Appendix 1

Core Operational Revenue Budget

1.1 As set out in paragraph 2.3 (Section 2 in the main body of the report), the revenue budget is funded from a variety of sources. The following section provides a further breakdown of those sources of funding and a comparison with 2018/19.

1.2

	2018/19	2019/20	Variance
	Budget	Budget	
Income Stream	**£'000**	**£'000**	**£'000**
EZ Business Rates	£3,145	£3,023	-£122
Traded Income – AMP	£1,428	£1,428	£0
Transport Hub Subscriptions	£1,000	£1,000	£0
Base LEP Subscriptions	£204	£204	£0
LEP Grants	£500	£500	£0
Investment Income – Treasury	£195	£195	£0
Investment Income - Property Portfolio	£260	£155	-£105
	£6,731	**£6,506**	**-£225**

1.3 As shown in the table above, total estimated income available to resource the 2019/20 revenue budget is expected to be £6.5m, a reduction of £225k (3.3%) compared to 2018/19.

1.4 EZ Business Rates

At £3m, the amount of business rates retained by the MCA/LEP from the four billing authorities (which collect rates payable by occupiers of rateable properties in SCR enterprise zones) is expected to fall by £122k (4%) compared to 2018/19. The table below shows a breakdown of retained business rates from the four billing authorities.

	£'000
Barnsley	£848
Chesterfield	£1,000
Rotherham	£576
Sheffield	£600
Total Retained Business Rates	**£3,023**

The estimates assume that there will be a cap of £1m on the amount payable to the SCR by any individual authority. The proposal to which this cap relates is set out in more detail in **Appendix 4**.

1.5 EZ business rates account for 46% of total estimated income available to resource the 2019/20 revenue budget. In the absence of other sustainable income, the MCA/LEP is heavily reliant on this income stream. Furthermore, it is notoriously difficult to predict for a variety of reasons, hence a prudent approach to forecasting is taken which involves a detailed risk assessment of virtually every single property liable to business rates, and a mitigation strategy including the business rates resilience reserve.

1.6 Traded Income – AMP

The second largest source of income comes from the tenants who occupy workspace at the AMP Technology Centre. Occupancy levels in 2019/20 are expected to match current levels, hence income is predicted to remain at around £1.4m. After allowing for running costs of c.£1m, the

Technology Centre is expected to generate an operating surplus in the region of £0.4m in 2019/20.

1.7 Subscriptions payable by member authorities

The table below shows the proposed subscriptions for 2019/20. The amounts have been frozen at the same level since the inauguration of the Combined Authority in April 2014.

	2019/20	2019/20	2019/20	2018/19	
	Base	Transport	Total	Total	Variance
Partner	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Barnsley	£32	£174	£206	£206	£0
Bassetlaw	£4	£0	£4	£4	£0
Bolsover	£4	£0	£4	£4	£0
Chesterfield	£4	£0	£4	£4	£0
Derbyshire Dales	£4	£0	£4	£4	£0
Doncaster	£41	£223	£264	£264	£0
North East Derbyshire	£4	£0	£4	£4	£0
Rotherham	£36	£190	£226	£226	£0
Sheffield	£76	£413	£489	£489	£0
	£205	**£1,000**	**£1,205**	**£1,205**	**£0**

1.8 LEP Grants

All LEPs across the country receive a capacity grant from central government. SCR's indicative allocation for 2019/20 is £500k, the same as for 2018/19. Final allocations will not be confirmed until April 2019. Government have made clear that the release of all funding is dependent on the outcome of Annual Performance Reviews and implementation of the LEP Review.

1.9 Investment Income

The MCA/LEP receives two types of investment income:

- Treasury
- Property Portfolio

Treasury investment income comprises interest receivable from cash invested in accordance with the MCA Group's treasury management strategy. The MCA/LEP takes a low-risk approach in terms of its investment strategy in order to provide a secure source of income to the authority.

