of programmes where funding was made available on condition of it being defrayed by a certain point, as with the Getting Building Fund. The efforts of local partners and a degree of flexibility afforded by Government have allowed for the MCA to meet all expenditure targets where funding was at risk.

2.11 Reviewing the outturn position by thematic area reflects the broad position above:

Consolidated	Base £k	Outturn £k	Variance £k
Transport and Environment	£213,951	£121,031	-£92,920
Housing, Infrastructure, Planning	£68,067	£26,429	-£41,638
Skills and Employment	£36,941	£24,135	-£12,806
Business Growth and Recovery	£21,619	£34,941	£13,322
	£340,578	£206,536	-£134,042
MCA Executive	£16,205	£15,638	-£567
Mayoral Office	£1,411	£340	-£1,071
Total	£358,194	£222,514	-£135,680

2.12 Underspends in the Transport and Environment area reflect slippage on transport capital programmes, principally the Transforming Cities Fund. Underspend in the Housing, Infrastructure and Planning area reflects the previously mentioned issues on Brownfield Housing, but also slower than forecast progress on gainshare funded place-based schemes. Underspend on Skills and Employment activity reflects in-year underspend on the Adult Education Budget and gainshare Renewal Action Plan activity. Higher than forecast activity in the Business Growth area reflects the additional emergency support provided through the South Yorkshire Business Support scheme, offset in part by lower gainshare Renewal Action Plan activity.

2.13 Movements across the thematic areas are dealt with in more detail in the next section of this report.

2.14 Underspend across programmes has resulted in the MCA holding higher cash balances and reserves than it forecast to. These balances have been managed in accordance with the Treasury Management Strategy and have generated additional investment income that has in turn obviated the need to draw on general reserves as was initially planned.

2.15 The consequential impact on reserves arising from these matters has largely been addressed through the Reserves Strategy that formed part of the 2022/23 budget setting process. However, this report seeks approval for the carry-forward of c. £0.50m of reserves to committed activity that slipped since the budget setting process. The report further seeks approval for the earmarking of further funding to specific risks.

Analysis by Theme: Transport and Environment

2.16 The Transport and Environment area includes the Local Transport Authority activity of the South Yorkshire Passenger Transport Executive along with the strategic planning activity undertaken within the MCA Executive. The area includes transport levy revenue expenditure but also captures a significant part of the capital programme, representing the scale of the Transforming Cities Fund and Active Travel funding.

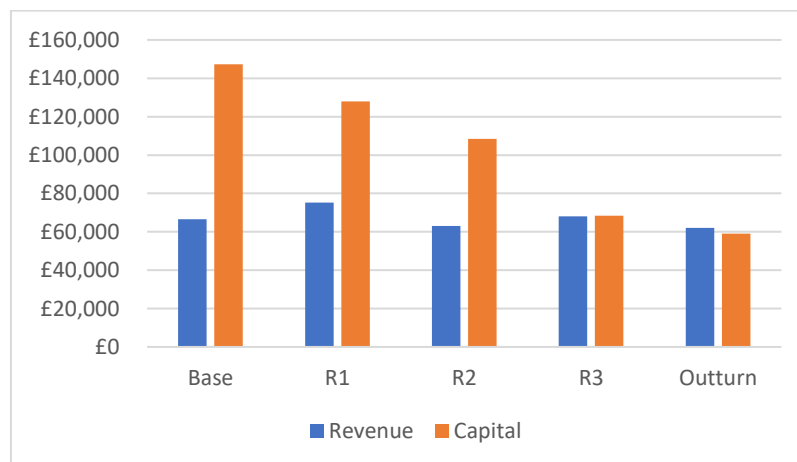
2.17 At outturn analysis shows that expenditure fell short of the base budget forecasts by £93m (69%). Of this underspend 91% relates to capital programme underspend which outturned 58% under budget:

Transport & Environment	Base £k	Outturn £k	Variance £k	Variance %
Revenue	£66,583	£59,055	-\$7,528	11%
Capital	£147,368	£61,976	-\$85,392	58%
	£213,951	£121,031	-\$92,920	69%

2.18 Analysis of performance by area highlights that the significant movements are in those management areas that accommodate the capital programme:

