

# West of England Combined Authority Investment Strategy



2019 - 2023

November 2019



# Investment Strategy (four year)

2019 to 2023

## 1. Organisational Context

This is the first published Investment Strategy for the West of England Combined Authority (WECA).

Since its inception in 2017, WECA has evolved and grown rapidly in response to delivering its statutory responsibilities as part of the approved devolution deal with government. This includes prioritisation, programming and governance of additional government funding into the region, in excess of £1bn.

The strength of the region has previously been recognised by government as being the biggest net contributor to the national purse outside of London. £500m of Economic Development Funding and £200m of Local Growth Funding has been successfully programmed out across the partnership of Bristol City, South Gloucestershire, Bath and North East Somerset and North Somerset Councils.

***“The West of England is one of the UK’s most prosperous regions with an economy worth over £33.2 billion a year. A net contributor to the national purse, with a population of over 1 million and over 43,000 businesses”***

WECA, through an established formal committee, is now responsible for delivering clean and sustainable growth through £900m of Investment Funding, (£30m per annum for 30 years), and £103m of Transforming Cities Funding.

**This Investment Strategy covers the parameters, priorities, uses and constraints of this, £1bn, of WECA funding for the initial period up to March 2023.**

## 2. Strategic Context

The WECA Committee has adopted a framework which details the outcomes that we are aiming to deliver in the region through a structured, prioritised, medium to long term investment programme.

**Figure 1: West of England Combined Authority Operating Framework:**

### FRAMEWORK

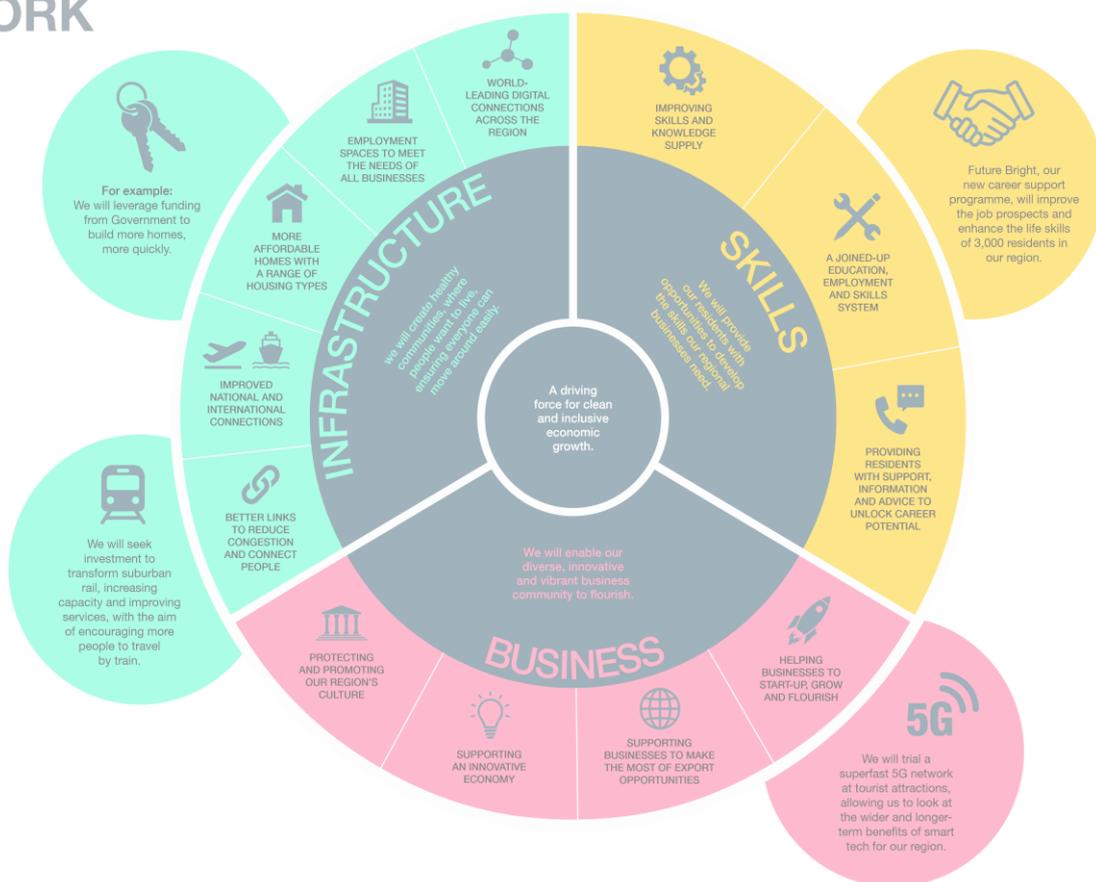
This document sets out our priorities for clean and inclusive economic growth in the West of England for 2018/19. It will form the basis of the West of England Combined Authority's business plan and inform our regional response to the Government's Industrial Strategy.

