Appendix 3

SOUTH YORKSHIRE
SYMCA
MAYORAL
COMBINED
AUTHORITY

CAPITAL STRATEGY

Contents

1. Purpose

The Prudential Code as revised 2021, states that all local authorities, including Combined Authorities, should have a Capital Strategy that demonstrates that capital expenditure and investment decisions are made in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

It provides a high-level overview of how capital expenditure, capital financing, investments and treasury management activity contribute to the delivery of the authority's plans and provision of services in the long term along with an overview of how associated risk is managed and the implications for future financial sustainability.

2. Capital Expenditure

Definition of capital expenditure

The Code of Practice on Local Authority in the UK (the Code) defines what expenditure incurred by local authorities constitutes capital. This is reflected in the MCA's accounting policy which states that:

- Property, Plant & Equipment are assets that have physical substance and are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.
- Expenditure on the acquisition, creation or enhancement of Property, Plant & Equipment is only capitalised if it is probable that the future economic benefits or service potential associated with the item will flow to the authority, and the cost of the item can be measured reliably.

The amount capitalised comprises:

- the purchase price,
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and , if applicable
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

Enhancement arises where expenditure extends the useful life of an asset, increases the level of performance of an asset in delivering the functions of the MCA, or, increases the current value of an asset.

Subsequent expenditure involving the replacement or restoration of a significant component of an existing asset can similarly be capitalised.

Routine expenditure that maintains an asset in a good enough condition to perform at expected levels over its useful life, such as routine maintenance and repairs. does not constitute enhancement and is charged to revenue and not capitalised.

In addition to the above, local Authority Capital finance and Accounting Regulations specify that certain types of expenditure shall be treated as capital. The ones of most significance for the MCA are:

- the award of a loan, grant or other financial assistance towards expenditure which would, if incurred by the authority, be capital expenditure, and

- expenditure incurred on works to any land or building in which the authority does not have an interest, which would be capital expenditure if the authority had an interest in that land or building

It is important to note that meeting the definition of capital expenditure is the primary criterion for considering whether a scheme should be accepted onto the capital programme

3. Capital assets and management of those assets

The table below summarises the capital assets held by the MCA as at 31 March 2022.

The Capital Strategy seeks to maintain, enhance and add to this asset base in order to deliver the MCA's strategic objectives.

Asset Category	Net Book Value as at 31st March 2022 (£'m)
Public transport	
Light Rail Network	19.144
Light Rail Network - trams fleet	31.731
Interchanges and mini-interchanges	67.835
Park & Ride sites	16.580
Other public transport assets - land & buildings	3.784
Other public transport assets - route equipment	1.879
Other public transport assets - vehicles, office and IT eqt	0.206
Non transport	
Advanced Manufacturing Park	15.075
Assets Under Construction	0.138
Plant, Equipment & vehicles - non transport	0.636
Capital loans	18.110
Corporate assets	
Broad Street West (Head Office)	5.900
Surplus & Held for Sale Assets	1.666
Investment Property	3.379
Intangible Assets	1.148

Light Rail Network

The light rail network infrastructure in South Yorkshire ("Supertram") was constructed in the early 1990s and is publicly owned by South Yorkshire Passenger Transport Executive (SYPTE). The trams fleet is also owned by SYPTE but operated by South Yorkshire Supertram Limited (SYSL) under a Concession. SYSYL is owned by the Stagecoach Group. The concession contract which covers responsibility for the operation, day to day maintenance and revenue risk of the full system expires on 21st March 2024. At expiration of this contract, SYSL no longer have the right to operate Supertram and will relinquish their rights to use the tram fleet, Nunnery Depot, as well as have the benefit of other assets owned by SYPTE which are required to run the tram network. Operational, managerial and financial responsibility for the system will at this point revert to the MCA. MCA has been conducting an assessment of the extent of renewal works needed to the Light Rail Network and trams fleet to enable operations to continue beyond the end of the concession Agreement in 2024. £100m of the MCA's £570m City Region Sustainable Transport programme (CRSTS) has been set aside for light rail asset renewal (also known as Mass Transit).

Other assets

The strategy for managing the rest of the MCA's asset base will be incorporated into a revised Capital Strategy that is intended to be resubmitted into the MCA Board during the course of the year.

4. Capital funding

The size and shape of the MCA's capital investment programme is determined by the funding streams at its disposal.

Government Grant funding

The MCA has secured a number of key capital funding streams from Central Government which provide the main source of funding for capital investment by the MCA and its partners.