	Base £k	R 1 £k	R 2 £k	R 3 £k	Outturn £k	Var. £k
Strategic Transport	£130,310	£119,434	£99,635	£67,554	£56,443	-\$73,867
Transport Operations (SYPTTE)	£26,194	£25,696	£18,426	£14,864	£11,823	-\$14,371
Customer Services (SYPTTE)	£37,386	£37,999	£34,461	£35,044	£32,862	-\$4,524
Debt and Finance	£20,061	£20,061	£18,974	£19,021	£19,902	-\$159
Total	£213,951	£203,190	£171,496	£136,483	£121,031	-\$92,920

2.19 These movements have been tracked in reporting throughout the year, with the graphic below highlighting that capital performance has deteriorated throughout the year whilst revenue performance has been relatively stable impacted only by changes in assumptions on the pandemic support packages and the timing of the release of new funding – principally CRSTS revenue:



2.20 The Local Transport Authority element of this budget – comprising both SYPTTE and MCA expenditure – was set with a requirement for a contribution of £3.79m from the Levy Reduction Reserve to complement a levy of £54.36m. This was to be supplemented with £4.11m of funding from the MCA’s gainshare funding to support the 18-21 concession scheme.

2.21 For the majority of the year LTA activity has been relatively stable with the traditional variables around concessions fixed at pre-pandemic levels as part of the MCA’s commitment to be providing a baseline of funding to ensure services were run at pre-pandemic levels.

- 2.22 This issue began to change by Quarters 3 and 4 as operators struggled to run services at 100% of pre-pandemic levels due to driver shortages and strike-action. Where services were not run at pre-pandemic levels SYPTE adjusted the subsidy it gave to operators to ensure that it was not paying for services that were not provided.
- 2.23 At outturn the LTA budget had underspent against base budget by a net £5.14m (7%). Analysis shows that the significant movements against budget were the underperformance of the 18-21 concession (£4.31m) and the adjustments made to subsidy payments via the concessions budgets as operators failed to run all services (£2.64m):

LTA Net Expenditure Movements	£k
Savings:	
Child and Statutory Concessions	-£2,636
18-21 Concession	-£4,306
Operational Savings	-£600
Net Income Movements	-£5
Pressures:	
Summer Saver Discount	£932
Provisions Taken	£857
Technical Financing Adjustment	£621
	-£5,138

- 2.24 Tracking of the take-up of the 18-21 concession patronage priming scheme identified early in the year that the £5.30m set aside for the scheme was grossly in excess of demand. At Quarter 1 it was decided to divert £1m of the forecast underspend to the Summer Saver Discount, aimed at increasing patronage and priming retail and leisure as Delta restrictions eased.
- 2.25 At outturn the 18-21 concession had incurred expenditure of £1m, representing an 81% underspend against budget. After the redeployment of some of the £4.30m underspend to the Summer Saver the balance of underspend is held in MCA gainshare reserves. The MCA determined in June 2022 to extend the concession for a further year, with the costs underwritten against that reserve.
- 2.26 Savings made on concessions were complemented by operational savings. These have arisen across the business, in part driven by the challenges in filling establishment posts as labour market pressures have affected recruitment and retention.
- 2.27 Marginal surpluses have also been made on income generation where continued disruption to commercial income streams – such as interchange rentals – have been offset by better-than-expected performance on investment income derived from cash held on deposit as interest rates rose on the back of inflationary concerns.
- 2.28 Pressures have arisen since the base-budget, notably around the need to take a £1.15m provision for risk around a SYPTE obligation to maintain a tunnel at Woodbourne Road, Sheffield. Officers are currently reviewing this obligation and the most efficient means of affecting any works required. The need for the provision will

be reviewed in 2022/23, including the possibility of transferring this risk to capital receipts and releasing the revenue resource back into the budget.

