LIVERPOOL CITY REGION COMBINED AUTHORITY

To:	The Chair and Members of the Combined Authority
Meeting:	2 February 2018
Authorities Affected:	All
EXEMPT/CONFIDENTIAL ITEM:	No
Key Decision	

REPORT OF THE DIRECTOR OF CORPORATE SERVICES

MAYORAL COMBINED AUTHORITY BUDGET SETTING REPORT 2018/19

1. PURPOSE OF THE REPORT

1.1 This report seeks approval for the Liverpool City Region Mayoral Combined Authority budget for 2018/19. In establishing its budget, the LCRCA needs to make a series of key decisions regarding its income and how it uses this income.

1.2 The Combined Authorities (Finance) Order 2017 established new financial arrangements in respect of Mayoral Combined Authorities that need to be reflected in the 2018/19 budget. These include the requirement to specifically determine the costs of the Combined Authority Mayor.

1.3 The Order also requires the Combined Authority Mayor to notify the Combined Authority of the Mayor's draft budget before 1st February 2018, which was complied with in the issuing of this report and provides a statutory timescale for the Combined Authority to consider and, where appropriate, to recommend amendments to the Mayor before 8th February 2018.

1.4 This provision only applies to the Mayoral Cost element of the Combined Authority's budget for 2018/19, and specifically those areas where the Mayoral Combined Authority has the power to provide funding through the establishment of a Mayoral precept.

1.5 The Combined Authority must also set a budget for its other costs in 2018/19. This includes transport activity funded through the Transport Levy mechanism and the operation and maintenance of the Mersey Tunnels estate.

1.6 Members will be aware that the LCRCA has a statutory duty to agree a levy for 2018/19 before 14th February 2018.

1.7 The LCRCA must also set the schedule of tolls applicable to the Mersey Tunnel for 2018/19. This decision is subject to a separate report that was considered by the Transport Committee at its meeting of the 1st February, and the revenue associated with their recommendation is incorporated into the LCRCA budget for 2018/19.

1.8 In funding its transport activities, the Combined Authority also needs to establish a differential levy in respect of the LCRCA's transport powers in Halton. It is important to note, however that there are no changes to the delivery of transport services in Halton implied within this report.

1.9 The purpose of this report is to bring together these key decisions and present detail of the budget requirement for the Authority for 2018/19, together with the operational grants that will be payable to Merseytravel and Halton for the delivery of the LCRCA's transport activities throughout the City Region.

1.10 This report reflects the transitional nature of the financial year 2018/19. As the Mayoral Combined Authority evolves it will require a robust, sustainable funding model. This budget is part of an underlying financial strategy that seeks to maximise the benefits of devolution for the City Region as a whole, while recognising the burden that any additional local taxation places on households in financial need.

1.11 The Metro Mayor. Leaders of the LCR LAs and Mayor of Liverpool recognise the high level of Council Tax currently being met by the residents of the LCR already suffering high levels of poverty as a result of Central Government shifting the burden of costs from central to local taxation and the ongoing cuts imposed on the LCR by central government.

1.12 As such, the Mayor is not intending to use the power to set a precept for running costs in 2018/19. The Mayor recognises that to set a precept in 2018/19 would add to pressures on Council Tax bills, including the Social Care precept and rising costs of policing. As such, any decision on a precept is deferred while a robust and sustainable funding model is undertaken to prepare the Mayoral Combined Authority for the future.

1.13 In recognition of the transitional nature of the 2018/19 financial year, and in order to support the 2018/19 LCRCA budget and to free up revenue to meet the 2018/19 Mayoral CA capacity requirements, the Single Investment Fund will be supported by contributions of £6.2m provided by the 6 Constituent Councils, to be determined by the relative population of each district.

1.14 Investing in the Combined Authority in this way demonstrates the commitment of the constituent districts of the Combined Authority to the devolution deal and to the wider objectives of the new Mayoral Combined Authority.