Property portfolio investment income is derived from those investment properties which were transferred to the MCA from its former property-holding subsidiary SYITA Properties Ltd. The amount of income expected in 2019/20 is £105k lower than 2018/19 as a result of one of the largest properties (a bus depot in Rotherham) being vacated with no immediate prospect of finding a tenant to cover the shortfall.

1.10 Expenditure

The main costs of running the MCA/LEP include staffing, accommodation, business support, international marketing and the commissioning of specific pieces of work as part of implementing the Strategic Economic Plan (SEP), Local Industrial Strategy (LIS) and Shared Prosperity Fund (SPF).

The table overleaf provides a breakdown of these costs by type. Overall spending is reducing in real terms by £435k, which is 6.5%. This is after adjusting for an increase of £210k, which is the apportionment of IT and accommodation costs with the PTE, rather than a real cost increase for the Group. In addition, the SCR has had to absorb pressures of £359k (5.3%), as follows:

- £291k loss of funding (£169k of annual rent in respect of a vacant bus depot, £122k of business rates income from enterprise zones);
- £147k of pay inflation;
- £50k of vacant property management costs (in respect of the aforementioned bus depot);

- Offset by £129k of one-off project costs which cease after 2018/19 (£125k in relation to the SAMS project, £4k of minor variances).

Allowing for all pressures, the underlying reduction in the budget is £794k (11.8%).

This exceeds the target discussed at the Mayor's budget workshop in January 2019, where Leaders asked for options to be modelled which could deliver budget savings of 10% in 2019/20.

At the Mayor's request, officers will be exploring the opportunity to make efficiencies by integrating back office and support functions currently hosted across Sheffield, Barnsley and the PTE so as to deliver significant benefits. This will take time to scope during 2019 in order to deliver for the 2020/21 budget.

Net budget	**2018/19**	**2019/20**	**Variance**
	Budget	**Budget**	
Expenditure	**£'000**	**£'000**	**£'000**
Staffing	£2,370	£2,277	-£94
SEP, LIS and SPF Development	£1,305	£1,160	-£145
AMP	£1,175	£1,022	-£153
Business Support, Supplies and Services	£924	£983	£59
Trade and Investment	£669	£601	-£68
Other Property Costs	£288	£253	-£35
Sub-total	**£6,731**	**£6,296**	**-£435**
Change in overhead share with PTE	£0	£210	£210
Total	**£6,731**	**£6,506**	**-£225**

1.11 Staffing

The reduction in the net cost of staffing of £93k in 2019/20 represents a real term saving of 6.5% after allowing for £147k of cost pressures arising from the 2% pay settlement plus increments where applicable

Our latest estimates indicate that the gross cost of staffing (c.£4.7m) will be netted down by recharging around £2.4m to the revenue and capital programmes where employees spend some or all of their time managing or delivering a project.

1.12 SEP, LIS and SPF Development

It is proposed to reduce the SEP, LIS and SPF Development budget by £145k (11%) to £1.16m in 2019/20. This is considered to be achievable on the proviso that work to procure new activity in advance of the new financial year will lead to commitments in 2018/19 which therefore need to be funded in the current financial year. The recommendation is to create an earmarked reserve which will ensure that such activity is properly funded. This proposal is also noted in **Appendix 3** (Reserves Strategy).

1.13 AMP

See paragraph 1.6 above.

1.14 Business Support, Supplies and Services

The main component of this part of the revenue budget covers the cost of professional support services currently provided to the MCA/LEP by partner authorities. Such services include finance, HR, internal audit, legal, member support, payroll and procurement. The other component consists of a wide range of organisational running costs, including external audit, insurance, IT and staff travel. The budget in this area will have to increase by £269k in 2019/20 primarily to recognise a more reasonable apportionment of group IT costs, which will lead to a corresponding budget reduction in SYPTE.

1.15 Trade and Investment

It is proposed to reduce this budget for trade and investment and international and national marketing and communications by £68k (10%) compared to 2018/19.

