

## Mayoral Combined Authority Board

15 November 2021

### 2021/22 Budget Revision 2

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<b>Is the paper exempt from the press and public?</b>	No
<b>Purpose of this report:</b>	Monitoring/Assurance
<b>Funding Stream:</b>	Not applicable
<b>Is this a Key Decision?</b>	Yes
<b>Has it been included on the Forward Plan?</b>	Yes

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**Director Approving Submission of the Report:**  
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#### **Executive Summary**

This report provides revised Group budget forecasts to the end of the financial year 2021/22. The report recommends the adoption of the budget estimates, adjustments to budgetary ceilings, the distribution of grant received, and the approval to accept the offer of a borrowing cap from HM Treasury.

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

This report seeks adjustments to the MCA's financial plan to ensure it has sufficient resource to deliver on its objectives. The report also seeks approval for the distribution of grant in support of business recovery aspirations and transport infrastructure goals.

#### **Recommendations**

The MCA Board:

1. Adopt the revised budget estimates;
2. Note the slower than forecast pace of the capital programme;
3. Approve the final distribution of Additional Restrictions Grant funding;
4. Approve the distribution of the excess Highways Maintenance grants received; and,
5. Approve the acceptance of the debt-cap of £171m for the year ending March 2022.

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

Not applicable

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### 1. Background

- 1.1 The MCA's capital and revenue budgets remain sensitive to the recovery of the local and national economy as we move into the autumn and weather macro-economic forces.
- 1.2 In order to ensure that the MCA's financial plans remain aligned to its corporate and business priorities, and reflect new funding that becomes available, a mid-year budget revision exercise has been undertaken as at the end of September 2021 (Period 6). This exercise sought to re-test income and expenditure assumptions, and re-forecast budgets and programmes to the end of the financial year.
- 1.3 The results of this exercise highlight a number of notable issues that will influence the MCA's financial position over the remainder of the year, as well as planning for the medium term:
  1. Bus and tram funding has now been committed to the end of the current financial year, providing much needed near-term certainty;
  2. The region continues to perform strongly in the distribution of business assistance grants and has now moved to deploy the final tranche of funding;
  3. Whilst the Summer Saver public transport patronage primer performed well, the 18-21 concession offer has to-date not generated the level of uptake expected;
  4. A number of Renewal Action Plan schemes within the Business Growth and Skills and Employment thematic areas are now profiled to deliver within the forthcoming new financial year; and,
  5. Risks around the pace of the capital programme are now crystallising with concerns around the Brownfield programme paramount.
- 1.4 At the mid-year mark the principal budget concern has pivoted away from the ongoing scale and longevity of government support to the South Yorkshire public transport network to concerns around the pace of the MCA's revenue and capital programmes and associated supply chain and labour market challenges.
- 1.5 Over quarter 2 the MCA received confirmation of government's intentions for both bus and tram funding, with commitments received until the end of the financial year. The commitment of this national support has provided much needed clarity on the role of the MCA in complementing this position.
- 1.6 The MCA's adopted financial plan continues to allow it to match national support with concessionary payments being made to operators at pre-pandemic levels, supporting 100% network coverage.
- 1.7 However, over the course of the quarter national supply chain and labour market issues have begun to permeate into the MCA's operational affairs. Notably, driver shortages have meant transport operators have been unable to deliver the full network coverage required leading to savings on the agreed concession payments.