2. RECOMMENDATIONS

2.1 The Liverpool City Region Combined Authority is recommended to:-

(a) note this report;
(b) agree the Mayoral Budget as presented at Table 1 of this report;
(c) agree to funding costs associated with the exercise of Mayoral responsibilities as defined by the Combined Authorities (Finance) Order 2017 through the use of transitional funding arrangements for 2018/19;

(d) approve the non-Mayoral elements of the Combined Authority budget for 2018/19;
(e) approve a funding package of £6.2m from the constituent authorities of the Liverpool City Region Mayoral Combined Authority to support the Single Investment Fund in 2018/19 as identified at Table 5;
(f) approve a transport levy of £95.4m for 2018/19;
(g) approve the payment of an operational grant of £92m to Merseytravel;
(h) accept the recommendation of the Liverpool City Region Combined Authority's Transport Committee in respect of Tunnel Tolls at Table *7* of this report;
(i) approve the request for an operational grant of £28.47m in respect of the operation of Mersey Tunnels for 2018/19;
(j) approve a grant of £2.7m to Merseytravel to support the delivery of strategic capital investment;
(k) approve the establishment of a differential transport levy for Halton in 2016/17;
(l) recognise the differential levy payable by Halton as £3.1m
(m) agree a corresponding grant from the LCRCA to Halton £3.1m in order that Halton can continue to provide transport services in Halton on behalf of the LCRCA in 2018/19; and
(n) Approve the Treasury Management Strategy 2018/19 incorporating the Minimum Revenue Provision and associated Treasury Limits and Prudential Indicators as detailed at Appendix 1.

3. BACKGROUND

3.1 The budget for 2018-19 is the first budget established under the Combined Authorities (Finance) Order 2017 and therefore differs in a number of key areas from previous Combined Authority budgets.

3.2 On 5 May 2017, six mayors were elected for the first time to lead combined authorities in Cambridgeshire and Peterborough, Greater Manchester, the Liverpool City Region, the Tees Valley, the West of England and the West Midlands. The six combined authority areas account for a total population of 9.5 million people, almost 20% of the population in England.

3.3 From 2018/19 elected Combined Authority mayors can provide for the costs of their offices and activities through a precept on local council tax bills. 2018/19 will be the first financial year for which mayoral combined authorities have been required to consider issuing a precept to fund the associated costs.

3.4 Changes to the budget process reflect the establishment of the Elected Mayor and the new powers associated with this office. The budget also needs to reflect the new funding arrangements established by government in respect of Combined Authority Elected Mayors and the requirement to establish a precept for Mayoral costs under the Combined Authorities (Finance) Order 2017.

3.5 The Mayoral budget reflects the priorities of the new City Region Metro Mayor and is focussed on investment in economic growth in the City Region including in our infrastructure, our skills and our environment.

3.6 These priorities include building upon commitments made in our devolution agreement with government and ensuring that the City Region gets maximum benefit from those resources and powers that have been devolved to it.

3.7 The budget will make special provision for beginning to harness the energy potential of the River Mersey; for exploiting opportunities provided by digital connectivity; for making best use of new powers in respect of bus services in the City Region and for key strategic investments across all of the City Region.

3.8 In addition to the Mayoral budget, the Combined Authority's budget also reflects those powers and responsibilities already held by the Combined Authority prior to the establishment of the City Region Mayoral powers. These principally relate to transport powers.

3.9 In respect of transport powers, this budget considers the transport levy payable by each of the district councils within the city region and the schedule of tolls in respect of the Mersey Tunnels for 2018/19.

4. MAYORAL COSTS AND BUDGET 2018/19

4.1 The Combined Authorities (Finance) Order 2017 Part 2 states that:

> "The costs of a mayor for the area of a combined authority that are incurred in, or in connection with, the exercise of mayoral functions are to be met by precepts issued by the authority under section 40 of the 1992 [Local Government Finance] Act (issuing of precepts by major precepting authorities)"

4.2 As such, the Liverpool City Region Mayoral Combined Authority has been established in law as a major precepting authority in order that the costs associated with exercising its functions can be funded in an appropriate manner.