1.16 Other Property Costs

Finally, this area of the revenue budget covers the cost of facilities and asset management activity undertaken by the MCA, for instance the cost of running Broad Street West and managing vacant investment properties such as the Midland Rd bus depot. The proposed budget for 2019/20 is £253k, a reduction of £34k (12%). However, this incorporates an increase in the budget for the Broad Street West building of c.£41k in order to recognise a more reasonable apportionment of costs between SYPTE and the MCA.

Appendix 2

Revenue Programme

1.1 The spend across all 13 active revenue programmes in 2019/20 is expected to reach £9.3m. No significant new programmes are included in next year's budget. 4 programmes are coming to an end in 2018/19: Energy Strategy, Gatsby, RISE and Launchpad.

1.2

Programme Activity	Thematic Area	2018/19	2019/20
		Outturn	Budget
		£'000	£'000
Health Led Employment Support Trial	Skills & Employment	£5,379	£2,179
Skills Bank	Skills & Employment	£364	£1,082
Key Account Management	Trade & Investment	£102	£102
Mayoral Capacity Fund		£624	£1,376
Energy Strategy	Infrastructure	£38	£0
Energy & Sustainability	Infrastructure	£0	£59
Enterprise Advisor Pilot	Skills & Employment	£187	£180
Gatsby/STEM	Skills & Employment	£81	£0
Hub enhancement	Business Growth	£315	£34
RISE	Business Growth	£50	£0
Launchpad	Business Growth	£131	£0
Growth Hub	Business Growth	£770	£829
Access to Finance	Business Growth	£293	£126
One Public Estate	Assets	£411	£330
Planning Delivery Fund	Planning	£65	£162
HS2 Growth	Transport	£561	£298
Sustainable Travel Access Fund	Transport	£2,500	£2,500
Total		**£11,871**	**£9,257**

1.3 **Skills & Employment**

The two main workstreams in the area of Skills and Employment are the Health led trial (a MCA project) and Skills Bank (a LEP growth deal project).

The health led trial was launched successfully in 2018/19 and is now in the process of being delivered under a contractual arrangement with NHS Sheffield Clinical Commissioning Group and the delivery partner, South Yorkshire Housing Association. The forecast spend in 2018/19 and 2019/20 budget reflect the latest funding profile agreed with the Work and Health Unit. Under the terms of the contract the planned end date for delivering the scheme is March 2020. However, negotiations with the Work and Health Unit have recently been concluded to allow for an extension of the scheme to October 2020. This will increase the overall amount of funding available to deliver the trial from £7.558m to £9.057m but will not affect the profiled spend in 2019/20.

Skills Bank is a 6 year programme which forms part of Sheffield City Region's Growth Deal. The first phase for the 3 years to 2017/18 has been concluded and evaluated with the lessons learnt informing the change in the delivery model for the second phase over the 3 years from 2018/19. Skills Bank essentially comprises two elements: tasks and activities which the SCR is responsible for delivering and the main contract with the delivery partner for commissioning training.

The SCR have received a funding agreement for its element confirming that the funding available in 2018/19 and 2019/20 is £1.812m. This amount is far higher than predicted and reflects the ESFA delaying the formal commissioning of the Skills Bank Delivery Partner. The indicative allocation in 2020/21 of £0.369m is expected to be confirmed as the final year of the 6 year Growth Deal but falls under the Government's current spending review. The forecast spend in 2018/19 and 2019/20 reflect the latest estimated cost of delivering the activities which the SCR is responsible for in order to draw down the funding.

A delivery partner, Calderdale College, has been secured for the main contract worth around £8.5m over the 3 year period from 2018/19. Their contract is with the ESFA - the SCR is not a co-signatory and is not accountable for this funding.