- 2.29 At outturn these net movements changed the need for LTA funding, with lower requirements on gainshare resource for the 18-21 concession, and lower need for reserves contribution from the Levy Reduction Reserve. A technical adjustment to depreciation in SYPTE is offset against deferred grants held for this purpose:

LTA Funding Movements	£k
Increased Draw on Deferred Grants	£707
Lower Draw on Gainshare	-£3,218
Lower Draw on Levy Reduction Reserve	-£2,555
Lower Intra-Group Recharge	-£71
	-£5,138

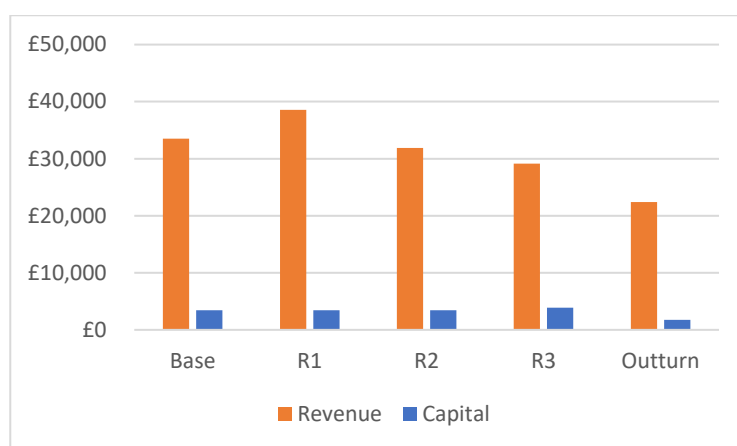
- 2.30 The lower draw on the Levy Reduction Reserve provides some additional headroom but does not change the underlying need to begin to reduce the LTA budget's reliance on reserves. Under current forecasts this reserve will be exhausted by 2025.
- 2.31 The cocktail of funding provided by the MCA and national government proved sufficient over the period to maintain services at an appropriate level without the need for further bought-back (tendered) services. This position meant that no-call was placed on the 'Protection of Priority Services Reserve' (£7m). This reserve remains available to support the pressures that are forecast to arise at the end of the current funding settlement in October 2022.
- 2.32 Further detail is provided on the Local Transport Authority budget in Appendix 1.

Analysis by Theme: Skills and Employment

- 2.33 The Skills and Employment thematic area includes both capital and revenue activity and is split into three management areas. At outturn the area was £12.81m under the base budget forecast:

Skills & Employment	Base £k	Outturn £k	Variance £k	Variance %
Revenue	£33,491	£22,379	-£11,112	33%
Capital	£3,450	£1,756	-£1,694	49%
	£36,941	£24,135	-£12,806	82%

- 2.34 In common with other thematic areas these budgets have been reduced throughout the year, with notable movements in revenue. These movements reflect the adoption of new funding following the announcement of the Working Win programme extension, offset by changes to the AEB delivery profile as contract information became available, and then changes to delivery assumptions as the year progressed:



2.35 Analysis shows that underspend has arisen across the thematic area:

Skills and Employment	Base £k	R1 £k	R2 £k	R3 £k	Outturn £k	Var. £k
Skills Priorities & Investment	£23,507	£27,695	£28,024	£25,829	£19,848	-\$3,659
Education & Skills for Employment	£5,730	£5,751	£1,968	£1,968	£1,543	-\$4,187
Skills For Business & Growth	£7,704	£8,554	£5,359	£5,217	£2,744	-\$4,960
Total	£36,941	£42,000	£35,352	£33,015	£24,135	-\$12,806

2.36 The Skills Priorities and Investment management area includes the Adult Education Budget (AEB) activity. AEB expenditure consists of grant funded activity delivered by colleges and local authorities and that delivered through procured provision. Grants are paid on set profiles whilst procured provision is paid on actuals. Programme management and overhead costs are also incurred.

2.37 AEB activity was reprofiled mid-year with £3.33m of procured provision moved into the new financial year, with a procured provision target of £6.66m re-set for the full financial year. Against this target only £1.58m was met by outturn resulting in a £5.09m underspend. It is now forecast that by the end of the academic year there will be a £4m underspend on this provision that will be carried forward.

2.38 Underspend on procured provision is exacerbated by underperformance on Level 3 provision. At outturn this activity had incurred expenditure of £0.26m against a full year budget of c. £1.86m. Underspends against this element of funding are at risk of clawback should it not be deployed. Underspend in this area reflects national issues relating to the offer and demand.

2.39 These underspends are offset in part by a reprofile of grant procured provision. On the latest forecasts it is expected that all recipients of grant funding will meet delivery targets by the end of the academic year.

2.40 The Education and Skills for Employment management area includes the Working Win and Enterprise Advisory Network programmes along with the Renewal Action Plan KickStart South Yorkshire scheme funded from gainshare.

