WEST OF ENGLAND | MAYORAL COMBINED AUTHORITY

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| **REPORT TO:** | **WEST OF ENGLAND COMBINED AUTHORITY COMMITTEE** |
| **DATE:** | **31 JANUARY 2025** |
| **REPORT TITLE:** | **MAYORAL AND COMBINED AUTHORITY BUDGET 2025/26 AND MEDIUM-TERM FINANCIAL STRATEGY** |
| **RESPONSIBLE OFFICER:** | **DIRECTOR OF FINANCE, INVESTMENTS AND COMMERCIAL (S73 OFFICER)** |

**Purpose of Report**

To consider and approve the budget in respect of the mayoral functions and the West of England Mayoral Combined Authority (MCA) for 2025/26.

This report includes the following:

- The revenue and capital forecasts for the financial year 2024/25 based on data from the period April 2024 to December 2024.
- The Medium-Term Financial Strategy for the period from April 2025 up to March 2030.
- The detailed Capital Budget and indicative Capital Programme from April 2025 up to March 2029.
- The Capital Strategy 2025/26.
- The Treasury Management Strategy 2025/26.
- The Non-Treasury Investment Strategy 2025/26.
- The Minimum Revenue Provision (MRP) Statement for 2025/26.

**Recommendation**

That Committee:

1. Approves the West of England Mayoral Combined Authority revenue budget for 2025/26 as summarised in figure 2 and the Medium-Term Financial Strategy for the period to 2028/29 as summarised in figure 12.
2. Approves the Mayoral budget for 2025/26 and approve an allocation from the Investment Fund of £693k, as set out in figure 16. In addition, approve the allocation of an additional £1.23m from the Investment Fund headroom across 2026/27 and 2027/28.
3. Approves the Capital Budget as detailed in Figure 8.
4. Approves the Treasury Management Strategy, Non-Treasury Investment Strategy, Minimum Revenue Provision (MRP) Statement and Capital Strategy for 2025/26 as detailed in Appendices 14, 15, 16 and 10.
5. Agrees the specific Highways and Transport Capital Grant allocations totalling £25m to Unitary Authorities for 2025/26 and the pothole funding

totalling £6.7m for 2025/26 as set out in figures 10 and 11.

6. Notes the 2024/25 forecast position for the West of England Mayoral Combined Authority revenue budget as set out in Appendix 12, the forecast position for the Mayoral functions revenue budget as set out in figure 16 and the changes to the capital forecast as set out in Appendix 13.
7. Notes the development of a single Organisational Improvement Plan (see paragraphs 20 - 28) that consolidates all live organisational improvement actions into one single programme.
8. Approves the recommended option of delivering future ICT services (See paragraphs 56 - 61), subject to satisfactory completion of appropriate due diligence and delegate the Chief Executive of the Combined Authority to agree all final details in relation to any service agreement and contracts.
9. Notes the report of the Independent Remuneration Committee and approve their recommendations, as set out in Appendix 17.
10. Approves delegated authority to the West of England Mayoral Combined Authority Director of Infrastructure in conjunction with the S73 Officer to accept the additional Bus Service Improvement Plan (BSIP) funding referred to in paragraph 41 and, in consultation with the Unitary Authority Infrastructure Directors, to approve the allocation and award of the additional BSIP funding. In the event of a consensus not being reached at Director level, decision making will be escalated to the West of England Combined Authority's Chief Executive Officer (CEO) in consultation with the Unitary Authority CEOs.

**Reasons for recommendation**

The statutory requirement to set a balanced budget that enables the West of England Mayoral Combined Authority to deliver its programmes. The reserves are needed to ensure the smooth running of the West of England Mayoral Combined Authority and to deliver effective financial management given the scale of risk being managed.

**Voting arrangements**

**Recommendations 5, 8 and 10**: In order to be carried, a decision on this matter requires a majority of the members present and voting, such majority is to include the Metro Mayor. Each member present may cast one vote. If a vote is tied the decision is not carried. There is no casting vote. Co-opted members are not entitled to vote.

**Recommendations 1 to 4**: In order to be carried, a decision on this matter requires the unanimous vote of the members present and voting, but excluding the Metro Mayor who is not entitled to vote. Co-opted members are not entitled to vote.

**Recommendation 6, 7 and 9:** None required – recommendations are for noting.

## Background

1. The West of England Mayoral Combined Authority plays a vital role in securing our region's growth, ensuring that the benefits it brings are felt by all and meet our climate ambitions.

2. We want our residents and businesses to thrive, with access to good quality jobs and training, to be able to quickly and affordably travel across the region, to live in warm, energy efficient homes and to be able to enjoy vibrant and healthy natural spaces. To do this, we need to create the right conditions for success, working with our Mayor and our Unitary Authority partners to plan for and deliver the future of the region and attract public and private investors into the area.

## Introduction

3. The budget for 2025/26 reflects a commitment to robust financial planning, strategic foresight, and delivering value for the West of England. Some of the key themes in the 2025/26 budget are highlighted below:

- **Grant Funding Success** – We anticipate a 62% increase in *grant* income over the prior year (2024/25). This demonstrates the organisation's success in securing funding for critical regional priorities.
- **Efficient Staffing Management** - Staffing costs have remained effectively flat in real terms over 2024/25 levels. There has been an overall increase of 5.4% which is broadly in-line with inflationary and incremental adjustments totalling 4.5%. This stability is notable given the substantial 51% increase in *total* income and reflects the organisation's commitment to budgetary restraint and prudent workforce management.
- **Budgetary Flexibility for Future Opportunities** - Prudent fiscal management and an emphasis on efficiency provides budgetary flexibility to respond to potential new opportunities, such as those outlined in the English Devolution White Paper.
- **Strengthening of Reserves** - Reserves have been strengthened, providing a safety net for unforeseen challenges ahead - although work is still required to further bring this into line with auditor recommended levels and comparable MCAs.
- **Creation of an Organisational Improvement Programme Fund** - The MCA is seeking to establish a £1.7 million organisational improvement programme fund, to be created through management-led efficiencies in the core budget. The purpose of this fund will be to drive transformation, streamline processes, and enhance operational efficiency. This initiative will achieve recurring savings, ensuring better outcomes and sustained value for money in future years. This work is essential for the long-term sustainability of the organisation given the current reliance on high levels of treasury management income.
- **Reliance on Treasury Management Income** – The MCA receives the majority of its funding in advance of being required to fund revenue activities and to deliver against its capital programme. The cash flow benefit between income received and expenditure incurred has enabled the Combined Authority to accumulate relatively high cash balances in recent years which it

has used in accordance with its treasury management strategy to provide a useful income stream.

4. Investment income from treasury balances is expected to generate c£15.1m of revenue for the Combined Authority in 2025/26 (see figure 4) and is now a critical element in supporting the organisation's core costs, including staffing.

5. As the organisation develops, more projects within the Capital Programme move from planning stages to delivery stages and will start to draw down and reduce cash balances available for investment. The Treasury Management Strategy predicts that interest rates available for investments are also likely to reduce in the short term, which will also decrease future returns.

6. The Combined Authority needs to identify other income and funding opportunities to offset the reliance it currently has on investment income to fund its core expenditure.

**National Context – The English Devolution White Paper**

**Overarching Government policy direction:**

7. The English Devolution White Paper was published on 16th December 2024, setting out the Government vision for the next phase of devolution and a range of new responsibilities that will be devolved to places across the country. The White Paper sets out that the ambition of ministers is to give local leaders and communities the tools they need to deliver growth for their area and raise living standards in every part of the country.

8. The White Paper creates a formal new tier of government, establishing Strategic Authorities that will be enshrined in law. Once the English Devolution Bill (expected in 2025) completes the parliamentary process, this will mean Mayoral Combined Authorities such as the West of England will exist in statute with a set of specifically defined areas of competence. The White Paper sets an ambition for there to be universal coverage of Strategic Authorities across the country with all places forming or joining a Strategic Authority.

9. Alongside the legal formalisation of the role of Mayoral Combined Authorities, the Devolution Framework will be put into statute. This will set out the specific roles, responsibilities and budgets that will be devolved to Statutory Authorities. The Framework will also set out how these roles, responsibilities and financial freedoms and flexibilities grow as Strategic Authorities become more established.

10. The White Paper also strengthens the route for mayors to make the case for further devolution. Establishing the Council of Mayors as the forum through which Mayors can make the case for the addition of new responsibilities to the Devolution Framework and a requirement on Government to formally consider and respond to such requests.

11. The legislation to enact the changes set out in the White Paper will launch in 2025. The West of England Mayoral Combined Authority will need to take action to prepare for the reforms to our operating environment that we know the legislation will

unlock. While the timing for the legislative process is not yet clear, we will need to plan for a potential first wave of changes to the role and responsibilities of the organisation to require implementation at some point in 2026.

12. Additional responsibilities that will require preparatory work before being taken on include:

- Formalising the process for Strategic Authorities to progress taking on the long-term integrated funding settlement that an initial wave of MCAs will take on at the next Spending Review.
- Giving all Mayoral Authorities the ability to introduce a mayoral precept on council tax.
- Give Mayors a statutory role in relation to the rail network.
- A Mayoral Power of Direction over the use of constituent authority powers on the Key Route Network.
- Responsibility for developing local Get Britain Working Plans.
- New strategic development powers.
- The ability to establish Mayoral Development Corporations and make Mayoral Development Orders and to set the strategic direction of affordable housing provision.
- Devolution of retrofit funding and a role on local energy planning.

13. The West of England Mayoral Combined Authority will not initially have access to the full range of powers available to 'established' Mayoral Authorities. However, to deliver on the ambitions Committee has set for the region there is merit in seeking access to these powers as swiftly as possible.

14. The 2025/26 budget has been structured to ensure we have appropriate resources in place to deliver on the existing priorities of the organisation but also to undertake the preparatory work that will be needed to ensure we are ready to capitalise on and deliver against the ambition of the English Devolution White Paper.

15. There may be additional resources required to deliver these additional responsibilities. Any resource requests would be brought to Committee for consideration.

**Strategic Objectives:**

16. The West of England Strategic Framework sets out our plan to deliver a brighter future for local people and communities. ''By 2040, the West of England will have a world-renowned green economy that is creating new jobs for residents; the region will be more equal - with all residents having access to good homes, opportunities and services; and the region will be more prosperous with a healthier and happier population who are driving the region's success."

17. To deliver this vision, our priorities for delivery are:

- Creating a better-connected region, working towards a world-class transport system.
- Delivering net zero and nature recovery.
- Creating the jobs and training that our region needs now and in the future.

- Supporting sustainable communities that people are proud to call home.
- Putting the West of England on the map for national and global success.

18. Over the last 12 months, the organisation has delivered across the strategic priorities Committee has set, working together across our partnership. We are taking action to strengthen the West of England's economy and improve services and support for people who live and work here. Specific successes include:

- Opening of Ashley Down station as part of a project to reopen the Henbury Line with plans for stations and Henbury and North Filton.
- Launch of WEST local services designed and run by local people to meet the needs of their communities.
- Extension of Birthday Buses having generated more than 70,000 applications.
- Establishment of £100m Green Growth West Impact Fund to leverage private investment and drive the green economy.
- Becoming the first region in England to launch its Local Nature Recovery Strategy (LNRS).
- Chosen as a 'trailblazer' for the Government's new Youth Guarantee that aims to ensure all 18-21 year olds are either earning or learning.
- £9m allocated to support progress towards full business case to create up to 1,300 jobs in the Somer Valley Enterprise Zone.
- Completion of the Eastern entrance to Bristol Temple Meads station and progress on masterplanning of Bristol Temple Quarter.

19. This paper sets out the draft budget for continuing to deliver against these priorities in 2025/26.

**Organisational Improvements:**

20. Since the appointment of the new Chief Executive, the organisation has made significant progress in identifying opportunities for improvement. An Organisation and Communications Review highlighted key areas for change and the need for a long-term, structured approach to address challenges. To support this, a new operating model has been implemented, centralising key services such as strategy and establishing a Corporate Programme Management Office (PMO) to strengthen governance and ensure delivery of projects and programmes.

21. To streamline efforts, all improvement activities, including outstanding actions from the Transformation Programme and Effectiveness and Efficiencies Review, will report into a single Organisational Improvement Plan. Governed by its own internal board and overseen by the Chief Executive, this approach aligns resources, prioritises activities, and ensures focus on delivering key outcomes. An update will be brought to a future committee which will set out recommendations on the oversight and reporting of progress against this plan.

22. This structure provides a clear framework for progress, enabling the organisation to achieve its objectives and deliver value for stakeholders.

23. Since 2021 the organisation has embarked on a structured improvement journey through various evaluations, including implementation of statutory recommendations, a review by SOLACE, a transformation plan and an efficiency and effectiveness review. Through this programme of work the organisation has:

- Developed more robust arrangements around the Committee process including earlier discussion of papers amongst UA partners.
- Strengthened arrangements for the management of and reduced use of interims.
- Strengthened the corporate core of the organisation, including appointing an Assistant CEO, Head of Performance and Health and Safety Manager.
- Strengthened partnership arrangements including between S151/S73 Officers, Monitoring Officers and Strategy Directors.
- Strengthened the work of the Programme (Portfolio) Review Board (PRB) and the terms of reference for PRB have been revised to ensure they are fit for purpose and contribute to effective and efficient delivery.
- Established an internal governance board with a core purpose to ensure effectiveness and efficiency in all that we do.
- Established an infrastructure change programme to ensure the directorate is placed on a firm footing to deliver effectively and efficiently.

24. To maintain momentum the next step is integrating current and proposed initiatives into a unified improvement programme, ensuring leadership accountability and sustained progress. Target areas include:

- **Performance management**: Develop robust systems for better accountability and service delivery.
- **Single front door**: Create a centralised contact system for public and partner engagement.
- **Corporate PMO**: Streamline project delivery to align with strategic objectives and attract investment.
- **HR and culture**: Strengthen talent acquisition, professional development, and organisational agility.
- **Legal services**: Expand capacity to handle growing complexity.
- **Data management**: Enhance decision-making through improved information governance.
- **Contract management**: Upgrade systems for efficiency and compliance.
- **Corporate communications**: Boost the region's visibility and investment appeal.

25. In March 2024 the organisation was issued with a Best Value Notice (BVN), which will next be reviewed in March 2025. Subject to the outcome of the review, the proposed unified improvement programme will be established with robust governance and political oversight to ensure alignment and transparency.

26. To ensure that the impact of all improvement activity is properly understood and learning embedded in future plans, a centrally managed Monitoring and Evaluation (M&E) framework will be put in place.

27. Initial estimates of the investment required in the areas set out in paragraph 20 is £3.1m over three years, with an initial £1.7m in 2025/26, to be funded out of management-led efficiencies in the core budget and which will lead to the delivery of further efficiencies over the lifetime of the MTFS.

28. Efficiencies are expected to deliver £1.7m in 2025/26 and £0.7m in both 2026/27 and 2027/28. Further details of the areas we will be targeting during 2025/26 can be found in Appendix 1.

**Revenue & Capital Budget for 2025/26**

29. The Mayoral Combined Authority (MCA) revenue budget relates to all activities except those relating specifically to the Mayoral functions which are set out separately in paragraphs 97 - 105 of this report. The budget includes contributions that are specifically approved to cover Mayoral costs. The proposed budget includes provision for the governance, management and administration of the organisation's functions and responsibilities.

30. The budget provides a direct comparison with the previous financial year, with further details on the medium-term outlined under paragraph 87. This approach is consistent with how other Combined Authorities report and reflects the short-term, cyclical nature of Government funding. While the Medium-Term Financial Strategy relies on forecasts and assumptions, this budget is based on confirmed funding approvals.

31. This report proposes an income budget of £380.0m across both revenue and capital. The level of income represents an increase on the prior year budget of £127.7m which reflects an increase in grant funding and expanded capital delivery activities, such as City Regions Sustainable Transport Settlement (CRSTS) projects moving into construction phases, across the region.

**Figure 1: Capital & revenue budget**

| | Budget | | Movement | |
|---|---|---|---|---|
| | 2024/25 | 2025/26 | | |
| | £000s | £000s | £000s | % |
| Revenue Budget | 138,704 | 173,889 | 35,186 | 25% |
| Capital Budget | 113,648 | 206,155 | 92,507 | 81% |
| **Total** | **252,352** | **380,044** | **127,692** | **51%** |

32. Increases in revenue budget reflect greater Government grant funding awarded in advance during 2024/25 – some of the key additions are additional grant awards for Bus Service Improvement Plans, new funding for Supported Employment and

new funding for the Youth Guarantee Trailblazer Pilot. Details of all grant funding allocations for the 2025/26 financial year are provided in Appendix 2.

33. The capital budget incorporates a revised reporting approach to align with practices adopted by other Combined Authorities, offering a more accurate and transparent view of planned capital delivery. Previously, the budget included only the position approved to date by Committee, limiting its comparability to actual delivery. To ensure consistency, prior-year figures have been restated using the updated methodology to facilitate meaningful comparisons. The revised approach now profiles programmes based on allocated funding and forecast expenditure, providing a clearer and more realistic representation of the planned scale and timing of delivery for the year.

**Revenue Budget**

34. The revenue budget is a balanced budget for 2025/26 which provides financial stability while continuing to deliver on key regional priorities.

**Revenue Expenditure**

35. The following sections outline the key areas of expenditure planned for the year. The organisation will identify £1.7m in reductions during the year, to fund an organisational improvement programme. This will not affect the expenditure figures presented in this budget.

36. The organisational improvement programme will drive longer-term savings and efficiencies across the organisation and the period of the Medium-Term Financial Strategy to support future financial sustainability and to build levels of reserves.

37. Staffing costs have increased from £22.249m in 2024/25 to £23.457m in 2025/26, driven primarily by inflationary pay assumptions of 2.5% and incremental increases of 2%, which account for the majority of the rise. This modest increase in salary expenditure demonstrates the Authority's prudent approach, particularly in the context of total income, and associated activity, across capital and revenue income rising 51% from £252m to £380m. With the addition of new grant-funded services, primarily in Economy & Skills, the increase ensures the organisation maintains the capacity to deliver key regional priorities effectively while continuing to exercise robust financial control.

38. The 25% increase in total revenue expenditure in 2025/26 as shown in the table below reflects a significant rise in grant income receivable, much of which is allocated directly to key partners, including the constituent Unitary Authorities, and recorded as expenditure in the organisation’s accounts. This increase does not reflect higher operating costs but demonstrates the Authority’s role in distributing funds to deliver regional priorities alongside its partners. A summary of each service area’s movement between 2024/25 and 2025/26 in revenue funding and related expenditure is shown in the paragraphs below.

