

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY COMMITTEE**

**DATE: 27 JANUARY 2023**

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

**DIRECTOR: RICHARD ENNIS, INTERIM ACTING CHIEF EXECUTIVE &  
DIRECTOR OF INVESTMENT AND CORPORATE SERVICES  
(SECTION 73 OFFICER)**

**AUTHORS: SELONGE RUSSELL, HEAD OF FINANCE  
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ASSURANCE  
STEVE FINNEGAN, FINANCIAL ACCOUNTANT**

**Purpose of Report**

1. This report presents the Capital Strategy for the West of England Combined Authority including;
  - The detailed capital budget for 2023/24, and indicative budget up to 2026/27
  - The Treasury Management Strategy for 2023/24

**Recommendations:**

**The West of England Combined Authority Committee is requested to:**

- a) **Approve the Capital Budget as detailed in Appendix 1;**
- b) **Approve the Treasury Management Strategy for 2023/24 detailed in Appendix 2.**
- c) **Agree the specific Highways and Transport Capital Grant allocations totalling £25M to the constituent councils for 2023/24 as set out in Figure 3.**

## Reasons for Recommendations:

- Statutory requirements and recommended best practice.

## Voting Arrangements:

Items A & B Requires unanimous vote in favour at full meeting of the Combined Authority by all members appointed by the by the constituent Authorities or substitute members acting in place of those members, present and voting

Items C: Decision requires majority agreement of Committee Members in attendance, or their substitutes (one vote representing each Authority) and including the West of England Combined Authority Mayor

## Background / Issues for Consideration

2. The capital strategy is a report which is instigated through the 2021 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.”*
3. The areas covered by the capital strategy are as follows;
  - Medium term capital expenditure and financing (Appendix 1);
  - Treasury management including prudential indicators (Appendix 2);
  - Liabilities, revenue implications of the capital programme, and knowledge and skills employed in delivering the strategy.
4. 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.
5. 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
6. 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;

## Capital Expenditure and Financing

7. 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.
8. Costs incurred on developing feasibility work, as a rule, are not able to be capitalised. However, costs incurred on generating outline and full business cases are assumed to be capitalised as per DfT advice, including specific staff costs, such as project managers or engineers, who are engaged in the development.
9. The funding for the Combined Authority Capital Programme comes from main sources below:
  - 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 City Region Sustainable Transport Settlements (£540m Capital Funding)
  - Homes England – Bristol Temple Quarter Rejuvenation (£94.7m Capital Funding)
  - Transforming Cities Fund (£80m Capital Funding)
  - Future Transport Zones (£23.9M Capital Funding)

### Combined Authority Capital Investment Programme 2023/24 to 2026/27

10. The proposed Combined Authority Capital programme as 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). 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.
11. The capital programme, as detailed in *Figure 1*, as approved at the September and October 2022 Committees. In 2023/24, the Combined Authority is planning capital expenditure of **£108m** as summarised below:

**Figure 1: Medium Term Estimates of Capital Expenditure (£'000s):**

	2022/23 Original Budget £000	2023/24 Budget £000	2024/25 Indicative £000	2025/26 Indicative £000	2026/27+ Indicative £000	Total
Combined Authority Capital	142,230	107,873	134,781	243,653	183,428	811,965
<b>TOTAL</b>	<b>142,230</b>	<b>107,873</b>	134,781	243,653	183,428	<b>811,965</b>

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

## Transport and Highways Capital Grants

12. 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 financial years.
13. 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), confirmed by the Department for Transport from 2022/23 where Highway Maintenance, as well as Pothole Funding, has been wrapped up within the overall £540m settlement.
14. The specific grant distribution to the constituent councils is detailed in *Figure 2*. DfT have not been prescriptive in splitting the funds into individual elements, but advised that it is down to us, regionally, to allocate. The £25m has been split per Unitary Authority using last year's allocation, (based on a historic DfT formula), as follows:

