

REPORT TO: WECA COMMITTEE

DATE: 29 JANUARY 2021

**REPORT TITLE: CAPITAL STRATEGY INCLUDING TREASURY
MANAGEMENT & INVESTMENT STRATEGIES**

**DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT AND
CORPORATE SERVICES**

AUTHOR: MALCOLM COE

Purpose of Report

1. This report presents the Capital Strategy for the West of England Combined Authority including;
 - The detailed capital budget for 2021/22, and indicative budget up to 2024/25
 - The Treasury Management Strategy for 2021/22
 - WECA Investment Strategy 2019 to 2023

Impact of Covid-19 pandemic

2. The Combined Authority continues to actively review its key activities and work programme to reflect changing priorities as a result of the Covid-19 pandemic. Further capital funding will be made available through central government over the next twelve months and the West of England will need to be proactive to ensure that a proportionate share is attracted to the region.
3. Income returns from Treasury Management investment will remain challenging over the short to medium term due to the unprecedentedly low interest rates and market uncertainty throughout the Covid period.

Recommendations:

The WECA Committee is requested to:

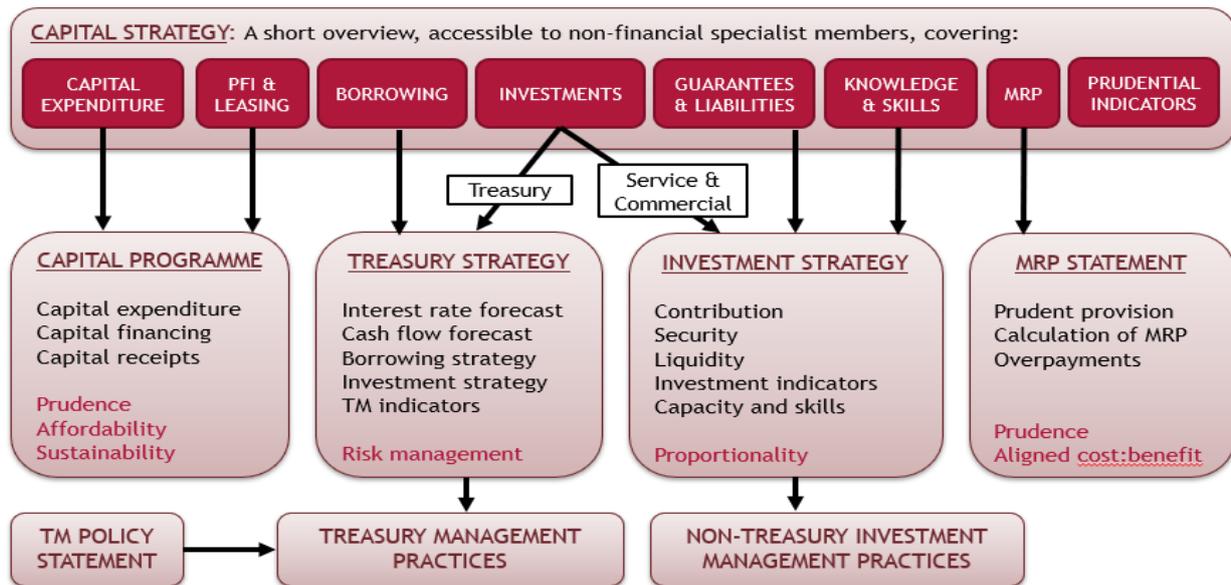
- a) **approve the Capital Budget as shown in Appendix 1;**
- b) **approve the Treasury Management Strategy for 2021/22 detailed in Appendix 3**
- c) **note the WECA Investment Strategy as shown in Appendix 2**