The South Yorkshire Devolution Deal grants to the MCA the ability to establish a single pot of funding to invest in economic development. Known as the South Yorkshire Renewal Fund (SYRF), this single pot includes Gainshare (allocation for South Yorkshire through the Devolution Deal of £30m per annum for a period of 30 years split £18m capital p.a and £12m revenue p.a), City Region Sustainable Transport Settlement, Brownfield Housing, UK Shared Prosperity Fund together with major revenue funding streams such as the Adult Education Budget.

The Deployment of the SYRF will be governed by an investment strategy ultimately informed by four local Place Plans and one regional plan.

A phased approach to implementing the Renewal Fund has been agreed.

The first interim phase to 2023/24, focuses on delivering existing commitments and sets aside grant funding of £26m in 2022/23 and 2023/24 to invest in urgent or readily deliverable schemes supplemented if need be with borrowing capacity of c. £40m to make up to £66m available. Crucially, it also focuses gainshare revenue resource on the creation of additional capacity, skills, and resources that can design and develop a new wave of quality investment propositions as part of Phase 2. To this end, up to £24m of revenue funding is being made available over 2022/23 and 2023/24 in a Project Feasibility Fund to fund the development of a South Yorkshire Transformational Impact Investment Plan, to build capacity to deliver existing commitments and local priorities, and, to help the 4 local Authorities to develop place-based investment plans. The immediate priority is focussed on key infrastructure and flood defences.

In the second Phase 2 beyond 2023/24, there will be a further 26 years of Gainshare which will provide £468m of capital investment. This will be used as leverage to attract other more sustainable investment to support delivery of the South Yorkshire Transformational Impact Investment Plan and place-based investment plans with a view to sustaining spending power through sharing in the value of the investments created.

The City Region Sustainable Transport Settlement (CRSTS) in October 2021 resulted in the MCA being awarded £570m over 5 years. This total included the final year of the Transforming Cities Fund programme allocation. In addition to £570m of capital grant, DfT are also providing an allocation of £5.38m of revenue grant in 2022/23 which, along with £5.2m previously received in 2021/22, will be distributed to the MCA and its local authority partners to aid early scheme development costs. Whilst most schemes in the CRSTS programme will be subject to the MCA's assurance process, there are four retained schemes (Mass Transit, Railway Reinstatement, Gateway East and Rotherham Mainline Station) which will also need to have their business cases agreed by DfT in order to release the full allocation of grant.

As part of the Government's strategy to support economic recovery post Covid 19, the MCA has received £53m of funding to support the development of housing schemes on brownfield land. The funding is to be spent by the end of March 2025 with the aim of delivering between 3,300 and 4,600 new homes started on site.

The MCA's indicative allocation from the UK Shared Prosperity Fund over the 3 year period 2022/23 to 2024/25 is £47.5m comprising £38.9m core funding, £7.3m Multiply and £1.3m rural (mix of revenue and capital). The UK Shared Prosperity Fund (UKSPF) replaces European Structural and Investment Funds. Its purpose is to build pride in place and increase life chances across the UK focussing on: Communities and Place; Local Business Support; and, People and Skills. A regional Investment Plan has been developed in conjunction with the four local authorities, setting out the MCA's local priorities for UKSPF funding over the next three years and submitted to Government. The proposal is to review the requirements of UKSPF and ensure the current Assurance Framework of the MCA is updated, if necessary, and to use this as the basis of governance, assurance and compliance.

Capital receipts

The MCA generates capital receipts through the disposal of surplus assets / assets held for sale and through the repayment of capital loans and repayable capital grants awarded to partners to support economic growth.

Capital receipts can be used to finance future capital expenditure or to repay debt.

£2m of capital receipts are currently set aside within a Corporate Asset Management Fund the purpose of which is to maintain MCA assets through ongoing capital investment.

Other planned disposals may emerge during the course of the year and their likely impact on the MCA's capital strategy will be assessed on a case by case basis.

Earmarked reserves / direct revenue financing

The expectation is that the MCA's capital investment plans will be fully funded by Government Grant funding, capital receipts and prudential Borrowing. There is no expectation that a significant amount of revenue resources will be used for the purposes of financing capital expenditure.

Prudential borrowing

The MCA has borrowing powers in relation to both its transport and economic regeneration functions. These borrowing powers are subject to borrowing controls imposed by HM Treasury which requires that a borrowing cap be agreed each year. In 2022/23 the MCA agreed a borrowing cap of £170.8m. The MCA is in the process of agreeing a new cap with the Government for 2023/24.

