

Overview & Scrutiny Committee Renewal Fund Update

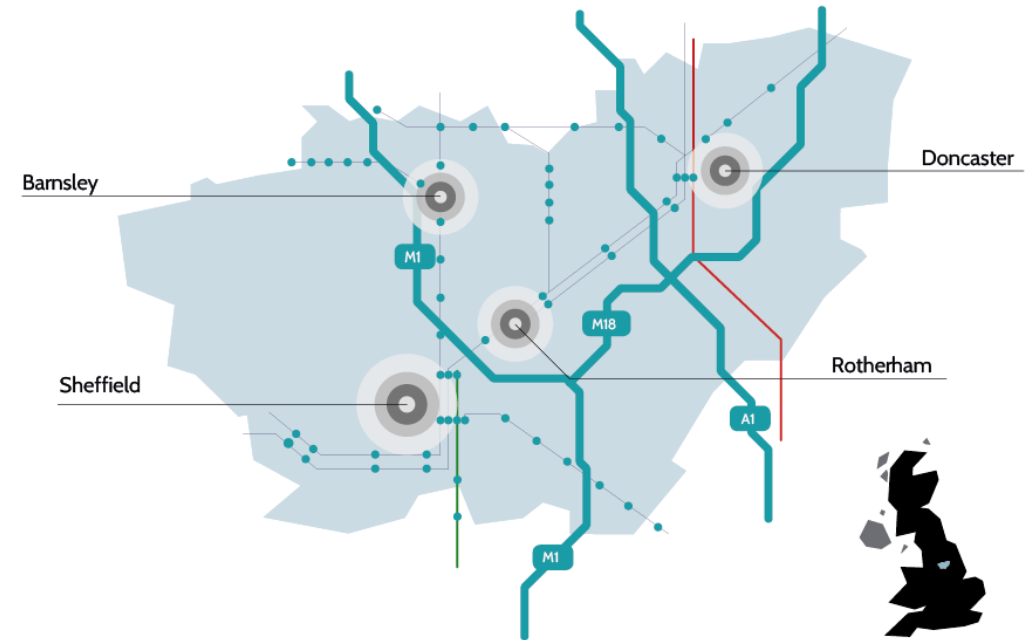
Presented by

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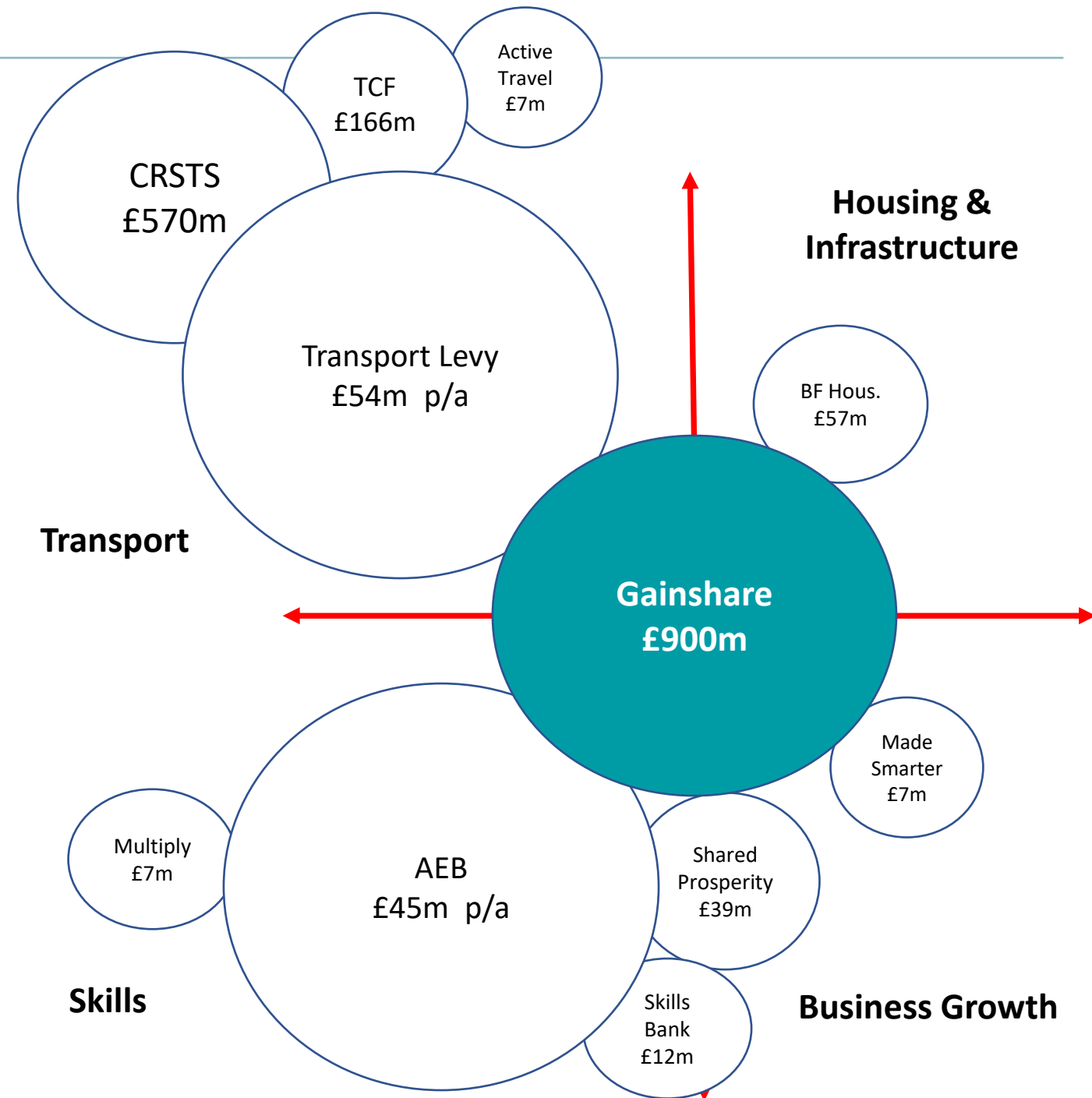
Agenda