- 1.8 Supply chain and labour market concerns have also begun to affect programme delivery, with saturated markets leading to cost inflation and delays to recruitment and the appointment of contractors.
- 1.9 This report notes that these issues are contributing factors to the slower than forecast pace of capital and revenue programmes. At the mid-year mark programmes across all thematic areas have been re-profiled with activity moved into future financial periods.
- 1.10 Of principal concern at this stage is the pace of the Brownfield housing programme where – despite a strong pipeline of schemes – the forecast level of expenditure incurred by outturn will fall short of the target set by government with limited mitigations available.
- 1.11 However, despite these issues this report notes that previous concerns around the withdrawal of a £6m scheme from the Getting Building Fund programme have abated following fruitful collaboration between the MCA, government, and the local partner.
- 1.12 Strong progress also continues to be made on the deployment of Additional Restrictions Grant (ARG) in support of the South Yorkshire Business Support Scheme. At its last reporting date, government data showed the MCA performing well compared to its peer group, with the MCA distributing more funding than any other ARG recipient.
- 1.13 Finally, this report seeks approval for the distribution of Highways Maintenance funding and the approval to accept the formal offer of a borrowing cap from HM Treasury.
- 1.14 Whilst this borrowing cap is relatively modest in value and time-limited to the end of the current financial year, it does represent a significant milestone on South Yorkshire’s devolution journey. Acceptance of the cap at this stage will precipitate the laying of the statutory instrument that will enable the MCA to draw down on new powers to take on debt in support of its non-transport activity.
- 1.15 Appended to this report is a review of the Treasury Management Strategy at the mid-year point. The report notes higher than forecast cash balances due to increased grant and lower than forecast spend. Whilst interest rates remain subdued driving down investment returns, the higher cash balances mean investment income for the year remains relatively stable.
- 1.16 Also appended to the report is an update on budget forecasts for the forthcoming financial year. This update takes account of known issues arising from the Spending Review, but notes that final clarity over funding for the new year will likely not be forthcoming for some time.

## **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:

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

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:

	<b>Revenue £k</b>	<b>Capital £k</b>	<b>Total £k</b>
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
	<b>£119,183</b>	<b>£221,395</b>	<b>£340,578</b>
MCA Executive	£12,762	£3,443	£16,205
Mayoral Office	£1,411	£0	£1,411
<b>Total</b>	<b>£133,356</b>	<b>£224,838</b>	<b>£358,194</b>

2.4 After the first half of the year, this report recommends a number of adjustments to the budget ceiling. Revenue expenditure is now expected to outturn marginally above the opening budget - despite net fluctuations - as slipped activity is offset by earlier adjustments. Capital expenditure is now forecast to outturn £68m under the base budget forecast as activity across a number of programme areas continues to be re-profiled to future periods.

2.5 In total, at the half-year mark expenditure is expected to outturn at over £292m:

	<b>Base £m</b>	<b>Movement £m</b>	<b>Revision 1 £m</b>	<b>Movement £m</b>	<b>Revision 2 £m</b>
Revenue	£133,356	£25,601	£158,957	-£23,600	£135,357
Capital	£224,838	-£25,513	£199,325	-£42,197	£157,128
	<b>£358,194</b>	<b>£88</b>	<b>£358,282</b>	<b>-£65,797</b>	<b>£292,485</b>

2.6 These adjustments are reflected in changes to the weighting of expenditure across the thematic areas. Capital programme reprofiling has varied down the level of expenditure within both the Housing, Infrastructure & Planning area and the Transport and Environment area, whilst proposals for investment into a number of

business growth schemes has seen the expected level of expenditure increase in the Business Growth and Recovery area.

- 2.7 Lower than forecast revenue expenditure relating to Renewal Action Plan activity within the Skills and Employment and Business Growth areas and lower than forecast take-up of the 18-21 travel concession in the Transport and Environment area has also impacted on expenditure levels. The material reduction in the Mayoral Office area largely reflects the virement of funding out of this area to spending departments as expenditure items are committed to:

<b>Consolidated</b>	<b>Base £k</b>	<b>Revision 1 £k</b>	<b>Revision 2 £k</b>	<b>Variance £k</b>
Transport and Environment	£213,951	£203,002	£174,688	£-28,314
Housing, Infrastructure, Planning	£68,067	£63,124	£26,708	£-36,416
Skills and Employment	£36,941	£42,119	£35,352	£-6,767
Business Growth and Recovery	£21,619	£31,586	£40,586	£9,000
	£340,578	£339,831	£277,333	£-62,498
MCA Executive	£16,205	£16,850	£14,804	£-2,046
Mayoral Office	£1,411	£1,602	£348	£-1,254
<b>Total</b>	<b>£358,194</b>	<b>£358,283</b>	<b>£292,485</b>	<b>£-65,798</b>