In addition to the capital controls imposed by Central Government, there is also a requirement for the MCA to comply with the Prudential Code which ensures that borrowing is affordable, prudent and cost effective.

The Annual Treasury Management Strategy 2023/24 sets out the forecast borrowing requirement for 2022/23 and estimates for the following 3 years thereafter. No additional borrowing is envisaged within the draft Strategy presented to Audit, Standards and Risk Committee in January 2023.

PFI / leasing

The MCA has a one PFI scheme which is on balance sheet, Doncaster Interchange. The PFI scheme was the design, construction and operation of a new Interchange over the 32 year period from June 2007 until June 2039. The underlying PFI debt is recognised on the MCA balance sheet and included within the Other Long Term Liabilities presented in the Annual Treasury Management Strategy.

The costs associated with repaying and servicing the debt form part of the Unitary Payment paid to the PFI operator, Doncaster Bus Station Limited (DBSL).

Funding of the Unitary Payment is through PFI credits received by the MCA in the form of PFI grant over the life of the PFI scheme. The PFI affordability model is subject to periodic review to ensure that there are sufficient resources to discharge future liabilities.

Current Lease accounting rules currently require a lease to be recognised on balance sheet as a finance lease where substantially all the risks and rewards of ownership are transferred to the lessee. There are no finance lease assets currently recognised on the MCA balance sheet.

Changes to the rules on accounting for leases (IFRS 16) are due to come into effect in 2024/25. The new rules will require recognition of a Right to Use asset on balance sheet where a contract conveys to the lessee the right to the use of an asset over a period of time. An initial assessment of the impact of these changes indicates that it will not have a material bearing on the MCA and that there will not be a need to recognise Right to Use assets on implementation of IFRS 16.

5. Strategic Framework

The MCA's overarching strategy is set out in the 2022-25 Corporate Plan. This sets out 3 clear objectives for the Organisation namely:-

- Stronger – an economic transformation to create not just a bigger economy but a more productive one that enables our businesses to thrive and grow;
- Greener – a Net Zero transformation to decarbonise our economy, improve our environment, and revolutionise our transport; and
- Fairer – a transformation of wellbeing and inclusion, raising our quality of life, equipping people to acquire skills and progress.

Collectively, through the Strategic Economic Plan (SEP), the Mayor, the MCA Board and the LEP Board share a vision to grow an economy that works for everyone. Specifically, the 2021 to 2041 SEP sets out the vision on what needs to be done to grow the economy and transform the lives and wellbeing of the people of Barnsley, Doncaster, Rotherham, and Sheffield over the next 20 years to achieve the 3 objectives set out above.

The SEP will be reviewed and updated on a regular basis to ensure a sound strategic basis for investment.

Accompanying the SEP is the Renewal Action Plan (RAP) agreed in November 2020. The RAP sets out the MCA's response to the social and economic impact of the coronavirus pandemic focussing on the immediate term.

The SEP and the RAP set the blueprint for how devolved and awarded funding from Government will be invested. The SEP and RAP also set the criteria that all programmes, schemes and projects will be measured and assessed against; from application stage through to contracting and delivery.

Investment decisions are also informed by:

- The Transport Strategy 2019-2040 which sets out the vision for integrating bus, light rail and active trail with heavy rail and the major roads network,
- The Net Zero Work Programme as set out in the 2022-25 Corporate Plan
- MCA's priorities for Gainshare
- The Energy Strategy put in place in 2020 following the MCA Board's declaration of a climate emergency,
- The Sustainability Plan that is due to be produced in 2023
- The South Yorkshire Housing Framework approved in January 2023 which sets out how the MCA and local authorities will work in partnership with others to address key strategic housing opportunities and challenges in South Yorkshire and contribute to delivering a number of the commitments in the Mayor's Manifesto. The Framework provides for a move from a housing growth dominated strategic housing agenda to a greater emphasis on improving the existing housing stock.

Governance and Prioritisation

The MCA's Assurance Framework (current version effective April 2022) sets out how potential investments are prioritised, appraised, approved, and delivered; and, how the progress and impacts of these investments is monitored and evaluated. The Assurance Framework is reviewed, updated and published prior to the start of each financial year. As the Assurance Framework changes this capital strategy will be updated.

All schemes seeking investment undergo a proportionate process and appraisal to assess the merits of the application, its strategic fit and value for money.