- Basis of the Renewal Fund
- What we've agreed so far
- Key principles
- Phasing investment
- Where we're up to with the Project Feasibility Funding and the Capital Funding
- Where we're up to with the development of the Place Plans and the Regional Plan
- Government Oversight



Basis of the Renewal Fund

- The Renewal Fund was intended to be the fund-of-funds
- It is enabled by the long-term 'gainshare' settlement (30 years of £30m), sitting at the heart of other conditional, time-limited funding and major year-on-year sources such as the levy and AEB
- Gainshare grant comes without conditions, but we do have to satisfy Government that we have local processes in place to use the money well and deliver on our devolution commitments
- Gainshare offers an opportunity to change our approach to investment from being reactive, short-term, and constrained by grant conditions to thinking long-term, planning ahead, and being ambitious
- Receipt of borrowing powers complements the funding, allowing us to reshape the timing of investment



Key Principles

A set of guiding principles were agreed by the Board in March 2021 that would shape our approach:

1. **Policy led** - delivering the ambitions and policies in the SEP is the starting point.
2. **Equity** – each authority will get an equitable share of programme funds, but not necessarily at the same time and not in the same way, reflecting their respective priorities.
3. **Economic impact** – we need to invest to create a better, stronger and more resilient economy. It cannot be growth simply for growth's sake.
4. **Social impact** – investment to create jobs and grow the economy must also deliver greater inclusion and tangible opportunities for people and communities across South Yorkshire, particularly amongst our most deprived groups.
5. **Place** – creating vibrant places people want to live and work and contributing to our net zero ambitions to deliver sustainable growth in South Yorkshire.
6. **Sustained Investment** – where possible and appropriate, the MCA will seek a financial return on investments to enable evergreening of funds and to help deliver a sustained programme of activity.