#### OUR AMBITIONS

The West of England is a place of growth and innovation, where economic, cultural and environmental diversity is celebrated and forms the foundation of prosperity for all.

We are investing in people and places – including jobs, skills, transport, homes, and digital connections – to ensure we are creating healthy communities where people want to live, work and visit.

We will achieve our ambitions by investing in three priority areas: infrastructure, skills and business.



16

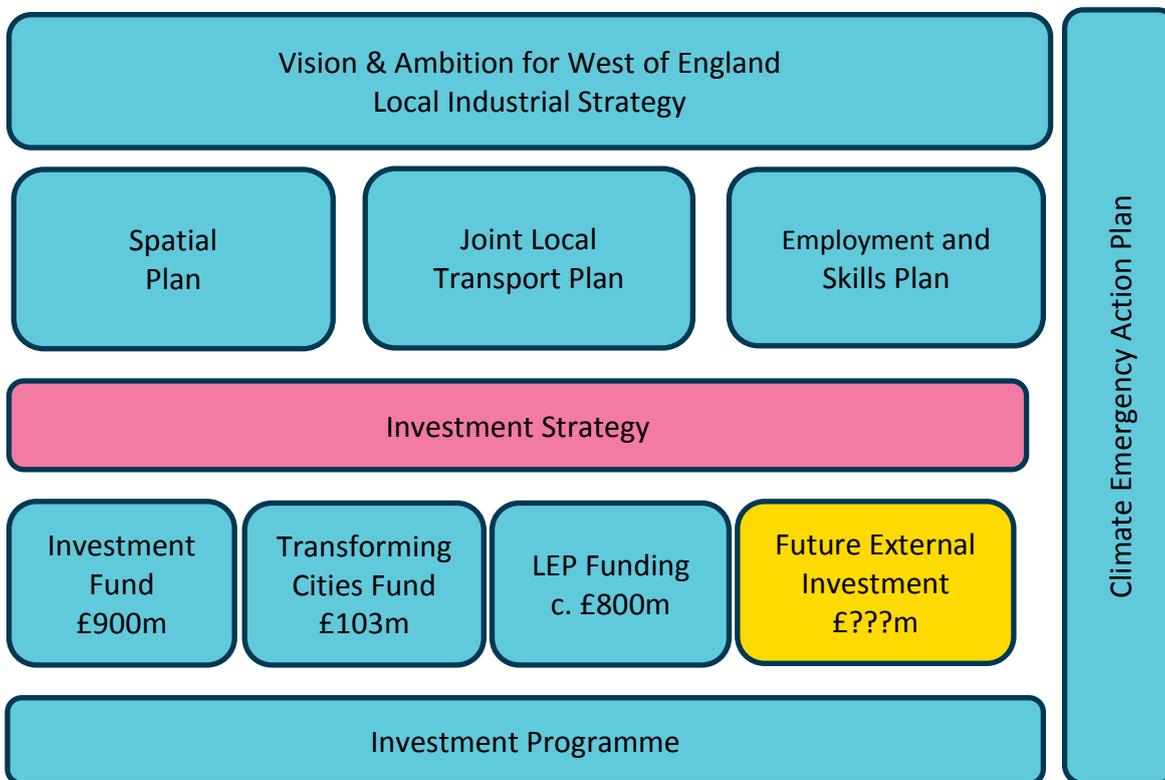
Source: Operating Framework (May 2018) – WECA Business Plan 2018/19 and 2019/20

This framework overarches and sets out the long-term direction and aspiration for the region which is well articulated in the core strategic documents including:

- Joint Local Transport Plan, (JLTP);
- Local Industrial Strategy, (LIS);
- Employment and Skills Plan;
- Energy Strategy and Climate Change Action Plan

With strategic direction and Operating Model established and medium to long term resources identified, the next stage for WECA development is to articulate a longer-term Investment Strategy as demonstrated in *Figure 2*.

**Figure 2: Linkage Between WECA Strategic Direction and Funding Decisions**



The West of England Local Industrial Strategy sets out our vision and ambition for the future of our region. We have a suite of plans setting out the actions we will take to deliver this vision across infrastructure, skills provision and business support. These plans also set out our approach to addressing a number of wider priorities and will drive our investment decisions. All of these strategies and plans should be seen in the context of the climate change emergency action plan which will touch on all the actions the Combined Authority takes.