Applications for funding will typically originate from one of three sources:

- A Thematic Board may proactively identify potential projects
- the MCA Executive Team, in discussion with partners and stakeholders, may identify a need for a programme or project that either meets the policy objectives and strategic outcomes of the SEP or other strategies
- Via a targeted Open Call to bid for funding or propose a project to meet a specific focus, such as delivering an investment priority or targets in the SEP.

The appraisal and approval process normally comprises the following 4 stages (although this may be curtailed where circumstances demand):

- Stage 1 Pipeline Entry – Applicates submit a Mandate Form setting out how an investment idea or concept meets the entry criteria specified by the MCA
- Stage 2 Strategic Business Case – Applicants submit a Strategic Business case which provides a high level view of the ‘how, what and when’ the project will be delivered and how it is aligned with the SEP and other strategies. This is reviewed by the MCA’s Assurance Panel with a recommendation to either progress the project Stage 3 Outline Business Case or to defer the Strategic Business Case for further work.
- Stage 3 Outline Business case (OBC) – Applicants submit an OBC for the purpose of: i. identifying the investment option which optimises value for money; ii. preparing a scheme for procurement; iii. ensuring that statutory processes are undertaken; and iv. putting in place the necessary finance and management arrangements for the successful delivery of the scheme. An independent assessment is then undertaken to quality assure and scrutinise the project as well as undertaking all necessary due diligence checks. The outcome of the independent assessment is presented to the MCA’s Assurance Panel who make a recommendation to approve or defer the OBC or to reject it. Projects which are approved will receive a notional funding allocation, subject to appropriate conditions being met within an agreed timeframe
- Stage 4 Full Business Case (FBC) - The purpose of the FBC is to: Identify the procurement opportunity which offers optimum value for money; Agree the commercial and contractual arrangements for the successful delivery; and Put in place the detailed management arrangements for successful delivery; and demonstrate how any pre-contract conditions put in place as part of the OBC have been satisfied. The MCA’s Assurance Panel then makes a recommendation to approve the project or defer the project for further work. Final agreement rests with the MCA or Thematic Board depending on the project size after which a Funding Agreement is drawn up between the MCA and applicant

Planned Maintenance

The MCA’s Asset Management Strategy and delivery plan are currently in the process of being revised. Once the final draft of each document has been completed, the internal Asset Management Board will review and approve the strategy and plan for implementation.

Any works requiring immediate attention, for example to ensure compliance with health & safety standards, are being and will continue to be undertaken as soon as practicably possible.

A ten-year plan by site has been developed, showing the Interim Asset Manager's view of work to be prioritised, has been reviewed as part of the 2023/24 budget-setting process.

The 2023/24 budget provides resource for works on a number of the MCA's transport interchanges along with upgrades and repairs to bus shelters.

Emerging needs have been identified at the AMPTC office complex as assets approach life-expiry and opportunities for invest-to-save investments have been recognised. Work is planned in-year to scope this activity and determine funding requirements.

6. Long Term Capital Investment Plans and Funding

The MCA's capital investment plans for the period to 2025/26 and how they are to be funded are summarised in the table below:

1. Group Capital Expenditure Estimates	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Forecast	**Estimate**	**Estimate**	**Estimate**
	£m	**£m**	**£m**	**£m**
City Region Sustainable Transport Settlement (CRSTS)	£26	£52	£92	£98
Transforming Cities Fund (TCF)	£44	£97	£21	£0
Parkway Widening	£23	£0	£0	£0
Active Travel	£3	£3	£0	£0
Growth Deal (Transport)	£0	£11	£0	£0
Highways Capital Maintenance & ITB	£11	£0	£0	£0
Business Investment (LGF)	£9	£3	£0	£0
Brownfield Fund	£9	£15	£5	£0
Gainshare Capital - Place Investment	£27	£12	£14	£0
UK Shared Prosperity Fund	£0	£1	£0	£0
DLUHC	£0	£12	£0	£0
Miscellaneous minor schemes	£6	£11	£1	£0
Total Capital Investment	**£158**	**£217**	**£133**	**£98**

2. Group Capital Financing Estimates	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	Forecast	**Estimate**	**Estimate**	**Estimate**
		£m	**£m**	**£m**
	£m	**£m**	**£m**	**£m**
Total capital investment	**£158**	**£217**	**£133**	**£98**
Government Grant – CRSTS	£26	£52	£92	£98
Government Grant – TCF	£44	£97	£21	£0
Government Grants - other transport	£37	£15	£0	£0
Government Grants - Brownfield Fund	£9	£15	£5	£0
Gainshare - capital	£27	£12	£14	£0

Government grants - UK Shared Prosperity Fund	£0	£1	£0	£0
Government grants – DLUHC	£0	£12	£0	£0
Government grants & contributions - other	£4	£6	£0	£0
Capital Receipts – LGF	£9	£3	£0	£0
Capital Receipts - other	£0	£0	£0	£0
Earmarked reserves & Provisions	£1	£2	£0	£0
Revenue contributions	£1	£2	£1	£0
Total capital funding	**£158**	**£217**	**£133**	**£98**
Net borrowing needed for the year	**£0**	**£0**	**£0**	**£0**

The capital investment plans represent schemes that there is a reasonable expectation will progress.