1.4 Mayoral Capacity Fund

The SCR successfully bid for Mayoral Capacity Fund monies to build capacity to help support the Mayoral Office and deliver against Mayoral and Manifesto priorities. The MCA received an allocation of £0.966m in 2018/19 and an indicative allocation in 2019/20 (yet to be formally confirmed) of £1.034m. The forecast spend in 2018/19 reflects the fact that the SCR only received notification of its 2018/19 allocation in January 2019 and there is therefore a lead in time to commission.

1.5 Business Growth

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

The revenue grant was transferred to earmarked revenue reserves and has been released on an annual basis to meet the majority of the costs of the Growth Hub and Access to Finance teams, along with individual projects such as Hub Enhancement, RISE and Launchpad. However, RISE and Launchpad are ending on 31 March 2019 and European Structural Investment Fund (ESIF) is ending on 30 June 2019.

The remaining funding to support business growth activity comes from central government (£410k per annum, confirmed to the end of 2019/20).

The Growth Hub team has launched a new project in 2018/19 called 'Y Accelerator' which will be continuing in 2019/20 with a budget allocation of £66k.This budget is within the Growth Hub business plan.

SCR are seeking approval to partner with Sheffield Hallam University in the launch of the Sheffield Innovation Programme (SIP) which is 3 year programme starting in August 2019. SCR have agreed to provide match funding of £189k over the 3 year period to support the University's ESIF bid with an allocation of £27k during 2019/20. The purpose of this programme is to provide innovation support workshops for the benefit of regional SMEs' economic growth. The £189k of match funding is provided for within the Growth Hub's business plan. Formal MCA approval will be sought, if required, once the outcome of the ESIF bid is known.

In 2018/19, it is anticipated that around £1.0m will be drawn down from the earmarked reserve to support Growth Hub activity. This will leave around £1.4m available in the reserve at the end of 2018/19 to fund business growth activity in 2019/20 and 2020/21.

1.6 <u>Assets & Planning</u>

One Public Estate (OPE) will continue in 2019/20 at a slightly reduced level compared to 2018/19 with a budget allocation of £330k.
A new workstream – Planning Delivery Fund – started in mid 2018/19, so full year outturn is revised from £120k to £65k. The project will be running at its full capacity in 2019/20 and there is an estimated budget allocation of £162k in 2019/20. The funding (£276k) is payable in advance by MHCLG and has been received. The areas of activity are expected to include:

- Development of a comprehensive and robust strategic housing and planning evidence base to support joint approaches to housing growth and the infrastructure / funding packages to support housing development, particularly for priority housing growth sites;

- Development of shared approaches to implementation, including addressing planning barriers to housing development; and

- Additional project management capacity for Local Authorities to call-off, to help fill capacity gaps and accelerate housing development for housing schemes across the SCR.

1.7 <u>Transport</u>

2 workstreams in the area of Transport continue into 2019/20:
- Sustainable Travel Access Fund (STAF) £2.5m
- HS2 Growth Strategy £298k

STAF is a 3-year programme running from 2017/18 to 2019/20. Funding of £7.5m has been made available over the life of the programme in equal annual allocations of £2.5m p.a. Delivery has been strong to date. At Q3 all partner authorities reported to the LTP team that they would spend to budget in 2018/19, hence no slippage is assumed.

The MCA received £1.25m (in 2 tranches of £625k each) from the Department for Transport (DfT) in 2017/18 to prepare a HS2 Growth Strategy for SCR to ensure that the region takes full advantage of the economic benefits arising from the HS2 project, both during construction and operation. Estimated spend for 18/19 is around £561k, there is a slippage on the programme and a budget of £298k is allocated to cover slippage work relating primarily to master planning work for Chesterfield and Sheffield stations, and further activity to follow the launch of the Growth Strategy in 2019/20.

1.8 <u>Infrastructure</u>

A new workstream, Energy & Sustainability was started late in 2018/19. This is a 2-year programme and the estimated value is around £114k. £14k is funded from Core budget and £100k has been obtained from BEIS (via Tees Valley Combined Authority). The programme funds a FTE post that will lead on activity to:

- Increase capacity to develop and deliver energy projects;

- Increase the number of projects designed to develop and deploy approaches to energy production and use, and which support local and national strategies, and;
- Improve the quality of energy projects brought forward to meet local and national strategies and targets.