**Figure 2: Revenue budget expenditure by directorate**

| Revenue Budget | 2024/25 £000s | 2025/26 £000s | Movement £000s | % |
|---|---|---|---|---|
| Economy & Skills | 35,538 | 61,940 | 26,402 | 74% |
| Environment | 7,291 | 5,830 | (1,461) | (20%) |
| Transport | 53,210 | 59,972 | 6,763 | 13% |
| Grant Management | 6,075 | 2,698 | (3,377) | (56%) |
| **Delivery Sub Total** | **102,114** | **130,440** | **28,326** | **28%** |
| Corporate Office | 4,353 | 4,556 | 203 | 5% |
| Law & Governance | 5,077 | 5,317 | 240 | 5% |
| Finance, Investments & Commercial | 4,408 | 4,896 | 488 | 11% |
| Strategy | 6,101 | 6,508 | 407 | 7% |
| **Corporate Sub Total** | **19,939** | **21,277** | **1,338** | **7%** |
| Business Rates Retention | 19,694 | 23,078 | 3,384 | 17% |
| Net Reserves Movement | 3,246 | 5,712 | 2,466 | 76% |
| Recharges Income | (6,290) | (6,618) | (328) | 5% |
| **Other Sub Total** | **16,650** | **22,172** | **5,522** | **33%** |
| **Total Expenditure** | **138,704** | **173,889** | **35,186** | **25%** |

39. **Economy & Skills:** The Economy and Skills Directorate plays an important role in delivering the Mayoral Combined Authority's core strategic function of improving the economic conditions of the region by delivering services and programmes which improve business productivity and drive sustainable growth, attract inward investment, and equip people with the training and careers support required to access opportunities within the evolving jobs market. It achieves this working very closely with the unitary authority economic development and skills teams with revenue often split on a 'hub and spoke' basis.

The significant increase in revenue of £26.4m (+74%) can be attributed to the directorate taking on responsibility for several significant new grant programmes. Aligned with government's Get Britain Working White paper, from April 2025 the team will be delivering a new £5m 'Youth Guarantee Trailblazer' (only 1 of 8 in the country) to help all 18–21-year-olds in the region access education/training or receive specialist support finding a job or an apprenticeship. Delivery of the new ‘Connect to Work’ supported employment programme (£5.3m for 2025/26) which will help over 1,600 residents with health-related conditions access paid employment will also commence in April 2025 for a period of 3 years (and likely 5 years subject to Spending Review). The MCA’s successful DfE funded Skills Bootcamps programme, providing over 1,200 residents each year with employer-led training, will continue into a Wave 6 with the budget expected to expand significantly to £12.7m in 2025/26 due to high levels of demand and positive impact to date.

Finally, given its track record in delivering Made Smarter West of England – a project which helps production-based businesses improve their productivity through digital technologies – government has awarded further funding to the MCA for expansion within the region and to lead delivery across the whole South West.

40. **Environment:** The organisation's environmental initiatives focus on combating climate change and its impacts, promoting nature recovery, and supporting sustainable development across the region. Key projects include ‘Heat from Mines’, which utilises geothermal energy from abandoned mines for low-carbon heating, and the Community Pollinator Fund, which enhances habitats for pollinators to support biodiversity.

Programmes like the Resourcing Climate Resilience Work Programme help communities and businesses adapt to climate impacts, while the Low Carbon Challenge and Retrofit Accelerator focus on energy efficiency and reducing carbon emissions. The Regional Low Carbon Delivery program targets infrastructure decarbonisation and renewable energy solutions.

Other initiatives include the Green Growth West Impact Fund to finance sustainable projects, the Health and Nature Strategy to integrate green spaces into urban environments, and Pollinator Pathways to establish biodiversity-supporting green corridors.

Expenditure has decreased due to the completion of several Green Recovery Fund projects in 2024/25, with future projects yet to be confirmed. While additional projects are anticipated in 2025/26, the budget currently includes only those with confirmed funding decisions.

41. **Transport:** The Transport directorate aims to transform regional travel by promoting public transport, walking, and cycling. Key initiatives include improving transport corridors in partnership with the Unitary Authorities, trialling innovative mobility solutions through the Future Transport Zones project and implementing smart technology for real-time travel information. Other priorities include the Bus Service Improvement Plan to enhance network quality and coverage, rail delivery plans, cycling and walking infrastructure strategies, and expanding electric vehicle charging infrastructure.

The increase in revenue expenditure is primarily due to the DfT offering a new single consolidated bus grant for Local Authorities, for 2025/26, of which the Mayoral Combined Authority has been awarded a total of £14.864m. This new funding consists of Bus Service Improvement Plan revenue grant (BSIP RDEL) (£13.591m) and capital grant (CDEL), the Local Authority element Bus Service Operators Grant (BSOG) (£1.148m), and a capacity and capability grant (£125K) This additional funding of £13.591m for the BSIP RDEL requires new delegations, with a recommendation (see recommendation 10) that all decisions will be delegated to directors, and in the event an agreement is not reached, an escalation to chief executives.

The recommendation considered in this committee paper, along with new delegations, is solely for the new Bus Grant of £13.591m (BSIP RDEL allocation). The existing BSIP funding for 2025/26 will continue under the existing delegations where funding has already been fully committed.

42. **Grant Management:** Grant-funded projects focus on fostering sustainable urban development, improving infrastructure, and driving economic growth across the region. Initiatives like the Bristol City Centre & High Streets and Bath City Centre High Streets Renewal Project aim to revitalize public spaces, enhance accessibility, and stimulate local economies.

Key projects include Common Connections, which strengthens transport links between communities, and South Gloucestershire Catalyst High Street Funding, supporting high street revitalization to boost local growth. The Hydrogen Sustainable Transport Economy Accelerator drives innovation in sustainable transport by advancing hydrogen-based solutions.

The B&NES Housing & Regeneration Enabling Fund (Masterplanning) and the Western Harbour Masterplan focus on regenerating housing areas and transforming Bristol's waterfront, ensuring sustainable growth and infrastructure development.

Other initiatives include Linking the Levels, which improves environmental and transport connections across South Gloucestershire, and the Bathscape Landscape City Framework, which balances sustainable urban development with preserving Bath's cultural and environmental heritage.

The reduction of expenditure between financial years is due to several Investment Fund schemes now managed by delivery directorates, with Green Recovery Fund allocations included under Environment and significant funding for Economy & Skills reflected in that directorate's figures.

43. **Corporate Office:** This directorate encompasses key corporate functions, including People & Assets, Communications, Performance, and the Programme Management Office, which support the delivery of the Mayoral Combined Authority's strategic objectives. The directorate also includes a new administrative function, comprising two additional posts, designed to enhance operational efficiency and provide improved support across the organisation. The increase in expenditure is largely due to the establishment of this new function, ensuring the Authority has the necessary capacity to deliver its growing portfolio of regional priorities effectively.

44. **Law & Governance:** provides legal support, ensuring the Authority operates within the law on issues such as contracts, policies, and compliance. They manage governance processes by overseeing meetings, agendas, minutes, and decisions,

ensuring transparency and accountability. The team also facilitates democratic engagement by overseeing electoral processes, public consultations, and stakeholder involvement, promoting public participation in decision-making. This directorate now includes Health & Safety, IT, and facilities management. The increase in expenditure reflects rising utility and maintenance costs for the main office, as well as higher anticipated costs for IT systems and related services.

45. **Finance, Investments & Commercial:** This directorate manages key financial and governance-related expenses, including internal and external audit, insurance, advisory services for treasury management and VAT. A contingency fund provides flexibility for unforeseen expenses, ensuring the Authority is financially prepared. Adjustments such as recharges and contributions to external organisations support the balancing of financial commitments. This area also includes the commercial team and costs associated with staffing and operating the grant management function. The small increase in expenditure is largely due to higher anticipated supplies and services costs within the Commercial service area.

46. **Strategy:** The Strategy directorate focuses on driving forward the Mayoral Combined Authority's long-term strategic priorities for sustainable economic growth. This involves working in partnership with the Unitary Authorities and other partners to support the development of the Mayor and Leaders' ambitions, developing the policy proposals to deliver and fostering partnerships with government, industry, academic institutions and other MCAs to address emerging challenges and opportunities. The Transport Strategy function has now been included as part of this directorate. Whilst the directorate does show a large increase in expenditure of £407k between years, this is largely due to increased grant income in 2025/26 of £1.2m compared to the 2024/25 financial year supporting a number of projects.

47. **Business Rates Retention:** The Business Rates Retention scheme allows the organisation to retain a portion of the income generated from business rates. As part of a pilot scheme, the organisation retains a share of additional business rates revenue, providing a temporary boost to income. However, the duration of this pilot scheme is uncertain, and the additional income may not be a sustainable source of funding in the long term.

48. **Net movement to Reserves:** This reflects the net transfer of funds into or out of the Authority's reserves during the financial year. Details of reserve allocations and balances are provided in Appendix 7.

49. In line with the Grant Thornton recommendation, we are continuing efforts to increase our reserves to better align with other Mayoral Combined Authorities. The table below provides a comparison of our General and Earmarked Reserves rankings against the 10 MCAs, based on the 2023/24 draft accounts. It highlights that we currently remain ranked lowest across all key metrics.

**Figure 3: Reserves Comparison**

| Reserves Comparison | Comparison Using General & Earmarked Reserves | | | | |
|---|---|---|---|---|---|
| | Reserve Levels (£000's) | Gross Spend (%age) | Net Spend (%age) | Taxation & Grants (%age) | Gross Trx Value (%age) |
| West of England Combined Authority | 18,560 | 10% | 15% | 16% | 5% |
| Other MCA Average | 199,425 | 31% | 58% | 57% | 16% |
| Ranking out of 10 | 10th | 10th | 10th | 10th | 10th |

50. Appendix 3 provides a summary breakdown of the 2025/26 revenue budget by expenditure type.

**Report of the Independent Remuneration Panel for the West of England Mayoral Combined Authority**

51. The Local Government Act 2000 and the Local Government (Members' Allowances) Regulations 2003 set the framework for making a scheme of allowances. There is a requirement to establish and maintain an independent panel to make recommendations on allowances.

52. The West of England Combined Authority Order, 2017 established the West of England Combined Authority. Article 8 of that Order states that the Mayoral Combined Authority may only pay an allowance to the Mayor or to a member or substitute member of the Authority if (a) it has considered a report, from an Independent Remuneration Panel established by one or more of its constituent Councils, which contains recommendations for such an allowance, and (b) the allowance paid by the Mayoral Combined Authority does not exceed the amount specified in the recommendation made by the Independent Panel.

53. The Independent Remuneration Panel was invited to conduct a full review of the Authority's allowances scheme. It met on 4 occasions to conduct the review, including interviews with the Mayoral Combined Authority's Monitoring and Section 73 Officers and certain Committee Chairs.

54. The full report of the panel is set out at Appendix 17.

55. The Committee is recommended to approve the panel's recommendations as set out in their report.

**Future arrangements for ICT services**

56. The West of England Mayoral Combined Authority has ICT, payroll and exchequer services provided by Agilisys. The end date for those arrangements is 30 September 2025.

57. The contract's structure is a "Lead Provider" (Agilisys Ltd), sub-contracting exchequer services to a support services provider (Liberata Ltd).

58. In March 2024, the organisation commissioned an independent and focused

options appraisal to support development of the future delivery model of ICT services. The options appraisal has now been completed and the recommendation is to continue with the existing principal arrangements, that will now extend out to a multi provider model to provide more flexibility.

59. The Committee is recommended to approve this option of delivering future ICT services, subject to satisfactory completion of appropriate due diligence.

60. There is earmarked budget of £110k in 2025/26 to fund the proposed work including to support due diligence activity. Costs incurred in 2024/25 can be managed within existing budgets.

61. As part of this work there will be an ongoing review of service quality and investigation into where and how service improvements can be made.

**Revenue Funding Allocation**

62. The organisation has continued to attract new revenue funding, leading to a 25% increase in total funding allocated for 2025/26 compared to the prior year. This growth supports key regional initiatives and priorities.

**Figure 4: Revenue Budget Funding Sources**

| Funded by | 2024/25 £000s | 2025/26 £000s | Movement £000s | Movement % |
|---|---|---|---|---|
| Grant Funding | 81,420 | 109,989 | 28,569 | 35% |
| Transport Levy | 19,468 | 20,253 | 785 | 4% |
| Business Rates Retention | 20,692 | 25,278 | 4,586 | 22% |
| Contributions | 2,243 | 2,209 | (34) | (2%) |
| Fees & Charges | 860 | 866 | 6 | 1% |
| Sales & Commissions | 3,096 | 1,275 | (1,821) | (59%) |
| Treasury | 11,756 | 15,094 | 3,338 | 28% |
| Recharges | (831) | (1,075) | (244) | 29% |
| **Total Funding** | **138,704** | **173,889** | **35,185** | **25%** |

63. **Grant Funding:** Grant funding is our primary source of revenue income and has seen a 35% increase from prior year. Full details of the grants for 2025/26 can be found below with a comparison to 2024/25 in Appendix 2.

**Figure 5: Grant Detail**

| MCA Revenue Grants | 2025/26 £000s |
|---|---|
| Investment Fund | 28,561 |
| Bus Service Improvement Plan | 27,799 |
| Adult Skills Fund Core | 15,981 |
| Skills Bootcamp Wave 6 | 12,685 |
| Supported Employment | 5,300 |
| Youth Guarantee Trailblazers Pilot | 5,000 |
| UK Shared Prosperity Fund (UKSPF) | 2,718 |
| City Region Sustainable Transport Settlement (Revenue) | 2,648 |
| Skills Bootcamps Wave 5 | 2,501 |
| Local Transport Fund (LTF) | 1,376 |
| Bus Service Operator Grant (BSOG) | 1,148 |
| Mayoral Capacity Fund | 1,000 |
| Made Smarter Adoption Programme | 1,100 |
| Adult Skills Fund Level 3 | 1,089 |
| Western Gateway | 295 |
| Local Electric Vehicle Infrastructure Capability Fund | 304 |
| Culture West Arts Council | 354 |
| Active Travel Tranche 5 | 130 |
| **Total** | **109,989** |

**Investment Fund:** £15m per annum awarded as part of the devolution deal when setting up the West of England Combined Authority to deliver sustainable long-term growth.

**Bus Service Improvement Plan:** The Bus Service Improvement Plan sets out to make the bus network more attractive with simpler, cheaper fares, more turn-up and go services, easier access to those living away from core routes and more reliable by addressing the driver shortage.

**Adult Skills Fund Core:** Formally devolved to the Mayoral Combined Authority with effect from the 2019/20 academic year with the responsibility for the adult education funding in Bath & North East Somerset, Bristol and South Gloucestershire.

**Skills Bootcamp Wave 6:** Developed in partnership with employers and providers to help fill local skills gaps and vacancies. Skills boot camps offer adult 19 plus tailored training designed in partnership with employers and training providers to respond to skills shortage in high demand sectors in our region.

**City Region Sustainable Transport Settlement (Revenue):** £540m was confirmed for the West of England Combined Authority region in late 2021. This capital funding covers a five-year period commenced in 2022/23. In order to adequately prepare for the delivery of this major transport investment, the government awarded £14.3m of revenue funding which will also be utilised as part of the five-year settlement.

**Supported Employment (Connect to work):** This is a work programme designed to support individuals with disabilities, health conditions, or complex barriers to employment in finding and sustaining meaningful work opportunities.

**Youth Guarantee Trailblazers Pilot:** It aims to ensure that all young people, typically those aged 16-24, are provided with opportunities for education, training, or employment, particularly in regions with higher rates of youth unemployment. The Trailblazer program serves as a pilot or demonstration project where West of England Combined Region can help test different approaches to tackling youth unemployment and underemployment.

**UK Shared Prosperity Fund (UKSPF):** This is a three-year fund with a focus on place and local business interventions.

**Skills Bootcamps Wave 5:** Developed in partnership with employers and providers to help fill local skills gaps and vacancies. Skills boot camps offer adults aged 19 plus tailored training designed in partnership with employers and training providers to respond to skills shortage in high demand sectors in our region.

**Local Transport Fund (LTF):** The purpose of LTF is the continued provision of bus services which require local authority support, including tendered bus services.

**Bus Service Operator Grant (BSOG):** Grant from the Department for Transport (DfT) in relation to supported bus services.

**Mayoral Capacity Fund:** Government Grant to support the running costs of the Mayoral Combined Authority.

**Made Smarter Adoption Programme:** Funding from Department for Business and Trade (DBT) for small and medium sized enterprises (SMEs) to help them modernise, go digital and create new jobs.

**Adult Skills Fund Level 3:** Formally devolved to the MCA with effect from the 2019/20 academic year with the responsibility for the adult education funding in Bath & North East Somerset, Bristol and South Gloucestershire.

**Western Gateway:** Funded by the Department for Transport and an annual contribution of £20K from each of the Authorities and the West of England MCA. The MCA is the accountable body, with the Western Gateway guided by a board formed of one councillor from each of the Constituent Authorities (8 councils plus the West of England MCA).

**Local Electric Vehicle Infrastructure Capability Fund:** The Fund supports capacity and capability in local authorities to create local Electric Vehicles infrastructure planning, delivery and strategies.

**Culture West Arts Council:** to support the development of creative industries in the region. The two-year programme will provide funding for training, networking, and other opportunities for creative professionals.

**Active Travel Tranche 5:** Active Travel Fund aim is to help deliver an environment that is safe for both walking and cycling in the region.

64. The Grant Funding line includes Investment Fund approvals, with details of these approvals outlined in Appendix 4.

65. **Transport Levy:** The Transport Levy has received an agreed £345K uplift for 2025/26, with an additional £440K underwrite provision available to be accessed only if necessary. The transport levy is made up of contributions from Bristol City Council (BCC), Bath and North East Somerset (BANES) and South Gloucestershire Council (SGC) as well as a contribution from North Somerset Council (NSC) for costs incurred in their region.

### Figure 6: Transport Levy Funding Split

| Authority | 2024/25 £000s | 2025/26 £000s | Movement £000s | % |
|---|---|---|---|---|
| Bath & North East Somerset | (5,194) | (5,454) | (260) | 5% |
| Bristol City Council | (10,235) | (10,559) | (324) | 3% |
| South Gloucestershire Council | (4,014) | (4,215) | (201) | 5% |
| First Group | (25) | (25) | - | 0% |
| | | | | |
| **Total Transport Levy*** | **(19,468)** | **(20,253)** | **(785)** | **4%** |
| | | | | |
| North Somerset Council | (1,958) | (2,142) | (184) | 9% |
| | | | | |
| **Total** | **(21,426)** | **(22,395)** | **(969)** | **5%** |

*£345K agreed increase, with an additional £440K underwritten provision available for use only if required and cannot be accessed otherwise.*

66. The Transport Levy is forecasting a balanced position for 2025/26 after the use of reserves.

67. Operating the Transport Levy continues to be significantly impacted by inflationary pressures. Despite these pressures, the organisation has managed resources efficiently to sustain service levels under the current levy structure. However, maintaining these levels will become increasingly challenging within the existing funding envelope, particularly with substantial cost increases anticipated for service renewals in the 2026/27 financial year. Collaborative planning with UAs will be critical to addressing these long-term pressures.

68. A full breakdown of the proposed spend of the Transport Levy and use of reserves excluding NSC can be found in Appendix 5.

69. **Business Rates Retention:** The West of England Business Rates Retention pilot scheme has been extended for another year, allowing the organisation to retain 5% of total business rates growth in the region. Estimated growth is based on NNDR1 (Non-Domestic Rating Return) submissions, which the Unitary Authority partners are required to provide by February each year.

70. The MCA projects a retained net position of £2.2m for 2025/26, an increase from £998k in the prior year's budget, reflecting anticipated business rates growth. There is continued uncertainty around the long-term future of the pilot scheme and currently there is no confirmation of any extension beyond 2025/26 or whether the scheme will be re-baselined, which could have an adverse impact on future income.