- 2.8 This report proposes to adjust the funding applied to meet the revised expenditure forecasts. Slippage within the capital programme reduces the need to apply capital grants, with the business investment proposals being met from residual Local Growth Fund capital receipts. Revenue scheme slippage and assorted underspends also reduces the need for both in-year grant and reserves and provisions:

<b>Funding Sources</b>	<b>Base £k</b>	<b>Variance £k</b>	<b>Rev. 1 £k</b>	<b>Variance £k</b>	<b>Rev.2 £k</b>
<b>Ringfenced/Committed Grants</b>					
Revenue Grants	£108,251	£20,653	£128,904	£-10,167	£118,737
Capital Grants	£212,179	£-25,513	£186,666	£-52,334	£134,332
	£320,429	£-4,860	£315,570	£-62,501	£253,069
<b>Reserves &amp; Provisions</b>					
Capital Receipts	£12,659	£0	£12,659	£10,768	£23,427
Revenue Reserves	£19,701	£4,948	£24,649	£-13,638	£11,011
Provisions	£427	£0	£427	£-427	£0
	£32,787	£4,948	£37,735	£-3,297	£34,438
<b>General Income</b>	£4,978	£0	£4,978	£0	£4,978
<b>Total Funding</b>	<b>£358,194</b>	<b>£88</b>	<b>£358,283</b>	<b>£-65,798</b>	<b>£292,485</b>

- 2.7 In most instances funding received in-year which is not immediately deployed will flow to the balance sheet to be held in reserves or as grant unapplied. However, in a number of instances grant conditionality requires that funding be used in the year in which it is received or be returned to government. This is the case for Getting Building Fund (GBF) and Brownfield funding, and whilst it is expected that the GBF

funding will be deployed in full there are likely material underspends around the Brownfield activity. Government have been engaged on this issue.

- 2.8 At the time of writing there was some risk that the second tranche (£0.25m) of LEP core funding would not be received. This issue is connected with government's review of LEP's nationally. This risk was not anticipated and costs are largely committed. Should the funding not be forthcoming, costs will be met in the first instance by identified underspend.
- 2.9 This report provides further detail by thematic theme. Further budget revisions will be presented after each quarter.

### **Analysis by Theme: Transport and Environment**

- 2.10 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 captures a significant part of the capital programme, representing the scale of the Transforming Cities Fund and Active Travel funding.
- 2.11 This report proposes new budget estimates for this area that will lead to a net reduction in activity of £28.50m from that adopted after the first quarter of the year. This movement largely reflects the deferral, reprofiling, and correction to a number of capital schemes, coupled with forecast revenue underspends arising from the 18-21 concession and the currently uncommitted CRSTS revenue funding:

<b>Transport &amp; Environment</b>	<b>Base £k</b>	<b>Variance £k</b>	<b>Rev.1 £k</b>	<b>Variance £k</b>	<b>Rev.2 £k</b>
Capital	£147,368	-£19,478	£127,890	-£16,314	£111,576
Revenue	£66,583	£8,716	£75,299	-£12,188	£63,111
<b>Total</b>	<b>£213,951</b>	<b>-£10,761</b>	<b>£203,190</b>	<b>-£28,502</b>	<b>£174,688</b>

- 2.12 Adjustments are required across most directorates within the thematic area:

<b>Transport and Environment</b>	<b>Revision 1 £k</b>	<b>Revision 2 £k</b>	<b>Variance £k</b>
Strategic Transport	£119,434	£102,827	-£16,607
Transport Operations (SYPTTE)	£26,783	£18,426	-£8,358
Customer Services (SYPTTE)	£37,999	£34,461	-£3,538
Debt and Finance	£18,974	£18,974	£0
<b>Total</b>	<b>£203,190</b>	<b>£174,688</b>	<b>-£28,502</b>

- 2.13 Underspend in the Strategic Transport area largely relates to capital activity (£8.1m). Activity across the Transforming Cities, Active Travel, and Integrated Transport Block programmes have all slipped over the course of the year largely reflecting the scale of activity and supply chain pressures.
- 2.14 At Revision 2 the budget is also adjusted to reflect the likely deployment of CRSTS revenue funding in later periods and into the new financial year. This funding (£5.2m) is able to support the design of the BSIP and the development of future transport capital schemes. It is anticipated that options for the deployment of this funding will be presented to the Board when greater clarity is available on Levelling Up Fund and CRSTS awards, and the resourcing requirements to go from the draft BSIP publication through to April.