Appendix 3

Reserves Strategy

1.1 As at 31 March 2019 it is estimated that balances on revenue reserves linked to LEP activity will be around £10.6m. A breakdown of all reserves held by the Mayoral Combined Authority group is set out in the table below. MCA Transport revenue reserves are ringfenced under statute for the MCA's transport functions and responsibilities. Capital reserves cannot be spent on revenue activity unless approved by Government under statute.

It should be noted that of total reserves of £160.2m, c.83m (52%) is classified as unusable, which means that the MCA is not permitted to use those reserves to provide services or to fund future capital projects. Further details on unusable reserves can be found in the section about MCA transport capital reserves.

1.2

	Balance b/f 1.4.2019	Budgeted use	Forecast Reserves c/d 31.3.2020
	£'000	£'000	£'000
Total MCA/LEP Revenue Reserves	£10,562	-£863	£9,699
Total MCA Transport Revenue Reserves	£47,674	-£6,477	£41,197
Total MCA/LEP Capital Reserves	£101,953	-£9,522	£92,611
Grand Total	**£160,189**	**-£16,862**	**£143,507**

1.3 A breakdown of MCA/LEP revenue reserves and balances is as follows:

		Balance b/f 1.4.2019	Budgeted use	Forecast Reserves c/d 31.3.2020
		£'000	**£'000**	**£'000**
MCA/LEP General Reserve	Unearmarked	£1,733		£1,733
MCA/LEP LGF Reserve	Earmarked for Business Growth	£1,480	-£520	£960
Properties Reserve (Sinking Fund)	Prop co retained profits	£1,385		£1,385
Mayoral election reserve	Earmarked to meet local election costs	£0		£0
Business rates resilience reserve		£843	-£343	£500
Skills Bank Reserve		£4,780		£4,780
Other earmarked revenue reserves	Earmarked against specific financial risks	*tbc*		*tbc*
Revenue grants reserve - Apprenticeship Grant for Employers	Earmarked	£107		£107
Total MCA/LEP Revenue Reserves		**£10,562**	**-£863**	**£9,699**

1.4 <u>**MCA/LEP General Fund balance**</u>

The General Fund balance (£1.7m) is to cover known risks, as well as unforeseen costs and contingencies relating to the MCA/LEP's operating activities in the short to medium term. The latest analysis of known risks is set out in the table below. In summary, if all known risks (currently estimated at £1.5m as per the table) materialised without further mitigation, this would leave around £229k to cover any other as yet unknown or unquantified risks.