Investment Decisions to-date

- The Devolution Deal was signed into law in July 2020, amidst the first national lockdown
 - At this point there was no plan for how the funding and powers would be used
- Initial work focussed on two strands:
 - Agreeing principles on how the fund would work
 - Understanding practically how the fund could work
- Board made a number of investment decisions following this, that largely reflected the need to react to the impact of the pandemic and then the need for a more considered approach to long-term investment
- Key decision points include:
 - The commitment of two full years of Gainshare funding in March 2021
 - This included RAP, Place, and other unfunded priorities
 - Subsequent decisions in 2021 and 2022 to fund emerging unfunded priorities from Gainshare
 - This included the 18-21 travel concession and a number of business schemes
 - The decision in January 2022 to phase longer-term Gainshare investment. This focussed on an interim two-year step during which Place Plans would be developed and deliverable capital schemes would be resourced; and,
 - The decision in March 2022 to commit to a longer-term (26 year) distribution of the Gainshare money to fund 4 Place Plans and one MCA regional plan

Phasing Investments

- In March 2021, funding was released from the first two years of Gainshare allocation to support the immediate response to the pandemic – this is the **reactive phase**
- In March 2022, funding was further released to support the development of longer-term plans – this is the **planning phase**
- As part of this interim step the Board agreed to release available capital to support schemes that could progress ahead of longer-term plans
- In March 2022, the Board also made decisions on the longer-term allocations of funding that would be made available for the **delivery phase** post 2024

Gainshare Commitments	Reactive Phase					
	Planning Phase			Delivery Phase		
	2021/22	2022/23	2023/24	2024/25	>>>>>>	2050
Emergency Recovery Funding	£6.50					
Welcome to Yorkshire	£0.30					
Flooding	£5.50					
Active Travel	£2.24					
Bus Infrastructure	£3.17					
18-21 Concession	£3.01					
Skills Renewal Action Plan	£7.21					
Business Renewal Action Plan	£6.91					
Business Investment	£7.60					
Initial Place Schemes	£21.35					
Protection of Priority Services		£2.73				
Destination Management		£0.25	£0.25			
Programme Management		£0.25	£0.25			
Mayoral Election Provision		£0.60	£0.60			
Debt Financing Provision		£0.60	£0.60			
Project Feasibility Fund		£10.20	£10.20			
Capital Projects (£26m)		£8.00	£18.00			
Place Allocations				£624.00		
Transformation Plan Allocation				£156.00		
Uncommitted Reserve			£3.69			

Population	Allocation	Adjusted		26 Years		Annual	
		%	%	Capital £m	Revenue £m	Capital £m	Revenue £m
MCA		20.00%		£94	£62	£3.60	£2.40
BMBC	16.11%	12.89%		£60	£40	£2.32	£1.55
DMBC	23.42%	18.74%		£88	£58	£3.37	£2.25
RMBC	19.02%	15.22%		£71	£47	£2.74	£1.83
SCC	41.45%	33.16%		£155	£103	£5.97	£3.98
	100.00%	100.00%		£468	£312	£18.00	£12.00

Planning Phase: Development of Plans and funding of Deliverable Schemes

- In January 2022, the Board agreed to the phased approach of the Renewal Fund, ratified at the March Board with the agreement of funding allocations
- The key point was to adopt an interim step before the disbursement of longer-term funding
- This reflected two important points:
 1. There was acknowledgement that in most authorities investment plans would need to be developed, and that there would need to be funding and space to do this; and,
 2. There was an acknowledgement that development and delivery teams were under incredible pressure to execute existing activity
 - This pressure was manifesting itself in considerable capital programme slippage
- In consideration of this Board agreed to:
 - A two-year period over financial years 2022/23 and 2023/24 to develop the Place and Regional Plans
 - A commitment to £24m of revenue to the Project Feasibility Fund to support delivery of those plans and wider capacity for the delivery of existing schemes
 - The release of £26m of available Gainshare capital over the two years to ensure that where there were schemes that could be progressed we had the flexibility to do so

The Project Feasibility Fund - £24m Revenue

- The need for revenue funding to support early-stage design and feasibility funding has been acknowledged for some time
 - Peer authorities in receipt of Business Rate Retention Pilots and revenue heavy devolution settlements have been at a competitive advantage
- The lack of revenue has constrained our ability to get ahead of funding cycles, impacted the quality of bid submissions, and left us having to design, develop, and deliver schemes in programme windows solely designed for delivery
- Board agreed to release £20.4m of gainshare revenue to the Feasibility Fund, topped up with £3.6m of resource previously identified
 - Creates the £24m fund in aggregate
- This funding was distributed on a per-capita basis after top slices for regional activity, and released on a light-touch basis