- 2.15 Active Travel revenue activity (£2.48m) has also now been reprofiled to reflect that the majority of activity will take place in the new financial year.
- 2.16 Underspend in the SYPTE areas largely reflects capital programme slippage (£8.2m) and the lower than forecast uptake on the 18-21 travel concession (£3.3m). This latter issue has been offset in part by the unbudgeted expenditure related to the Summer Saver scheme which is forecast to cost £0.95m. Whilst it is now expected that the 18-21 concession will outturn considerably under budget, the final cost may vary as the product receives greater exposure. Options are being considered on how any underspend could be redeployed.
- 2.17 Mid-year forecasts are also now suggesting that statutory concessions will outturn under budget by c. £0.75m. Whilst the MCA has committed to retaining concession payments at pre-pandemic levels as part of the Bus Recovery Grant funding package agreed with Government, funding rules do allow the MCA to vary the rate it pays if operators do not provide full network coverage. Varying the rate in this manner avoids the South Yorkshire taxpayer subsidising services that have not been provided.
- 2.18 Driver shortages have meant that operators have been unable to operate full services, and accordingly the MCA has reduced its payments where appropriate. It is proposed that this underspend be carried to reserves to support anticipated pay and price pressures in the new financial year.
- 2.19 Further analysis is presented in the appendices around the SYPTE position.

### Analysis by Theme: Skills and Employment

- 2.20 The Skills and Employment thematic area includes both capital and revenue activity and is split into three management areas. At the mid-year mark forecast expenditure at outturn is expected to total £35.35m, £1.59m below the base budgeted:

Skills and Employment	Base £k	Variance £k	Rev.1 £k	Variance £k	Rev.2 £k
Capital	£3,450	£0	£3,450	£0	£3,450
Revenue	£33,491	£5,058	£38,549	-£6,648	£31,902
<b>Total</b>	<b>£36,941</b>	<b>£5,058</b>	<b>£42,000</b>	<b>-£6,648</b>	<b>£35,352</b>

- 2.21 Whilst the opening budget was adjusted at Revision 1 for reprofiled Adult Education Budget expenditure, the table below highlights downward variations at Revision 2 in excess of that initial adjustment:

Skills and Employment	Revision R1 £k	Revision 2 £k	Variance £k
Skills Priorities & Investment	£27,695	£28,024	£330
Education & Skills For Employment	£5,751	£1,968	-£3,783
Skills For Business & Growth	£8,554	£5,359	-£3,194
<b>Total</b>	<b>£42,000</b>	<b>£35,352</b>	<b>-£6,648</b>

- 2.22 The principal drivers for these variances are revised forecasts for Renewal Action Plan activity within the year, leading to a £6.46m reduction. Enhanced Apprenticeship activity is now expected to commence in late quarter four, whilst the Kickstart South Yorkshire schemes is now expected to fall into the new financial year. Gainshare is not subject to grant conditions that require the funding to be used within the year, with any unused funding being retained within or transferred to earmarked reserves for future use.
- 2.23 Other marginal underspends on staffing and development activity across the directorate have been offset in part by the adoption of a scheme to support the transition of existing learners to new Adult Education Budget providers (£0.21m).
- 2.24 Whilst the Adult Education Budget is now well underway with both grant funded and procured activity delivering, an in-budget reserve of £0.4m has been retained to support both the management of risk inherent in the first-year of delivery and the exploitation of any opportunities that emerge.