4.3 Having due regard to the principles of value for money the Mayor has sought to minimise the costs associated with these functions and has established a structure that includes only those functions directly associated with delivering the maximum benefit for the City Region.

4.4 Since the election of the first City Region Mayor, the Mayor has challenged officers to reduce costs across a number of areas and in doing so, has delivered a budget that has significantly reduced from levels previously anticipated and is a direct reduction from the level anticipated in the report agreed by the Combined Authority in June 2016.

4.5 In addition to running costs, the Mayor has also sought to provide resources to further priorities in digital connectivity, tidal energy and other areas associated with the devolution agreement which will be of significant and long-term benefit to the City Region.

4.6 The Mayor recognises the financial challenges facing households across the City Region and does not want to add to this burden unnecessarily. The legislation that established the Office of the City Region Mayor established the precept as the means of funding this office, with central government providing very little by way of revenue support.

4.7 The City Region, in common with other city regions, has long argued with government that the scale of local government cuts and the absence of revenue funding associated with devolution significantly jeopardises our ambitious programme of investment.

4.8 Government's response has been to establish Mayoral Combined Authorities as major precepting authorities, thus placing responsibility for funding at a local rather than national level.

4.9 The Mayor – along with all the members of the Combined Authority – recognised the financial impact of government policy on households in the City Region. As a result, the Mayor will not exercise the power to establish a precept for 2018/19 and instead use other resources to fund Mayoral costs.

4.10 Despite the precept not applying in 2018/19, the Combined Authority (Finance) Order 2017 nonetheless requires the Mayor to specifically identify the budget for costs directly related to the exercise of Mayoral function in 2018/19. These are presented in Table 1 below.

Table 1: Liverpool City Region Mayoral Combined Authority Costs 2018/19

Mayoral Expenditure	2018/19 £000
Mayor's Office Direct Costs	274
Corporate Management Costs	
Total Corporate Management	4,323
Funding for Mayoral Priorities	1,600
Total eligible to be funded by Precept	6,197

4.11 The budget for direct running costs represents a significant saving on previous budget assumptions. Reducing the cost of the staffing structure of the Mayoral CA has enabled more resources to be used for investment in the key Mayoral priority areas identified above.

4.12 This budget will also allow the City Region to access the technical expertise needed to develop projects to harness the power of the River Mersey and improve the City Region's Digital connectivity.

4.13 Through his manifesto, the Mayor has put forward an ambitious programme of activities and initiatives to ensure that:

- every part of the City Region benefits from the £900m Single Investment Fund secured in the Devolution agreement and that no borough is left behind;

- the City Region develops the digital and low carbon infrastructure to capitalise on its natural assets – including harnessing the power of the river Mersey to generate;
- the City Region's skills strategy delivers a step-change in provision including the roll-out of degree-level apprenticeships and creating a single UCAS-style portal for apprentices;
- everyone in the City Region has access to has a modern and affordable transport system; and
- that the LCRCA secures a second devolution deal with Government which means more funding and powers are taken from Whitehall and given to the City Region.

4.14 The Mayor is committed to delivering these pledges and the Mayor's Office exists to support the Mayor in this. Specifically, the Mayor's office will:

- ensure the Mayor can listen to and communicate with citizens in the Liverpool City Region effectively;
- oversee the delivery of the Mayor's policy priorities;
- support with briefings and policy review; and
- support the Mayor's schedule of public events and meetings.

4.15 The Metro Mayor, Leaders of the Liverpool City Region and Mayor of Liverpool as the members of the Combined Authority recognise the need to deliver this agenda and have identified resources to provide the Mayor with the necessary capacity as defined by the budget in Table 1 above.