### 3. WECA Funding Context and Allocations

#### Investment Fund - £900m

The WECA Order has determined this fund as being 50% Revenue and 50% capital at £30m per year over 30 years (£900M). This allows the Combined Authority to have a reasonable amount of flexibility in using revenue to develop relevant feasibility studies required to effectively prioritise capital investment.

Government will allocate investment funding based on WECA successfully completing 5 yearly 'Gateway' Reviews which requires tangible evidence of progress against the strategic direction set and delivery and outcomes achieved on the ground. The first of these Gateways will be undertaken during 2019/2020 with the Government forming a final view and subsequently reporting back in late 2020.

The ability to set long term strategic direction compared with delivering short to medium term capital projects is a tension faced by all Combined Authorities. The £30m per annum Investment Fund is year on year cash limited and not uplifted in any way to reflect increases in costs / prices through the Retail Price Index, Construction Inflation or any other pertinent index. The net present value of the £30m fund, in ten year blocks, is demonstrated in *Figure 3*

**Figure 3: Net Present Value of the Investment Fund over 30-year period:**

Year	Grant	Equivalent Purchasing Power
0	£30m	£30m
10	£30m	£22.3m
20	£30m	£16.6m
30	£30m	£12.7m

#### Transforming Cities Fund - £103m

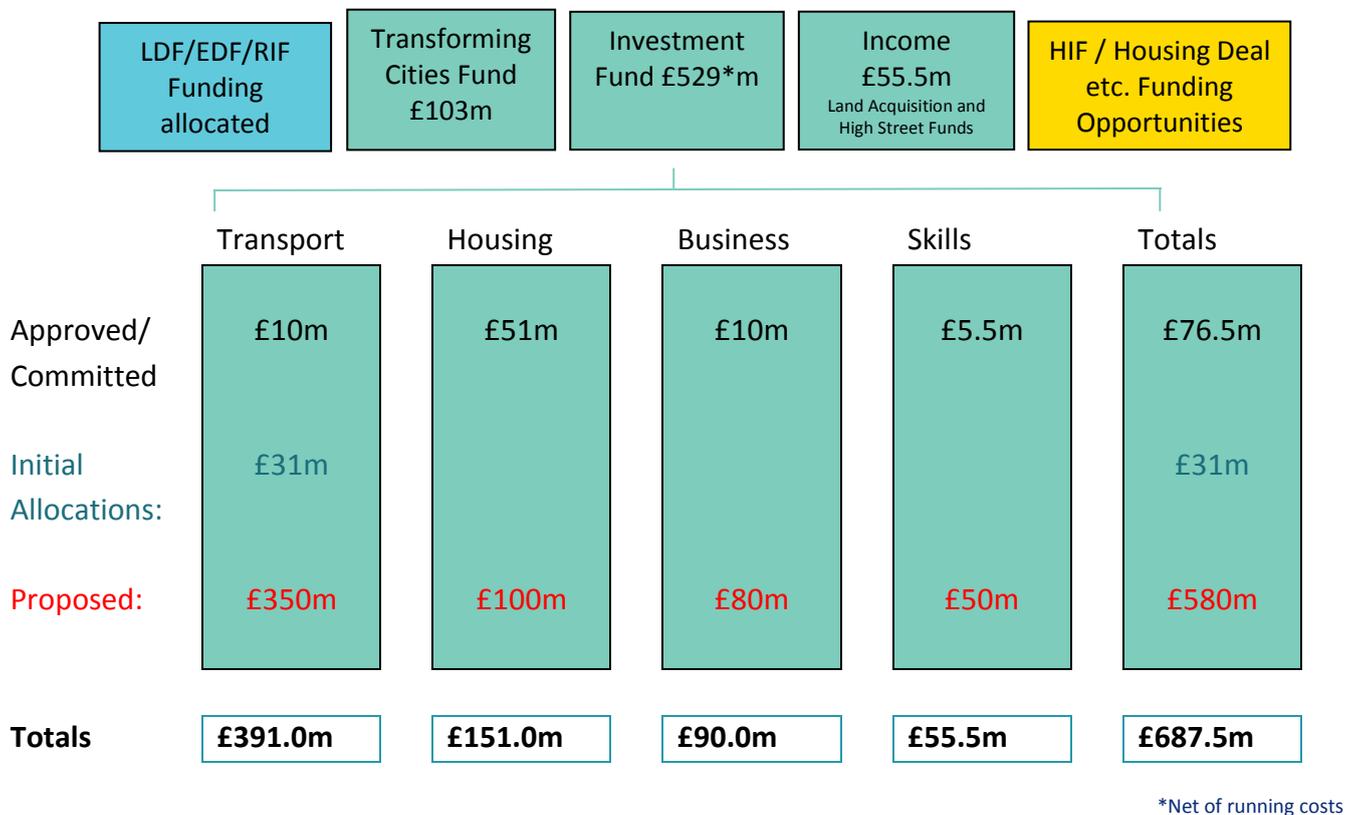
In terms of the Transforming Cities Fund, the allocation is time limited, having to be fully spent by March 2023, on major projects that will improve productivity and spread prosperity in public and sustainable transport in English city regions.