Background / Issues for Consideration

4. The capital strategy is a report which is instigated through the 2017 edition of the Prudential Code. The Code states that: "*the capital strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.*"
5. The areas covered by the capital strategy are as follows;
 - Medium term capital expenditure and financing (Appendix 1);
 - Investment strategy for non-treasury investments (Appendix 2);
 - Treasury management including prudential indicators (Appendix 3);
 - Liabilities, revenue implications of the capital programme, and knowledge and skills employed in delivering the strategy.
6. There is a clear link between this strategy and the financial impact upon various elements of the Authority's revenue budget, for example, the investment and treasury strategies are key components upon how much interest the Authority could achieve on its investments compared to budgeted levels.
7. MHCLG published updated *Guidance on Local Government Investments* in February 2018. The previous edition covered treasury investments only, but the current edition focuses on non-treasury investments including:
 - loans made for service purposes
 - shares in companies bought for service purposes
 - loans to and shares in subsidiaries, irrespective of the purpose of the company
 - non-financial assets, (e.g. property), held primarily or partially to generate a profit
8. The Code recommends that these components are included under an overarching capital strategy covering all interlinked capital programme, financing, treasury and investment policies and decisions, both in the short and medium term as detailed in *Figure 1*;

Figure 1: Prudential Code (2017) recommended reporting structure

Strategy Reports: England



Capital Expenditure and Financing

9. Capital expenditure is where the Combined Authority spends money on assets, such as property, infrastructure or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. WECA has some limited discretion on what counts as capital expenditure, for example assets costing below £5,000 are not capitalised and are charged to revenue in year.
10. Costs incurred on developing outline business cases and feasibility work, as a rule, are not able to be capitalised. However, costs incurred on generating full business cases can be capitalised including specific staff costs, such as project managers or engineers, who are engaged in the development. Support service costs incurred on business case development are required to be treated as revenue.
11. The funding for the WECA Capital Programme comes from two main sources:
 - Investment funding provided by Government as part of the Devolution Deal (£15m revenue and £15m capital funding per year for 30 years, totalling £900m);
 - The Transforming Cities Fund (£103m over 5 years)

WECA Capital Investment Programme 2020/21 to 2023/24

12. The proposed WECA Capital programme as set out at **Appendix 1** shows both approved and indicative schemes:
 - **Approved** – fully approved schemes will be progressed and taken forwards in line with financial regulations, standing orders and the Local Growth Assurance Framework.

- **Indicative** – which are projects and schemes working towards Full Business Case, (FBC), such as MetroWest Phases 1 and 2, Hengrove Park and the iStart innovation project. Initial allocations are approved on indicative schemes to enable feasibility and development work to progress in forming FBCs. However, these projects will need to be brought back to the WECA Committee for further approval at a later stage.

13. The proposed WECA capital programme, as detailed in *Figure 2*, assumes the approval at today's Committee of proposed spend as detailed in the Investment Fund report elsewhere on the agenda. In 2021/22, WECA is planning capital expenditure of **£59.222m** as summarised below:

Figure 2: Medium Term Estimates of Capital Expenditure:

	2020/21 revised budget	2021/22 budget £000	2022/23 budget £000	2023/24 budget £000	2024/25 indicative £000
WECA Capital	22,710	41,650	32,552	7,535	0
Mayoral Capital *	26,091	17,572	17,572	17,572	17,572
TOTAL	48,801	59,222	50,124	25,107	17,572

* Assuming transport capital grants are maintained by government beyond the current West of England Business Rates Retention pilot.

14. The Mayor is responsible for the payment of £17.572m of annual transport related capital grant funding that was previously distributed by the Department for Transport incorporating highways maintenance grants, highways incentive grants and integrated transport grants. This funding will continue to be passported to the three West of England councils, in line with the 2017 Department for Transport indicative allocations, as per the previous four financial years.
15. The Highways and Transport grants are currently funded through the West of England 100% Business Rate Retention pilot scheme. With the new national 75% Business Rate Retention system due for implementation in 2022/23, it is assumed that the £17.572m will revert back to capital grant funding.
16. All new projects requiring approval, (whether delivered externally via grant or delivered internally by WECA), will go through an integrated 'One Front Door' approach as per the approved West of England (Local Growth) Assurance Framework.
17. **Capital Funding** – All capital costs will be met from Government grants, devolution investment funding or revenue contributions to capital outlay (RCCO). The capital funding period up to 2021/22 includes the current five-year approved government funding with further investment funding beyond this being subject to successfully meeting the requirements of the first 5-year Government Gateway review for which an announcement will be made in March 2021.
18. **Investment Fund Revenue** – This report includes capital projects only. Revenue running costs and one-off projects which are revenue in nature, will be funded from the revenue element of the Investment Fund, which are detailed in the WECA Revenue Budget report on this agenda.
19. There is no intention at this stage for WECA to finance any of its capital spend from long term borrowing. The only borrowing currently being considered is short term borrowing to cover cash flow issues, as detailed within the Treasury Management Strategy (Appendix 3 of this report).