4.16 Transitional funding of £6.197m has been made available to the Combined Authority for 2018/19. This has been made possible through a separate investment package negotiated between the Combined Authority and its constituent districts which allows this transitional funding to be put in place at no detriment to the Single Investment Fund and specifically, the City Region's Gainshare funding package agreed with government.

4.17 It is recognised, however that this is not a sustainable financial model for future years. Unless government policy shifts significantly, the burden of funding the Mayoral CA will continue to be felt locally. As a result, the Combined Authority commits to securing a sustainable funding model for Mayoral costs from 2019/20 onwards.

4.18 A strategic financial analysis will be undertaken using appropriate expertise both within the Combined Authority and, where appropriate learning from other organisations. This will consider the application of the Mayor's powers to precept and the feasibility of a subscription model, as well as other options. This significant piece of work will report its findings back to the Combined Authority before September 30th 2018 as part of the 2019/20 budget cycle.

5. LIVERPOOL CITY REGION COMBINED AUTHORITY REVENUE BUDGET 2018-19

5.1 Overview

5.1.1 The Combined Authority's general budget for 2018-19 includes those costs that are identified in the Mayoral budget, is shown in Table 1 below. The Combined Authority's general budget includes all the functions of the Combined Authority and not just those associated with the exercise of Mayoral powers. In particular, this budget includes the costs associated with the Combined Authority's substantial responsibilities for transport. A detailed budget showing the split of Mayoral and CA running costs is included in Appendix 3.

Table 1 LCRCA Revenue Budget 2018/19

	2018/19 £'000
Expenditure	
Mayoral Office Direct Costs	274
Communications & Stakeholder Engagement	575
Funding for Mayoral Priorities	1,600
Chief Executive's Office	402
Policy and Commissioning (including Employment & Skills)	1,529
Commercial Development & Investment	1,639
Corporate Services	1,699
Economic Development: Strategic Management	178
Transport: Strategic Management & Commissioning	747
Merseytravel Operating Grant for Transport Delivery	92,020
Mersey Tunnels Operating Grant	28,467
Halton Transport Grant for Transport Delivery (Halton only)	3,123
Capital Financing and Treasury Management Costs	14,312
Special Rail Grant	86,957
Capital Grant to Merseytravel	2,720
Total Revenue Costs	**236,242**
Funded by:	
Transport Levy	-95,400
Halton Differential Transport Levy	-3,123
Tunnel Tolls Income	-40,700
Transitional Funding	-6,197
Application of Reserve	-3,415
Special Rail Grant	-86,957
Total Funding	**-236,242**

5. 2 **SINGLE INVESTMENT FUND REVENUE PROGRAMME 2018/19**

5.2.1 In addition to the main revenue budget, LCRCA is supporting an extensive programme of investment across the City Region through its Single Investment Fund. Whilst a significant proportion of this investment is capital in nature, as part of its devolution deal, LCRCA receives £30m per year for 30 years, based on a 25:75 revenue capital split. This award, however, does not represent a continual income stream to LCRCA as it is subject to a five yearly gateway review.

5.2.2 As part of the open call for projects which closed in December 2016, bids totalling £21.23m were received for schemes seeking revenue support. The table below details the funding commitment that has been made to date to those schemes that have had their business cases approved by the CA and, in most cases, for which a signed Grant Funding Agreement (GFA) is in existence.

Table 2 SIF Revenue Schemes (Committed)

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Alstom Technology Training Centre	400	400	300
Film & Content Fund	100	50	0
Internation Business Festival 2018	2,759	0	0
Cultural Events Programme	3,400	0	0
Futureproofing M6	124	0	0
Total Committed	**6,783**	**450**	**300**

5.2.3 There are still a significant number of schemes that are in the appraisal and approval process. Dependent on the outcome of this process, there could be a further call of up to £9.190m on the total SIF revenue allocation over the period to 2020/21. The table below provides further detail on these schemes.