2.41 At outturn this area was £4.19m underspent. This is principally due to no expenditure being incurred against the £3.41m allocated in-year to the KickStart

programme and a £0.86m underspend on the Working Win programme due to the delays in funding commitment being received.

2.42 The Skills for Business Growth management area includes the Renewal Action Plan Apprenticeship Hub scheme and a number of skills capital projects. During the year activity was added to this area following the approval to launch an extension to the Skills Bank programme.

2.43 At outturn there had been no activity against the £3.73m allocated to the Apprenticeship Hub scheme whilst capital activity fell short of initial forecasts by £1.69m. These underspends were offset in part by £0.88m of Skills Bank activity not forecast in the base budget.

2.44 Underspends within this area have been noted throughout the year, with the 2022/23 budget process reflecting anticipated slippage. With the exception of the Level 3 activity funded through AEB, no funding is at risk of clawback.

Analysis by Theme: Business Growth and Recovery

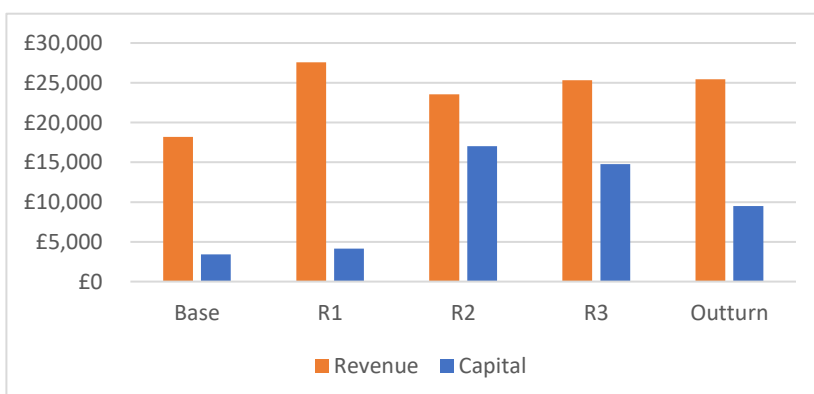
2.45 The Business Growth and Recovery outturn position is an outlier in that expenditure at outturn was in excess of the base budget across both revenue and capital activity.

Business Growth and Recovery	Base £k	Outturn £k	Variance £k	Variance %
Revenue	£18,213	£25,451	£7,238	-40%
Capital	£3,406	£9,491	£6,085	-179%
	£21,619	£34,941	£13,322	-218%

2.46 This issue reflects three principal movements that net to the outturn position:

1. The receipt of further rounds of Additional Restrictions Grant as the country moved through the Delta and Omicron restrictions, resulting in higher than forecast revenue expenditure;
2. The lower than forecast activity against the Renewal Action Plan activity; and,
3. The progression of a number of business investment proposals funded through capital resource.

2.47 Over time these issues have required the budget to be adjusted to take account of new information. This has resulted in fluctuations throughout the year as new grant streams were recognised and then forecasts were adjusted to expectations on when activity would be delivered:



- 2.48 The revenue budget within this area was elevated throughout the year by the South Yorkshire Business Support activity funded from Additional Restrictions Grant. This scheme represented the local response to support those businesses not covered by the Government's national scheme that focussed on rate-paying businesses.
- 2.49 The scheme was flexed several times throughout the year to accommodate new rounds of funding as Government policies reacted to new waves of Covid. At each stage the MCA determined how best to deploy national funding to local circumstances.
- 2.50 At the conclusion of the programme the MCA through partners had defrayed £51.62m of resource in under 18-months, achieving one of the fastest rollouts nation-wide.
- 2.51 The base budget was amended for two further rounds of ARG received in July and December 2021. Cumulatively, this additional funding came to £9.09m, complementing the £42.50m committed by Government in the previous year. All funding was deployed by March 2022, with nothing returned to Government.
- 2.52 Analysis by management area highlights the changes seen in activity over the course of the year:

BGRB	Base £k	R1 £k	R2 £k	R3 £k	Outturn £k	Var £k
Development Hub	£4,129	£4,077	£1,628	£947	£1,316	-£2,813
Innovation & Investment	£4,402	£4,044	£16,727	£14,392	£10,382	£5,980
International Hub	£364	£364	£285	£360	£123	-£241
Business Assistance	£12,500	£17,587	£17,597	£19,499	£19,328	£6,828
Special Projects	£225	£1,870	£847	£1,401	£1,192	£967
Emergency Recovery	£0	£3,352	£3,352	£3,352	£2,600	£2,600
Total		£31,730	£40,576	£40,094	£34,941	£13,321