### Figure 7: Net Business Rates Retained

| Net Business Rates Retained | 2024/25 £000s | 2025/26 £000s | Movement £000s | % |
|---|---|---|---|---|
| Business Rates Retention | 998 | 2,200 | 1,202 | 120% |

71. **Contributions and Fees & Charges:** This category includes funding received for additional services provided by the organisation on behalf of various partners, such as the NSC Transport Levy contribution, S106 Bus Route Funding, and Bath Park & Ride operations. A full breakdown of contributions is provided in Appendix 6.

72. **Sales and commissions:** This income relates to the Revenue Share agreement within the E-Scooter contract deployed across the region. The income expected in 2025/26 is lower than in 2024/25 to reflect a downturn in anticipated future performance against the contract.

73. **Treasury:** Treasury income comes from investments that have significantly outperformed budgeted levels over the last two financial years, driven by high cash balances and higher interest rates from approved property and mixed asset fund investments. Although strong returns are forecast for 2025/26, income is expected to decline as capital construction costs are drawn down for the approved Capital Programme and lower anticipated interest rates. Further details are available in the Treasury Management Strategy in Appendix 14.

74. **Recharges:** This represents the MCA Investment Fund contribution towards Mayoral Office and Election Costs (£0.7m) and the organisation subsidising the previous LEP activities (£0.4m) now contributions from central government and the Unitary Authorities have ended.

**Capital Budget**

75. The table below outlines key areas of planned capital expenditure for the year. The programme is heavily weighted toward Transport, reflecting substantial funding secured from the Department for Transport (DfT).

76. The expenditure budget includes an optimism bias factor to better align with recent delivery performance. Project forecasts prepared well in advance of delivery often underestimate the actual timing of costs incurred. This may be because of delays in the governance approval process, competition over common resources including staffing, changes in prioritisation between schemes and the reliance on partner organisations to deliver and the impact on the MCA capital programme of the partners' own capital slippage profile. This is on top of other delays commonly experienced during the course of a multi-period project or programme which may include factors such as delays in the planning process, tendering process and the (non) availability of resources and materials to deliver the scheme. The mismatch between the anticipated profile of capital expenditure and the timing of actual cost incurred is a form of 'optimism bias'. To address this, the HM Treasury Green Book recommends applying evidence-based optimism bias adjustments to ensure more realistic and robust financial planning. Optimism bias adjustments account for the potential risks and uncertainties that can arise during project delivery.

77. We have applied a 25% adjustment to our project estimates to reflect these challenges. This has been based on an assessment of recent years' experience of slippage in our and our partners capital programmes. By following this

recommendation, we aim to safeguard public funds, promote transparency, and set realistic expectations about costs, timelines, and the benefits our projects will deliver.

**Figure 8: Capital Budget Expenditure by Directorate**

| Capital Budget | 2024/25 £000s | 2025/26 £000s | Movement £000s | % |
|---|---|---|---|---|
| Economy & Skills | 1,253 | 1,012 | (241) | (19%) |
| Environment | 1,584 | 4,655 | 3,071 | 194% |
| Transport | 53,038 | 139,370 | 86,332 | 163% |
| Grant Management | 57,773 | 61,118 | 3,345 | 6% |
| **Delivery Sub Total** | **113,648** | **206,155** | **92,507** | **81%** |
| Law & Governance | - | 824 | 824 | 100% |
| **Corporate Sub Total** | **-** | **824** | **824** | **100%** |
| **Total Expenditure** | **113,648** | **206,979** | **93,331** | **82%** |

78. **Economy & Skills:** The UK Shared Prosperity Fund has been awarded again for 2025/26, providing essential support for economic growth initiatives. However, the absence of funding from the Rural England Prosperity Fund for 2025/26 has resulted in an overall reduction compared to the previous year.

79. **Environment:** The Environment capital projects advance low-carbon solutions, nature recovery, and sustainability across the region. Key initiatives include:

- Heat from Mines: Harnessing geothermal energy from abandoned mines, reducing emissions and providing a low-carbon heating source.
- Low Carbon Challenge Grants: Funding projects that promote renewable energy, energy efficiency, and sustainable infrastructure through the Regional Low Carbon Delivery program.
- Green Recovery Fund: Supporting biodiversity initiatives like Pollinator Pathways, Somer Valley, and Capricorn Quay to restore ecosystems, enhance habitats, and improve environmental health.
- Net Zero Investment: £10m of capital from the Investment Fund is being invested from April 2025 through the Green Growth West Impact Fund and we anticipate £4m of capital will be spent in 2025/26.

These projects collectively tackle climate change, support biodiversity, and promote sustainable, healthy communities.

80. **Transport:** Expenditure has grown significantly, driven primarily by the ramp-up of CRSTS projects as they transition from design into the more costly delivery phases. Additionally, significant expenditure is being incurred in the Future Transport Zones programme, which concludes in December 2025. Further investments are being made in Active Travel projects outside of CRSTS, supporting sustainable mobility across the region.

81. **Grant Management:** The capital programme has seen significant growth, driven by a diverse range of initiatives across the region. Key areas of focus include highways maintenance, urban regeneration initiatives, and cutting-edge projects such as the Quantum Technology Innovation Centre (QTIC+).

82. **Law & Governance:** Planned expenditure of £824k is focused on IT and infrastructure upgrades including:

- Hardware Refresh and ICT Projects: Enhancing IT services through transition and rationalisation.
- Cybersecurity Initiatives: Implementing phase 2 of the cyber improvement programme.
- Hybrid room fit-outs: supporting flexible working and collaboration.
- Aligning our building with Net Carbon Ambitions: Installing solar panels, EV charge point and replacing gas boiler with immersion heaters.

### Capital Funding Allocation

83. The delivery programme is fully funded from grants for 2025/26. Full details can be found in Appendix 8.

**Figure 9: Capital Budget Funding Sources**

| Funded by | 2024/25 £000s | 2025/26 £000s | Movement £000s | % |
|---|---|---|---|---|
| Grant Funding | 113,287 | 206,155 | 92,868 | 82% |
| Sales & Commissions | 361 | - | (361) | (100%) |
| **Total Funding** | **113,648** | **206,155** | **92,507** | **81%** |

84. The Grant Funding line includes Investment Fund approvals, with details of these approvals outlined in Appendix 9.

85. As part of the CRSTS programme, £125m has been allocated for Highway Maintenance, with £25m per year to be delivered by our Unitary Authority partners. The Department for Transport (DfT) has allowed regional flexibility in determining the allocation of these funds, empowering us to agree on the distribution based on local priorities.

86. This report seeks approval for the proposed split of Highway Maintenance funds across Unitary Authorities, as detailed below.

**Figure 10: Highway Maintenance Split**

| Highway Maintenance | 2024/25 £000s | 2025/26 £000s | Split % |
|---|---|---|---|
| BCC | 8,772 | 8,772 | 35% |
| SGC | 9,231 | 9,231 | 37% |
| BANES | 6,997 | 6,997 | 28% |
| | | | |
| **Total Yearly Allocation** | **25,000** | **25,000** | **100%** |

87. As announced by the DfT in December 2024 there will be an additional £6.733m to support Highways Maintenance in 2025/26. This report seeks the approval to use the same split as the original highway funding as set out in the table below.

**Figure 11: Additional Highway Funding Split (Pothole)**

| Additional Highway Funding | 2024/25 £000s | 2025/26 £000s | Split % |
|---|---|---|---|
| BCC | - | 2,362 | 35% |
| SGC | - | 2,486 | 37% |
| BANES | - | 1,884 | 28% |
| | | | |
| **Total Yearly Allocation** | **-** | **6,733** | **100%** |

## Capital Strategy

88. The 2025/26 Capital strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

89. The Full Capital Strategy is shown at Appendix 10 along with the Treasury Management Strategy (Appendix 14), non-Treasury Investment Strategy (Appendix 15) and the Minimum Revenue Provision Statement (Appendix 16).

90. Each of these 2025/26 documents were reviewed by the Audit Committee on 16th December 2024. The Audit Committee recommended that they be formally approved by the Committee.

## Medium Term Financial Strategy (MTFS)

91. The budget for 2025/26 achieves a balanced position over the MTFS period.

### Figure 12: Medium Term Financial Strategy

| Medium Term Financial Strategy | 2024/25 £000s | 2025/26 £000s | 2026/27 £000s | 2027/28 £000s | 2028/29 £000s | Total £000s |
|---|---|---|---|---|---|---|
| Net Expenditure | 138,704 | 173,889 | 168,238 | 168,674 | 168,483 | 817,989 |
| MCA Revenue Funding | (138,704) | (173,889) | (168,238) | (168,674) | (168,483) | (817,989) |
| Surplus / (Deficit) | - | - | - | - | - | - |

92. The MTFS assumes that grant revenue funding levels will remain consistent with 2025/26. However, accurately projecting future grant funding remains challenging due to the short-term and cyclical nature of Government revenue grants. This creates inherent uncertainty in medium-term financial planning. In the event of a reduction in grant funding, it is assumed that corresponding cost reductions would be implemented to mitigate the impact on the overall budget position.

93. Undertaking some sensitivity analysis to forecast the impact of changes to grant revenue shows that the organisational vulnerability to changes is not particularly high as a large element of core cost should be able to flex alongside grant funding.

### Figure 13: Grant Funding Sensitivity Analysis and Impact on MTFS Surplus/(Deficit)

| Change in Revenue Grant Funding % | Change in Grant Funding £000s | Single year Impact £000s | Impact Over MTFS £000s |
|---|---|---|---|
| -5% | (6,545) | (113) | (339) |
| -10% | (13,091) | (226) | (678) |
| -15% | (19,636) | (339) | (1,018) |
| 5% | 6,545 | 141 | 422 |
| 10% | 13,091 | 281 | 843 |
| 15% | 19,636 | 422 | 1,265 |

94. The following key assumptions have been made as part of the MTFS:

- Business Rates Retention Pilot: It is assumed that the business rates retention pilot will not be extended beyond 2025/26, as no confirmation or indication of its continuation has been provided by central government.
- Local Enterprise Partnership (LEP) Activities: From the 2026/27 financial year, the organisation will fully fund remaining LEP activities, with no financial contributions expected from the Unitary Authorities or central government.
- Treasury Management Income: Forecasts are based on projected organisational cashflows and the latest estimates for future interest rates.

- Inflationary Adjustments: Inflation has been appropriately applied to supplies, services, and staffing costs over the period, ensuring the budget reflects anticipated cost pressures.

95. To achieve a balanced position, general reserves are assumed to be utilised to cover any deficits. Transfers to general reserves in 2025/26 will bring them in line with target levels for the first time. However, reserves will be depleted in subsequent years leaving the balance approximately £2.1m below recommended levels at the end of the MTFS period.

**Figure 14: General Reserves over the MTFS period compared to Recommended Levels**

| General Reserves | 2024/25 £000s | 2025/26 £000s | 2026/27 £000s | 2027/28 £000s | 2028/29 £000s |
|---|---|---|---|---|---|
| Opening Balance - General Reserves | 4,776 | 5,968 | 8,694 | 7,597 | 7,100 |
| Proposed addition / (drawdown) | 1,192 | 2,726 | (1,097) | (497) | (521) |
| **Closing Balance - General Reserves** | **5,968** | **8,694** | **7,597** | **7,100** | **6,579** |
| | | | | | |
| **Recommended General Reserves Level** | **6,935** | **8,694** | **8,412** | **8,434** | **8,424** |

96. As part of the overall budget strategy, a focus on efficiency savings and business transformation is expected to play a key role in managing medium-term budget deficits. This includes streamlining processes, improving productivity, and leveraging technology to achieve long-term operational savings. These savings are not reflected above, so should allow an improvement in the medium-term reserves position.

97. No assumption has so far been made with regards to any changes in future funding and associated responsibilities which may result from further devolution as set out in HM Government's White paper on English devolution as published in December 2024.

## Capital Programme

98. The Capital Programme is summarised in the table below, full details of the Capital Programme pre-application of the optimism bias factor can be found in Appendix 11.

99. An optimism bias adjustment is applied to forecasting to better align to recent delivery performance.

**Figure 15: Capital Programme Summary**

| Capital Programme | 2024/25 (£,000's) | 2025/26 (£,000's) | 2026/27 (£,000's) | 2027/28 (£,000's) | 2028/29 (£,000's) | Total (£,000's) |
|---|---|---|---|---|---|---|
| Economy & Skills | 1,253 | 1,012 | 337 | - | - | 2,602 |
| Environment | 1,584 | 4,655 | 4,346 | 2,500 | 2,000 | 15,085 |
| Transport | 53,038 | 139,370 | 240,807 | 3,864 | 4,543 | 441,622 |
| Grant Management | 57,773 | 61,118 | 39,638 | 25,000 | 25,000 | 208,529 |
| **Delivery Sub Total** | **113,648** | **206,155** | **285,128** | **31,364** | **31,543** | **667,838** |
| Law & Governance | - | 824 | - | - | - | 824 |
| **Corporate Sub Total** | - | **824** | - | - | - | **824** |
| **Total Expenditure** | **113,648** | **206,979** | **285,128** | **31,364** | **31,543** | **668,662** |

100. The drop-off in the Capital Programme from 2027/28 corresponds with the conclusion of the City Region Sustainable Transport Settlement (CRSTS) funding cycle, which provided £540m to the region over five years. While no direct award has been confirmed, the organisation anticipates receiving up to £752m as part of the CRSTS 2 allocation, as indicated by the Government on 4th October 2023. Further details are available via the below link:

*https://www.gov.uk/government/publications/city-region-sustainable-transport-settlements-2/network-north-crsts2-indicative-allocations-4-october-2023*

## Mayoral Budget & Forecast

101. The Mayoral Budget relates to those functions that fall under the specific responsibility of the Mayor in accordance with the West of England MCA Order 2017.

102. In line with the Combined Authorities (Finance) Order 2017, the Mayor is required to maintain a Mayor's General Fund to account for receipts and liabilities incurred through the exercise of general functions.

103. The budget-setting process for the Mayor's general functions is also governed by the Combined Authorities (Finance) Order 2017.

104. The proposed 2025/26 budget includes costs associated with the Mayor, office expenses, and support services. It also accounts for an annual contribution toward the costs of the four-yearly West of England Mayoral Combined Authority election.

105. The proposed 2025/26 Mayoral running costs are detailed below, along with future year forecasts which reflect inflationary and anticipated pay increases.

106. The costs for the upcoming Mayoral election have exceeded initial expectations.

107. The Local Authority Costs and Combined Authority Returning Officer (CARO) fees are set by the Cabinet Office and have been based on the Police and Crime Commissioner (PCC) election which was held in May 2024. The election that took place in 2021 was a four-way combined election process and incorporated a number of efficiencies for the mayoral election. The costs proposed are fully audited, and a reconciliation will be completed in line with election rules. Details in Appendix 18.

108. The MCA proposes to cover the shortfall of £1.898m for 2025/26 from available reserves.

109. In response to the increased election costs anticipated in 2025/26, this report recommends allocating an additional £1.23m from the Investment Fund headroom across 2026/27 and 2027/28 to bolster the election reserve and strengthen the provision for future elections, as detailed in figure 16.

**Figure 16: Mayoral Budget & Forecast**

| Mayoral Income & Expenditure | 2024/25 £000s | 2025/26 £000s | 2026/27 £000s | 2027/28 £000s | 2028/29 £000s | Total £000s |
|---|---|---|---|---|---|---|
| Total Staff Costs | 255 | 273 | 278 | 284 | 290 | 1,380 |
| Transport | 5 | 5 | 5 | 5 | 5 | 25 |
| Supplies & Services | 57 | 57 | 57 | 57 | 57 | 285 |
| Overhead | 24 | 24 | 24 | 24 | 24 | 120 |
| **Mayoral Running Costs** | **341** | **359** | **364** | **370** | **376** | **1,810** |
| Allocated IF Funding | 685 | 693 | 701 | 709 | - | 2,788 |
| Additional IF Allocation | - | - | 616 | 614 | - | 1,230 |
| **Total Funding Subject to Approval** | **685** | **693** | **1,317** | **1,323** | **-** | **4,018** |
| **Surplus / (Deficit)** | **344** | **334** | **953** | **953** | **(376)** | **2,208** |
| Election Costs | - | 3,388 | - | - | - | 3,388 |
| **Surplus / (Deficit) Moved to Reserve** | **344** | **(3,054)** | **953** | **953** | **(376)** | **(1,180)** |
| **Opening Balance Election Reserve** | **812** | **3,054** | **-** | **953** | **1,906** | |
| Reserves Movement** | 2,242 | (3,054) | 953 | 953 | (376) | |
| **Closing Balance Election Reserve** | **3,054** | **-** | **953** | **1,906** | **1,530** | |

**2024/25 Reserve Movement includes £344K surplus plus additional £1.898m contribution from the MCA

## Forecast Outturn Position 2024/25

110. The organisation's estimated revenue forecast position for 2024/25 is detailed in Appendix 12, based on actuals up to December 2024. The current forecast projects a £1.192m budget surplus. This has been substantially driven by greater than budgeted treasury management returns.

## Setting a Balanced Budget

111. Section 73 of the Local Government Act 1985 requires the Combined Authority to make arrangements for the proper administration of its financial affairs. The S73 Officer is appointed as Chief Finance Officer (CFO) to have responsibility for those arrangements.

112. Section 114 of the Local Government Act 1988 places a duty on the CFO to report certain matters to the Authority. Paragraph 3 of Section 114 requires the CFO to make a report to the Authority if they believe that the expenditure of the Authority in a financial year is likely to exceed the resources available to it to meet that expenditure.

## Section 25 Statement

113. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Section 73 Officer) of a billing or major precepting authority to report to the

Mayoral Combined Authority on the following matters:

- the robustness of the estimates made for the purposes of the calculations, and
- the adequacy of the proposed financial reserves.

114. The Section 73 Officer considers the budget to be robust and based on appropriate and reasonable assumptions, estimates and calculations.

115. The Committee has set a target balance for General Reserves as 5% of Budgeted Revenue Expenditure. We are committed to increasing our reserves across the MTFS period to provide adequate financial security for the organisation and to meet the recommendations set out by Grant Thornton in the Value for Money Interim Report for 2022-23 as presented to the Audit Committee in December 2023.

116. It is essential the organisation is appropriately resourced and that value for money for the taxpayer is continually tested and reported to committee on an ongoing basis.

**Alternative Options Considered**

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

**Consultation and Engagement**

118. Consultation has been carried out with the Chief Executives and Section 151 Officers of West of England.

119. The Audit Committee has been fully engaged, and consulted, with regard to informing the 2025/26 Treasury Management Strategy, Capital Strategy, Non-Financial Investment Strategy and Minimum Revenue Provision Statement.

**Key Risks**

120. The risk and governance arrangements for the organisation are assessed and reported by our external auditors. Grant Thornton was appointed as our External Auditor under the Public Sector Audit Appointments, (PSAA), process for the Statements of Accounts audit period from 2023/24 to 2027/28.

121. The Capital Strategy report is a critical component of the organisation's governance and risk management framework. Members will be aware that while investment returns are directly influenced by risk levels, other factors also impact capital financing budgets. The Treasury Management Strategy prioritises minimising risk to safeguard public resources.

122. The Medium-Term Financial Strategy indicates a balanced position across the period.

123. We have seen significant investment income upsides in 2024/25 as cash

balances were high pending delivery phases of major project schemes, and due to higher interest rates. However, both factors are unlikely to be sustained in 2025/26 or over the MTFS period.