## Investment Programme

To balance strategic direction with tangible delivery, WECA has gone through a series of stages to ‘chunk’ up the overall funding available into manageable blocks and time periods.

In February 2019, the WECA Committee approved a notional 20-year financial allocation, (Investment Fund and Transforming Cities Fund), to ensure that adequate resources are deployed to each strategic priority area of the approved Operating Model. This 20-year allocation, as detailed in *Figure 4*, is coterminous with the time period covered through emerging spatial planning and the Joint Local Transport Plan for the region.

**Figure 4: Indicative 20 Year Funding allocation (February 2019 WECA Committee)**



Alongside the constituent Unitary Councils, WECA has been prioritising a short to medium term capital investment programme of £350m for the period up to March 2023, as approved by the WECA Committee on 19 July 2019. This programme demonstrates a reasonable geographical and functional split across priority areas and will be a vital ‘building block’ in support of the first government gateway review of investment progress.

A summary of the approved awards and feasibility funding as at October 2019 is detailed in Figure 5

**Figure 5: £350m approved WECA Investment Programme (up to March 2023)**

	Funding Awards and Allocations £000s
<b>Transport Infrastructure</b>	
Approved Awards and Allocations	57,221
Associated 'tail' required to deliver all projects up to March 2023	87,623
<b>Total Investment in Transport Infrastructure</b>	<b>144,844</b>
<b>Housing Infrastructure</b>	
Approved Awards and Allocations	56,720
Associated 'tail' required to deliver all projects up to March 2023	28,100
<b>Total Investment in Housing Infrastructure</b>	<b>84,820</b>
<b>Business and Skills</b>	
Approved Awards and Allocations	74,078
Associated 'tail' required to deliver all projects up to March 2023	18,440
<b>Total Investment in Business and Skills Infrastructure</b>	<b>92,518</b>
<b>Opportunities and Challenges / Other</b>	
Funding put aside to respond to opportunities and challenges	<b>20,000</b>
Approved WECA set up, operating costs and elections up to 2023	<b>7,818</b>
<b>Total Investment Programme up to March 2023</b>	<b>350,000</b>

The Investment Programme will deliver significant regional outcomes including improving local rail availability, enhancing bus services, reducing congestion pressure points, developing viable walking and cycling options, unlocking and accelerating housing delivery and supporting and developing businesses in compliance with the, recently published, West of England Local Industrial Strategy.

However, the vast majority of this initial Investment Programme is in the form of grant related spend with very little requirement for repayment to the fund over time. Moving forward beyond 2023, it will be essential to further develop our investment criteria – which will include incorporating the need for a balanced share of the investment portfolio being repayable into a sustainable, long term investment resource programme.

