

REPORT TO: WECA COMMITTEE

DATE: 28 JANUARY 2022

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

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CORPORATE SERVICES**

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Purpose of Report

1. This report presents the Capital Strategy for the West of England Combined Authority including;
 - The detailed capital budget for 2022/23, and indicative budget up to 2024/25
 - The Combined Authority Investment Strategy 2021 to 2026
 - The Treasury Management Strategy for 2022/23

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 continue to 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 detailed in Appendix 1;**
- b) **to note the updated Combined Authority Investment Strategy detailed in Appendix 2;**
- c) **approve the Treasury Management Strategy for 2022/23 detailed in Appendix 3.**

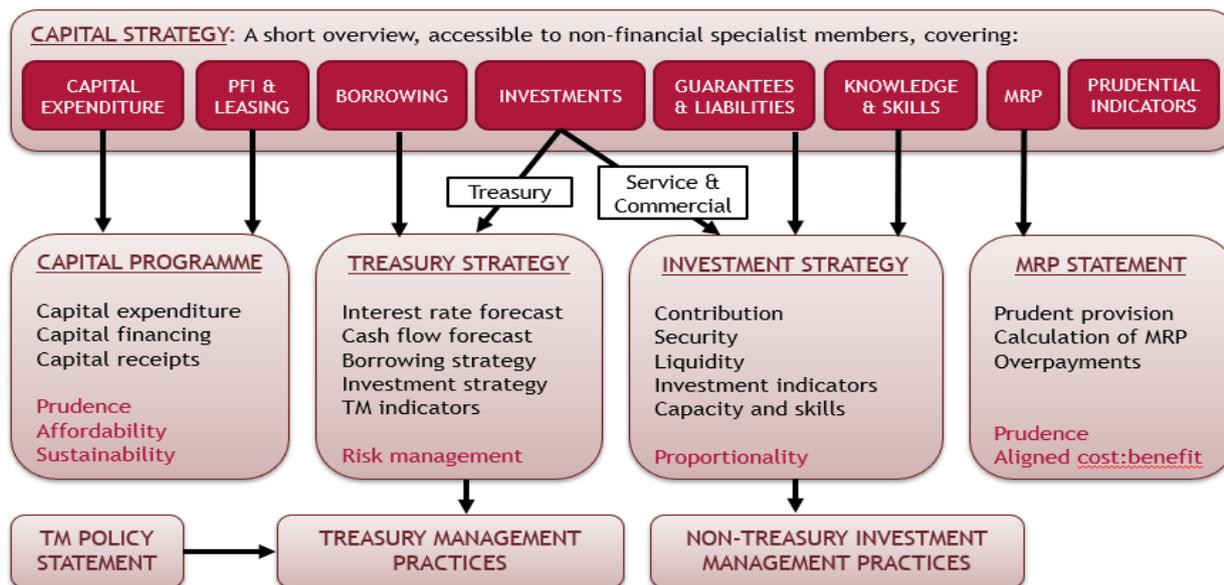
- d) agree the specific Highways and Transport Capital Grant allocations totalling £25M to the constituent councils for 2022/23 as set out in Figure 3.**

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. The Combined Authority 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 Combined Authority 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)

Combined Authority Capital Investment Programme 2022/23 to 2024/25

12. The proposed Combined Authority Capital programme as detailed in **Appendix 1** shows both approved and indicative schemes:
 - **Approved** – fully approved schemes will be progressed and taken forward 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 2 and the Bath City Centre High Streets Renewal 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 Combined Authority Committee for further approval at a later stage.

13. The capital programme, as detailed in *Figure 2*, assumes the approval at today's, (28 January 2022), Committee of proposed Investment Fund spend in the various reports as detailed on the agenda. In 2022/23, the Combined Authority is planning capital expenditure of **£142.2m** as summarised below:

Figure 2: Medium Term Estimates of Capital Expenditure (£'000s):

	2021/22 revised budget	2022/23 budget £000	2023/24 budget £000	2024/25 budget £000	2025/26+ indicative £000
Combined Authority Capital	88,962	142,230	135,591	120,454	216,000
TOTAL	88,962	142,230	135,591	120,454	216,000

* Assuming Highways Capital funding is maintained by government beyond the current West of England 100% Business Rates Retention pilot.