124. Inflationary pressures, particularly pay awards, are misaligned with short-term, flat-cashed government funding streams, which support core operations. Additionally, most project funding remains short-term in nature. Continued lobbying for increased, inflation-adjusted, and stable core funding will be critical to address these challenges.

125. The organisation has been building a General Fund Reserve, in line with recommended best practice, to manage / mitigate any future financial risks. However, the reserve remains at a relatively low level being circa 5% of the 2025/26 revenue budget.

126. The specific financial risks that we currently face include:

- Transport Service Delivery: Financial pressures on bus operators persist due to reduced patronage and income recovery post-Covid, posing a risk to service continuity.
- Labour Market Pressures: A tight labour market, rising wage costs, and public sector pay that remains below inflation exacerbate recruitment and retention challenges.
- Business Rates Retention: Continued uncertainty around income levels and future stability of this funding source.
- Abortive Capital Costs: The risk of capital costs being reclassified as revenue expenses, impacting the revenue budget.
- Resource Constraints: Failure to secure necessary and proportionate resource increases risks stalling investment, leading to significant economic and reputational consequences for the region.

127. Should any of these financial risks materialise in 2025/26, we would need to develop an action plan looking for efficiencies and savings to accompany the structured use of financial reserves.

**Equality, Diversity and Inclusion Implications**

128. **Public Sector Equality Duty (PSED)**
The Combined Authority acknowledges its obligations under the Public Sector Equality Duty (PSED). EDI considerations will be embedded into individual projects or initiatives to ensure that potential impacts on diverse groups are assessed and mitigated. This approach aims to ensure compliance with legal requirements and promote fairness in the delivery of services.

- **Workforce Recruitment and Retention**
  Challenges around recruitment and retention, partly linked to below-inflation pay levels, may affect the Mayoral Combined Authority's ability to attract and retain a diverse workforce. Addressing these challenges through competitive pay structures and inclusive employment practices is

critical to achieving a representative workforce that reflects the community it serves.

- **Skills Development and Organisational Agility**
  The Mayoral Combined Authority's focus on workforce agility and skills development presents an opportunity to create inclusive training and career progression pathways. This ensures that all employees, regardless of background, have equitable access to opportunities for professional growth and advancement.

- **Cultural Transformation**
  The emphasis on fostering a culture of innovation and engagement aligns with EDI objectives by promoting an inclusive workplace environment. These initiatives aim to empower all employees to contribute meaningfully to the organisation's success.

- **Resource Allocation and Representation**
  In the planning and delivery of projects, the Mayoral Combined Authority is committed to ensuring resources are allocated equitably. Efforts will also focus on addressing any underrepresentation in decision-making processes, ensuring all voices are heard and valued.

**Climate Change & Nature Recovery Implications**

129. Much of the approved investment on 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.

130. A critical piece of work on the organisation's Carbon Management Plan is now being implemented to ensure that we can quantify the scale of impact that our projects have towards tackling the causes of climate change, as well as their role in minimising the impacts that climate change will bring.

131. The Climate and Ecological Strategy and Action Plan has been considered in the production of this report. Any points of relevance have been added to this report when considered appropriate.

**Finance Implications**

132. The financial implications are contained in the specific budget proposals as set out throughout this report.

133. Figures in this report do not reflect any forecast slippage of projects and workstreams from 2024/25, with any out-turn variations being added to the 2025/26 budget in the monitoring reports to Committee in 2025/26.

134. The Local Government Act 2003 requires the Chief Finance Officer (Section 73 Officer) to report to the Metro Mayor and Committee members on the robustness of the estimates made for the purposes of calculations and the adequacy of the

proposed financial reserves. The Metro Mayor and Committee members have a statutory duty to have regard to the CFO's report when making decisions about the calculations.

**Legal Implications**

135. Section 4(1)(b) of the Local Government Act 1989 requires relevant Authorities provide their Heads of Paid Service with such staff, accommodation and other resources which are, in the opinion of the Head of Paid Service, sufficient to allow the duties of that role to be performed. Section 5(1)(b) makes identical provision in respect of the duties of the Monitoring Officer and Section 114(7) of the Local Government Finance Act 1988 does the same in respect of the obligations of the Section 73 Officer. The budget proposed makes the necessary provision to meet these duties for the 2025/26 financial year without which the Authority is at risk of breaching the statutory duties in the relevant sections of the aforementioned acts.

136. As a levying body for transport functions, Regulation 5(1) of the Transport Levying Bodies Regulations 1992 require levies to be issued, for the 2025/26 financial year before 15 February 2025. It follows that approval of the budget agreeing the level of any levy in good time prior to 15 February 2025 is required in order to comply with that statutory obligation. A 31 January 2025 decision of the Committee ensures compliance with that requirement.

137. Similarly, Section 30(6) of the Local Government Finance Act 1992 requires "billing authorities" (for the purpose of council tax collection) to have settled, for the 2025/26 financial year, certain budgetary matters before 11 March 2025. In order to comply with these obligations, the constituent Unitary Authorities will need certainty in respect of the organisation's approved budget in good time before 11 March 2025. A 31 January 2025 decision of the Committee ensures compliance with that requirement.

138. Failing to set a balanced budget in good time to meet these obligations may provide a basis for judicial review and/or intervention by the Secretary of State utilising Best Value powers under the Local Government Act 1999 on the basis set out in *R v Hackney LBC v Fleming [1986] RVR 182*.

139. The Budget proposals set out in this Report have been developed in accordance with appropriate Local Government legislation and regulations, including the specific funding and related governance requirements set out in:

a) Part 2 of the Local Government Act 2003 (Financial Administration);

b) The West of England Combined Authority Order 2017; and

c) The Combined Authorities (Finance) Order 2017.

**Human Resources Implications**

140. **Workforce Planning and Alignment**: The organisation's priorities and potential legislative changes highlight the need for robust workforce planning to ensure staffing resources are optimised without compromising service delivery. This will require strategic alignment of skills and roles to evolving demands.

141. **Recruitment and Retention Challenges**: Ongoing labour market pressures, below-inflation public sector pay, and rising wage costs could exacerbate recruitment and retention difficulties. These pressures may lead to increased competition for talent and potential impacts on staff morale.

142. **Skills Development and Capability Building**: Expanding roles and responsibilities, particularly those associated with legislative changes and grant-funded programs, may create a need for enhanced training, upskilling of existing staff, and targeted recruitment for specialised expertise.

143. **Organisational Agility and Culture**: The integration of improvement initiatives and a focus on reducing interim reliance underscores the importance of fostering a culture of adaptability, inclusion, and innovation. This cultural shift will be key to maintaining workforce engagement and alignment with organisational goals.

144. **Performance Management and Leadership Accountability**: Improved systems for performance management will enhance service delivery and accountability across teams. Strengthened leadership accountability is essential to drive progress and embed consistent standards.

145. **Impact of Budgetary Restraints**: Budgetary pressures, including the £1.7m reductions for the organisational improvement programme, may place strain on staffing levels and development budgets, potentially affecting employee retention and overall workforce satisfaction.

146. **Compliance and Policy Updates**: Anticipated legislative changes will necessitate updates to HR policies, procedures, and contracts to align with new legal and operational frameworks, ensuring compliance across the organisation.

147. **HR's Role in Strategic Growth**: The growing portfolio of regional priorities, particularly in areas such as Economy & Skills and transport, will require HR to support staffing expansions and align workforce capabilities with long-term strategic objectives.

148. **Resource and Capacity Risks**: Resource constraints could impact HR's ability to effectively support organisational goals, with risks of delays in initiatives and challenges in maintaining service quality. HR implications include managing these risks while maintaining operational effectiveness.

149. **Monitoring and Evaluation of HR Efforts**: A centrally managed Monitoring and Evaluation framework will require HR to assess the impact of organisational improvement activities and incorporate insights into workforce strategies and planning.

### Land/property Implications

150. The organisation does not currently own any land or material assets. The office lease at 70 Redcliff Street is accounted for within this budget. There is an additional property, Davis House, that is used solely for the operations of the Transport Levy activities. This property was transferred over as part of the centralisation of bus operations and the lease has been extended in 2024/25.

151. Where 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.

**Commercial Implications**

152. There are no specific commercial requirements or concerns to comment on for this report. Any subsequent commercial activity as a result of this paper will be approved through the Commercial Board.

**Appendices**

Appendix 1: Organisational Improvements Funding
Appendix 2: Grant Funding
Appendix 3: Revenue Budget by Expenditure Type
Appendix 4: Revenue Investment Fund Programme
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Appendix 6: Contributions, Fees & Charges
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Appendix 16: Minimum Revenue Provision Statement 2025/26
Appendix 17: Report of the Independent Remuneration Panel
Appendix 18: Election Costs Breakdown

**Background papers:**

Budget 2024/25 and Medium-Term Financial Strategy – MCA Committee 26 January 2024.

Budget monitoring reports as presented to each meeting of the Committee.

West of England MCA Committees – Investment Fund Update Reports to Committee throughout 2024

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## Appendix 1: Organisational Improvements Funding

| Area of Challenge | Targeted Savings £000s |
|---|---|
| Increase of Vacancy Factor | (418) |
| Reduction to Core Supplies & Services | (600) |
| Management Challenge | (682) |
| **Planned Savings** | (1,700) |

**Increase of the Vacancy Factor:** Sets a management challenge of an additional 4% vacancy factor applied to core funded staff, this has already been factored into the budgets for each Directorate with the saving moved to the Organisational Improvement Programme.

**Reduction to Core Supplies & Services:** Sets a management challenge to identify potential savings across current core expenditure on Supplies & Services.

**Management Challenge:** Sets a management challenge to identify further potential savings across core expenditure or staffing.

## Appendix 2: Grant Funding

| MCA Grant Funding | 2024/25 £000s | 2025/26 £000s | Movement £000s | % |
|---|---|---|---|---|
| Investment Fund | 22,340 | 28,561 | 6,221 | 28% |
| Bus Service Improvement Plan | 21,941 | 27,799 | 5,858 | 27% |
| Adult Skills Fund Core | 16,395 | 15,981 | (414) | (3%) |
| Skills Bootcamp Wave 6 | 6,919 | 12,685 | 5,766 | 83% |
| City Region Sustainable Transport Settlement (Revenue) | 3,961 | 2,648 | (1,313) | (33%) |
| Supported Employment | - | 5,300 | 5,300 | 100% |
| Youth Guarantee Trailblazers Pilot | - | 5,000 | 5,000 | 100% |
| UK Shared Prosperity Fund (UKSPF) | 4,697 | 2,717 | (1,980) | (42%) |
| Skills Bootcamps Wave 5 | - | 2,501 | 2,501 | 100% |
| Bus Service Operator Grant (BSOG) | 1,148 | 1,148 | - | 0% |
| Mayoral Capacity Fund | 1,000 | 1,000 | - | 0% |
| Multiply | 1,531 | - | (1,531) | (100%) |
| Local Transport Fund (LTF) | - | 1,376 | 1,376 | 100% |
| Made Smarter Adoption Programme | - | 1,100 | 1,100 | 100% |
| Adult Skills Fund Level 3 | - | 1,089 | 1,089 | 100% |
| Western Gateway | 625 | 295 | (330) | (53%) |
| Local Electric Vehicle Infrastructure Capability Fund | 282 | 304 | 22 | 8% |
| Culture West Arts Council | - | 354 | 354 | 100% |
| Woodland Creation Accelerator Fund | 150 | - | (150) | (100%) |
| Active Travel Tranche 5 | - | 130 | 130 | 100% |
| Local Growth Capacity Support | 124 | - | (124) | (100%) |
| Local Nature Recovery Strategies Preparation | 107 | - | (107) | (100%) |
| Local Industrial Decarbonisation Plan | 96 | - | (96) | (100%) |
| One Word Project | 77 | - | (77) | (100%) |
| **Total** | **81,393** | **109,989** | **28,596** | **35%** |

## Appendix 3: Revenue Budget by Expenditure Type

| Expenditure Category | 2024/25 £000s | 2025/26 £000s | Movement £000s | % |
|---|---|---|---|---|
| Employee Costs | 22,249 | 23,457 | 1,208 | 5% |
| Premises Costs | 1,199 | 1,433 | 234 | 20% |
| Supplies and Services | 14,321 | 31,601 | 17,280 | 121% |
| Third-Party Payments | 103,619 | 117,904 | 14,285 | 14% |
| Minimum Revenue Provision | 361 | 366 | 6 | 2% |
| Net Transfers to / (from) Reserves | 3,246 | 5,746 | 2,499 | 77% |
| **Total Expenditure** | **144,995** | **180,507** | **35,512** | **24%** |
| Recharge Income | (5,390) | (5,660) | (270) | 5% |
| Employee Costs Recharge Income | (901) | (958) | (57) | 6% |
| **Net Expenditure** | **138,704** | **173,889** | **35,185** | **25%** |
| **MCA Revenue Funding** | **(138,704)** | **(173,889)** | **(35,186)** | **25%** |
| **Surplus / (Deficit)** | **-** | **-** | **-** | **0%** |

# Appendix 4: Revenue Investment Fund Programme

| Directorate | Project Name | 2024/25 £000s | 2025/26 £000s | 2026/27 £000s | 2027/28 £000s | 2028/29 £000s | Total £000s |
|---|---|---|---|---|---|---|---|
| Economy & Skills | Productivity Challenge | 799 | 816 | 77 | - | - | 1,691 |
| Economy & Skills | I4R+O BIF (non-ERDF) | 160 | 1,082 | - | - | - | 1,242 |
| Economy & Skills | IP for Growth | 100 | 209 | - | - | - | 309 |
| Economy & Skills | I4R+O Made Smarter/Supply Chain | 15 | 345 | - | - | - | 359 |
| Economy & Skills | I4R+O Staffing | 263 | - | - | - | - | 263 |
| Economy & Skills | Culture - Creative Recovery Programme | 188 | - | - | - | - | 188 |
| Economy & Skills | Cultural Compact Start-Up Investment | 55 | 271 | 416 | - | - | 742 |
| Economy & Skills | Culture West - Arts | - | 550 | 550 | 550 | - | 1,650 |
| Economy & Skills | Culture West - Investment Fund | - | 564 | - | - | - | 564 |
| Economy & Skills | Visit West | - | 550 | 550 | 550 | - | 1,650 |
| Economy & Skills | Workforce for the Future | 150 | - | - | - | - | 150 |
| Economy & Skills | Future Bright Plus | - | 25 | - | - | - | 25 |
| Economy & Skills | Skills Connect | 1,111 | - | - | - | - | 1,111 |
| Economy & Skills | Priority Skills Fund | 1,732 | 745 | - | - | - | 2,477 |
| Economy & Skills | Retrofit Skills and Green Skills | 100 | 37 | - | - | - | 137 |
| Economy & Skills | Green Funding Future | 128 | 113 | 102 | - | - | 343 |
| Economy & Skills | Employment & Skills Service – Delivery | - | 2,053 | 2,059 | - | - | 4,112 |
| Economy & Skills | Supported Employment | - | 304 | 312 | - | - | 615 |
| Economy & Skills | Priority Skills Fund – Round 2 | - | 3,239 | - | - | - | 3,239 |
| Economy & Skills | Employment & Skills Resource | - | 210 | 204 | - | - | 415 |
| Economy & Skills | WE Work for Everyone | - | 843 | 655 | - | - | 1,498 |
| Economy & Skills | Recovery Fund | 35 | - | - | - | - | 35 |
| Economy & Skills | HGV Driver Training | 2 | - | - | - | - | 2 |
| Economy & Skills | IF FS - Business Start Up | 244 | - | - | - | - | 244 |
| Economy & Skills | IF GF - WoE Business Support Programme | 1,375 | 3,356 | 500 | - | - | 5,231 |
| Environment | Regional Low Carbon Delivery - Revenue | 894 | 809 | - | - | - | 1,704 |
| Environment | Retrofit Accelerator - Revenue | 2,287 | 1,181 | - | - | - | 3,468 |
| Environment | GRF Energy Projects - Revenue | 599 | 507 | - | - | - | 1,106 |
| Environment | GH - GRF round 1 – Somer Valley Rediscovered | 381 | 228 | - | - | - | 609 |
| Environment | GI Projects and Common Connections (revenue) | 372 | - | - | - | - | 372 |
| Environment | Low Carbon Challenge – Recovery Fund Revenue (Projects) | 99 | - | - | - | - | 99 |
| Environment | GRF round 1 - Frome Valley | 439 | - | - | - | - | 439 |
| Environment | GRF round 1 - Forest of Avon | 244 | - | - | - | - | 244 |
| Environment | GRF round 1 - Tree Canopy | 565 | 343 | - | - | - | 908 |
| Environment | GRF round 1 - Capricorn Quay | 5 | 82 | 5 | 5 | - | 95 |
| Environment | Green Recovery Fund Resources | 305 | 267 | 267 | 267 | 267 | 1,372 |
| Environment | Low Carbon Challenge – Recovery Fund Revenue (Team fun | - | 61 | - | - | - | 61 |
| Environment | Regional Engagement on the Environment | - | 119 | 119 | 119 | 119 | 477 |
| Environment | Heat from Mines | 141 | 357 | - | - | - | 498 |
| Environment | Green Infrastructure Funding | - | 150 | - | - | - | 150 |
| Environment | Green Recovery Fund - Health and Nature Strategy | - | 23 | - | - | - | 23 |
| Environment | Green Recovery Fund - Pollinator Pathways led by Avon Wi | - | 171 | - | - | - | 171 |
| Environment | Impact Fund | - | 263 | 494 | 265 | - | 1,022 |
| Environment | Community Pollinator Fund | 605 | 370 | - | - | - | 975 |
| Environment | Resourcing Climate Resilience Work Programme | - | 100 | - | - | - | 100 |
| Environment | Green Recovery Fund - Farmer Led Nature Recovery | - | 99 | - | - | - | 99 |
| Environment | West of England Wildlife Index | - | 147 | - | - | - | 147 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Transport | South Gloucestershire Council Specialist Support – CRSTS R | 151 | 174 | 184 | - | - | 509 |
| Transport | BTQ Joint Delivery Team | - | 1,304 | 931 | - | - | 2,235 |
| Transport | MetroWest 1 | - | 1,015 | 155 | - | - | 1,170 |
| Transport | ITA Investment Fund | 150 | - | - | - | - | 150 |
| Transport | Future Transport Zones | 1,511 | - | - | - | - | 1,511 |
| Grant Management & Assurance | Mayoral Office & Election Costs | 687 | 693 | 1,317 | 1,323 | - | 4,019 |
| Grant Management & Assurance | Investment Fund Gateway Review 2 | - | 66 | - | - | - | 66 |
| Grant Management & Assurance | FEAS BA - Working Well Institute | 389 | 200 | - | - | - | 589 |
| Grant Management & Assurance | FEAS BT - Strategic Master Planning - North Keynsham | - | 100 | - | - | - | 100 |
| Grant Management & Assurance | FEAS BZ - Reboot West | 36 | - | - | - | - | 36 |
| Grant Management & Assurance | FEAS CI Milsom Quarter Masterplan | 826 | - | - | - | - | 826 |
| Grant Management & Assurance | FEAS DJ Bristol City Centre & High Streets | 266 | 40 | - | - | - | 306 |
| Grant Management & Assurance | IF DI - Bath City Centre High Streets Renewal Project | 48 | 13 | - | - | - | 61 |
| Grant Management & Assurance | FEAS DK Common Connections | 109 | 131 | - | - | - | 240 |
| Grant Management & Assurance | FEAS EH B&NES Housing & Regeneration Enabling Fund (Ma | 347 | 191 | - | - | - | 538 |
| Grant Management & Assurance | LOHS Bath Local Centres | 18 | - | - | - | - | 18 |
| Grant Management & Assurance | Midsomer Norton High Street Market Square Project | 10 | - | - | - | - | 10 |
| Grant Management & Assurance | IF FW - Hydrogen Sustainable Transport Economy Accelerat | 495 | 194 | 21 | - | - | 710 |
| Grant Management & Assurance | City Centre Economic Development and Markets Developm | 36 | - | - | - | - | 36 |
| Grant Management & Assurance | IF GA - Waterspace Connected Phase 1 | 101 | - | - | - | - | 101 |
| Grant Management & Assurance | FEAS FR - South Gloucestershire Catalyst High Street Fundir | 47 | 364 | 140 | - | - | 551 |
| Grant Management & Assurance | IF GE ISTART Phase 0 | 83 | - | - | - | - | 83 |
| Grant Management & Assurance | IF DN - South Gloucestershire Council Capacity Scheme | 83 | - | - | - | - | 83 |
| Grant Management & Assurance | IF GN - Bath Central Riverside | 316 | 73 | - | - | - | 389 |
| Grant Management & Assurance | FEAS GQ Keynsham to Willsbridge Path | 161 | - | - | - | - | 161 |
| Grant Management & Assurance | FEAS GT Western Harbour Masterplan and Infrastructure D | 2,048 | 200 | - | - | - | 2,248 |
| Grant Management & Assurance | FEAS GV Hanham Community/Skills Hub | 66 | - | - | - | - | 66 |
| Grant Management & Assurance | Linking The Levels - South Gloucestershire | - | 193 | - | - | - | 193 |
| Grant Management & Assurance | IF HU Bathscape Landscape City Framework | - | 118 | - | - | - | 118 |
| Grant Management & Assurance | Bristol City Council Capacity | - | 320 | 320 | - | - | 640 |
| Strategy | I4R+O Influence Fund | 100 | - | - | - | - | 100 |
| Strategy | I4R+O Feasibility and Development | 100 | 65 | - | - | - | 165 |
| Strategy | FEAS HM - Digital Office Pilot | - | 829 | 878 | 518 | - | 2,225 |
| Strategy | Innovation Infrastructure | - | 75 | - | - | - | 75 |
| Strategy | Emerging Sector Studies | - | 50 | - | - | - | 50 |
| Strategy | Mission Maker | - | 73 | - | - | - | 73 |
| Strategy | Innovation Champion | - | 40 | - | - | - | 40 |
| Strategy | Short Term Strategic Priorities | 103 | 102 | - | - | - | 205 |
| Strategy | City and Town Centre Evidence Base | - | 90 | - | - | - | 90 |
| Strategy | FEAS BF - SDS - Transport Evidence Base | 213 | 400 | - | - | - | 613 |
| Strategy | FEAS CK - 10 Year Rail Delivery Plan | 325 | 278 | - | - | - | 603 |
| Strategy | Local Electric Vehicle Infrastructure (LEVI) Capability Grant | - | 36 | 36 | - | - | 72 |
| Strategy | FEAS GO Walking and Cycling Scheme Development | 100 | - | - | - | - | 100 |
| Strategy | Rail Electrification (Filton Bank) | - | 20 | - | - | - | 20 |
| Strategy | FEAS HA - Regional Evidence Portal Pilot | 25 | 25 | - | - | - | 50 |
| Strategy | Bus Service Improvement | - | 500 | - | - | - | 500 |
| | | | | | | | |
| **Total** | | **22,340** | **28,561** | **10,290** | **3,597** | **386** | **65,174** |