- 2.53 Underspend in the Development Hub largely reflects the slower than forecast pace of the design, development and delivery of Renewal Action Plan activity. This activity is now expected to take place in the new financial year.
- 2.54 Expenditure in the Innovation and Investment area ahead of base budget reflects the adoption of a number of capital business investment schemes into the budget over the course of the year. These schemes support the delivery of good, well-paid job creation in the region. At outturn activity had commenced on a number of these schemes leading to expenditure above base forecast of c. £6m, albeit this level of expenditure was lower than that forecast at the mid-year mark as contract negotiation was still proceeding with a number of counterparties.
- 2.55 The growth in expenditure within the Business Assistance management area reflects the previously discussed South Yorkshire Business Support Scheme activity whilst the £2.6m growth in Emergency Recovery reflects unexpected slippage from the prior year against grants awarded to the South Yorkshire local authorities for their pandemic related emergency response. These grants have since been settled in full.

Analysis by Theme: Housing and Infrastructure

2.56 The Housing and Infrastructure thematic area is heavily dominated by capital programme activity. This principally relates to a number of fiscal stimulus schemes launched during the pandemic, including the Getting Building Fund and the Brownfield Housing Fund, but also includes gainshare funding released in 2020/21 to support local place priorities.

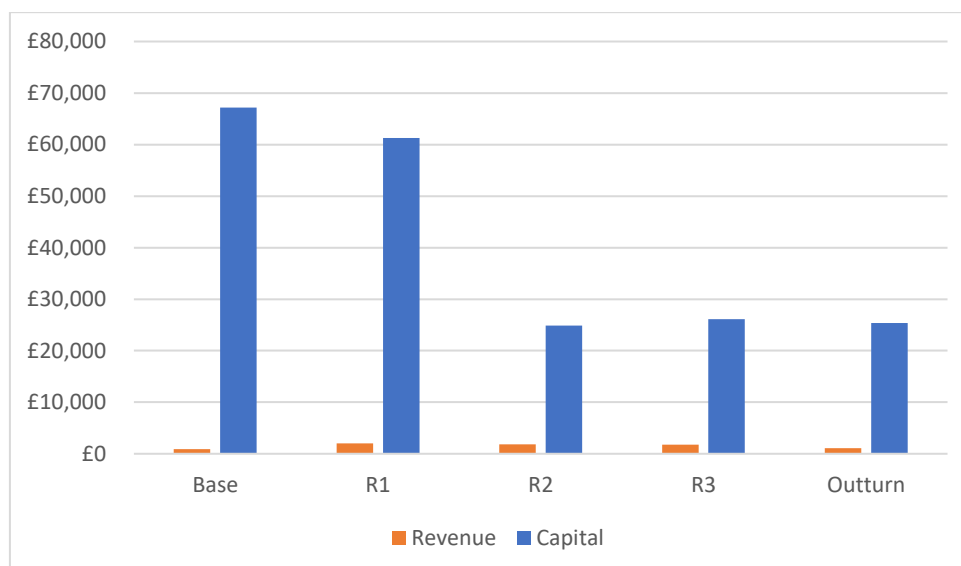
2.57 The nature of the stimulus schemes means that Government has set aggressive targets for the defrayal of expenditure and delivery of activity for its funded programmes. This meant that all Getting Building Fund monies must have been defrayed by March 2022, whilst an expenditure target of £20m was set for the Brownfield Housing programme.

2.58 A comparatively small amount of revenue funding is made available in this area for staffing, studies, and feasibility activity in support of the Brownfield Fund.

2.59 At outturn analysis shows significant underspend against the capital programme:

Housing and Infrastructure	Base £k	Outturn £k	Variance £k	Variance %
Revenue	£897	£1,078	£181	-20%
Capital	£67,170	£25,351	-£41,819	62%
	£68,067	£26,429	-£41,638	42%

2.60 This underspend was identified relatively early in the financial year, with performance largely tracking the re-set forecasts adopted at the mid-year mark:



2.61 Underspend principally reflects lower than forecast expenditure on the Brownfield Housing Fund activity and the gainshare Place activity.