Table 3 SIF Revenue Schemes (Uncommitted)

	2018/19 £'000	2019/20 £'000	2020/21 £'000
-			
Port Sunlight R&D (linked with LGF 3)	2,680	1,140	0
Flexible Business Growth Fund (Linked to LGF 2)	400	250	100
Scale Up Liverpool	2,050	1,100	600
Growing Business Visits & Events	350	220	0
Maritime Knowledge Hub (Linked to LGF2))	270	30	0
Total Possible Commitment	**5,750**	**2,740**	**700**

5.2.4 In addition to these applications, Gainshare revenue grant is also available to support further LCRCA Priorities and to support further devolution. Any application of Gainshare Revenue will be subject to the LCRCA's normal decision making and its comprehensive assurance framework.

5.2.5 In addition to the applications identified in Table 5 above, there is already a significant pipeline of schemes at various stages of development and a commitment made to government to deliver a further International Business Festival in 2020 (IBF2020).

5.2.6 To allow the application of Gain Share revenue to support the revenue budget for 2018/19, the Single Investment Fund will be supplemented by an investment package composed of revenue contributions from each of the Liverpool City Region districts to a total value of £6.2m. This arrangement will support transitional Mayoral funding arrangements (see Section 3).

5.2.7 This is an investment in the future of the City Region and a demonstration of commitment to the Single Investment Fund. Through this model, each of the constituent districts of the City Region will benefit from the anticipated future economic returns arising directly and indirectly from the application of our Single Investment Fund.

5.2.8 Table 6 shows the composition of this investment package by district. In line with the apportionment methodology used for the Transport Levy, the investment will be allocated pro rata to each districts population.

Table 4 Local Investment Package in Single Investment Fund

Local Authority	Population	%	Investment
Halton	126,900	8.28%	£ 513,095
Knowsley	147,900	9.65%	£ 598,004
Liverpool	484,600	31.60%	£ 1,959,384
Sefton	274,300	17.89%	£ 1,109,078
St Helens	178,500	11.64%	£ 721,729
Wirral	321,200	20.95%	£ 1,298,709
Total	**1,533,400**		£ 6,200,000

5.3 TRANSPORT

5.3.1 The Combined Authority is the transport authority for the Liverpool City Region. Its transport responsibilities are discharged by Merseytravel and by Halton Council within the boundaries of Halton.

5.3.2 Transport responsibilities are funded through the transport levy. The transport levy has reduced significantly in recent years and this has benefited those districts that fund the levy through Council Tax.

5.3.3 Higher inflation and demographic pressures mean that further levy reductions are not possible for 2018/19 however the CA can commit to a levy freeze at the level of £95m for 2018/19. Should this levy be agreed, the distribution of the Levy will be as detailed in the table below.

Table 5 Transport Levy by Authority

	Transport Levy 2017/18 £'000	Transport Levy 2018/19 £'000
Knowsley	10,045	10,032
Liverpool	32,660	32,869
Sefton	18,677	18,605
St Helens	12,120	12,107
Wirral	21,898	21,786
Total	**95,400**	**95,400**

5.3.4 In order to operate within these cash limits, Merseytravel will be required to continue to make certain adjustments to its cost base over this period. In particular, the current cost of the concessionary travel scheme – which is funded through the levy – is unsustainable and will need to be reviewed over this period.

5.3.5 Other transport priorities will include:

i. continue to extend commercialisation of the supported bus network;

ii. review how we operate the Mersey Ferries as we prepare the business case for investment in potential new vessels:

iii. work with the Bus Alliance to increase patronage across the network by the promotion of affordable, sustainable and reliable bus services, backed by a modern, integrated ticketing scheme;

iv examine the potential benefits and risks associated with the Mayor's powers in respect of bus services; and

v. continue to deliver the Long Term Rail Strategy including the completion of works at Newton le-Willows, Maghull and Halton Curve and the delivery of the new fleet of rolling stock for the Merseyrail network.