### Analysis by Theme: Business Growth and Recovery

- 2.25 This report proposes adjustments to the Business Growth and Recovery directorate's budget ceiling to reflect forecast growth in capital activity that is offset in part, by forecast reductions in revenue expenditure:

Business Growth and Recovery	Base £k	Variance £k	Rev.1 £k	Variance £k	Rev.2 £k
Capital	£3,406	£756	£4,162	£12,880	£17,042
Revenue	£18,213	£9,355	£27,568	£-4,024	£23,544
<b>Total</b>	<b>£21,619</b>	<b>£10,111</b>	<b>£31,730</b>	<b>£8,856</b>	<b>£40,586</b>

- 2.26 The significant increase in expenditure within the Innovation and Investment area reflects the likelihood that the residual Local Growth Fund (LGF) grant held in capital receipts will be deployed in support of the business investment pipeline that has been incubated by through the LEP and Business Growth and Recovery Board. A number of schemes received funding approvals over quarter 2, with more schemes passing the threshold for investment.
- 2.27 Expenditure increases are offset in part by underspends with the Development Hub and Special Projects Hub:

Business Growth and Recovery	Revision 1 £k	Revision 2 £k	Variance £k
Development Hub	£4,077	£1,628	£-2,449
Innovation & Investment	£4,044	£16,736	£12,692
International Hub	£364	£286	£-78
Digital	£437	£141	£-296
Business Assistance	£17,587	£17,597	£10
Special Projects	£1,870	£847	£-1,023
Emergency Recovery	£3,352	£3,352	£0
<b>Total</b>	<b>£31,730</b>	<b>£40,586</b>	<b>£8,856</b>

- 2.28 'Emergency Recovery' activity relates to the previously approved gainshare funded recovery grants that are due to the South Yorkshire local authorities to support their



locally developed recovery efforts. This activity was expected to conclude in the last financial year, but ultimately slipped into the new year.

2.29 Over £4m of gainshare funded Renewal Action Plan activity was included in this budget area at the start of the year. However, at the mid-year mark, activity is now expected to underspend against the base budget with RAP activity of c. £2.50m now moving into the new financial year.

2.30 Revised forecasts also now suggest that Made Smarter activity will underspend by c. £0.89m. This activity is currently in procurement, and the MCA is engaging government on the ability to roll forward in-year underspend into the new financial year.

2.31 At the time of writing, the MCA and partners had distributed over £46m of financial support into the regional economy through the locally designed and locally administered South Yorkshire Business Support Scheme, a total that compares favourably to the MCA's peer group. This scheme is funded from the Additional Restrictions Grant (ARG) awarded by government over three tranches:

ARG	Grants	£k
BMBC	4,310	£7,517
DMBC	4,879	£9,180
RMBC	4,048	£8,100
SCC	10,068	£21,317
		<b>£46,115</b>

2.32 In achieving this level of expenditure the MCA was able to draw down on the third and final tranche of ARG funding, which takes the total resource at the MCA's disposal to £49.90m. This report seeks to formalise the final distribution of the ARG resource which is presented in Appendix i.

### Analysis by Theme: Housing & Infrastructure

2.33 The Housing and Infrastructure thematic area includes a significant part of the capital programme that is funded by the Getting Building and Brownfield grant programmes. It is supplemented with some revenue funding for core activity, and the revenue grant made available by government to prime the Brownfield activity.

2.34 The budget estimates in this report are dominated by the reductions in forecast capital expenditure:

Housing and Infrastructure	Base £k	Variance £k	Rev.1 £k	Variance £k	Rev.2 £k
Capital	£67,170	-£5,889	£61,281	-£36,390	£24,891
Revenue	£897	£1,129	£2,026	-£209	£1,817
<b>Total</b>	<b>£68,067</b>	<b>-£4,760</b>	<b>£63,307</b>	<b>-£36,599</b>	<b>£26,708</b>

2.35 These variances are largely contained with the Strategic Infrastructure and Housing & Planning management areas:

<b>Housing and Infrastructure</b>	<b>Revision 1 £k</b>	<b>Revision 2 £k</b>	<b>Variance £k</b>
Digital	£5,500	£5,500	£0
Strategic Infrastructure	£34,291	£15,082	-£19,209
Housing & Planning	£21,132	£3,848	-£17,285
Net Zero	£2,384	£2,278	-£106
<b>Total</b>	<b>£63,307</b>	<b>£26,708</b>	<b>-£36,599</b>

2.36 The reduction in capital forecasts reflects two major issues:

1. Slippage on the Brownfield programme (£17.25m); and,
2. Slippage on gainshare funded 'Place' schemes (£21.24m).

2.37 Of principal concern is the Brownfield programme activity where the MCA is obliged to meet grant conditionality that requires £20m of capital expenditure to have been incurred by March 2022. Forecasts suggest that the MCA will miss this target by a considerable value, with little opportunity to apply mitigations. Underspend on Brownfield activity reflects both the considerable pressures within the system and the profound challenges of designing sound schemes that can deliver quality houses on Brownfield sites whilst still meeting the government's benefit/cost-ratio demands.