Accountable Body Functions

20. WECA act as Accountable Body for the Local Enterprise Partnership, (LEP), activities, which includes significant capital investment in the region. This capital investment is the responsibility of the Joint Committee but is being presented within this report to provide context and magnitude for the regional capital investment programme, being delivered, or influenced, by WECA.
21. The capital funding streams administered by the Accountable Body include:
- Local Growth Funding (LGF) provided by the Government as West of England Growth Deal capital funding (£202m funding to be spent by March 2021)
 - £13.7m secured through the Getting Building Fund, (GBF), to be spent by March 2022;
 - The Revolving Infrastructure Fund (£57m);
 - The Economic Development Fund (£500m)
22. The LGF, and RIF Capital Programme is detailed in *Figure 3*:

Figure 3: LGF, GBF and RIF Medium Term Capital Programme

Forecast Spend	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
LGF					
Transport	17,072	0	0	0	0
FE Skills	11,829	0	0	0	0
Infrastructure	17,414	0	0	0	0
Innovation	14,227	0	0	0	0
GBF	6,850	6,850			
RIF					
GP & RGF2	3,133	1,000	1,000	1,000	1,000
Total	70,525	7,850	1,000	1,000	1,000

23. All of the projects within the LGF and RIF (apart from IBB) programmes are delivered by the constituent authorities or other bodies – but not directly delivered by WECA. WECA acts as agent in administering the grants.
24. The current West of England Growth Deal capital funding allocation is £202.1m. There is a requirement that all grant funds are spent by March 2021. To help ensure that spend is fully optimised we have, for some time, maintained an element of structured over programming which, as at December 2020, stood at £12m. This over-programming will now be funded through the, recently announced, £13.7m of Getting Building Fund with the residual £1.7m allocated to a new North Somerset scheme within Weston-super-Mare.
25. There is currently a requirement that the GBF is spent within the financial year that it was awarded, that being £6.85m in 2020/21 and £6.85m 2021/22 although flexibility with this is being explored. It should be noted that should this flexibility not be granted it is likely that further swaps between the LGF/GBF and EDF would be required. At the moment, there is no certainty of funding beyond 2021/22 although it is anticipated that the successor to LGF, likely to be the Shared Prosperity Fund, will attract further capital financing to the wider region.
26. WECA is the Accountable Body for the £500m Economic Development Fund, although the associated finances are administered by South Gloucestershire Council. The four constituent authorities will deliver approved projects and can claim the costs of borrowing from the fund once

practical completion of the project is achieved. Similar to LGF, WECA does not include this capital spend within its capital programme.

The table below shows the estimated practical EDF completions within the time frame of this report:

Figure 4: EDF estimated spend within MTFP period

Forecast Completions	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
EDF	77,311	54,774	69,062	51,834	18,683

WECA Investment Strategy

27. WECA has an approved Investment Strategy which details the prioritisation, governance and allocation, of Investment Funding and Transforming Cities Funding. The current WECA investment programme, up to March 2023, has an overall funding allocation of £350m which is primarily grant focused. The WECA Investment Strategy, shown as *Appendix 2*, details the need to maintain a regional approach to our investment programming with a requirement for greater sustainability in terms of returning an element of financial contribution back to the overall funding pot, where feasible, for future projects that are approved.