Transport and Highways Capital Grants

14. The Combined Authority is responsible for the payment of annual transport related capital grant funding that was previously distributed by the Department for Transport incorporating highways maintenance grants, highways incentive grants, integrated transport grants and pothole fund. 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. From 2017/18 to 2021/22, the Highways and Transport capital grants were funded through the West of England 100% Business Rate Retention pilot scheme. However, in late 2021, a 5-year City Region Sustainable Transport Settlement, (CRSTS), has been confirmed by the Department for Transport from 2022/23 and Highway Maintenance, as well as Pothole Funding, has been wrapped up within the overall £540m settlement.
16. For 2017/18 to 2020/21 the core Highways capital maintenance allocation, (within the overall Business Rates Retention pilot), was consistent at £17.5m per annum with variable funding added, over this period, for potholes. In 2021/22, the DfT adjusted the West of England allocation with a significantly reduced Highways capital maintenance element of £14.6m. Through the use of the CRSTS, we will provide greater certainty for our constituent Unitary Authorities to better plan their highways capital maintenance over a five year period, proposing to raise the annual allocation to £25m per annum.
17. The specific grant distribution to the constituent councils is detailed in *Figure 3*. DfT have not been prescriptive in splitting the funds into individual elements, but advised that it is down to us, regionally, to allocate. The proposed £25m has been split per Unitary Authority using last year's overall percentages, (based on a historic DfT formula), as follows:

Figure 3 – Highways and Transport Capital Grant allocation for 2022/23 (£'000s)

	POTHOLE 21/22	HIGHWAY 21/22	TOTAL 21/22	%	POTHOLE & HIGHWAY 22/23
BCC	2,192	5,224	7,416	35%	8,772
SGC	2,828	4,975	7,803	37%	9,231
BANES	2,051	3,864	5,915	28%	6,997
TOTAL	7,071	14,063	21,134		25,000

One Front Door

18. 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.
19. **Capital Funding** – All capital costs will be met from Government grants, devolution investment funding or revenue contributions to capital outlay (RCCO). The requirements of the first 5-year Government Gateway review have been met successfully and the next 5-year tranche was confirmed from April 2021.
20. **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 Combined Authority Revenue Budget report as detailed on this agenda.
21. There is no intention at this stage for Combined Authority 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

22. The Combined Authority 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 the Combined Authority.
23. The capital funding streams administered by the Accountable Body include:
 - £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)
24. The LGF, and RIF Capital Programme is detailed in *Figure 4*:

Figure 4: GBF and RIF Medium Term Capital Programme

Forecast Spend	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Getting Building Fund	6,788				
Revolving Infrastructure Fund	674				
Growing Places and Regional Growth Fund Grant	1,085	1,000	1,000	1,000	0
Total	8,547	1,000	1,000	1,000	0

25. All of the projects within the GBF and RIF (apart from IBB) programmes are delivered by the constituent authorities or other bodies – but not directly delivered by the Combined Authority who acts as agent in administering the grants.
26. Getting Building Fund (GBF) has been used to fund the over-programming of the Local Growth Fund, which run out at the end of March 21. The over-programming stood at £12m and the residual £1.7m was allocated to a new North Somerset scheme within Weston-Super-Mare.
27. There is currently a requirement that the GBF is spent within 2020/21 and 2021/22, with £6.8m balance (out of £13.7m total) in 2021/22.
28. The Combined Authority 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. The Combined Authority 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 5: EDF estimated spend within MTFP period

Forecast Completions	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
EDF	84,147	96,841	96,841	54,700	34,735

Combined Authority Investment Strategy

29. The Combined Authority has an approved Investment Strategy which details the prioritisation, governance and allocation, of Investment Funding and Transforming Cities Funding. The current CA investment programme, up to March 2026, has an overall funding allocation of £450m which is primarily grant focused. The 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. The Strategy has also been updated to incorporate the forthcoming City Region Sustainable Transport Settlement which will amount to £540m over the next five years.

Treasury Management

30. 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.
31. 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 2022/23 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.
32. 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.

33. 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, the Combined Authority will continue to explore more diversity within its overall investment portfolio to ensure that budgeted financial returns are achieved.
34. 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.
35. 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 Combined Authority committee on a regular basis with the Audit Committee being responsible for scrutinising treasury management decisions. The 2022/23 WECA Treasury Management Strategy was presented to, and consideration by, the Audit Committee in December 2021.

Knowledge and skills employed in delivering the strategy

36. The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.
37. 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 advisers. 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

38. Consultation has been carried out with Chief Executives, Section 151 Officers and the Combined Authority's Monitoring Officer. Consultation has taken place throughout the 2021/22 financial year in determining the reprioritisation of the Combined Authority Investment Programme, that was originally approved by Committee in July 2019, giving regard to the impact of the Covid pandemic.
39. The audit committee has been fully engaged, and consulted, with regard to informing the 2022/23 Combined Authority Treasury Management Strategy.