## Appendix 5: Transport Levy Breakdown

| Function | 2024/25 £000s | 2025/26 £000s | Movement £000s | Movement % |
|---|---|---|---|---|
| Team and Operational costs | 1,625 | 1,604 | (21) | (1%) |
| Contribution from the Combined Authority | (511) | (511) | - | (0%) |
| BSIP Contribtution | (247) | (120) | 127 | (51%) |
| Community Transport grants | 1,653 | 1,966 | 313 | 19% |
| Concessionary Fares | 12,183 | 13,502 | 1,319 | 11% |
| Real Time Information (RTI) | 403 | 444 | 41 | 10% |
| Supported Bus Services | 6,458 | 5,966 | (492) | (8%) |
| Metrobus | 107 | 75 | (32) | (30%) |
| Updating Bus Stop Information | 182 | 241 | 59 | 33% |
| Travelwest | 14 | 23 | 9 | 64% |
| Integrated Ticketing | 215 | 195 | (20) | (9%) |
| **Total Levy Expenditure** | 22,082 | 23,384 | 1,303 | 6% |
| **Total Levy Income** | (19,468) | (20,253) | (785) | 4% |
| **Additional Income** | | | | |
| S106 Funding | (331) | (421) | (90) | 27% |
| BSOG | (1,148) | (1,148) | - | 0% |
| Additional MCA Contribution | - | (1,376) | (1,376) | 100% |
| Transfer to / (from reserves) | (1,134) | (187) | 948 | (84%) |
| **Total Additional Income** | (2,613) | (3,132) | (518) | 20% |
| **Net Position** | - | - | - | 0% |

| **Transport Levy Reserves** | 2024/25 (£,000's) | 2025/26 (£,000's) |
|---|---|---|
| Net Opening Balance | 1,677 | 543 |
| Transfer in / (Out) | (1,134) | (187) |
| **Net Closing Balance** | 543 | 356 |

## Appendix 6: Contributions, Fees & Charges

| Fees, Charges & Contributions | 2024/25 £000s | 2025/26 £000s | Movement £000s | Movement % |
|---|---|---|---|---|
| Bus Registration and Co-ordination fees | - | 31 | 31 | 100% |
| First Contributions to Levy | - | 95 | 95 | 100% |
| S106 Bus Route Funding | 331 | 421 | 90 | 27% |
| Bath Park & Ride Service | 529 | 395 | (134) | (25%) |
| NSC Transport Levy Contribution | 1,923 | 1,773 | (150) | (8%) |
| Local Authority Western Gateway Contribution | 160 | 160 | - | 0% |
| UK Mayors | 160 | 200 | 40 | 25% |
| **Total** | **3,103** | **3,074** | **(28)** | **(1%)** |

## Appendix 7: Reserves Table

| | Balance 2022/23 £000s | Balance 2023/24 £000s | Net Movements 2024/25 £000s | Forecast 2024/25 £000s | Net Movements 2025/26 £000s | Budget 2025/26 £000s |
|---|---|---|---|---|---|---|
| **Total Usable General Reserves*** | **2,474** | **4,776** | **1,192** | **5,968** | **2,726** | **8,694** |
| | | | | | | |
| Business Rate Reserve | 777 | 777 | 0 | 777 | 0 | 777 |
| Intergrated Transport Auth Reserve | 616 | 894 | 0 | 894 | 0 | 894 |
| Intergrated Transport Bus Reserve | 786 | 786 | (350) | 436 | (187) | 249 |
| Mayoral Capacity Funding Reserve | 42 | 20 | 0 | 20 | 0 | 20 |
| Housing Capacity Funding | 502 | 216 | (216) | 0 | 0 | 0 |
| Programme Delivery O/Hd Reserve | 822 | 822 | 0 | 822 | 0 | 822 |
| Treasury Management Reserve | 1,574 | 4,229 | 771 | 5,000 | 0 | 5,000 |
| UK Mayors | 105 | 107 | 0 | 107 | 0 | 107 |
| Mayoral Election Reserve | 466 | 812 | 2,242 | 3,054 | (3,054) | 0 |
| Adult Education Reserve | 1,468 | 1,872 | 0 | 1,872 | 0 | 1,872 |
| Programme Risk Reserve | 0 | 625 | 8,355 | 8,980 | 2,176 | 11,156 |
| Transformation Programme Reserve | 0 | 1,000 | (455) | 545 | 0 | 545 |
| IMS Investment Fund | 0 | 459 | 1,387 | 1,846 | 595 | 2,441 |
| IMS Concessionary Reserve | 0 | 203 | 41 | 244 | 61 | 305 |
| LEP Reserve | 0 | 240 | 0 | 240 | 0 | 240 |
| Redundancy Reserve | 0 | 389 | 0 | 389 | 361 | 750 |
| 4% Vacancy Factor | 0 | 0 | 463 | 463 | 0 | 463 |
| Other Reserves | 275 | 333 | 39 | 372 | (20) | 352 |
| | | | | | | |
| **Total Usable Earmarked Reserves** | **7,433** | **13,784** | **12,277** | **26,061** | **(68)** | **25,993** |
| | | | | | | |
| **Total Usable reserves** | **9,907** | **18,560** | **13,469** | **32,029** | **2,658** | **34,687** |

## Appendix 8: Capital Grant Funding

| Capital Grants | 2024/25 | 2025/26 | Movement | |
|---|---|---|---|---|
| | £000s | £000s | £000s | % |
| City Region Sustainable Transport Settlement | 52,068 | 130,344 | 78,276 | 150% |
| Highways Maintenance Grants | 25,000 | 25,000 | - | 0% |
| Investment Fund - Capital | 27,880 | 40,567 | 12,687 | 46% |
| Future Transport Zones Grant | 5,783 | 1,741 | (4,042) | (70%) |
| Additional Highway Funding | - | 6,733 | 6,733 | 100% |
| Active Travel Fund T3 | 1,303 | - | (1,303) | (100%) |
| UK Shared Prosperity Fund (UKSPF) | 787 | 1,012 | 225 | 29% |
| Actove Travel Tranche 5 (C) | - | 758 | 758 | 100% |
| REPF - Rural England Prosperity Fund (Capital) | 466 | - | (466) | (100%) |
| **Total Funding** | **113,287** | **206,155** | **92,868** | **82%** |

# Appendix 9: Capital Investment Fund Programme

| Directorate | Cost Cent | Project Name | 2024/25 (£,000's) | 2025/26 (£,000's) | 2026/27 (£,000's) | 2027/28 (£,000's) | 2028/29 (£,000's) | Total (£,000's) |
|---|---|---|---|---|---|---|---|---|
| Environment | KEN208 | Impact Fund | - | 2,000 | 2,800 | 2,500 | 2,000 | 9,300 |
| Environment | KBI105 | Low Carbon Challenge - Green Recovery Fund Capital | - | 1,547 | - | - | - | 1,547 |
| Environment | KEN200 | Regional Low Carbon Delivery - Capital | 1,222 | 250 | - | - | - | 1,472 |
| Environment | KEN201 | GRF Energy Projects - Capital | 480 | - | - | - | - | 480 |
| Environment | KCG203 | Heat from Mines | - | 990 | - | - | - | 990 |
| Environment | KEN209 | Green Recovery Fund Investment Advisory Service | - | 208 | 104 | - | - | 312 |
| Environment | KBI103 | Low Carbon Challenge - Recovery Fund Capital Grant | 410 | 298 | - | - | - | 708 |
| Environment | KEN212 | Green Recovery Fund - Farmer Led Nature Recovery | - | 231 | - | - | - | 231 |
| Environment | KEN203 | GRF Nature Recovery - Capricorn Quay | - | 385 | - | - | - | 385 |
| Environment | KEN205 | GH - GRF Nature Recovery - Somer Valley | - | 228 | - | - | - | 228 |
| Environment | KEN206 | Green Recovery Fund - Pollinator Pathways led by Avon Wildlife Trust | - | 38 | - | - | - | 38 |
| Environment | KEN207 | Green Recovery Fund - Health and Nature Strategy | - | 16 | - | - | - | 16 |
| Environment | KEN210 | West of England Wildlife Index | - | 15 | - | - | - | 15 |
| Environment | KCG153 | IF GH Green Recovery Fund Nature Recovery – Somer Valley Rediscovered | - | - | - | - | - | - |
| Transport | KFC101 | MetroWest Phase 1 | - | 9,657 | - | - | - | 9,657 |
| Transport | KCC122 | West Rapid Transport (Future4West) | - | 1,613 | 3,342 | 2,005 | 2,674 | 9,635 |
| Transport | KCC109 | FEAS EP - EV Charging Infrastructure Capital | 1,536 | 1,680 | 1,849 | - | - | 5,065 |
| Transport | KCG192 | IF GX CRSTS Specialist Support | - | 190 | 203 | - | - | 393 |
| Transport | KCC114 | WERTM | - | 150 | 150 | - | - | 300 |
| Transport | KFC102 | FEAS HF Rail Electrification (Filton Bank) | - | 20 | - | - | - | 20 |
| Transport | KFT114 | IF BS - MetroBus Consolidation Package Capital | - | - | - | - | 5 | 5 |
| Transport | KFT115 | IF EL - Portway Park and Ride | - | - | - | - | 5 | 5 |
| Grant Management & Assurance | KCG108 | QTIC+ | 15,150 | 11,511 | - | - | - | 26,661 |
| Grant Management & Assurance | KCG129 | FEAS G-AG – Somer Valley Enterprise Zone | - | 8,724 | - | - | - | 8,724 |
| Grant Management & Assurance | KCG146 | IF M - Hengrove Park Enabling Infrastructure | 10,280 | 5,336 | - | - | - | 15,616 |
| Grant Management & Assurance | KCG163 | IF GM - Arena Infrastructure Package | 6,095 | 5,349 | 1,340 | - | - | 12,784 |
| Grant Management & Assurance | KCG145 | IF CI - Milsom Quarter (capital) | 697 | - | - | - | - | 697 |
| Grant Management & Assurance | KCG128 | IF DI - Bath City Centre High Streets Renewal Project | 298 | 237 | - | - | - | 535 |
| Grant Management & Assurance | KCG147 | IF EJ - Kingswood Regeneration Project | 373 | - | - | - | - | 373 |
| Grant Management & Assurance | KCG206 | HV Managing More Greenspace for Nature | - | 311 | 39 | - | - | 350 |
| Grant Management & Assurance | KCG140 | FEAS DK - Common Connections Capital | 238 | 50 | - | - | - | 288 |
| Grant Management & Assurance | KCG143 | Midsomer Norton High Street Market Square Project | 265 | - | - | - | - | 265 |
| Grant Management & Assurance | KCG139 | IF ES - Bath River Line Phase 1 | 128 | - | - | - | - | 128 |
| | | | | | | | | |
| **Total** | | | **37,172** | **51,035** | **9,828** | **4,505** | **4,684** | **107,224** |

** Pre-Application of Optimism Bias Factor*

**Appendix 10: West of England Mayoral Combined Authority (MCA)**

**Capital Strategy Report 2025/26**

## Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

## Capital Expenditure and Financing

Capital expenditure is where the Authority spends money on assets, such as property 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.

In 2025/26, the Authority is planning capital expenditure of £207.0m as summarised below:

*Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions*

| | **2023/24 actual** | **2024/25 forecast** | **2025/26 budget*** | **2026/27 budget** | **2027/28 budget** |
|---|---|---|---|---|---|
| Capital investments | 93.4 | 113.6 | 207.0 | 285.1 | 31.4 |
| **TOTAL** | **93.4** | **113.6** | **207.0** | **285.1** | **31.4** |

*2025/26 budgets and onwards to be confirmed by Committee in January 2025

**Governance**:

The West of England Local Growth Assurance Framework sets out the West of England's governance arrangements for the use of its funds, how due transparency and accountability are ensured and the way that schemes are appraised, monitored and evaluated to achieve value for money.

The West of England Strategic Framework and Business Plan, together with other West of England plans and strategies, provide the basis for investment decisions alongside the delivery of statutory requirements, conditions of funding and other local transport objectives.

The Combined Authority is also developing a new Investment Strategy to ensure we are aligning our approach to investment with the priorities Committee has agreed in the Strategic Framework.

The assurance framework is required to show that suitable arrangements are in place to effectively manage the investment programme and that robust systems are in place to ensure resources are spent with regularity, propriety, and value for money, whilst at the same time achieving projected outcomes.

The assurance framework also outlines clear and transparent procedures for all stakeholders in the West of England area (including the constituent Local Authorities, other key partner agencies, businesses and residents) regarding the delivery and spending associated with the investment programme.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

*Table 2: Capital financing in £ millions*

| | **2023/24 actual** | **2024/25 forecast** | **2025/26 budget*** | **2026/27 budget** | **2027/28 budget** |
|---|---|---|---|---|---|
| External sources (inc grants) | 93.411 | 113.287 | 206.979 | 285.128 | 31.364 |
| Capital receipts | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Revenue resources | 0.000 | 0.361 | 0.000 | 0.000 | 0.000 |
| Debt | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| **TOTAL** | **93.411** | **113.648** | **206.979** | **285.128** | **31.364** |

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

The Combined Authority currently does not have any debt but has the ability to borrow to facilitate delivery should it be needed. Whilst there are currently no projects within the MTFS funded through borrowing, this position may change in future through the development of a proposed Strategic Investment Strategy.

The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to remain at £nil during 2025/26 so no MRP charge is anticipated.

**Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Authority has no plans to receive capital receipts in the coming financial year.

**Treasury Management**

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while 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 revenue income is received before it is spent.

The Authority currently does not have any borrowing and has no immediate plans to borrow.

**Borrowing strategy:** The Authority's main objectives when borrowing would be to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority would therefore seek to strike a balance between cheaper short-term loans and long-term fixed rate loans where the future cost is known but higher.

The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Authority's total outstanding debt are shown below, compared with the capital financing requirement (see above).

*Table 3: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions*

| | **31.3.2024 actual** | **31.3.2025 forecast** | **31.3.2026 budget*** | **31.3.2027 budget** | **31.3.2028 budget** |
|---|---|---|---|---|---|
| Debt | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Capital Financing Requirement | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 3, the Authority expects to comply with this in the medium term.

**Liability benchmark:** To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. Given that there are no current plans to borrow, this benchmark has been set at a level to allow a small level of borrowing to facilitate delivery should it be needed but will be kept under review.

*Table 4: Borrowing and the Liability Benchmark in £ millions*

| | **31.3.2024 actual** | **31.3.2025 forecast** | **31.3.2026 budget** | **31.3.2027 budget** | **31.3.2028 budget** |
|---|---|---|---|---|---|
| Existing borrowing | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Forecast borrowing | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Liability benchmark | 0.000 | 0.000 | 26.000 | 26.000 | 26.000 |

The table shows that the Authority expects to remain borrowed within its liability benchmark.

**Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. The authorised limit has been set at the debt cap agreed with HM Treasury of £130m. The operational boundary has been set at a notional 20% of the authorised limit.