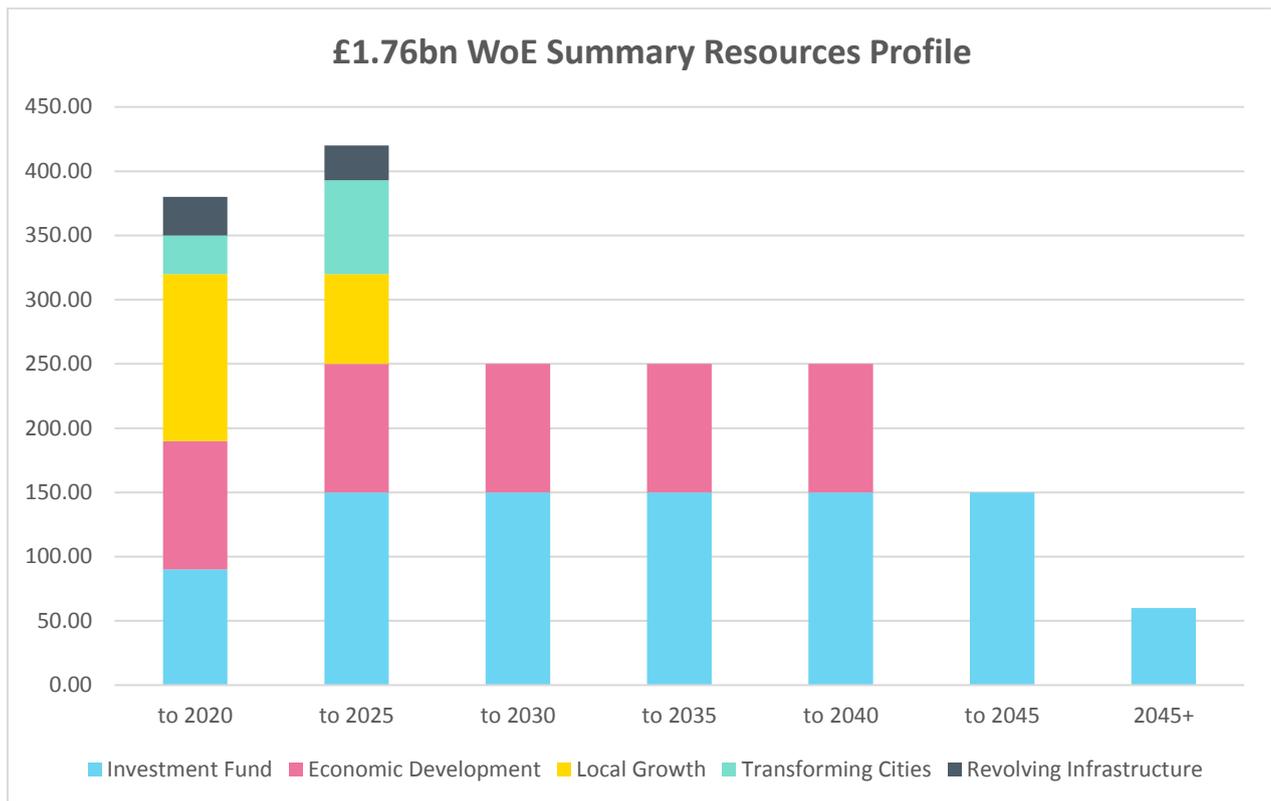
## 4. WECA Investment Strategy – Core Principles and Constraints

There are a number of capital investment funding streams available to the region. Where feasible and relevant we ‘mix and match’ spend from individual projects across different funds in order to maximise and retain maximum investment into the area. However, each element of funding does carry certain constraints and reporting requirements alongside specific time periods for spend to incur.

A headline summary of the core capital investment funding streams and their intended purpose and constraints are detailed in *Figure 6*

**Figure 6: Capital Investment Funding Sources**

Fund	Amount	Time Period	Narrative overview
Economic Development Fund	£500m	25 years 2015 to 2040	LEP funding reliant on delivering and retaining business rates growth within defined Enterprise Zones/Areas
Local Growth Fund	£200m	Up to March 2021	LEP time limited Grant Funding with set criteria to deliver local growth.
Revolving Infrastructure Fund	£57m	Revolving	Growth Deal LEP funding targeted at schemes that will repay into the fund
Shared Prosperity Fund	tbc	Post March 2021	LEP Funding successor to the Local Growth Fund (yet to be determined)
Housing Infrastructure Fund	Bid	various	Grant Funding to enable significant housing growth. Competitive bidding into a national funding pot.
Department for Transport Grants	Bid	various	Bid into Government for areas such as exceptional structural maintenance / delivery of local major capital schemes
Various Business and Skills Funding	Bid	various	Various funding pots open to competitive bidding to support local business and skills development
WECA Investment Fund	£900m	30 years to 2047	£30m p.a. to deliver sustainable long term growth. Must demonstrate ‘additionality’ and outcomes. Drawdown subject to passing 5-year gateway reviews.
WECA Transforming Cities Fund	£103m	Up to March 2023	Major public and sustainable transport projects. Schemes need to be fully delivered by March 2023.



\* WECA funding incorporates Bristol, Bath and North East Somerset and South Glos Councils

\* LEP Funding sources cover the three WECA Councils and, in addition, North Somerset Council

It is important to understand how these different funding streams inter-relate with a sustained focus on utilising the funding at our disposal to lever in additional public or private sector investment into the region. There are various examples of where we have utilised West of England funding as ‘match’ to attract inward investment such as:

- £50m of Investment Funding in support of a £258m bid for Housing Infrastructure funding (covering Bristol and Bath);
- £10m High Streets fund, created from the Investment Fund, to support Unitary Authorities to bid for government match funding;
- £6m from the Investment Fund, alongside EDF and LGF contributions, attracting £32m of Department of Transport Funding for MetroWest Rail;
- £4m from the Investment Fund for ‘Workforce for the Future’ attracting £4m of European match funding;
- £400k from the Investment Fund to support Unitary Authorities in developing bids for local majors and structural maintenance funding from government.