5.3.6 In order to deliver on these priorities, Merseytravel will receive a grant from the Combined Authority of £92m in 2018/19.

5.3.7 Arrangements for Halton will continue to recognise the historical differences in transport funding and delivery, with Halton subject to a differential transport levy of £3,122,646 m which will be paid back to Halton for transport delivery within its boundaries on behalf of the LCRCA.

5.4 TUNNEL TOLLS

5.4.1 Setting the tunnels tolls is a key requirement of the LCRCA's budget. The Transport Committee considered a detailed report on the proposed schedule of tolls at its meeting of the 1st February and is considering a schedule of tolls for 2018/19 that is:-

Table 6 Agreed Tunnel Tolls 2018/19

Vehicle Class	Authorised Toll (November RPI)	2018/19 Cash Toll	2018/19 Fast Tag Toll - Peak	2018/19 Fast Tag Toll – Off Peak*
1	£2.00	£1.80	£1.20	£1.00
2	£4.00	£3.60	£2.60	£2.60
3	£6.00	£5.40	£3.90	£3.90
4	£7.90	£7.20	£5.20	£5.20

*off peak defined as 19:00 hours to 07:00 hours each day, and 24 hours on a Sunday

5.4.2 For the first time in 2018-19 the LCRCA is to introduce a Peak and Off Peak model. This will benefit regular users who commute outside office hours where there are fewer available public transport alternatives. It will also enable the LCRCA to fulfil its responsibilities regarding traffic management and air quality by managing the peak flow of traffic.

5.4.3 Fast Tag car users travelling outside of the peak will be charged £1 per journey, which is a very significant discount on the cash toll.

5.4.4 Cash tolls (which account for less than 50% of all journeys) will increase by 10p in 2018/19. This is the first increase in any toll applicable to the tunnels since 2014/15 and recognises the actual and forecast increase in the retail price index over this year and next.

5.4.5 The cash toll will therefore be £1.80 next year, which is still 20p per journey less than the maximum £2.00 toll that the LCRCA is permitted to charge under the Mersey Tunnels Act.

5.4.6 As part of a three year strategy, the LCRCA is seeking to increase overall revenues from the Tunnels while continuing to provide regular users will attractive discounts. As part of this strategy, the LCRCA has asked Merseytravel to examine the potential for a new Fast Tag scheme that benefits those users residing within the Liverpool City Region.

6. CAPITAL PROGRAMME

6.1 Within its capacity as the Accountable Body, the Combined Authority receives capital grant in respect of the Local Growth Fund (LGF) programme, devolution monies received from central government (Gain Share funding) and direct transport related grants. The LCRCA's operates a Single Pot for the capital funds for which it is a recipient. For 2018/19 the annual allocations into the single pot are as follows:

Table 7: Sources of Capital Funding

	2018/19 £'000
LGF 1	27,329
LGF 2	0
LGF 3	13,580
Gain Share Capital	22,500
Transport Funding	26,500
Total Annual Allocation	**89,909**

6.2 LGF funds have been received by the Local Enterprise Partnership (LEP) on the back of successful bids for these funds with the Combined Authority fulfilling the Accountable Body role for these funds. To date bids have been made and received against three rounds of Local Growth Fund allocations with funding provided for specific thematic areas. Whilst a significant proportion of the LGF 1 funds have been committed, with the agreement of the LEP, uncommitted LGF funds are being administered as part of the single capital pot.

6.3 The table below summarises projections for the period 2018/19 to 2020/21. A more detailed scheme based analysis is attached to this report at Appendix 2.