*Table 5: Prudential Indicators: Authorised limit and operational boundary for external debt in £m*

| | **2024/25 limit** | **2025/26 limit** | **2026/27 limit** | **2027/28 limit** |
|---|---|---|---|---|
| Authorised limit – total external debt | 130.0 | 130.0 | 130.0 | 130.0 |
| Operational boundary – total external debt | Not previously set | 26.0 | 26.0 | 26.0 |

**Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

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. Money that will be held for longer terms is 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 and the Authority may request its money back at short notice. *Table 6: Treasury management investments in £millions*

| | **31.3.24 actual** | **31.3.25 forecast** | **31.3.26 budget*** | **31.3.27 budget** | **31.3.28 budget** |
|---|---|---|---|---|---|
| Near-term investments | 319.6 | 340.0 | 268.0 | 190.0 | 232.0 |
| Longer-term investments (inc pooled) | 62.0 | 62.0 | 52.0 | 52.0 | 52.0 |
| **TOTAL** | **381.6** | **402.0** | **320.0** | **242.0** | **284.0** |

**Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

**Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Director of Finance, Investments and Commercial and staff, who must act in line with the treasury management strategy approved by Committee. Regular reports on treasury management activity are presented to the Audit Committee, which is responsible for scrutinising treasury management decisions.

## Investments for Service Purposes

The Authority may make investments to assist local public services, including making loans to and buying shares in local service providers, local small businesses to promote economic growth and the Authority's subsidiaries or Joint Venture organisations.

**Risk management:** In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to break even after all costs. The risk of incurring unexpected losses is managed by a rigorous due diligence process which is set out in the Non-Treasury Investment Strategy. A limit of £48.5m is placed on total investments for service purposes to ensure that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

**Governance:** Decisions on service investments are made by the relevant service manager in consultation with the Director of Finance, Investments and Commercial and must meet the criteria and limits laid down in the Non-Treasury Investment Strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme. The relevant service director is responsible for ensuring that adequate due diligence is carried out before investment is made.

## Commercial Activities

The Combined Authority currently does not hold any commercial investments.

## Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP / loans fund repayments are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

*Table 7: Prudential Indicator: Proportion of financing costs to net revenue stream*

| | **2023/24 actual** | **2024/25 forecast** | **2025/26 budget *** | **2026/27 budget** | **2027/28 budget** |
|---|---|---|---|---|---|
| Financing costs (£m) | 0.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Proportion of net revenue stream | 0% | 0% | 0% | 0% | 0% |

## Knowledge and Skills

The Authority employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Director of Finance, Commercial and Investments is a qualified accountant with 17 years post qualification experience. The Authority pays for staff to study towards relevant professional qualifications and for staff to keep up to-date with ‘continuing professional development’.

Where Authority staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Authority currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Authority has access to knowledge and skills commensurate with its risk appetite.

# Appendix 11: Capital Programme

| Directorate | Project Name | 2024/25 £000s | 2025/26 £000s | 2026/27 £000s | 2027/28 £000s | 2028/29 £000s | Total £000s |
|---|---|---|---|---|---|---|---|
| Transport | A38 Multi Modal Corridor - CRSTS D | 6,313 | 25,404 | 23,168 | - | - | 54,885 |
| Transport | CRSTS – B2B Keynsham to Bath STC | 74 | 22,399 | 21,667 | - | - | 44,140 |
| Transport | Charfield Station (capital) | 4,675 | 23,517 | 10,484 | - | - | 38,676 |
| Transport | CRSTS 'E' A432 Multi Modal Corridor | 5,441 | 13,382 | 15,744 | - | - | 34,567 |
| Transport | FEAS RB - Mass Transit - Bristol to Bath Strategic Corridor | 4,485 | 3,664 | 22,994 | - | - | 31,142 |
| Transport | CRSTS U – Stockwood to Cribbs Corridor (A37/A4018) Central (Northern) Sect | 23 | 3,750 | 14,069 | - | - | 17,842 |
| Transport | IF EM - Somer Valley Links | 1,626 | 5,587 | 9,675 | - | - | 16,888 |
| Transport | Maintenance Challenge Fund – New Cut Bridges | 3,500 | 4,768 | 6,439 | - | - | 14,707 |
| Transport | A4 Portway Sustainable Transport Corridor | 1,000 | 6,555 | 5,948 | - | - | 13,502 |
| Transport | Bath Sustainable Walking & Cycling Links | 1,437 | 2,588 | 6,188 | - | - | 10,212 |
| Transport | MetroWest Phase 1 | 362 | 9,657 | - | - | - | 10,019 |
| Transport | West Rapid Transport (Future4West) | - | 1,613 | 3,342 | 2,005 | 2,674 | 9,635 |
| Transport | M32 Sustainable Transport Corridor and Hub | 1,647 | 4,674 | 2,700 | - | - | 9,021 |
| Transport | CRSTS Top Slice | 2,085 | 3,400 | 3,419 | - | - | 8,903 |
| Transport | A4018 Corridor Improvements | 2,350 | 2,552 | 2,503 | - | - | 7,406 |
| Transport | CRSTS U – Stockwood to Cribbs Corridor (A37/A4018) Victoria St & Colston A | 2,087 | 4,491 | - | - | - | 6,578 |
| Transport | Maintenance Challenge Fund – SGC – A38 & A432 | 1,650 | 2,000 | 2,000 | - | - | 5,650 |
| Transport | Maintenance Challenge Fund – Manvers Street Cleveland Bridge | 3,312 | 1,947 | 380 | - | - | 5,639 |
| Transport | Bristol to Hengrove Metrobus Extension –Outline Business Case | 121 | 106 | 3,736 | - | - | 3,963 |
| Transport | Bristol to Hengrove Metrobus extension corridor –Bedminster works at A38 a | 2,968 | 1,384 | - | - | - | 4,352 |
| Transport | LEVI (capital) | - | - | 1,859 | 1,859 | 1,859 | 5,576 |
| Transport | B&NES Liveable Neighbourhoods | - | 2,699 | 2,866 | - | - | 5,565 |
| Transport | CRSTS U – Stockwood to Cribbs Corridor (A37/A4018) Bristol Southern Sectio | 29 | 2,750 | 2,750 | - | - | 5,529 |
| Transport | CRSTS Ja Yate Liveable Neighbourhoods | 2,573 | 527 | 2,174 | - | - | 5,274 |
| Transport | Step Free Stations (Capital) - FEAS BX / CRSTS C | 490 | 1,509 | 3,244 | - | - | 5,244 |
| Transport | CRSTS Jb Thornbury Liveable Neighbourhoods | 2,629 | 484 | 2,117 | - | - | 5,230 |
| Transport | FEAS EP - EV Charging Infrastructure Capital | 1,536 | 1,680 | 1,849 | - | - | 5,065 |
| Transport | FEAS CV – St George Liveable Neighbourhood | 370 | 1,648 | 2,929 | - | - | 4,947 |
| Transport | Bath City Centre Sustainable Corridor | 444 | 1,713 | 2,655 | - | - | 4,812 |
| Transport | Bath City Centre Sustainable Corridor – Phase Two | - | 1,632 | 1,732 | - | - | 3,365 |
| Transport | Future Transport Zones - MaaS | 2,841 | 293 | - | - | - | 3,134 |
| Transport | Future Transport Zones – Programme Management Capital | 1,282 | 457 | - | - | - | 1,739 |
| Transport | Active Travel Fund T3 | 1,737 | - | - | - | - | 1,737 |
| Transport | CRSTS W - Streetspace 2 (Rosemary Lane, Chandos Road and Denmark Street) | 240 | 1,300 | - | - | - | 1,540 |
| Transport | CRSTS AE – Portway Access & Egress | - | 1,529 | - | - | - | 1,529 |
| Transport | CRSTS H SGC Bristol Bath Railway Path | 662 | 383 | 446 | - | - | 1,491 |
| Transport | CRSTS V - Streetspace 1 (Overton Road and Princess Victoria Road) | 494 | 740 | - | - | - | 1,234 |
| Transport | Future Transport Zones - Data Hub | 330 | 837 | - | - | - | 1,167 |
| Transport | Active Travel Fund Tranche 5 (Capital) | - | 1,010 | - | - | - | 1,010 |
| Transport | Tap on Tap Off - IF EI / CRSTS A | 148 | 800 | - | - | - | 948 |
| Transport | Future Transport Zones - DDRT | 941 | - | - | - | - | 941 |
| Transport | FTZ - Innovation and Enhancements | 750 | - | - | - | - | 750 |
| Transport | WERTM | 70 | 220 | 280 | - | - | 570 |
| Transport | FTZ - Urban Freight | 272 | 150 | - | - | - | 422 |
| Transport | ATF4 Cycle Hangars: Phase 1 and 2 | 401 | - | - | - | - | 401 |
| Transport | IF GX CRSTS Specialist Support | - | 190 | 203 | - | - | 393 |
| Transport | CRSTS K - City Region Sustainable Transport Settlement mobilisation (capital) | 150 | - | - | - | - | 150 |
| Transport | CRSTS AF South Bristol Liveable Neighbourhood | - | 100 | - | - | - | 100 |
| Transport | CRSTS – B2B Transport Hub | 74 | - | - | - | - | 74 |
| Transport | IF EM - Somer Valley to Bristol and Bath | 61 | - | - | - | - | 61 |
| Transport | Bristol Regional Cycling Hub | - | 30 | - | - | - | 30 |
| Transport | FEAS HF Rail Electrification (Filton Bank) | - | 20 | - | - | - | 20 |
| Transport | CRSTS L - BANES Capacity Building Fund (capital) | 7 | - | - | - | - | 7 |
| Transport | IF BS - MetroBus Consolidation Package Capital | - | - | - | - | 5 | 5 |
| Transport | IF EL - Portway Park and Ride | - | - | - | - | 5 | 5 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Economy & Skills | KBM200 | UK Shared Prosperity Fund (UKSPF) Capital | 1,050 | 1,349 | - | - | - | 2,399 |
| Economy & Skills | KBS200 | Rural England Prosperity Fund (Capital) | 621 | - | - | - | - | 621 |
| Environment | KBI105 | Low Carbon Challenge - Green Recovery Fund Capital | - | 1,547 | - | - | - | 1,547 |
| Environment | KEN208 | Impact Fund | - | 2,000 | 2,800 | 2,500 | 2,000 | 9,300 |
| Environment | KEN200 | Regional Low Carbon Delivery - Capital | 1,222 | 250 | - | - | - | 1,472 |
| Environment | KCG203 | Heat from Mines | - | 990 | - | - | - | 990 |
| Environment | KBI103 | Low Carbon Challenge - Recovery Fund Capital Grant | 410 | 298 | - | - | - | 708 |
| Environment | KEN201 | GRF Energy Projects - Capital | 480 | - | - | - | - | 480 |
| Environment | KEN203 | GRF Nature Recovery - Capricorn Quay | - | 385 | - | - | - | 385 |
| Environment | KEN209 | Green Recovery Fund Investment Advisory Service | - | 208 | 104 | - | - | 312 |
| Environment | KEN212 | Green Recovery Fund - Farmer Led Nature Recovery | - | 231 | - | - | - | 231 |
| Environment | KEN205 | GH - GRF Nature Recovery - Somer Valley | - | 228 | - | - | - | 228 |
| Environment | KEN206 | Green Recovery Fund - Pollinator Pathways led by Avon Wildlife Trust | - | 38 | - | - | - | 38 |
| Environment | KEN207 | Green Recovery Fund - Health and Nature Strategy | - | 16 | - | - | - | 16 |
| Environment | KEN210 | West of England Wildlife Index | - | 15 | - | - | - | 15 |
| Environment | KCG153 | IF GH Green Recovery Fund Nature Recovery – Somer Valley Rediscovered | - | - | - | - | - | - |
| Grant Management | KCF100 | Highways Maintenance Grants | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 | 125,000 |
| Grant Management | KCG157 | Bristol City Centre | 4,732 | 17,648 | 19,203 | - | - | 41,584 |
| Grant Management | KCG108 | QTIC+ | 15,150 | 11,511 | - | - | - | 26,661 |
| Grant Management | KCG146 | IF M - Hengrove Park Enabling Infrastructure | 10,280 | 5,336 | - | - | - | 15,616 |
| Grant Management | KCG163 | IF GM - Arena Infrastructure Package | 6,095 | 5,349 | 1,340 | - | - | 12,784 |
| Grant Management | KCG124 | FEAS CX – Strategic Cycle Route Connecting Yate with the East Fringe (Yate Sp | 5,245 | 3,226 | 1,997 | - | - | 10,467 |
| Grant Management | KCF101 | Additional Pothole Grant | 2,070 | 6,733 | - | - | - | 8,803 |
| Grant Management | KCG129 | FEAS G-AG – Somer Valley Enterprise Zone | - | 8,724 | - | - | - | 8,724 |
| Grant Management | KCG150 | FEAS GB - Scholars Way Walking and Cycling Route | 2,736 | - | - | - | - | 2,736 |
| Grant Management | KCG188 | CRSTS AC - Midsomer Norton & Westfield Walking, Wheeling and Cycling Link | - | 1,382 | - | - | - | 1,382 |
| Grant Management | KCG145 | IF CI - Milsom Quarter (capital) | 697 | - | - | - | - | 697 |
| Grant Management | KCG128 | IF DI - Bath City Centre High Streets Renewal Project | 298 | 237 | - | - | - | 535 |
| Grant Management | KCG147 | IF EJ - Kingswood Regeneration Project | 373 | - | - | - | - | 373 |
| Grant Management | KCG206 | HV Managing More Greenspace for Nature | - | 311 | 39 | - | - | 350 |
| Grant Management | KCG140 | FEAS DK - Common Connections Capital | 238 | 50 | - | - | - | 288 |
| Grant Management | KCG143 | Midsomer Norton High Street Market Square Project | 265 | - | - | - | - | 265 |
| Grant Management | KCG139 | IF ES - Bath River Line Phase 1 | 128 | - | - | - | - | 128 |
| Grant Management | KCG144 | LOHS Bath Local Centres (capital) | 2 | - | - | - | - | 2 |
| | | | | | | | | |
| | | **Sub-Total Capital Programme** | **143,077** | **261,241** | **230,042** | **31,364** | **31,543** | **697,267** |

** Pre-Application of Optimism Bias Factor*

## Appendix 12: Revenue Forecast 2024/25

| MCA Revenue Forecast | 2024/25 £000s | Q1 £000s | Q2 £000s | Movement Q2 v Q1 £000s | % |
|---|---|---|---|---|---|
| Economy & Skills | 35,538 | 46,612 | 41,030 | (5,582) | (12%) |
| Environment | 7,291 | 9,491 | 8,384 | (1,107) | (12%) |
| Transport | 53,210 | 57,915 | 54,756 | (3,159) | (5%) |
| Grant Management | 5,485 | 12,290 | 11,955 | (335) | (3%) |
| **Delivery Sub Total** | **101,523** | **126,307** | **116,125** | **(10,183)** | **(8%)** |
| Corporate Office | 4,353 | 3,804 | 4,060 | 256 | 7% |
| Law & Governance | 5,077 | 5,278 | 5,220 | (58) | (1%) |
| Finance, Investments & Commercial | 5,001 | 4,929 | 5,011 | 82 | 2% |
| Strategy & Innovation | 6,101 | 7,887 | 7,249 | (638) | (8%) |
| **Corporate Sub Total** | **20,530** | **21,898** | **21,540** | **(358)** | **(2%)** |
| Business Rates Retention | 19,694 | 23,078 | 23,078 | - | 0% |
| Net Reserves Movement | 3,246 | 6,458 | 11,932 | 5,474 | 85% |
| Recharges Income | (6,290) | (4,355) | (4,880) | (525) | 12% |
| **Other Sub Total** | **16,650** | **25,181** | **30,129** | **4,948** | **20%** |
| **Total Expenditure** | **138,704** | **173,387** | **167,794** | **(5,592)** | **(3%)** |
| **MCA Revenue Funding** | **(138,704)** | **(174,578)** | **(168,986)** | **5,592** | **(3%)** |
| **Surplus / (Deficit)** | **-** | **1,192** | **1,192** | **-** | **(0%)** |

**Economy & Skills:** A number of projects have reduced forecast spend to more realistic levels. Differences are largely down to performance of partner-delivered schemes.

**Environment:** The forecast reduction in project expenditure reflects the reprofiling of nature recovery projects to future years in line with updated delivery schedules.

**Transport:** Expenditure adjustments reflect changes to BSIP guidelines, allowing extensions into 2025/26. This shift reduces the current year’s expenditure, with increases reallocated to 2025/26. These changes were agreed with the DfT through a project adjustment request.

**Grant Management:** Partner-delivered projects include new awards, with some expenditure rescheduled to future years.

**Corporate Office:** The increase from Q1 to Q2 is due to restructuring costs but remains within original budget.

**Law & Governance:** A movement of less than 3%, with no material impact on budget or delivery plans.

**Finance, Investments & Commercial:** A variance of less than 3%, with no significant effect on budget or delivery.

**Strategy:** Reduced expenditure is due to delayed starts for Digital projects, deferring some costs to the next financial year.

**Business Rates Retention:** Unchanged from Q1, based on NNDR submissions from Unitary Authorities post-budget setting.

**Net Reserves Movement:** Additional treasury surpluses have been used to strengthen reserves. £1.896m is allocated to increased Election Cost provisions for 2025/26, with the remainder bolstering the Programme Risk Reserve (details in Appendix 7).

**Recharge Income:** Increased costs are recharged to Capital, reflecting the distribution of ongoing MCA projects.

## Appendix 13: Capital Forecast 2024/25

| MCA Capital Forecast | 2024/25 £000s | Q1 £000s | Q2 £000s | Movement Q2 v Q1 £000s | % |
|---|---|---|---|---|---|
| Economy & Skills | 1,253 | 1,365 | 1,766 | 402 | 29% |
| Environment | 1,584 | 4,313 | 4,389 | 76 | 2% |
| Transport | 53,038 | 41,965 | 59,526 | 17,561 | 42% |
| Grant Management | 57,773 | 58,212 | 55,808 | (2,405) | (4%) |
| **Total Capital Expenditure** | **113,648** | **105,854** | **121,489** | **15,635** | **15%** |
| **MCA Capital Funding** | **(113,648)** | **(105,854)** | **(121,489)** | **(15,635)** | **15%** |
| **Surplus / (Deficit)** | **-** | **-** | **-** | **-** | **0%** |

**Economy & Skills:** Increased expenditure reflects a new funding award for the redevelopment of Kingsley Hall, supporting youth services and preserving a listed building.

**Environment:** Movement is less than 3%, with no significant impact on the budget or delivery plans.

**Transport:** The movement between the Budget, Q1, and Q2 forecasts is attributed to initial teething issues in the reporting process, which led to discrepancies in the Q1 figures for CRSTS schemes. These issues have since been addressed, and the Q2 forecast now aligns closely with the budget. Additionally, slippage in some capital programmes has been balanced by the acceleration of others.

**Grant Management:** Movement stems from key delivery partners reprofiling expenditure to align with updated delivery schedules.

**Appendix 14: West of England Mayoral Combined Authority (MCA)**

**Treasury Management Strategy 2025/26**

## 1. Introduction

1.1 Treasury management is the management of the Mayoral Combined Authority's cash flows, borrowing and investments, and the associated risks. The Mayoral Combined Authority has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Mayoral Combined Authority's prudent financial management.

1.2 Treasury risk management at the Mayoral Combined Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Mayoral Combined Authority to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Mayoral Combined Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

## 2. External Context

2.1 **Economic background:** The impact on the UK from the government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Mayoral Combined Authority's treasury management strategy for 2025/26.

2.2 The Bank of England (BoE) Monetary Policy Committee (MPC) reduced Bank Rate to 4.75% at its meeting in November 2024, having previously cut by 25bp from the 5.25% peak at the August MPC meeting. At the November meeting, eight Committee members voted for the cut while one member preferred to keep Bank Rate on hold at 5%

2.3 The November quarterly Monetary Policy Report (MPR) is forecasting Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be 0.5% between April and June 2024, a downward revision from the 0.6% rate previously reported by the Office for National Statistics (ONS).