2.62 Against a Government imposed target of £20m expenditure for the Brownfield activity expenditure of £1.26m was incurred. Whilst a pipeline of activity is now progressing through assurance processes, significant levels of expenditure will likely fall into 2022/23 and beyond. Government have been apprised of this situation, and

it is noteworthy that despite the in-year performance a further £13m of Brownfield funding was awarded to the region in the latest budget.

- 2.63 Performance on the Brownfield programme reflects the challenge of delivering this type of activity in-haste and underscores the importance of developing a pipeline of deliverable schemes that can be matched to funding as it arises.
- 2.64 A further £26.74m of funding was made available in the budget for gainshare funded schemes. These include commitments made to Flooding mitigation projects and locally determined Place priorities. At outturn, whilst schemes were progressing through assurance processes and good progress had been made on the South Yorkshire Connected by Water Plan no expenditure had been incurred. This funding will flow through to the new financial year.
- 2.65 Despite issues within these programmes at outturn the expenditure target for the Getting Building Fund programme had been met through the delivery of schemes and the application of some flexibilities afforded by Government. Delivery of this activity at pace is a contributing factor to some of the delays seen on other activity where time constraints were not as severe. Achievement of this expenditure target partially offsets underspend on gainshare activity:

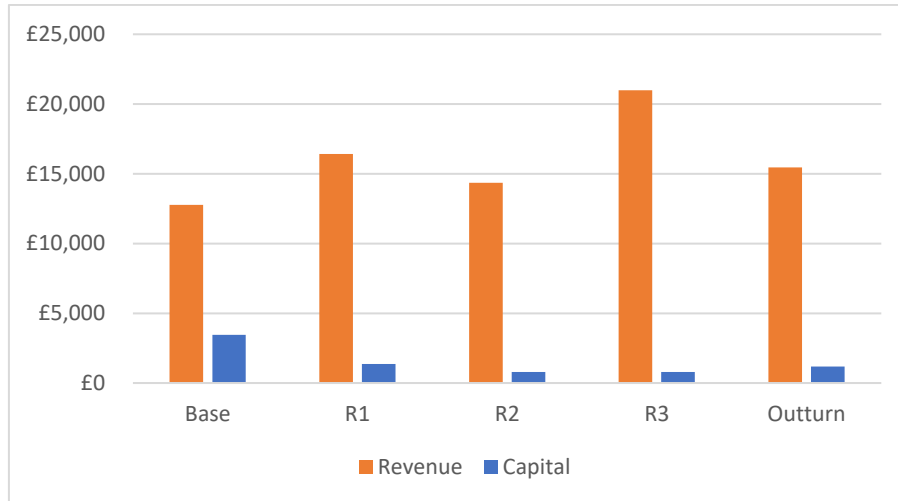
Housing and Infrastructure	Base £k	R1 £k	R2 £k	R3 £k	Outturn £k	Var £k
Digital	£5,500	£5,500	£5,500	£5,500	£5,500	£0
Strategic Infrastructure	£39,924	£34,291	£15,082	£16,287	£16,558	£-23,366
Housing & Planning	£20,443	£21,132	£3,848	£3,833	£2,148	£-18,295
Net Zero	£2,201	£2,384	£2,278	£2,235	£2,223	£22
Total	£68,068	£63,307	£26,708	£27,855	£26,429	£-41,639

Analysis by Theme: MCA Executive

- 2.66 The MCA Executive thematic area includes those functions required for the delivery of the Authority's programmes, wider policy framework and objectives, and its statutory obligations. Included within this area is also some activity – such as the Community Renewal Fund and the Project Feasibility Fund – that at the time of budget setting could not be allocated to one or more thematic areas.
- 2.67 At outturn the area was £1.25m underspent against the base budget once adjusted for recharge movements. This outturn position is affected by a number of movements over the year, including the adoption of new funding offset by slippage and other underspend.