Risk	Description	Potential exposure (£'000)
Withdrawal of Chesterfield from LEP	The Government's review of LEP overlapping geography could lead to Chesterfield withdrawing from SCR LEP membership, which would result in the authority ceasing to pay any retained business rates in respect of Markham Vale enterprise zone from 2020/21, as well as its £4k annual subscription. The LEP Chair and Chief Executive are in ongoing dialogue with Chesterfield. The 2019/20 budget assumes that a lower proportion of EZ rates will be paid to SCR, and 2020/21 business planning assumptions include a worst case scenario of full withdrawal.	£1,004
Loss of capacity grant	As accountable body, the MCA receives an annual grant of £500k from Government to fund core activity to manage LEP operations. This grant could be withdrawn by Government in 2019/20 if it does not meet all LEP Review requirements.	£500
Reduction in retained business rates income from enterprise zones	Previous years' experience of forecasting business rates has shown that this income stream is difficult to estimate, with reductions in income often occurring due to various factors, e.g. delayed opening of new premises, discretionary reliefs, etc. A specific earmarked reserve to mitigate this risk was approved by the CA as part of the 2018/19 budget. Furthermore, a provision for business rates appeals and bad debts of c.£200k has been established where such provisions have not already been taken by the billing authorities.	£0
Overspend on core operational budget	The core operational budget and revenue programmes are monitored on a monthly basis and reported to the MCA on a quarterly basis, with tight controls over the approval of spend. Action is taken promptly by senior management when potential forecast overspends are identified. At Q3 2018/19, the overall forecast position was reported as c.£500k underspend.	£0
LGF clawback	This risk is considered to be low because the risk of LGF clawback ultimately rests with the promoter, as set out in the funding agreement which it signs with the MCA.	£0
Grant clawback on revenue programmes	This risk is considered to be low for the reasons set out in 'Overspend on core operational budget' above	£0
2019/20 budget saving proposals	On the proviso that the MCA agrees to the creation of a new earmarked reserve from 2018/19 underspends to cover all commitments made in 2018/19 in respect of SEP, LIS & SPF Development, this risk is considered to be low.	£0
Redundancy costs	A provision of c.£100k has been set aside to cover the cost of making staff redundant who are working on fixed term contracts as part of revenue programmes. The amount of provision will be reviewed periodically with the Executive Leadership Team to ensure that it covers any further scenarios.	£0
Brexit	The principal risk to the core operational budget in respect of Brexit is loss of business rates income as a result of business closures in enterprise zones caused by economic downturn. This risk is currently considered low, however as noted above there is an earmarked reserve in place to mitigate the risk of loss of business rates income. This risk will be reviewed regularly to evaaluate the potential impact of a "no deal" scenario.	£0
Contingent liabilities	*Currently being assessed as part of year-end process*	*tbc*
Asset management	This risk is in relation to liabilities for emergency repairs and maintenance to MCA/LEP assets, e.g. Broad Street West, AMP Technology Centre. This risk is being assessed as part of the Strategic Asset Management Strategy project (SAMS).	*tbc*
Estimated upper limit of potential exposure		**£1,504**
Forecast balance on unearmarked reserves		**£1,733**
Headroom		**£229**

"Potential exposure": the extent to which there will be a call on unearmarked reserves in 2019/20 and 2020/21

1.5 MCA/LEP LGF reserve

The MCA/LEP LGF reserve represents the balance remaining of the £4m capital to revenue swap agreed as part of the first devolution deal. It is earmarked specifically for funding the activities of the SCR Growth Hub and cannot be used for any other purpose.

1.6 Business rates resilience reserve

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

In order to mitigate this risk, a new earmarked reserve has been established in 2018/19 from the surplus business rates declared in respect of 2017/18.

The level of the reserve will be assessed annually to determine its adequacy. Proposals are currently under discussion on how any amount in excess of what is required should be re-distributed back to partner authorities.

1.7 Skills Bank reserve

As reported to the Skills Exec Board on 21 February 2019, the Skills Bank reserve has been established from the Skills Bank pilot surplus of £1.182m, underspend on Skills Bank 1 management and administration costs for which the SCR is accountable of around £500k and £3.1m Skills Bank 1 surplus which is expected to be returned to SCR by PwC from the balance held in the Innovation and Capacity Fund earned on the main contract for delivering Skills Bank 1.

The purpose of the reserve will be to support future Skills Bank delivery and sustainability post the conclusion of the government investment together with the recently secured Skills Bank 2 funding (see **Appendix 2** for further detail).

1.8 Other MCA/LEP earmarked reserves

The MCA/LEP holds a number of other reserves which do not fit neatly into the categories of transport or economic development, an example of which is the Properties Reserve. The estimated balance on the Properties Reserve is expected to be £1.385m at the end of 2018/19, and was created out of the estimated profits transferred from the MCA's former property holding company. The final profit figures will be confirmed when the liquidation process is completed.

Further work is being undertaken as part of the year-end process to assess any financial risks which need to be mitigated and/or recognised by way of provision or earmarking reserves to ensure that sufficient resources are available to meet any liabilities in the future.