Treasury Management

28. Treasury management is concerned with keeping sufficient, but not excessive, cash available to meet the Authority's spending needs, whilst managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as grant income is often received before it is spent, but these cash surpluses reduce as capital expenditure is incurred.
29. The Authority's Treasury Management Strategy, as detailed in **Appendix 3**, sets out the proposals and guidance that the Authority will use to manage its daily cash-flow activities during the 2021/22 financial year. The Authority must give due regard to the management of these sums, to ensure that it is sufficiently able to balance the daily cash requirements for all operational services whilst still achieving the strategic outcomes required within the medium-term financial plan.
30. The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss.
31. Money that will be held for longer terms can be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy. With the current historically low interest rates, WECA will continue to explore more diversity within its overall investment portfolio to ensure that budgeted financial returns are achieved.
32. In the early years of the Combined Authority's operations, holding high cash balances are common practice as early spend on feasibility studies and development work is relatively low compared to the annual allocation of Investment Funding. However, balances will diminish over time as significant construction costs are incurred.
33. Decisions on treasury management investment and borrowing are made daily and are delegated to the Director of Investment and Corporate Services and designated staff, who must act in line with the Treasury Management Strategy. Reports on treasury management activity are presented

to the WECA committee on a regular basis with the Audit Committee being responsible for scrutinising treasury management decisions. The 2021/22 WECA Treasury Management Strategy was presented to, and considered by, the Audit Committee in December 2020.

Knowledge and skills employed in delivering the strategy

34. The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.
35. Use is made of external advisers and consultants, that are specialists in their field, only to plug the identified gaps that can't be covered through in-house capacity. The main examples are the engagement of ArlingClose as Treasury Management advisers and PSTax as VAT advisors. This approach is more cost effective than employing such staff directly, and also ensures that the Combined Authority has access to knowledge and skills commensurate with identified risks.

Consultation

36. Consultation has been carried out with Chief Executives, Section 151 Officers and WECA's Monitoring Officer. Consultation has taken place throughout the 2020/21 financial year in determining the reprioritisation of the WECA £350m Investment Programme, that was approved by the WECA Committee in July 2019, giving regard to the impact of the Covid pandemic.
37. The audit committee has been fully engaged, and consulted, with regard to informing the 2021/22 WECA Treasury Management Strategy.

Other Options Considered

38. Options for, and prioritisation of, capital investment are regularly considered through the WECA and Joint Committees.

Risk Management/Assessment

39. This report forms a core part of the WECA's governance and risk management process. Members will be aware that there is a direct link between the levels of risk and the levels of return achieved on investment, although there are many other factors which also affect the capital financing budgets. The priority of the Treasury Management Strategy will be the minimisation of risk to safeguard public resources.

Public Sector Equality Duties

40. The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:
 - Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
 - Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - Foster good relations between people who share a protected characteristic and those who do not.
41. The Act explains that having due regard for advancing equality involves:
 - Removing or minimising disadvantages suffered by people due to their protected characteristics.
 - Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
 - Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

42. The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

Finance Implications, including economic impact assessment where appropriate:

43. Financial implications are contained throughout the report and impact on both the capital programme, annual revenue budget, as well as the balance sheet.

Advice given by: Malcolm Coe, Director of Investment & Corporate Services

Legal Implications:

44. The Budget proposals have been developed in accordance with appropriate Local Government Regulations, including the specific funding and related governance requirements set out in the The West of England Combined Authority Order 2017 and The Combined Authorities (Finance) Order 2017.

Advice given by: Shahzia Daya, Director of Legal Services

Climate Change Implications

45. On 19 July 2019, the West of England Combined Authority declared a climate emergency, recognising the huge significance of climate change and its impact on the health, safety and wellbeing of the region's residents. The Combined Authority is committed to taking climate change considerations fully into account as an integral part of its governance and decision-making process.

Each report/proposal submitted for Combined Authority / Joint Committee approval is assessed in terms of the following:

Will the proposal impact positively or negatively on:

- The emission of climate changing gases?
- The region's resilience to the effects of climate change?
- Consumption of non-renewable resources?
- Pollution to land, water or air?