**Figure 2 – Highways and Transport Capital Grant allocation for 2023/24 (£'000s)**

	POTHOLE & HIGHWAY 2021/22	POTHOLE & HIGHWAY 2022/23	POTHOLE & HIGHWAY 2023/24	%
BCC	7,416	8,772	8,772	35%
SGC	7,803	9,231	9,231	37%
BANES	5,915	6,997	6,997	28%
<b>TOTAL</b>	<b>21,134</b>	<b>25,000</b>	<b>25,000</b>	<b>100%</b>

## All Other Capital Funding

15. All new projects requiring approval, (whether delivered externally via grant or delivered internally by West of England Combined Authority), will go through an integrated approach as per the approved West of England (Local Growth) Assurance Framework.
16. **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.
17. **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.
18. 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).

## Combined Authority Investment Strategy

19. The Combined Authority has an approved Investment Strategy which details the prioritisation, governance and allocation, of Investment Funding. The current CA investment programme, up to March 2026, has an overall funding allocation of £450m which is primarily grant focused.

Discussions are currently taking place with the West of England UAs on a Revised Investment Strategy with a focus on linking the work to our regional priorities.

## **Treasury Management**

20. 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.
21. 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 2023/24 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.
22. The Authority'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.
23. 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.
24. 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.
25. 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 2023/24 West of England Combined Authority Treasury Management Strategy was presented to, and consideration by, the Audit Committee in December 2022.

## **Knowledge and skills employed in delivering the strategy**

26. The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.
27. 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**

28. Consultation has been carried out with Chief Executives, Section 151 Officers and the Combined Authority's Monitoring Officer.
29. The audit committee has been fully engaged, and consulted, with regard to informing the 2023/24 Combined Authority Treasury Management Strategy.

## **Other Options Considered**

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

## **Risk Management/Assessment**

31. 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**

32. 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.
33. 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.
34. 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:**

35. 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: Richard Ennis, Interim Acting Chief Executive & Director of Investment and Corporate Services (Section 73 Officer)*

### **Legal Implications:**

36. 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.

Report and advice reviewed and signed off by: *Stephen Gerrard, Interim Director of Legal Services*

### **Climate Change Implications**

37. The Combined Authority's Climate Emergency Action Plan has been considered in the production of this report. Any points of relevance have been added to this report when considered appropriate.

Report and advice reviewed and signed off by: *Roger Hoare, Head of Environment*

### **Land/property Implications**

38. 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.

Report and advice reviewed and signed off by: *Richard Ennis, Interim Director of Investment & Corporate Services*

### **Human Resources Implications:**

39. 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.

Report and advice reviewed and signed off by: *Alex Holly, Head of Human Resources*

### **Appendices:**

**Appendix 1:** Capital Budget 2023/24

**Appendix 2:** Treasury Management Strategy 2023/24

### **Background papers:**

West of England Combined Authority Committees – Investment Fund Update Reports to Committee throughout 2022

West of England Combined Authority Committee January 2022 - 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 Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 70 Redcliff Street, Redcliffe, Bristol BS1 6AL; email:

[democratic.services@westofengland-ca.gov.uk](mailto:democratic.services@westofengland-ca.gov.uk)