1.9 MCA Transport revenue reserves

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

		Balance b/f 1.4.2019	Budgeted use	Forecast Reserves c/d 31.3.2020
		£'000	£'000	£'000
CA Transport General Balances	Unearmarked	£5,888		£5,888
CA Levy reduction reserve	Earmarked to sustain levy reductions	£25,135	-£6,477	£18,658
CA PFI reserve	Earmarked to meet future PFI liabilities	£9,880		£9,880
SYPTE operational revenue reserve	Unearmarked	£1,661		£1,661
SYPTE earmarked reserves	Earmarked for specific purposes	£5,110		£5,110
Total MCA Transport Revenue Reserves		**£47,674**	**-£6,477**	**£41,197**

1.10 MCA Levy reduction reserve

At present, the base budget for transport (SYPTE operational budget plus SCR MCA former ITA budget) exceeds the transport levy by c. 6.5m. Over time the base budget is set to fall due to SYPTE capital financing costs reducing as SYPTE's loan portfolio is repaid. The current long term financial plan aims to bring about convergence no later than 2024/25. In order to sustain levy reductions below base budget until convergence, the Levy Reduction Reserve is being used to make good the shortfall.

1.11 MCA Transport General Balances & SYPTE operational revenue reserve

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

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

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

1.12 MCA PFI reserve

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

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

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

See MCA Transport General Balances above.

1.13 SYPTE earmarked reserves

At the end of the financial year 2018/19, it is forecast that SYPTE will hold earmarked reserves of £5.1m to cover a variety of costs anticipated in the future, including: remedial works to its fixed assets, network maintenance consultation and upgrades, IT project work and customer service improvements.

Any earmarked reserves held within the MCA group should be reviewed annually as part of the business
planning and budget setting process to assess their adequacy and relevance. The MCA group should ultimately sign off any earmarked reserves in presenting the proposed budget to the MCA for approval.

As part of refreshing the MTFS in Spring, the review of all reserves in the context of the long term financial plan will be completed, by which point the 2018/19 outturn position will be known. The results of the review will help to identify how much capacity within reserves is available to provide funding for either revenue budget support or investment in transport services and/or assets.

1.14 MCA/LEP Capital Reserves

The forecast balance on MCA/LEP capital reserves at the end of 2018/19 is expected to be £102m. The table overleaf provides a further breakdown.

1.15 SYPTE deferred capital grants (unusable)

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

The distinction between the two reserves is that the first reserve (£26.1m) is funded from the former ITA capital grant, whilst the second reserve (£56.8m) is funded from miscellaneous grants from funding bodies such as DfT.

1.16 SYPTE capital grants unapplied reserve (usable)

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

1.17 MCA and SYPTE transport capital receipts (usable)

At the end of 2018/19, the MCA will hold a capital receipts reserve of £2m and SYPTE a capital receipts reserve of £1.15m.

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

Note that the MCA capital receipts reserve is earmarked for use to support the LGF programme, along with the LEP capital receipts reserve of £820k.

1.18 LGF Capital Grant Received In Advance

This balance represents the latest estimated amount remaining from the £8.7m approved underspend on LGF in 2017/18. The amount (currently estimated at £1.7m, but likely to increase by year-end) will be rolled forward to fund the LGF programme in 2019/20.

1.19 Transport Capital Grant Received In Advance & Transforming Cities (TCF)

This balance represents a multitude of capital grants (for the which the MCA is the accountable body), received up to the end of 2018/19, from funding bodies such as the Department for Transport for projects in the South Yorkshire Transport capital programme. It is currently assumed that all such grants will be drawn down by year-end. Any unused amounts will be rolled forward into 2019/20, subject to grant conditions. The TCF balance is reported as £nil because we are awaiting confirmation on the recent bid.