Particular projects will also be subject to more detailed environmental assessment/consideration as necessary as part of their detailed project-specific management arrangements

46. Much of the WECA approved investment on building the infrastructure within the region will have a positive impact on climate change. Specifically, stepped change and improvements to rail and bus services along with an investment in cycling and walking facilities will help to reduce our carbon footprint.
47. Consideration of climate issues are incorporated within the assessed criteria that is used by WECA to determine priority financial allocations from Investment Funding and Transforming Cities funding. WECA Sub funds such as the Land Acquisition Fund, Development Infrastructure Fund and Housing and Regeneration Enabling fund also incorporate climate considerations within required assessment criteria.

Land/property Implications

48. Where WECA investment allocations concern any acquisition or disposal of land and/or property, full consideration is given to relevant state aid issues, market valuation and the requirement to

deliver best value.

Advice given by: Malcolm Coe, Director of Investment & Corporate Services

Human Resources Implications:

49. The funding for the staff establishment for WECA functions is provided for within the proposed Budget in line with the resourcing requirements. There are no direct human resource implications arising from the report itself.

Advice given by: Alex Holly, Head of Human Resources

Appendices:

Appendix 1: Capital Budget 2021/22

Appendix 2: Investment Strategy 2019 to 2023

Appendix 3: Treasury Management Strategy 2021/22

Background papers:

WECA Committees – Investment Fund Update Reports to WECA Committee throughout 2020

WECA Committee January 2020 - Capital Strategy including Treasury Management and Investment Strategies

West of England Combined Authority Contact:

Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird on 07436 600313; or by email:

democratic.services@westofengland-ca.gov.uk

WECA & Mayoral Capital Budget	20/21	21/22	22/23	23/24	TOTAL
	Profile	Profile	Profile	Profile	Profile
	£'000	£'000	£'000	£'000	£'000
WECA Capital - IF					
Business Case Development *	3,555	503			4,058
Cribbs Patchway Metrobus Extension	7,213				7,213
CPNN Cycle Links (post FBC/ Delivery)	2,321	460			2,781
On Bus Contactless Payment	97				97
Great Stoke Roundabout Improvements	1,956	58	30		2,044
Wraxall Road	1,131	4,038	30		5,199
Quantum Technologies Innovation Centre+***		25,774	8,200	1,000	34,974
Centre for Digital Engineering Technology & Innovation		350			350
Whitfield Tabernacle Kingswood (Love Our High Streets)	345	337			682
Keynsham Town Centre		425			425
<i>South Bristol Industrial Light Workspace **</i>	<i>131</i>	<i>266</i>	<i>1,667</i>	<i>636</i>	<i>2,700</i>
<i>Metrowest phase 1 **</i>			<i>5,860</i>		<i>5,860</i>
<i>Metrowest phase 2 (construction & operation) **</i>	<i>305</i>		<i>7,544</i>		<i>7,849</i>
<i>Unlocking Lockleaze Development Delivery **</i>	<i>3,006</i>				<i>3,006</i>
	20,060	32,211	23,331	1,636	77,238
WECA Capital – other					
FTZ DfT funding to the capital programme	905	8,340	9,221	5,899	24,366
DfT Active Travel Fund to the capital programme	1,745	1,099			2,844
	2,650	9,439	9,221	5,899	27,210
Mayoral Capital					
Highways and Transport Grants	17,572	17,572	17,572	17,572	70,288
Pothole Action Fund Grant	8,519				8,519
	26,091	17,572	17,572	17,572	78,807
Grand Total	48,801	59,222	50,124	25,107	183,255
* Business Case Development (see breakdown below)					
Great Stoke Roundabout Capacity Improvements	12				12
Hicks Gate Roundabout	83	73			156
Wraxall Roundabout Signal Scheme FBC	1,063				1,063
Somer Valley EZ Final Draft (Non-Highways)	722				722
Bath River Line	75				75
Bristol Temple Meads Station Eastern Entrance	1,600	430			2,030
	3,555	503	0	0	4,058

** Indicative

***Change request to be submitted