7. Investments – Service and Commercial

The revised Treasury Management Code 2021 requires all investments and investment income to be attributed to one of the following three purposes: -

Treasury Management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use.

Service Delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial Return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e. that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services.

The main requirements relating to service and commercial investments are: -

- The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
- An Authority must not borrow to invest for the primary purpose of commercial return;
- It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance

maturing debt;
- A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream; and
- Create new Investment Management Practices to manage risks associated with non-treasury investments (similar to the current Treasury Management Practices).

The Government's Debt Management Office has tightened its lending arrangements for access to PWLB borrowing in order to reflect the requirement under the Prudential Code 2021 that an authority should not borrow to invest for the primary purpose of commercial return. PWLB terms now specify that if a local authority is planning to acquire commercial investments in any of the following three years, the authority will be unable to borrow from the PWLB to finance any expenditure in its capital plan.

For the avoidance of doubt, the MCA does not hold, or intend to hold, any commercial investments.

8. Treasury Management

The objectives of the Prudential Code are to ensure, within a clear reporting framework, that:

- a local authority's capital expenditure plans and investment plans are affordable and proportionate
- all external borrowing and other long-term liabilities are within prudent and sustainable levels
- treasury management decisions are taken in accordance with good professional practice, and
- the risks associated with investments for commercial purposes are proportionate to their financial capacity.

To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account.

The MCA's Annual Treasury Management Strategy sets out the authority's approach to borrowing and investments and the Prudential Indicators used to measure performance. The Strategy seeks to ensure that:

- The MCA's overarching Borrowing Strategy is appropriate in the context of the current economic climate;
- The MCA Group's capital plans are affordable, prudent and sustainable (as measured via aseries of prudential indicators);
- Prudent charges are made to revenue for the repayment of debt by adopting a MinimumRevenue provision (MRP) policy that is compliant with statutory MRP guidance;
- Investments and borrowings are organised in accordance with the MCA's risk appetite (as measured via a series of treasury indicators); and
- The MCA Group's Investment Strategy pays due regard to security (the management of risk and the protection of the principal sums invested) and liquidity (availability of cash to meet liabilities as they fall due) as first priorities and then what level of return (yield) can be obtained based on risk appetite and the contribution each investment activity makes.

The Annual Treasury Management Strategy is approved before the start of the financial year, monitored quarterly during the course of year culminating in a treasury management Outturn being presented following the end of the year to report actual performance.

9. Skills and Knowledge

Internal resources

The MCA is responsible for approving the Treasury Management Strategy and borrowing limits of the Authority. The Executive Director of Resources and Investment (Section 73 Officer) has overall responsibility for ensuring that the Treasury Management Code of Practice and the Prudential Code are complied with. The Executive Director of Resources and Investment (Section 73 Officer) is a qualified accountant and has treasury management expertise. Practical management is undertaken by experienced staff with relevant treasury management knowledge.

The Assurance Panel which assesses the relative merits of project applications to determine whether or not they should make a recommendation to the MCA / Thematic Board for an investment to proceed is chaired by a private sector member from the LEP Board and comprises members of the MCA Executive team including the Executive Director Resources and Investments, Chief Legal and Monitoring Officer, Director of Corporate Policy and Assistant Director Procurement Contracts and Programme Control.

The Head of Facilities and Assets has responsibility for Asset Management planning.

External advisors

Link Group, Link Treasury Services, have been appointed as treasury advisors to the MCA to provide technical guidanceand support on treasury matters, including providing a creditworthiness service to financial institutions and other potential counterparties.

The MCA also has a service level agreement with Sheffield City Council to provide treasury services including day to day management of the MCA's investment portfolio on its behalf.

Where external advisors are appointed to provide specialist skills and resources, Officers will ensure that the terms of their appointment and methods by which their value will be assessed are properly agreed and documented.