1.20 Growing Places Fund (GPF)

The GPF programme pre-dated the inception of the MCA, and was run by Sheffield City Council (SCC) acting as accountable body for the LEP. SCC has returned all remaining recycled grant to the MCA. No decision has been taken on how this funding should be deployed.

		Balance b/f 1.4.2019	Budgeted use	Forecast Reserves c/d 31.3.2020
		£'000	£'000	£'000
SYPTE deferred capital grants - £33.2m ITA capital grant		£26,143	-£2,389	£23,754
SYPTE deferred capital grants	earmarked to meet future depreciation	£56,791	-£2,613	£54,358
Capital receipts - former ITA		£2,000	-£2,000	£0
Capital receipts - LEP		£820	-£820	£0
Capital receipts - SYPTE		£1,150		£1,150
Capital grants unapplied - SYPTE		£5,317		£5,317
LGF capital grant received in advance	Capital grant received in advance	£1,700	-£1,700	£0
transport capital grant received in advance	Capital grant received in advance	£0		£0
Transforming Cities Phase 1 funding	Capital grant received in advance	£0		£0
Growing Places Fund - LEP	Creditors	£8,032		£8,032
Total MCA/LEP Capital Reserves		**£101,953**	**-£9,522**	**£92,611**

Appendix 4

Proposed rebate in respect of EZ business rates to billing authorities

The estimated income forecasted to be collected in 2019/20, predominantly through the EZ rates payable by the 4 billing authorities, is projected to exceed planned expenditure. Through collaboration with various stakeholders (including LA Directors of Finance, Directors of Economic Regeneration and Chief Executives), the following option is presented in the budget for a reapportionment of EZ business rates in 19/20.

The proposed methodology includes two steps:

- the repayment of 2019/20 estimated business rates over a capped amount, proposed to be set at £1m;
- the distribution of a proportion of the EZ business rate resilience reserve (a reserve designed to enable the management of fluctuations in income), broadly in proportion to the cumulative contributions made by the billing authorities (based on 2018/19 outturn).

It is currently estimated that in 2019/20 this could see a return of business rates totalling £1.23m to billing authorities, the most significant return being to Chesterfield Borough Council, whose contribution is estimated to be significantly greater than the suggested capped amount. The effect of this proposed decision is to reduce total income by 16%, or 31% of the business rates income paid from the billing authorities in 2019/20.

It is proposed to treat this as a ‘windfall’ settlement to be limited to 2019/20 only, as the financial position of the MCA/LEP in 2020 may be significantly different if the entirety of EZ rates from Chesterfield are no longer payable to SCR as a consequence of the LEP Review outcome.

Figure 1 – Impact of £1m cap

	2019/20 estimate	Rebate	Amount retained by SCR
	£'000	£'000	£'000
Barnsley	£848		£848
Chesterfield	£1,890	-£890	£1,000
Rotherham	£576		£576
Sheffield	£600		£600
Total Retained Business Rates	**£3,914**	**-£890**	**£3,023**

As shown in Figure 1 above, the only billing authority whose estimate for 2019/20 exceeds the £1m cap is Chesterfield. Its estimate is £1.89m, hence a rebate of £890k would be payable to Chesterfield, subject to approval by the MCA.

Figure 2 – Distribution of business rates resilience reserve

	Cumulative contributions to 2018/19	% share	Rebate
	£'000	%	£'000
Barnsley	£3,608	41%	£140
Rotherham	£1,781	20%	£69
Sheffield	£3,493	39%	£135
Total	**£8,882**		**£344**

Step 2 involves: (a) a review of cumulative EZ contributions from 2013/14 to 2018/19 and (b) an assessment of the amount required to be held back in the business rates resilience reserve. The numbers shown in Figure 2 will not be finalised until the 2018/19 outturn position has been audited. At this stage, it is proposed to reduce the balance on the reserve from £844k to £500k. This leaves £344k available to distribute to Barnsley, Rotherham and Sheffield. To note that Chesterfield is not included in this step as it receives a significant rebate as part of step one.