2.38 The MCA is actively engaging government to seek flexibilities on the delivery timeline, noting both the strong pipeline of schemes that are now progressing through approvals and into delivery and the systemic nature of the issue that is seeing underspend pressures replicate across MCAs nationally.

2.39 At the last reporting-date a £6m underspend risk on Getting Building Fund activity was reported due to the withdrawal of an undeliverable schemes. The Revision 1 budget report noted the risk that this funding would be clawed-back by government, with the investment and societal benefits lost to the region. However, following good collaboration with the sponsoring partner authority and government, an alternate package of schemes has now been accepted by government and the scheme is progressing well through assurance processes.

2.40 Work continues to identify further potential slippage on the Getting Building Fund activity, noting the need for all funding to be defrayed by the end of the financial year.

2.41 Finally, whilst the underspend on gainshare funded activity is notable due to the scale of slippage it should be recognised that gainshare does not attract some of the arbitrary prescriptions around funding windows that other grants do. Gainshare funding not deployed in-year will be earmarked for use in future periods.

## Analysis by Theme: MCA Executive

- 2.42 This report proposes an adjustment to the MCA Executive budget of £2.99m. This adjustment reflects forecast reductions in both revenue and capital expenditure:

MCA Executive	Base £k	Variance £k	Revision 1 £k	Variance £k	Revision 2 £k
Capital	£3,443	-£2,067	£1,376	-£576	£800
Revenue	£12,762	£3,652	£16,414	-£2,410	£14,004
<b>Total</b>	<b>£16,205</b>	<b>£1,585</b>	<b>£17,790</b>	<b>-£2,987</b>	<b>£14,804</b>

- 2.43 Expenditure adjustments have been made across the majority of the directorate areas but are most prominent within the Governance area where the costs of the Mayoral election planned for May 2022 have now been reprofiled with £0.80m of activity now moved into quarter 1 of the new financial year. A further £0.50m of the underspend shown within this area reflects the virement of integration budget adopted at Revision 1 to the spending areas.
- 2.44 Within the Deputy Chief Executive's Office a further £0.37m of modelling related activity is now forecast to slip into the new year reflecting the overwhelming need for the Assurance team to support the acceleration of existing projects through the governance gateways.
- 2.45 Delays to the progress of business cases has also impacted on expenditure in this area with the costs of independent appraisal, monitoring and evaluation, and business case support activity all tracking capital programme slippage into future periods (£0.24m).
- 2.46 Finally, almost all areas have accrued savings related to staffing as labour market pressures have led to vacant posts taking longer to fill than expected and notable churn in the existing establishment. These savings reduce calls on recharges into programme funding and obviate the need to call on reserves as previously planned.
- 2.47 The following table reflects the distribution of expenditure across the non-thematic executive teams:

MCA Executive	Revision R1 £k	Revision 2 £k	Variance £k
Deputy Chief Executive's Office	£5,203	£4,445	-£757
Finance/IT/Programme & Performance/MCA Asset Portfolio	£7,124	£6,692	-£432
Governance/Communications/Marketing	£4,929	£3,132	-£1,797
Legal	£535	£535	£0
<b>Total</b>	<b>£17,790</b>	<b>£14,804</b>	<b>-£2,987</b>

### Highways Capital Maintenance Grant Awards

- 2.48 In January 2021 the MCA agreed the award of highways maintenance grants to Barnsley, Doncaster, and Rotherham based on an assumed funding award of £12.22m. Assumptions were made to reflect that at the point of approving the budget government was yet to determine the amount of funding available.
- 2.49 Funding was allocated based on the traditional basis for determining equitable distribution, noting that Sheffield is not eligible for this funding due to the Highways PFI credits it receives directly from government for its Streets Ahead programme.