## Investment Fund Criteria – Project inception and management

To warrant consideration for programme entry, all proposals **must** :

- Deliver ‘additionality’/outcomes over and above current service and/or infrastructure levels;
- Demonstrate how it contributes to the strategic direction for the region and how it fits within a programme of like projects delivering wider benefit; and
- Demonstrate delivery of the required Value for Money level in compliance with the approved criteria relevant to the project in question

In addition, to ensure that the Investment Fund continues to deliver against its required purpose of sustainable long term growth, whilst maintaining future value and flexibility in the fund, the core criteria as detailed in *Figure 7* will be applied to all emerging projects / investments moving forward.

**Figure 7: Investment Fund Core Criteria for any proposed drawdown**

	Required Criteria for Accessing the Investment Fund	Yes/No
1	Each proposal must demonstrate how the requested funding could lever in further public or private sector contributions / match funding in it’s implementation or operation	✓
2	Each capital investment must demonstrate how it could repay, (either part or full), into the Investment Fund at a future point in time	✓
3	Investments involving land transactions must consider, within the business case, associated income from either capital receipt, uplift in value and/or developer contributions on the site and the surrounding area	✓
4	Proposals must be fully compliant with the approved WECA Assurance Framework in order to drawdown funding for feasibility / outline business case / full business / construction	✓
5	Up to 10% of the total estimated capital scheme cost will be allocated for feasibility / development with the option to extend to 20% by exception upon providing relevant evidence of estimated costs and outcomes.	✓
6	The Investment Fund can’t be used to solely address viability issues on specific development sites	✗
7	Investment Fund can’t be used to solely deliver repair or maintenance to existing assets (but modest revenue can be deployed to develop funding bids)	✗
8	Investment Fund can’t be used to fund on-going revenue costs (the future source of such costs must be detailed within business case development)	✗
9	The Investment Fund can be used to ‘pump prime’ revenue costs for a defined period of time until a scheme becomes operationally viable. This is limited to no more than 3 years and must be supported by a robust business case	✓
10	Any proposed investment must consider how it contributes towards the region’s vision for becoming carbon neutral / addressing climate change	✓

All proposed projects need to evidence a detailed build-up of costs, (internal and external), to trigger initial draw down against development funding. Capital Cost estimates should be evidenced by an appropriate submission which provides estimates using industry accepted methodology.

WECA, as overall accountable body for the fund, will require formal sign-off of the strategic fit, estimated outcomes, costs and draw down of funding in compliance with the respective stages of the approved Assurance Framework. Development Funding, Outline Business Case, (OBC), and Final Business Case, (FBC) will need approval of the WECA Statutory (Section 73) Finance Officer in conjunction with the Director of Infrastructure, Head of Business and Skills and Head of Capital Projects Delivery as relevant.

For more straightforward and lower value schemes formal committee approval may not be required at OBC stage providing the costs and scope have not changed significantly since the Development Funding Application stage.

To ensure value for money, and pace in scheme progression, any new commissions for professional services required for development work must be procured through the West of England Professional Services Framework. Any exception to using this Framework needs to be agreed with the WECA Head of Capital Delivery. This will allow WECA and UA lead officers to set appropriate and consistent scopes and briefs for development work, and get best value from public sector investment through maximising the benefits of the framework.

### Investment Fund Criteria – Programme-wide management

In addition to criteria that must be applied for every proposed scheme, there are a few criteria that must be applied to the WECA Investment Fund programme as a whole in order to:

- maintain a balanced portfolio of projects;
- ensure sustainability of future resource levels of the fund;
- promote consistency in the allocation and drawdown of funding;

These are detailed in *Figure 8*.