The Interim Capital Funding Allocation (£26m) - Background

- Board have previously noted the stresses on the system in delivering the existing capital programme
 - These stresses were likely to be exacerbated by the start of the CRSTS programme in 2022/23 and the receipt of c. £100m p/a in new funding
- However, Board were keen to ensure funding remained available to support schemes and pressures as they may arise:
 - *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.*
- Board allocated the £26m of available capital to this concept, supported by revenue that would enable further borrowing if required
 - Borrowing would act as a bridge to the funding allocated to each of the five plans
- The March Board report notes that schemes would be considered on their merit within the parameters of the principles previously adopted
 - How this money might be used beyond those parameters was left deliberately flexible
 - No budget was allocated to individual Thematic Boards, with all decisions requiring approval by the MCA Board

The Interim Capital Funding Allocation (£26m) – Work to-date

- Schemes and proposals have been brought forward from the existing pipeline of business investment opportunities and from existing partner Place investment programmes
 - All schemes are now being progressed through governance at pace, with the Canon Medical business investment scheme approved and the National Centre for Child Health Technology progressing to MCA Board for full approval in January
- Resource has been held in notional allocations, allowing each authority an equitable share
 - Where commitments are under or over those notional allocations the MCA will work with partners on how to manage issues in the round and against future funding allocations

Notional Allocations Based on Per Capita Splits	MCA 20% £5.20	BMBC 14% £3.65	DMBC 18% £4.60	RMBC 15% £3.89	SCC 33% £8.66	Total 100% £26.00
Schemes:						
<u>Committed</u>						
Canon Medical	£1.40					£1.40
<u>Proposals</u>						
Hybrid Air Vehicle Business Investment			£7.00			£7.00
National Centre for Child Health Technology					£6.00	£6.00
Priority Place Schemes		£3.65		£3.89		£7.54
	£3.80	£0.00	-£2.40	£0.00	£2.66	£4.06

- Work is continuing with all partners to identify how the balance of funding may be used, including offsetting inflationary pressures that have arisen across all areas' capital programmes
- The development of this pipeline has enabled the MCA to submit a bid on behalf of the region for further capital resource

Development of Place Plans

- Place Plan development remains at different stages in different places
 - Officers from the MCA are engaging with each place to support development and gain an understanding on progress
- Transaction processing around the distribution of funding has been discussed and agreed in principle with the SY Director of Finance Group
 - Simple process is proposed whereby after agreement of each Plan, an annual allocation from the £30m Gainshare received each year is disbursed to each authority (subject to agreed governance and assurance)
 - Each authority then uses this long-term funding commitment to manage its own treasury activity
 - That is, each authority can choose the timing of its investment and manage cash flows within its broader authority wide portfolio
- A review of the Assurance Framework has just begun, with consideration being given to how assurance of Place Plans and the Regional Plan could be undertaken most efficiently
 - This includes the concept of programme level review and the principle of subsidiarity

Development of the Regional Plan

- Work is underway to develop the Regional Plan.
- This involves aligning Mayoral manifesto commitments to other existing plans to produce a single medium term delivery plan
- This will focus on the actions needed to transform the SY economy at pace and at scale. The Plan will reflect the scale of the challenge based on the evidence, and will identify the regional investment and interventions needed to achieve agreed objectives.
- The intention is to secure agreement on a set of interventions, agree the outcomes, and invest in the feasibility work, outline design, stakeholder engagement and costings necessary to be ready for delivery.
- The Regional Plan will complement the Place Plans and will not be constrained by what funding is immediately available. Instead it will focus on what is needed. Agreed interventions will be matched to funding opportunities as they come along.

Government Oversight

- Government oversee Gainshare funded activity through five-yearly gateway reviews
 - Our first will be in 2025
- These reviews are intended to check-in on the use of gainshare against the devo commitment to growing the economy
- Knowledge of this activity from peers suggests the process is invasive
- Government have recently appointed SQW to undertake the review of our activity, and an initial interim meeting has been held
 - SQW are a professional services firm with a focus on economic development
 - The appointment of such a firm is an indicator that the review will not be a traditional financial audit, but a more subjective review of how we have deployed funding
 - We will share more intelligence on this process with partners as it is received

Thank you

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