- 2.50 The final settlement received by the MCA was, however, in excess of the base assumption by £3.47m, bringing total maintenance funding to £15.69m.
- 2.51 In September 2021, the Transport and Environment Board endorsed the proposal to distribute this excess funding in line with the previously agreed metrics. This report recommends that this approach be approved with distributions to the three authorities as below:

	Share %	Initial Total £k	Revised Total £k	Variance £k
BMBC	30.20%	£3,690	£4,739	£1,049
DMBC	40.18%	£4,910	£6,305	£1,395
RMBC	29.62%	£3,619	£4,648	£1,029
	<b>100.00%</b>	<b>£12,219</b>	<b>£15,692</b>	<b>£3,473</b>

### **Debt Cap Negotiations**

- 2.52 The MCA has previously authorised the Group Finance Director to negotiate a debt-cap with government. The agreement of such as cap is a necessary precursor to the receipt of the non-transport borrowing powers available to the MCA as a result of the devolution settlement.
- 2.53 Previous reporting has noted that the government have stated that the debt-cap agreed this year would be limited to the current financial year only, with a new cap to be negotiated for the period commencing April 2022.
- 2.54 Accordingly, negotiations around the cap necessarily focussed on a relatively short timeframe and practicalities on what would be required within that window.
- 2.55 Following discussions with government and an objective assessment of need, the Group Finance Director requested a debt cap totalling £171m which would enable new borrowing – if required – of £35m between now and March 2022.
- 2.56 HM Treasury have accepted the proposed cap and have now formally written to the MCA with an offer. This report recommends that the MCA authorise officers to accept this offer. Acceptance will precipitate the laying in Parliament of the instrument required to grant the MCA the new vires for non-transport borrowing powers.
- 2.57 It should be noted that in agreeing to the debt cap - and securing additional borrowing headroom – the MCA is in no way obliged to taken on new debt.
- 2.58 Investment decisions will remain within the purview of the MCA and its Boards, subject to existing governance and the Prudential Code. The affordability of any investment facilitated through borrowing will need to be considered in the context of the servicing of debt and its impact on available gainshare funding.

## **3. Options Considered and Recommended Proposal**

### **3.1 Option 1**

Adopt the budget revisions presented in this paper.

### **3.2 Approve the grant awards proposed.**

3.3 Approve the acceptance of the debt-cap negotiated with HM Treasury.

3.4 **Option 1 Risks and Mitigations**

The budget estimate proposals within this report are fully funded and do not expose the MCA to any additional risk that has not been shared with the Board.

Adopting the debt-cap does not require the MCA to take on any new debt, but simply provides headroom.

3.5 **Option 2**

The MCA could choose to not adopt the new budget estimates.

3.6 The MCA could choose to reject the grant awards detailed in this report.

3.7 The MCA could choose to reject the debt-cap offer.

3.8 **Option 2 Risks and Mitigations**

Should the MCA choose not to adopt the new budget estimates work on a number of the MCA's key priorities would have to cease or be deferred.

Should the MCA choose not to award the grants in the manner described, work would have to pause on the South Yorkshire Business Scheme until a new package could be agreed.

Should the MCA choose to reject the debt-cap offer it is likely that the MCA will not be able to draw down upon borrowing powers.

3.8 **Recommended Option**

Option 1.

4. **Consultation on Proposal**

4.1 None

5. **Timetable and Accountability for Implementing this Decision**

5.1 The Group Finance Director will be responsible for implementing budget adjustments, facilitating grant awards, and liaising with HM Treasury on the debt-cap.

6. **Financial and Procurement Implications and Advice** *(to be written by the relevant Finance Officer and the Head of Procurement on behalf of s73 Officer)*

6.1 This is a financial report the details of which are in the main body of the document and supporting appendices.

7. **Legal Implications and Advice**

7.1 Agreement of a debt-cap with HM Treasury is a necessary precursor to the tabling of legislation for the drawdown of new borrowing powers.

## **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**

- 1 Appendix including:
  - Gross expenditure by thematic area, directorate and management area
  - Reserves update
  - Gainshare update
  - ARG distribution proposals
- 2 Mid-Year Treasury Management Review
- 3 Budget 2022/23 Forecast

### **Background Papers**

None