**Figure 8: Investment Fund Overall Programme Criteria / Principles**

	Required Criteria / Principles for Delivering the Investment Fund	Yes/No
1	Funding allocations across the strategic themes of Transport Infrastructure, Housing, Business and Skills need to be within the overall 20-year control totals as approved by WECA Committee in February 2019	✓
2	The programme must be regional in nature and supported by evidence in compliance with Government Gateway review criteria	✓
3	The overall Investment Programme, and projects within it, should give due consideration as to how climate issues are being addressed in compliance with the regional commitment to be carbon neutral by 2030	✓

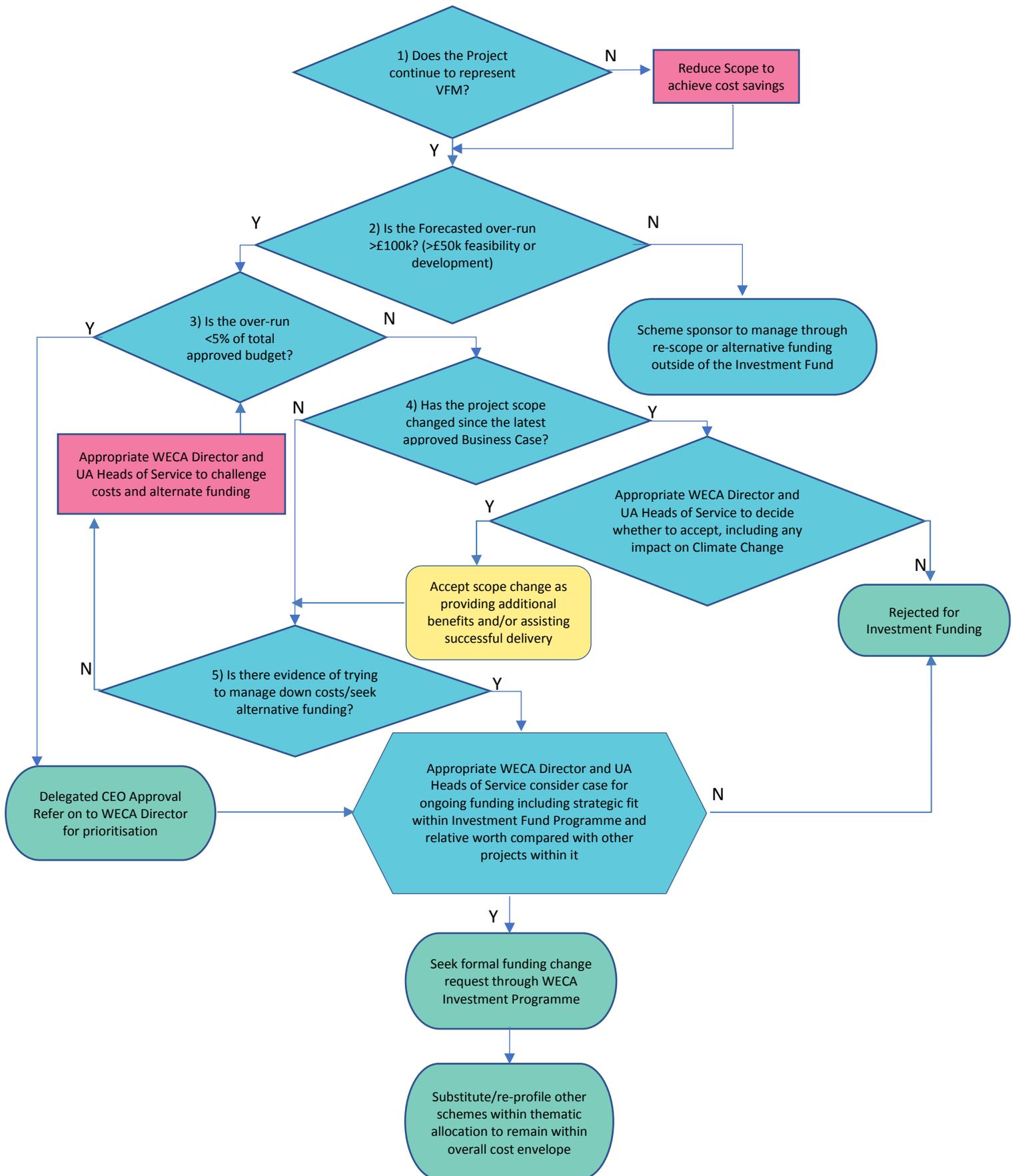
4	There should not be a defined financial allocation to each individual Authority However, consideration must be given to a reasonable geographical spread.	
5	WECA will retain management and reporting responsibility across the whole Investment Programme. Projects managed by individual authorities will need to report on progress and outcomes using approved processes and templates	
6	Where approval has been given for feasibility funding /outline business case, an appropriate capital delivery 'tail' may be accounted for in the Investment Programme, but not disclosed in the public domain until costs have been verified.	
7	If any project / scheme should not progress for any reason, or actual costs be significantly less than programmed – funding must be returned to the overall regional investment programme. Individual authorities are not able to substitute in an alternative project of their choice.	
8	The aspiration is to maximise the number of approved schemes that provide some form of repayment back in to the Investment Programme in order for the fund to become more sustainable in the long term.	