2.4 ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 1.7% in September 2024, down from 2.2% in the previous month and lower than the 1.9% expected. Core CPI also declined further than expected to 3.2% against a forecast of 3.4% and the previous month's 3.6%. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

2.5 The labour market appears to be slow however, but the data still requires treating with some caution. The latest figures reported the unemployment rate fell to 4.0% in the three months to August 2024, while economic inactivity also declined. Pay growth for the same period was reported at 4.9% for regular earnings (excluding bonuses) and 3.8% for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

2.6 The US Federal Reserve has also been cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its November 2024 monetary policy meeting to a range of 4.5%-4.75%. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an annual rate of 2.8% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

2.7 Euro zone inflation fell below the European Central Bank (ECB) 2% target in September 2024, the first time in over three years. This allowed the ECB to continue its rate cutting cycle and reduce its three key policy rates by 0.25% in October. Inflation is expected to rise again in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

2.8 **Credit outlook:** Credit default swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in

2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

2.9 Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

2.10 Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the Mayoral Combined Authority's treasury adviser.

2.11 Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

2.12 **Interest rate forecast (November 2024):** The Mayoral Combined Authority's treasury management adviser Arlingclose forecasts that The Bank of England's Monetary Policy Committee will continue reducing rates during 2024 and through 2025, taking Bank Rate to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

2.13 Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events. A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

2.14 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 4% for the West of England Mayoral Combined Authority balances, and 3% for Revolving Infrastructure Fund (RIF) balances. Lower levels of interest received on LEP balances due to longer term investments of funds being limited. Higher rates can only be achieved through retaining a proportion of our portfolio as long terms investments such as property, equities and mixed asset funds.

## 3. Local Context

3.1 On 31st October 2024, the Mayoral Combined Authority held £484m of investments, and no short- term borrowing. This is set out in further detail at **Appendix B**.

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.3 The Mayoral Combined Authority's capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall to £320m by the end of 2025/26 as capital grants are used to finance capital expenditure and earmarked reserves are spent on their intended purpose.

## 4. Investment Strategy

4.1 The Mayoral Combined Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Since 1st April 2024, the Mayoral Combined Authority's investment balance has ranged between £382m and £486m, and similar levels are expected to be maintained in the forthcoming year.

4.2 As well as holding investments in its own right, the Mayoral Combined Authority also acts as Accountable Body for the West of England Revolving Investment Fund (RIF) holding Government Grants until they are ready to be distributed to Local Authorities and other organisations for approved project spend over the coming years.

4.3 The funds are invested primarily to protect the capital and, to achieve a high level of capital security, investments are made predominantly with Central Government, Local Authorities and Banks with high credit ratings. See **Appendix C** for Treasury Monitoring.

4.4 Interest earned on Revolving Infrastructure Fund and Local Enterprise Partnership Investments are re-invested into their Funds.

4.5 **Objectives:** The Chartered Institute of Public Finance and Accountancy Code requires the Mayoral Combined Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Mayoral Combined Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Mayoral Combined Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Mayoral Combined Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

4.6 **Strategy:** The Mayoral Combined Authority expects to be a long-term investor and treasury investments will therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income. A reduced proportion of the Mayoral Combined Authority's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy adopted in 2024/25 with outer limits set for treasury management operations.

4.7 **Business models:** Under the International Financial Reporting Standard 9, the accounting for certain investments depends on the Mayoral Combined Authority's "business model" for managing them. The Mayoral Combined Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

4.8 **Approved counterparties:** The Mayoral Combined Authority may invest its surplus funds with any of the counterparty types as detailed in figure 1, subject to the cash limits (per counterparty), and the time limits shown.

**Figure 1: Approved investment counterparties and limits**

| Sector | Time limit | Counterparty limit | Sector limit |
|---|---|---|---|
| The UK Government | 50 years | Unlimited | n/a |
| Local authorities & other government entities | 25 years | £10m | Unlimited |
| Secured investments * | 25 years | £15m | Unlimited |
| Banks (unsecured) * | 13 months | £10m | Unlimited |
| Building societies (unsecured) * | 13 months | £10m | £20m |

| | | | |
|---|---|---|---|
| Registered providers (unsecured) * | 5 years | £10m | £50m |
| Money market funds * | n/a | £10m | Unlimited |
| Strategic pooled funds | n/a | £10m | £60m |
| Real estate investment trusts | n/a | £10m | £50m |
| Other investments * | 5 years | £10m | £20m |

This table must be read in conjunction with the following notes:

a) **Minimum Credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is **no lower than A-.** Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

   For entities without published credit ratings, investments may be made either:

   (i) where external advice indicates the entity to be of similar credit quality; or

   (ii) to a maximum of £10m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

b) **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

c) **Local Authorities and other government entities:** Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

d) **Banks and building societies unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

e) **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

f) **Registered providers (unsecured):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

g) **Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Mayoral Combined Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

h) **Strategic Pooled funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

   Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Mayoral Combined Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Mayoral Combined Authority's investment objectives will be monitored regularly.

i) **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

**j) Other investments:** This category covers treasury investments not listed above, for example company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Mayoral Combined Authority's investment at risk.

k) **Operational bank accounts:** The Mayoral Combined Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank. This is a relatively low risk as deposits tend to be only held overnight and can be moved without notice. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Mayoral Combined Authority maintaining operational continuity.

l) **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Mayoral Combined Authority's treasury advisers, ArlingClose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

m) **Other information on the security of investments**: The Mayoral Combined Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Mayoral Combined Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

   The Mayoral Combined Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

   When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Mayoral Combined Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Mayoral Combined Authority's cash balances, then the surplus will either be deposited with the UK Government, (via the Debt Management Office), invested in government treasury bills or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

n) **Environmental, Social & Governance (ESG) Investments:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Mayoral Combined Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Mayoral Combined Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code The Mayoral Combined Authority recognises it can further enhance its efforts through its investment decisions and activity. The Mayoral Combined Authority will consider options for investments of short-term funds with institutions who ring fence the use of such funds for ESG related matters. The

Authority will continue to use the Arlingclose ESG and Responsible Investment Service, designed to guide and advise authorities on incorporating and monitoring ESG in its treasury investment decisions. The Mayoral Combined Authority has drafted an ESG and Responsible Treasury investment policy to outline our investment approach, objectives and expected outcomes.

o) **UA Short Term Loan Facility:** In order to assist the West of England Unitary Authorities who may continue to face cashflow challenges, the Mayoral Combined Authority has implemented a short-term loan facility and this will be operated within the parameters of the approved Treasury Management Strategy.

p) **Investment limits**: The maximum that will be lent to any one organisation, (other than the UK Government), will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. The Mayoral Combined Authority's revenue reserves, which could be made available to cover any investment losses, are forecast to be £5.968 million on 31st March 2025. There is also a £4.2m Treasury Management Earmarked Reserve available.

**Liquidity management**: The Mayoral Combined Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Mayoral Combined Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Mayoral Combined Authority's medium-term financial plan and cash flow forecast. The Mayoral Combined Authority will spread its liquid cash over at least five providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## 5. Borrowing Strategy

5.1 The Mayoral Combined Authority currently holds no short-term loans.The balance sheet forecast shows that the Mayoral Combined Authority does not expect the need to borrow in 2025/26.

5.2 **Objectives:** The Mayoral Combined Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Mayoral Combined Authority's long-term plans change is a secondary objective.

5.3 **Strategy:** The Mayoral Combined Authority does not currently have any underlying need to borrow long-term to fund capital expenditure. The Mayoral Combined Authority holds no long-term loans and no long-term borrowing is anticipated during 2025/26. Therefore, a debt-free strategy will be maintained until such time as the Mayoral Combined Authority determines that its capital strategy and prioritised programme of investment requires consideration of any borrowing decision.

5.4 As part of its approach to liquidity management, the Mayoral Combined Authority may borrow short-term loans to cover any unplanned cash flow shortages as they arise. Rather than always keeping cash on instant access for unplanned cash flows, (where security and liquidity will mean yields may be low), the Mayoral Combined Authority will retain the option of short-term borrowing at low rates to enable it to explore increasing investments in longer-term and more diversified assets. The Mayoral Combined Authority will test access to borrowing occasionally even where this is not required to ensure liquidity is available.

5.5 **Sources of borrowing:** The approved sources of short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- UK Infrastructure Bank
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Avon Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

5.6 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset-based finance

5.7 **Short-term and variable rate loans**: These loans leave the Mayoral Combined Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits as detailed in the treasury management indicators.

## 6. Treasury Management Prudential Indicators

6.1 The Mayoral Combined Authority measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Security:** The Mayoral Combined Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

| Credit risk indicator | Target |
|---|---|
| Minimum portfolio average credit rating | A- |

6.3 **Liquidity:** The Mayoral Combined Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

| Liquidity risk indicator | Target |
|---|---|
| Total sum borrowed in past 3 months without prior notice | £40m |

6.4 **Interest rate exposures**: This indicator is set to control the Mayoral Combined Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

| Interest rate risk indicator | Limit |
|---|---|
| Upper limit on one-year revenue impact of a 1% fall in interest rates | £2m |

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

6.5 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Mayoral Combined Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

| Price risk indicator | 2025/26 | 2026/27 | 2027/28 | +3 years |
|---|---|---|---|---|
| Limit on principal invested beyond 364 days as % of total cash balance | 50% | 30% | 20% | 20% |

Long term investments 3 years plus include strategic pooled funds and real estate investment trusts with no fixed maturity.

## 7. Related Matters

The Chartered Institute of Public Finance and Accountancy Code requires the Mayoral Combined Authority to include the following in its treasury management strategy.

7.1 **Financial Derivatives:** Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. Lender Option Borrower Option loans and callable deposits). The general power of competence in section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Mayoral Combined Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Mayoral Combined Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA code, the Mayoral Combined Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

7.2 **Markets in Financial Instruments Directive (MiFID II)**: As a result of the directive, Local Authorities will be treated as retail clients, but can opt up to professional client status, providing that they meet certain criteria which includes having an investment balance of at least £10m and the persons authorised to make investment decisions on behalf of the Mayoral Combined Authority having at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies must assess that these persons have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Mayoral Combined Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Mayoral Combined Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

**Appendix 15: West of England Mayoral Combined Authority (MCA)**

**Non-treasury Investment Strategy 2025/26**

## Introduction

The MCA invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
- to support local public services by lending to or buying shares in other organisations (service investments), and
- to earn investment income (known as commercial investments where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

The statutory guidance defines investments as “all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.” The MCA interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the organisation’s definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

## Treasury Management Investments

The organisation typically receives its income in cash (e.g. from grants) before it pays for its expenditure in cash (e.g. through payroll, invoices and grants). It also holds reserves for future expenditure. These activities, plus the timing of any borrowing decisions the organisation may make, often leads to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy.

The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Full details of the organisation’s policies and its 2025/26 plan for treasury management investments are covered in the separate Treasury Management Strategy.

This Non-treasury investment Strategy covers the organisation’s approach to service investments and commercial investments.

## Non-Treasury Investments

### Funding Support

The Combined Authority is currently developing a new ‘Investment Strategy’ to ensure we are aligning our approach to investment with the priorities Committee has agreed in the Strategic Framework. A new Investment Strategy will enable us to strengthen our focus on having the appropriate approach to spend management and investment in place to:

- Support the delivery of Mayoral priorities
- Deliver on the priorities of the Local Growth Plan and other delivery plans
- Ensure the range of potential activities to address Mayoral priorities are compared and considered together to identify the most effective use of investment funding rather than making reactive investment decisions on individual bids in isolation.
- Prepare for the anticipated changes to the MCA landscape that the Devolution White Paper and wider Government reform will unlock (including an anticipated move to a single integrated funding settlement at some point in the future).

The new Investment Strategy will set out a high-level framework for how funding allocations should be agreed and reviewed. There is still a lot of work to be done to develop the Strategy but it will reflect the future commissioning role of the Authority.

The current process the organisation follows for determining funding for projects is as follows:

An initial sifting tool is used to consider the outline ‘Project’ Proposal to determine it's 'in principle' suitability for funding. This is an initial gateway process to enable the organisation to prioritise its resources towards Projects which are most closely aligned with Regional Strategy priorities and Investment Approach objectives.

The process is designed so that the organisation can be satisfied that the proposed project has the appropriate qualities, financial standing, track record and resources to deploy funds to deliver its stated objectives.

The sifting checklist will consider a project proposal in 2 parts:

### Part 1

Section A: Details of the Project, and of the organisation delivering ‘the project’

Section B: Strategic Alignment of the Project Proposal, including the identification of which of the organisation’s regional ambitions and priorities the proposal is most aligned to, and of its alignment with Investment Strategy objectives.

Section C: Details of the Project Proposal and Funding Support Requirements, to include an Outline/Full Business Plan, Project Delivery Plan, details of the organisation’s financial position and the anticipated structure for funding support.

**Part 2**

**Due Diligence**

Objective Setting

For a Public Entity, such as the MCA, whose core business is not providing loans or making equity investments but is making an investment to support a wider role, it is vital that the organisation has a clear understanding of its objectives.

The objectives for any support will set the context for investment and allow the organisation to demonstrate it is acting within its legal framework and within the rules set out in the Prudential Code and the recently updated guidance for borrowing from the Public Works Loan Board (PWLB).

A recent focus to curb investment solely to generate yield has led Authorities to acknowledge the wider social and economic purposes of any support and it is important that these are set out. The success of the investment will be judged against how it supports the organisation to achieve these objectives.

Any application for support must be first assessed against a set of criteria to demonstrate the rationale for investment.

Initial Dialogue

Following a request for support, the organisation should engage with the counterparty to understand the organisation itself, the type of investment requested, the business plan and the key personnel involved.

Agreeing draft Head of Terms (HOT)

Once the decision to invest has been made the organisation may provide the applicant with a draft Head of Terms setting out the terms and conditions under which any investment will be made.

After consideration of these Terms, the applicant will decide whether to proceed to full financial and legal due diligence.

Financial and Legal Due Diligence

Due Diligence will assess various factors from publicly available sources that support information provided by the applicant.

Subsidy Control

Any loan, guarantee or equity investment made by the organisation should be considered and assessed against Statutory Guidance for the United Kingdom Subsidy Control Regime, as set out in the Subsidy Control Act 2022. Any gross cash equivalent of subsidies should be calculated in accordance with the Act, and the implications of any provision of subsidy must be assessed and recognised in any investment decision making. Independent, specialist advice on subsidy control should be taken where necessary.

Ongoing monitoring

To protect its investment, the organisation must ensure that ongoing monitoring is carried out.

This will include a number of reporting requirements including obligations to report against key financial benchmarks.

If the Applicant breaches any of these standards or has a material change in circumstances, it must inform the MCA and any action will then be considered.

Security, Liquidity and Yield

For treasury management and other financial investments local authorities should prioritise SECURITY, LIQUIDITY and YIELD in that order of importance.

Whilst consideration of security and liquidity is important for loans and non-financial investments, the relative balance between objectives may be different depending on the nature and objectives in making a specific investment.

Contribution

If an asset is not solely held for yield, then the MCA may have a different risk appetite or be willing to accept a lower return than it otherwise would.

Types of contribution may include:

- Regeneration
- Economic benefit/business rates growth
- Responding to local market failure

Where the investment contributes to regeneration or local economic benefit, it should be able to demonstrate that the investment aligns to or forms part of a project in the Business Plan.

The assessment of whether the additional risk is acceptable to the organisation will be conducted in accordance with the Risk Appetite Statements as set out in the Combined Authority's Corporate Risk Framework.

## Service Investments: Loans

The organisation may lend money to its subsidiaries, joint ventures and local businesses to support local public services that align to the MCA's own Strategic objectives and Regional ambitions and priorities. The organisation may choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures as part of a wider strategy for local economic growth even though those loans may not be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

The Statutory Guidance on Local Government Investments defines a loan as "a written or oral agreement where a local authority temporarily transfers cash to a third party, joint venture, subsidiary or associate who promises to return it according to the terms of the agreement, normally with interest.” This definition does not include a loan to another local authority, which is classified as a specified investment.

**Security of Service Loans**

The main risk when making service loans is that the borrower will be unable to repay the principal and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the organisation, upper limits on the outstanding loans to each category of borrower are proposed as follows: *Table 1: Total value of all loans for service purposes in £ millions*

| Category of Borrower | Approved Limit / £m (2024/25) | Approved Limit / £m (2025/26) |
|---|---|---|
| Subsidiaries/JDVs | 6.500 | 6.500 |
| Local Businesses | 13.000 | 13.000 |
| Repayable Funds to UAs | 29.000 | 29.000 |
| **Total** | **48.500** | **48.500** |

Accounting standards require the MCA to set aside an ‘expected credit loss’ allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority’s statement of accounts are shown net of this loss allowance. However, the organisation will make every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

**Risk assessment:** The MCA would assess all identified risks before entering into and whilst holding service loans. All future loans would be subject to the following risk assessment and mitigating actions:

1) An appropriate level of due diligence, to include the use of external advisors where appropriate.

2) An appropriate loan period and timing of repayments

3) The calculation of an interest rate that would represent ‘value for money’, be of ‘no detriment’ to the MCA, and satisfy the Authority that the loan was compliant with Subsidy Control regulations and to minimise the risk of Subsidy Control challenge

4) Approval being subject to a business case, due diligence, and loan agreement to the satisfaction of the Chief Executive, Monitoring Officer and Chief Finance Officer.

5) The business case would be reviewed to include focus on the project’s outcomes and their alignment with the organisation’s strategic objectives together with:

a. Impact of the borrower’s existing loans and charges on assets

b. Accuracy and reasonableness of Cashflow and profit forecasts

c. Ambition of future sales targets and income to repay loan

d. Provisions/allowances for contingency and inflation

e. Review of credit worthiness of business, length (or maturity) and collateralisation of loan

f. A carbon and nature impact assessment

6) For loans, first legal charge over land and assets

7) Regular review and valuation of the assets

8) Drawdown subject to a gateway process

9) Consideration of options of parent company guarantees

10) Consideration of obligations of S106 agreements

All loans are subject to an approved business case.

**Service Investments: Shares**

The MCA currently does not invest in shares and has no immediate plans to do so. In the event that service investment in shares are held in future, the Authority would consider the following:

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares would be set.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding shares through consideration of the following:

(1) undertaking an assessment of the market that the invested entity will be competing in, the nature and level of competition, how the market/customer needs will evolve over time, barriers to entry and exit and any ongoing investment requirements;

(2) whether to use external advisors;

(3) how to monitor and maintain the quality of advice provided by external advisors;

(4) to what extent, if at all, any risk assessment is based on credit ratings;

(5) where credit ratings are used, how frequently they are monitored and the procedures for taking action if credit ratings change; and

(6) what other sources of information are used to assess and monitor risk.

**Service Investments**

BTQ LLP

The MCA is an equal partner in the limited liability partnership incorporated on 25 March 2024 comprising Homes England (HE), Bristol City Council (BCC) and West of England Combined Authority (MCA) to enable the regeneration of Bristol Temple Quarter. Network Rail (NR) is a fourth party which has not yet joined BTQ LLP, but may do so in the future. BCC, HE and NR will be injecting land into BTQ LLP. The MCA will loan capital of £6.5m under terms which still need to be agreed and which is expected to be drawn down sometime in 2025.