MCA Executive	Base £k	Outturn £k	Adj Outturn £k	Variance £k	Variance %
Revenue	£12,762	£15,444	£16,271	£3,509	-27%
Capital	£3,443	£194	£1,180	£-2,263	66%
	£16,205	£15,638	£17,451	£1,246	38%

2.68 Expenditure has fluctuated over the course of the year as Community Renewal Fund grant was received and adjustments were made to profiles for the release of reserve funding. The principal movement between Revision 3 and the outturn position was around timing on the release of Project Feasibility Fund resource. Release of this funding was agreed in March 2022, with distributions now falling into the new financial year:



2.69 Analysis of the outturn position highlights a number of important movements:

MCA Executive	Base	R1	R2	R3	Outturn	Adj. Outturn	Var.
	£k	£k	£k	£k	£k	£k	£k
Deputy Chief Executive's Office	£4,793	£5,203	£4,537	£4,375	£2,889	£3,562	-\$1,231
Finance/IT/ Programme & Performance	£6,915	£7,124	£6,878	£13,874	£9,112	£10,252	£3,337
Governance/ Communications & Marketing	£3,963	£4,929	£3,212	£2,994	£3,074	£3,074	-\$889
Legal	£535	£535	£535	£535	£563	£563	£28
Total	£16,206	£17,791	£15,162	£21,778	£15,638	£17,452	£1,246

2.70 Underspend against the Deputy Chief Executive's area reflects the lower than forecast costs arising from the integration exercise along with delays to activity on the upgrade of the transport model.

2.71 Expenditure in excess of the base budget in the Finance directorate represents adoption of the Community Renewal Fund grant and associated expenditure by outturn of £4.03m. This expenditure is offset by a deferral of activity associated with the Midland Road former bus depot where £0.60m was set aside to support the costs associated with a potential demolition or divestment. At the time of writing this site was being actively marketed for disposal.

2.72 Underspend against the base budget in the Governance area largely reflects a re-profiling of the costs incurred in administering the Mayoral Election. This reprofiling exercise resulted in some costs moving into the new financial year.

Revenue Reserves and Provisions

2.73 At outturn revenue reserves stood at £89m. Reserves have increased since the start of the year by a net £10.18m:

Revenue Reserves	£k
Balance b/f	£79,367
Draws	-£7,329
Additions	£17,504
Balance c/d	£89,542

- 2.74 Of the total revenue reserves £6.70m (7.5%) is held in unearmarked General Fund reserve with the remaining values earmarked to specific activity that will be undertaken in the future, or to specific but unquantifiable risk.
- 2.75 Draws on the revenue reserves were £5.60m lower than forecast in the base budget largely due to delays in the delivery of Renewal Action Plan activity in the Skills and Business Growth thematic areas, along with a lower requirement for funding from the Levy Reduction Reserve in the Transport area. Reprofiling of the Mayoral Election costs and some slippage on Mayoral Capacity Fund activity also led to lower than forecast calls on reserves.
- 2.76 Reserve contributions are largely driven by the receipt of Gainshare revenue in 2021/22, with £10.57m of the £12m allocation being taken to reserves to fund existing commitments that will defray funding in future years.
- 2.77 Gainshare contributions are complemented by Skills Bank surpluses (£3.53m), surpluses of PFI credits over expenditure (£1.24m), and the receipt of 'Sales, Fees, Charges' grant from Government to support income disruption that was previously held in grants-unapplied, but which is now considered to satisfy conditions of funding. Appropriations of £0.48m are also made to credit the Levy Reduction Reserve to recompense that reserve for the amounts previously redeployed to the Project Feasibility Fund.
- 2.78 Reserve balances were adjusted at outturn to reflect the decision to undertake a bus franchising assessment. £3m was unearmarked from the PFI reserve and re-earmarked to a specific reserve for that activity. PFI reserves now stand at £10.69m and will continue to be reviewed annually to ensure their level is commensurate to the risk they mitigate.
- 2.79 Revenue reserve balances at outturn are £8.17m higher than forecast in the 2022/23 budget. Of this value £3.53m (43%) relates to a timing issue, with Skills Bank resource being received in-year rather than the new financial year. Other movements relate to the variances described in this report. Reserve profiles will be updated throughout the year.
- 2.80 During the year a number of changes were made to resource held as provisions. A review of a £0.18m redundancy provision has resulted in that being reclassified as a reserve whilst a review of a known risk surrounding SYPTE's obligations to maintain a tunnel at Woodbourne Road, Sheffield have resulted in a further £1.26m being taken. Officers have commissioned a review of this risk and the most efficient means of managing it. The issue will be reconsidered in the new year, with

consideration being given on both the means of managing the risk and the most appropriate way to fund any intervention required.