Funding allocations to projects will be subject to successful compliance with the approved assurance stage gate process. All costs must be clearly evidenced, and verified by the WECA Section 73, (Statutory Finance Officer), prior to receiving formal allocation.

On occasions, costs will fluctuate on major projects as schemes are developed and move through in to delivery. The formal Boards within the established WECA governance structure will monitor progress on scheme delivery in terms of timescale and cost variations. In the event of estimated cost over-run, the process as detailed in *Figure 9*, must be applied.

**Figure 9: Process for responding to forecasted cost over-runs**

This process applies to both development and implementation costs.  
 For changes to implementation costs, schemes must have at least reached Outline Business Case



## Guidance on the Application of the Cost Change Process

<b>1</b>	<p><b>Does the Project continue to represent VFM?</b></p> <p>The change request should include a description of the impact on the value for money having regard to both the costs and benefits arising from the change. The VFM statement should be revised and represented. Where a cost increase results in the VFM score dropping below the required threshold, for example a BCR of 2 for a transport scheme, the project will need to be rescoped to reduce costs. Where the VFM metric shows a reduction of over 10% then this should be considered by the WECA Director and relevant UA Heads of Service.</p> <p>For Feasibility and Development applications VFM will be more qualitative.</p> <p>The confirmation of the change request should be signed off by the s151/CFO</p>
<b>2</b>	<p><b>Is the Forecasted over-run &gt;£100k (&gt;£50k for feasibility and development)?</b></p> <p>This should be the increase in funding sought net of any additional match funding identified. Amounts under £100k (or £50k) should be managed within the overall project budget by the sponsoring authority.</p>
<b>3</b>	<p><b>Is the over-run &lt;5% of total approved budget?</b></p> <p>To calculate the cost change this should be compared to the current approved funding award from WECA.</p>
<b>4</b>	<p><b>Has the project scope changed since the latest approved Business Case?</b></p> <p>The business case or Change Request should clearly set out, in detail, the reason(s) for and impact of the change. A revised cost plan or breakdown must be provided. Any changes in scope must be described, or confirmation provided that the scope is unchanged.</p> <p>Consideration should be given as to whether the scope change has modified the project's impact on addressing climate change.</p> <p>The information will be considered by the appropriate Review Panel which, depending on the circumstances, may include independent local authority officers. A report will then be provided to the appropriate WECA Director and UA Heads of Service.</p>
<b>5</b>	<p><b>Is there evidence of trying to manage down costs/seek alternative funding?</b></p> <p>The business case or Change Request should set out the overall funding make-up of the scheme, other potential funding sources and why these have been discounted.</p> <p>The information will be considered by the Review Panel and this will form part of the report to the appropriate WECA Director and UA Heads of Service.</p>

Where schemes progress to a position where a formal change request/new business case is to be submitted, including the cost increase, this must be agreed by the appropriate WECA Director and UA Heads of Service having regard to the strategic fit with the Investment Fund programme and the relative worth compared with other projects contained within it.

The need for any necessary substitution/reprofiling should be from within the relevant investment programme thematic allocation. This to be proposed by the relevant WECA Director and UA Heads of Service and to be approved by the CEOs/WECA Committee as appropriate. Where schemes are joint funded through either Economic Development Fund or Local Growth Fund, it is envisaged that these funds should be revised and reprofiled as a first point of call for any cost over-run.

## **Commercial Investments**

In compliance with approved evaluation criteria, the Investment Fund can be used for commercial investment as long as there is a clear strategic fit with the organisation's Operating Model and priorities.

An example of this is the 'Land Acquisition Fund' which enables the commercial acquiring of land and property where there is an identified need for public sector intervention for accelerating housing delivery (or implementing planning policy objectives).

Similarly, the Investment Fund could be used for acquiring business premises and other assets of value as long as there is a clear purpose for the use of such assets in delivering regional outcomes that are congruent with the WECA Order.

The Investment Fund should not be used for:

- speculative purchases for pure uplift in value;
- land-banking without clear purpose for development;
- acquiring assets purely for revenue return on investment.

## **5. Review arrangements**

This Capital Investment Strategy runs over a period from October 2019 to March 2023. It is a fundamental strategy within the overall suite of WECA governance, assurance and budget setting documents.

Annual reviews of the strategy will be incorporated within the usual budget setting process with any required amendments or modifications presented to WECA committee for approval each February.

Any exemptions required from the Investment Fund Criteria, as detailed in Figure 7, needs to be formally approved by the WECA Committee.

**November 2019**