Green Growth West Impact Fund

At its meeting of September 2024, The Committee approved the award of £10.5m to set up and invest in the Green Growth West Impact Fund. This will be set up by the MCA and up to £500k will be used to cover the procurement of a Fund Manager and the set-up cost of the Fund. The £10m will be 'cornerstone' capital investment into the Green Growth West Impact Fund to support net zero business growth, the creation of jobs and the region's ambition to be net zero by 2030.

**Repayable Funding:**

Through the former Land Acquisition Fund (LAF) and Development Infrastructure Fund (DIF) elements of the Investment Fund programme, five awards of wholly or partially repayable funding have been made to Constituent Councils. The exact nature of the contractual agreements for these schemes varies, but generally includes the defined term over which the repayment is to be made and the long stop date by which time full repayment is expected. Total funds paid against these five schemes are £49m of which £29m will be repaid. Under Statutory Guidance on Local Government Investments these repayable funds would be defined as 'loans' and classified as specified investments.

**Non-specified Investments:**

Shares are the only investment type that the organisation has identified that meets the definition of a non-specified investment in the government guidance. Any limits the MCA introduces in future for Service share investments will therefore also be the upper limits on non-specified investments. The MCA has not adopted any procedures for determining further categories of non- specified investment since none are likely to meet the definition.

**Commercial Investments: Property**

The MCA currently does not invest in property with the intention of making a profit that will be spent on local public services and has no immediate plans to do so. In the event that commercial property investments are held in future, the organisation would consider the following:

**Security:** In accordance with government guidance, the organisation would consider a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

**Risk assessment:** The MCA would assess the risk of financial loss and reputational damage before entering into and whilst holding property investments. The approach followed would be to consider:

1) A full due diligence exercise covering an assessment of: the property business plan, including sensitivity and scenario analysis; the credit quality of incumbent tenants (if any); the local property market, including demand, availability and voids in current similar commercial stock; the area's economic outlook and potential; how market/customer needs will evolve over time; barriers to entry and exit and any ongoing investment requirements;

2) Where in-house expertise does not cover the relevant investment opportunity, the organisation will use external advisors for all/part of the due diligence and any other specialist areas;

3) External advice will be monitored by relevant officers, including adherence to deadlines, regular advisory meetings and adherence to project objectives;

4) The risk assessment will include credit ratings as part of the overall in-depth credit assessment of tenants. The creditworthiness of tenants will be monitored on a regular basis, using external expertise where necessary to give a credit view and an early warning of possible issues. As landlord, the MCA will maintain open dialogue with tenants, including discussion of financial stress;

5) The organisation will monitor the performance of the property asset against business plans throughout the life of the asset, assessing its performance and contribution of continued investment against the probable returns from sale.

**Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. Each potential investment would be considered to ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed.

**Loan Commitments and Financial Guarantees:** Although not strictly counted as investments, loan commitments and financial guarantees carry similar risks to the organisation and if the MCA were to enter into any, a process in line with that taken for service loans, as set out above, would be followed, including a calculation of a loss allowance where appropriate.

**Investment Indicators:** The MCA has set the following quantitative indicators to allow elected members and the public to assess the organisation's total risk exposure of its investment decisions.

**Total risk exposure:** The first indicator shows the organisation's total exposure to potential investment losses. This includes amounts the MCA is contractually committed to lend but which is yet to be drawn down.

*Table 3: Total investment exposure in £millions*

| **Total Investment Exposure** | **31.03.2024 Actual/ £m** | **31.03.2025 Forecast/ £m** | **31.03.2026 Forecast/£m** |
|---|---|---|---|
| Treasury Management Investments | 381.556 | 484.200 | 313.000 |
| Service Investments: Loans | - | 19.500 | 19.500 |
| Repayable Funding to UAs | 28.987 | 28.987 | 16.884 |
| Service Investments: Shares | - | - | - |
| **Total Exposure** | **410.543** | **532.687** | **349.384** |

**How investments are funded:**

To date, all investments are funded by the organisation's useable reserves, available 'Investment Fund' balances and income received in advance of expenditure. There are no immediate plans to borrow.

**Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

*Table 4: Investment rate of return*

| **Investments net rate of return** | **2023/24 Actual** | **2024/25 Forecast** | **2025/26 Forecast** |
|---|---|---|---|
| Treasury Management Investments | 4.4% | 4.87% | 4.7% |
| Service Investments - Loans | 0.0% | 0.0% | tbd* |
| **ALL INVESTMENTS** | **4.4%** | **4.87%** | **4.7%** |

*to be determined when terms of loans have been agreed.

**Appendix 16: West of England Mayoral Combined Authority (MCA)**

**Minimum Revenue Provision Statement 2025/26**

## Annual Minimum Revenue Provision Statement 2025/26

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The *Local Government Act 2003* requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in April 2024.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP, but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance.

MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Expenditure in Local Authorities*, 2021 edition.

- The Authority expects that its capital financing requirement will be nil on 31st March 2025 and in line with the MHCLG Guidance it will therefore charge no MRP in 2025/26.

- For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

## Capital Loans

- For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value of any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

- For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

- For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

- For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

**Capital Receipts**

Proceeds from the sale of capital assets are classed as capital receipts, and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.

- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.

- Capital receipts arising from other assets which form an identified part of the Authority’s MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.

- Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

**<u>Appendix 17: REPORT OF THE INDEPENDENT REMUNERATION PANEL FOR THE WEST OF ENGLAND MAYORAL COMBINED AUTHORITY</u>**

<u>Introduction and Legal Framework</u>

1. The Local Government Act 2000 and the Local Government (Members' Allowances) Regulations 2003 set the framework for making a Scheme of Allowances. There is a requirement to establish and maintain an independent panel to make recommendations on allowances.

2. The West of England Combined Authority Order, 2017 established the West of England Combined Authority. Article 8 of that Order states that the Combined Authority may only pay an allowance to the Mayor or to a member or substitute member of the Authority if (a) it has considered a report, from an Independent Remuneration Panel established by one or more of its constituent Councils, which contains recommendations for such an allowance, and (b) the allowance paid by the Combined Authority does not exceed the amount specified in the recommendation made by the Independent Panel.

3. The Independent Remuneration Panel for Bath & North East Somerset has been appointed to act in this regard on behalf of the Mayoral Combined Authority. That Panel comprises:

**Graham Russell (Chair)**
*Graham was the Head of Democratic Services for Bath & North East Somerset Council from 1993 to early retirement in 2005. Prior to that was a long career in local government corporate departments. He developed some expertise in the whole subject of members' allowances and was commissioned by South West Councils to produce on-line guidance on the subject for Independent Remuneration Panel (IRP) members, their support officers and councillors. He is a member of a number of IRPs in the region and Chair of others. He is currently a marriage celebrant and a volunteer at Saltford Community Association in various roles.*

**Wendy Stephenson (Vice Chair)**
*Wendy was, from 2005 to 2017 Chief Executive of VOSCUR, the support and development organisation for Bristol's voluntary and community sector. In this role, Wendy gained a good knowledge of the workings of local authorities and has worked with councillors and officers in a number of different policy areas. Wendy chairs the Bristol City Council IRP and is a member of the Bath & North East Somerset IRP.*

**Ronnie Alexander**
*Ronnie left the Civil Service in 2013 to pursue a variety of other interests including consultancy. He is currently an independent Member of Powys Teaching Health Board and a non-executive member on the Board of the Independent Monitoring Authority. Ronnie serves as Independent Chair of the Standards Committee for Blaenau Gwent County Borough Council and is an independent Member of the Standards Committee for the Vale of Glamorgan Council. He has a considerable record of engaging with the public,*

*professionals and politicians at all levels, to influence policy. This follows from a civil service career spanning over 20 years and an equivalent period working in local government.*

**Keira Stobie**

*Keira has moved on from full time classroom teaching, but remains employed within the education sector and has become more involved with her voluntary interests, which predominately focus on heritage, arts and working with people at either end of the age spectrum. This reflects her enthusiasm for new challenges and her motivation to use her experience to actively contribute to her community. She is also a member of the Bristol City Council IRP and the Bath & North East Somerset IRP.*

<u>The Review Process</u>

4. The Panel was invited to conduct a full review of the Authority's allowances scheme. It met on 4 occasions to conduct the review, including interviews with the Authority's Monitoring and Section 73 Officers and certain Committee Chairs. The Panel is grateful for the help it has received from Members and Officers in providing and verifying evidence for this review. Our thanks must also be recorded in particular to Tim Milgate, Democratic Services, for his administrative support and advice to the Panel.

5. One of the fundamental principles adopted by the Panel, in this and its other responsibilities, is to put forward recommendations that are founded on the evidence provided and the Panel's consideration of that evidence. Part of that evidence base in this case was comparative information from some other Combined Authorities.

6. The Panel was provided with a brief for the review indicating the issues which the Authority wished the Panel to consider. The following paragraphs represent the Panels consideration of those issues.

<u>The Mayor</u>

7. The Panel was aware that their earlier review of the Mayor's role in 2021 concluded that the then allowance of £65,000 was not sustainable, given the powers of the Authority and the responsibilities of the Mayor. The Panel recommended at that time, supported by the Mayoral Combined Authority, that there should be a phased annual enhancement of the Mayor's allowance, over and above the annual pay award uplift. This phased uplift ended in 2024/25.

8. The result of this phasing, together with the annual uplifts from pay awards has elevated the Mayor's allowance to its current level of £93,580. This level compares favourably with other Mayoral allowances in combined authorities. Statistics given to the Panel show that this allowance is at the mid-point of a

scale of similar allowances ranging from £111,000 (West Yorkshire) to £80,000 (Tees Valley).

9. The Panel is aware that the Government is expected to announce new powers for Combined Authorities and that these may well impact on the role and responsibilities of the West of England Mayor (noting that not all Mayoral Combined Authorities currently have the same powers).

10. The Panel is satisfied that, at the present level, the Mayor's salary is a sufficient recognition and reflection of the current powers of the role. In the event that any new powers for the Authority, and the Mayor, are bestowed through legislation, the Panel will wish to give this matter further consideration.

11. **RECOMMENDATION 1: That the allowance for the Mayor of the West of England Mayoral Combined Authority be set at its current level of £93,580 per annum (plus subsequent pay awards) with effect from May, 2025;**

12. **RECOMMENDATION 2: That the Combined Authority notes the intention of the Panel to reconsider this matter in the light of any Government action relating to the powers of the Authority.**

<u>Employment Policy relating to the Mayor</u>

13. In its brief for this review, the Panel was invited to consider setting a local policy relating to whether a serving Mayor could remain/become a Member of Parliament.

14. The Panel was advised that there was no legal restriction regarding employment on a Mayor of a Combined Authority other than preventing a Mayor from holding any paid employment within the Mayoral Combined Authority itself or within any of its constituent Councils.

15. The Panel was unequivocal in its view that this was not within its remit to recommend, nor would it wish to do so. The issues raised seemed particularly relevant to the management of conflicts of interest and good governance within the organisation, but that is for others to consider. A blanket policy was neither appropriate nor necessary in the Panel's view.

Deputy Mayor

16. The constitution of the Combined Authority provides for the Mayor to appoint a Deputy Mayor. Currently no appointment has been made.

17. The Panel has researched the practice elsewhere regarding the role of the Deputy Mayor and the allowances awarded. One of the key factors is whether and to what extent the Deputy Mayor is to act other than standing in for the Mayor.

18. Where the Deputy Mayor is expected to take a lead on major projects on the Mayor's behalf, or is given a portfolio to manage e.g. finance, then the allowance is appropriately higher than if the role was deputising alone.

19. At the present time, the Panel was unable to ascertain which model of working was likely to be adopted by the incoming Mayor in May, 2025, or indeed whether a Deputy would be appointed.

20. Although the Panel could recommend a scale of allowances linked to the level of responsibility allocated to a Deputy, we preferred to defer any consideration until the position regarding a Deputy was clarified after the Mayoral election.

21. In terms of clear evidence for that re-consideration, the Panel would strongly urge the Combined Authority to produce a role description for the Deputy Mayor.

22. **RECOMMENDATION 3: That the Combined Authority note the Panel's position on the Deputy Mayor; and**

**23. RECOMMENDATION 4: That the Combined Authority produce a role description for the Deputy Mayor in order to clarify the functions and responsibilities of the role when known.**

Chair of Overview and Scrutiny Committee

24. The Panel has noted the present allowance of £5,625 for this member role which recognises the leadership of this statutory function. In setting this allowance level, the previous Panel determined that the allowance should be set at 75% of the average of the equivalent allowances in the constituent councils. Currently, that average is £8,300.

25. The Panel has noted that the equivalent roles in constituent councils do not all operate on the same basis as each other, with various models of scrutiny

being adopted. Therefore it may not be appropriate to continue to use that formula to set the allowance in the Mayoral Combined Authority.

26. While there is clear evidence of the leadership role of the Chair, there was no strong evidence for any variation in the allowance.

27. **RECOMMENDATION 5: That the allowance for the Chair of the Overview and Scrutiny Committee be set at £5,625 per annum (plus subsequent pay awards) with effect from May, 2025**

<u>Members of the Overview and Scrutiny Committee</u>

28. The Panel was made aware of new statutory guidance from the Government relating to scrutiny in devolved authorities (e.g. the Combined Authority), the aim of which was to promote good practice through a Scrutiny Protocol.

29. One of the key principles of the Protocol related to direct remuneration of members (and substitute members) of overview and scrutiny committees to reflect their "responsibility and status". The Panel was invited to consider a recommendation to the Combined Authority on this matter.

30. The concept of remunerating members of a committee holds some concerns for the Panel. Primarily, it would set a precedent locally whereby members of constituent councils' overview and scrutiny committees could claim equal responsibility to their Combined Authority counterparts and seek remuneration. The issues of quoracy and membership of the committee should not be resolved by remuneration which would seem to be a move towards the attendance allowance regime that was removed in the 2003 Regulations.

31. The Panel is not persuaded that remunerating committee members (and this would apply to any committee) is an appropriate way forward. The Combined Authority might usefully consider any underlying reasons why membership and quoracy is an issue.

32. **RECOMMENDATION 6: That no allowance be made to members of the overview and scrutiny committee (or indeed members of any other committee of the Authority).**

<u>Chair of Audit Committee</u>

33. The Panel has noted the parity between this chairing role and that of the Overview and Scrutiny Committee within the Allowances Scheme. This is considered both appropriate and a necessary recognition of the importance that both committees have in the good governance of the Combined Authority.

34. Regarding the Chair of the Audit Committee, the allowance is more of a recognition of the key responsibility of the Chair in the audit process rather than the time and effort required.

35. **RECOMMENDATION 7: That the allowance for the Chair of the Audit Committee be set at £5,625 per annum (plus subsequent pay awards) with effect from May, 2025**

Independent Audit Committee Members

36. Irrespective of our position stated above about remuneration of committee members, it is right that the Allowances Scheme recognises the role and value of the Independent Members of the Audit Committee.

37. The Panel has been advised that, with a remuneration of £695 per annum, the Authority has been able to attract persons of the required calibre.

38. In the circumstances, the Panel feel there is no compelling evidence for change and that the existing allowance is appropriate.

39. **RECOMMENDATION 8: That the allowance for the Independent Members of the Audit Committee be set at £695 per annum (plus subsequent pay awards) with effect from May, 2025.**

Combined Authority Committee

40. This committee comprises the Leaders of the constituent councils (Bath & North East Somerset, Bristol City and South Gloucestershire). It is the main decision making body of the Authority, chaired by the Mayor.

41. The brief to the Panel invited us to consider recommending an allowance to the members of this Committee.

42. The Panel has carefully considered this. It has concluded that it was more a matter for the constituent councils to consider in the context of the allowance awarded to their Leaders, and the extent to which their role in the Combined Authority should be recognised within those allowances.

43. **RECOMMENDATION 9: That no allowance be paid to the Combined Authority Committee and that the Mayoral Combined Authority consider making a request to constituent councils in this regard, as noted in para 42 above.**

Chair of Joint Committee

44. The Panel has considered the role of this Committee in dealing with legacy funding issues and the expectation that such issues will diminish over time.

45. There was no evidence that the chairing role was onerous. Consequently, the Panel believes that there is no case for an allowance to be recommended.

46. **RECOMMENDATION 10: That no allowance be made to the Chair of the Joint Committee.**

47. The Panel was also asked to consider an allowance for the Chair of the Local Enterprise Panel who attended the Joint Committee and the Combined Authority Committee.

48. In the absence of any evidence that the role was particularly onerous, or carried on behalf of the Combined Authority any significant ongoing responsibility, the Panel concluded that at this time no allowance should be recommended.

49. **RECOMMENDATION 11: That no allowance be made to the Chair of the Local Enterprise Panel.**

<u>Further review</u>

50. The Panel is aware that much of this report recommends the status quo in terms of allowances. We were given a brief from the Authority to consider the issues identified in this report, but there was very little practical evidence offered or obtained to enable us to give full consideration to the issues.

51. It is always helpful if key member roles are supported by comprehensive role descriptions, setting out roles, responsibilities and accountabilities. We would strongly urge that such documents be prepared for the Authority's member roles.

52. We also appreciate that much of the operational and governance arrangements for the Authority will depend on the approach of the newly elected Mayor in May, 2025.

53. In that context, the Panel wishes to advise the Authority that it is willing at any time to consider, or re-consider, any issues which the Authority feels necessary. The Panel would emphasise that any such requests should be supported by evidence, recognising that our findings are always evidence based.

54. **RECOMMENDATION 12: That the Mayoral Combined Authority notes the offer of the Panel to re-convene at any time to consider any issues which the Authority may wish to refer to it.**

Graham Russell, Chair

**Appendix 18: Election Costs Breakdown**

**West Of England Combined Authority Mayor Election - 1 May 2025 Budget Estimate**

The budget required to deliver the West of England Combined Authority Mayoral election across the three Local Authority councils is estimated at **£3,389,149**

| **Combined Total of all Costs** | |
|---|---|
| Combined Local Authority Costs | **£2,887,383** |
| CARO Costs | **£35,698** |
| Mayoral Booklet Costs | **£466,068** |
| **OVERALL TOTAL** | **3,389,149** |

| **Local Authority Costs** | | | |
|---|---|---|---|
| | LRO Fee | Delivery Cost | Overall Maximum Recoverable Amount (MRA) *1 |
| Bath and North East Somerset | £6,547 | £493,934 | £500,481 |
| Bristol | £16,082 | £1,695,724 | £1,711,806 |
| South Gloucestershire | £10,252 | £664,844 | £675,096 |
| TOTAL | | | **£2,887,383** |

*1 The MRA is set by the Cabinet Office as the amount that Local Authorities can spend on elections. The MRA for this purpose was based on the PCC election in May 2024.

| **Combined Authority Returning Officer Fees (CARO)** | | | |
|---|---|---|---|
| | CARO Fee | Delivery Cost | Overall Maximum Recoverable Amount (MRA) *2 |
| CARO Fee | £8,000 | £13,698 | **£35,698** |
| Deputy CARO Fees (3 people) | £14,000 | | |

*2 The MRA for the Combined Authority Returning Officer (CARO) fees is set by the Cabinet Office and is based on the Police Area Returning Officer (PARO) fee in May 2024.