- 2.81 This report recommends the following new earmarking of reserves:
1. £0.54m as carry-forwards on non-earmarked reserves to resource activity that will now fall into the new financial year;
 2. £0.59m of 'sales, fees, charges' disruption grant to the Income Resilience Reserve';
 3. £0.28m of resource previously held as a provision to a newly created Redundancy Reserve.

Treasury Management Performance

- 2.82 The MCA's constitution requires that Board receives updates on its treasury management performance at the mid-year mark, and again at financial outturn.
- 2.83 Appendix 2 contains a formal review that details performance against indicators that were set at the beginning of the financial year. Those indicators enable us to measure indebtedness, borrowing plans, and investment activity.
- 2.84 In common with most partner authorities, parts of the MCA's adopted treasury management strategy for the year reflected the anticipated ongoing disruption from the pandemic and resultant restrictions.
- 2.85 For the majority of the year yields on investments continued to be depressed reflecting the low interest-rate environment and elevated demand for 'safe-harbour' investment classes. However, as the year progressed and inflationary concerns began to grow, interest rates were consecutively increased in December, February and March.
- 2.86 By the end of the year interest rates had increased from 0.10% to 0.75%. This rise was not predicted in the initial Treasury Management Strategy where Bank Rate was not expected to move beyond 0.10% during the year.
- 2.87 The rise in the Bank Rate has been tracked by improving yields on offer from both short and long-term deposits. This reflects market-sentiment with fears on growth being offset - at least in the near-term - by those on inflation and the assumed need for continued rate rises to bring inflation under control.
- 2.88 Growth in the available yields was complemented by higher cash balances. The initial Treasury Management Strategy assumed core cash balances that would be available for deposit of c. £173m. By year end, however balances stood at c. £376m principally due to the capital programme slippage noted earlier in this report.
- 2.89 The MCA has continued to adopt a prudent approach to its investments, placing deposits in only the most secure of counterparties, however as the year has progressed the MCA begun to move away from ultra-short investments to longer term-based deposits. This switch reflects growing confidence as the world transitions to post-pandemic patterns, but also reflects where value can be obtained without compromising security.

- 2.90 At outturn, the MCA's investment management activity had returned income of £1.79m against a budget estimate of £0.95m. This increase reflects both higher-cash balances and improving yield.
- 2.91 Over the course of the year the MCA Group continued to retire loans as they fell due (£8m). This approach is in line with the adopted strategy and is enabled by the prudent levels of revenue provision that have been made over a number of decades.
- 2.92 Retiring loans in this manner reduces the interest-cost burden that falls on the South Yorkshire transport levy and supports the reserves strategy that will see the level of reserves being used to support the budget reduced in line with the falling interest costs. Repayment of these loans reduced the interest burden by £0.39m with the savings built into the 2022/23 budget
- 2.93 Finally, overall Group indebtedness over the course of the year stood at £109m as further revenue provisions were made and PFI liabilities were paid.

3. Options Considered and Recommended Proposal

3.1 Option 1

This report recommends the earmarking of a number of reserves.

3.2 Option 1 Risks and Mitigations

Earmarking reserves to activity and identified risks helps ensure that risks can be appropriately managed.

3.3 Option 2

The Board could choose to reject the earmarking of reserves as proposed.

3.4 Option 2 Risks and Mitigations

Should the earmarking of reserves proposed in this report be rejected resource would instead flow through to the General Fund reserve. Resource held in general reserve could be held over, but would not be allocated to know risk.

3.5 Recommended Option

Option 1

4. Consultation on Proposal

4.1 None.

5. Timetable and Accountability for Implementing this Decision

5.1 The Director of Finance and Investment will implement decisions immediately.

6. Financial and Procurement Implications and Advice

6.1 This is a Finance report the details of which are covered in the main body of the document.

7. Legal Implications and Advice

7.1 None specifically arising from this report.

8. Human Resources Implications and Advice

8.1 None.

9. Equality and Diversity Implications and Advice

9.1 None.

10. Climate Change Implications and Advice

10.1 None

11. Information and Communication Technology Implications and Advice

11.1 None.

12. Communications and Marketing Implications and Advice

12.1 None.

List of Appendices Included:

A Appendix 1: Outturn Detail

B Appendix 2: Treasury Management Outturn Report

Background Papers

None.