Other Options Considered

40. Options for, and prioritisation of, capital investment are regularly considered through the Combined Authority and Joint Committees.

Risk Management/Assessment

41. This report forms a core part of the Combined Authority'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

42. 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.
43. 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.
44. 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:

45. 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:

46. 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

47. 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

48. 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.
49. Consideration of climate issues are incorporated within the assessed criteria that is used by Combined Authority to determine priority financial allocations from Investment Funding and Transforming Cities funding. Combined Authority 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.
50. In December 2021 the Combined Authority allocated £30m of Investment Funding for a 'Green Recovery Fund' with the intention of growing this fund to at least £50m through attracting match funding and external investment to the region.

Land/property Implications

51. Where Combined Authority 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:

52. The funding for the staff establishment for Combined Authority functions is provided 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 2022/23

Appendix 2: Investment Strategy 2021 to 2026

Appendix 3: Treasury Management Strategy 2022/23

Background papers:

WECA Committees – Investment Fund Update Reports to WECA Committee throughout 2021

WECA Committee January 2021 - 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 / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6EW; email:

democratic.services@westofengland-ca.gov.uk

Appendix 1

WECA Capital Programme 2021/22	21/22	22/23	23/24	24/25	25/26+	TOTAL	Committee approval ¹
	Profile	Profile	Profile	Profile	Profile	Profile	
	£'000	£'000	£'000	£'000	£'000	£'000	
WECA Capital - IF							
Business Case Development *	878	186	0	0		1,064	
Cribbs Patchway Metrobus Extension	7,968	0				7,968	May-21
CPNN Cycle Links (post FBC/ Delivery)	1,290	0				1,290	Jun-21
On Bus Contactless Payment	90	0				90	Jan-21
Great Stoke Roundabout Improvements	30	0				30	Jun-21
Wraxall Road	3,769	30				3,799	Jun-21
Quantum Technologies Innovation Centre+	0	8,501	16,487	9,923		34,911	Mar-21
Centre for Digital Engineering Technology & Innovation ***	86	0				86	Oct-21
Whitfield Tabernacle Kingswood (Love Our High Streets)	602	0				602	Mar-21
Thornbury Hospital	3,771	35				3,806	Sep-21
Keynsham Town Centre	425	0				425	Mar-21
South Bristol Industrial Light Workspace	644	2,228	320			3,192	Jun-21
Metrowest phase 1	5,860	0				5,860	Jun-20
Metrowest phase 2 (construction & operation) **	5,584	843	2,040	2,188		10,655	May-21
Yate A432 Park & Ride ***	3,904					3,904	Oct-21
Low Carbon Challenge Fund Extension	200	900				1,100	Jun-21
Bottle Yard Studios - Hawkfield Business Park	9,725	2,003				11,728	Jun-21
Bath Quays Bridge Cycle/Pedestrian Links	170					170	Apr-21
Bath University Walking & Cycle Routes	80					80	Apr-21
Old City and King Street	80	20				100	Apr-21
St George Liveable Neighbourhood	100	50				150	Apr-21
Strategic Cycle Route Connecting Thornbury with the A38	125					125	Apr-21
Strategic Cycle Route Connecting Yate with the East Fringe	125					125	Apr-21
Chew Valley Lake Recreational Trail	1,006					1,006	Jul-21
Bath City Centre High Streets Renewal Project **	172	232	248	343		995	Jun-21
North Keynsham Land Acquisition Fund	300					300	Feb-21
Bristol Temple Meads Station Eastern Entrance	16,473	5,750	248			22,471	Dec-21
	63,456	20,778	19,343	12,454	0	116,032	
WECA Capital – other							
FTZ DfT funding to the capital programme	3,273	12,468	8,248			23,989	
DfT Active Travel Fund to the capital programme	1,099					1,099	
City Region Sustainable Transport Settlement (CRSTS)		83,000	83,000	83,000	166,000	415,000	
Highway Maintenance and Pothole Fund	21,134	25,000	25,000	25,000	50,000	146,134	
ERDF		984				984	
	25,506	121,452	116,248	108,000	216,000	587,206	
Grand Total	88,962	142,230	135,591	120,454	216,000	703,237	
	21/22	22/23	23/24	24/25	25/26+	TOTAL	
* Business Case Development (see breakdown below)	Profile	Profile	Profile	Profile	Profile	Profile	
Somer Valley EZ Final Draft (Non-Highways) ***	756	186				942	Oct-21
Bath River Line (£150k, profile tbc)	122					122	Jun-21
	878	186	0	0	0	1,064	

***Change request submitted for Oct21 Committee