## Appendix 1

<b>April - October 2022 Report: WECA and Mayoral Capital Programme 2023/24</b>	<b>22/23</b>	<b>22/23</b>	<b>22/23</b>	<b>23/24</b>	<b>24/25</b>	<b>25/26</b>	<b>26/27</b>	<b>TOTAL</b>
	<b>Original budget £'000</b>	<b>Current budget £'000</b>	<b>YTD spend £'000</b>	<b>Profile £'000</b>	<b>Profile £'000</b>	<b>Profile £'000</b>	<b>Profile £'000</b>	<b>Profile £'000</b>
<b>WECA Capital - IF</b>								
Somer Valley Enterprise Zone (inc. A37 to A362 Improvements)		816						816
Cribbs Patchway New Neighbourhood Cycle Links (CPNN)		28	21					28
Wraxall Road Roundabout Improvements and Signalisation	30	145	22					145
MetroWest (Subject to position on Phase 1(b))			13					
MetroWest Ph 2	843	2,883	874	5,932				8,815
Cribbs Patchway Metrobus Extension		4,000	2,320					4,000
Contactless Card Payment - On Bus		62	1					62
Yate A432 Park & Ride		206	225					206
Bath Quays Walking and Cycling Routes		286						286
Old City and King Street	20	204						204
St George Liveable Neighbourhood	50	272						272
Strategic Cycle Route Connecting Thornbury with the A38 via Alveston		63	34					63
Strategic Cycle Route Connecting Yate with the East Fringe (Yate Spur)		57	21					57
MetroBus Consolidation Package (Bus Strategy)		1,828	150					1,828
Bristol Temple Meads Eastern Entrance	5,750	4,590	624	9,556				14,146
Whitfield Tabernacle Stabilisation (Love our High Streets)		14						14
Thornbury Hospital Site		169						169
Quantum Technologies Innovation Centre (QTIC+)	8,501	8,501		16,487	7,986	1,937		34,911
South Bristol Industrial Light Workspace	2,228	4,434	4	492				4,926
Low Carbon Challenge Fund Extension	900	1,338	8					1,338
Bottle Yard Studios - Hawkfield Business Park	2,003	4,185	126					4,185
North Keynsham Land Acquisition Fund		448						448
Bath Riverline Phase 1		1,048						1,048
Bath City Centre High Streets Renewal Project	232	667		296	255	184		1,402
Fielding's Bridge		50						50
Silver Street/ Fosseway Walking Route		62						62
City Centre to Weston Cycle route, Bath		62						62
Concorde Way / Dovercourt Depot		350						350
Grovesend Road - Gillingstool		80						80
Filton to MoD		125						125
Keynsham Road		130						130
Common Connections		66		182	238	50		536
Portway Park and Ride		942						942
Somer Valley to Bristol and Bath		500						500
LOHS Bath Local Centres		25		17	2			44
Business Growth and Adaptations Fund		967		33	13			1,013
Midsomer Norton High Street Market Square Project		45		735	65			845



Bristol to Hengrove Metrobus extension corridor – Bedminster works at A38 and Whitehouse Lane		60						60
Step Free Stations		250		211				461
Bristol Cycle Hangars		289	12					289
Bristol to Hengrove Metrobus Extension – Outline Business Case		60						60
Milsom Quarter		50		586	173			809
EV Tap On Tap Off		956	239	5				961
Hengrove Park Enabling Infrastructure		1,958		7,592	10,280			19,830
Kingswood High Street		1,430	385	2,130				3,560
Bus Stop Upgrades		84						84
Bus Stop Upgrades		230						230
Bus Stop Upgrades		743						743
Bath Road, Keynsham								
Thornbury Hospital	35							
Business Case Development	186							
	<b>20,778</b>	<b>45,757</b>	<b>5,079</b>	<b>44,254</b>	<b>19,012</b>	<b>2,171</b>	<b>0</b>	<b>111,194</b>
<b>WECA Capital – other</b>								
Future Transport Zones (FTZ)	12,468	7,962	1,332	13,075				21,037
Active Travel Fund		5,789						5,789
City Region Sustainable Transport Settlement (CRSTS)	83,000	4,150		16,600	78,850	170,150	145,250	415,000
Highways and Transport Grants	25,000	25,000	18,750	25,000	25,000	25,000	25,000	125,000
European Regional Development Fund	984	900		586				1,486
Bristol Temple Quarter		7,181	616	8,358	11,919	46,332	13,178	86,968
	121,452	50,982	20,698	63,619	115,769	241,482	183,428	655,280
<b>Grand Total</b>	142,230	96,739	25,777	107,873	134,781	243,653	183,428	766,474

\*Investment Fund Capital Profiles - As per the September & October 2022 West of England CA Committee Meetings

Spend - Awaiting claims for Q1 and Q2.