Table 8 Projected LGF and SIF Spend 2018/19 to 2020/21

	2018/19 £'m	2019/20 £'m	2020/21 £'m	Total £'m
LGF 1 GFA Signed	25.63	8.63	6.90	41.16
CA Approved	11.31	0.34	0.00	11.65
Not Yet Approved	0.00	0.00	0.00	0.00
Total LGF 1	**36.94**	**8.97**	**6.90**	**52.81**
LGF 2 GFA Signed	0.14	0.99	0.00	1.13
CA Approved	1.57	0.60	0.00	2.17
Not Yet Approved	0.00	0.00		0.00
Total LGF 2	**1.71**	**1.59**	**0.00**	**3.30**
LGF 3 GFA Signed	0.00	0.00	0.00	0.00
CA Approved	0.50	0.00	0.00	0.50
Not Yet Approved	19.01	8.25	0.00	27.26
Total LGF 3	**19.51**	**8.25**	**0.00**	**27.76**
Gain Share GFA Signed	3.32	0.40	0.30	4.02
CA Approved	22.69	5.24	0.00	27.93
Not Yet Approved	0.00	0.00	0.00	0.00
Total Gain Share	**26.01**	**5.64**	**0.30**	**31.95**
Grand Total	**84.17**	**24.45**	**7.20**	**115.82**

6.4 Table 9 demonstrates the financial implications of the delivery of LGF schemes over the period. It should be noted, however that as these schemes drop off, the delivery of new capital programmes will pick up. Of particular significance over the period will be:

- Transforming Cities Fund £134m (award)
- Housing Infrastructure Fund £204m (application)
- Housing First fund £28m (For three areas of England, including the Liverpool City Region)

6.5 LCRCA has approved the commissioning of a business case to support the Key Route Network (KRN). A £25m package of investments has been commissioned as first steps and it is envisaged that there will be further commissions in transport, skills and business growth in 2018/19 which will be informed by the investment strategy.

6.6 As part of the Single Pot, it has been agreed that the £26.5m allocation for transport will be allocated separately from the Single Investment Framework (SIF) which is applied to all other funding streams within the pot. A report was put to the Combined Authority on 17 November 2017 at which approval was granted to a methodology and an allocation of funds for transport activities utilising the full £26.5m.

6.7 For completeness details of the proposed allocations are detailed below.

Table 9 Allocations to Districts

	Capital Maintenance £'m	**Integrated Transport Block £'m**	**Total £'m**
Knowsley	1.47	0.53	2.00
Liverpool	3.35	1.74	5.09
Sefton	2.30	0.99	3.29
St Helens	1.92	0.64	2.56
Wirral	2.63	1.15	3.78
Halton	1.77	0.46	2.23
Total	**13.43**	**5.51**	**18.94**

Table 10 Distribution of Remaining Transport Block Funding

	Total £'m
Funding to support LCR Evidence Base	1.00
Bus Alliance Support	0.50
Rail Enhancements	0.50
CA Strategic Priorities	2.50
KRN	3.00
Total	**7.50**

6.8 In addition to the above, Merseytravel delivers a programme of capital investment both in support of certain defined LCRCA priorities, including Liverpool Central, Bus Alliance work and smart ticketing and investment in its own assets. The table below details the programmed capital investment for 2018/19 together with the proposed funding.

Table 11 Merseytravel Capital Programme 2018/19

	Total £'000
Bus	2,630
Rail	15,565
Rolling Stock	167,000
Mersey Ferries	640
Mersey Tunnels	10,200
Smart Ticketing	170
IT	480
Corporate Services	7,195
Total Expenditure	**203,880**
Funded by:	
Borrowing	-167,000
Revenue Contribution to Capital	-7,200
Merseytravel Reserves	-7,160
Capital Grant from LCRCA	-2,720
Capital Grants	-19,800
Total Funding	**-203,880**
Net Requirement	**0**

8. RESOURCE IMPLICATIONS

8.1 Human Resources

None as a direct result of this report.

8.2 Physical Assets

This report will provide resources to Merseytravel to undertake its asset management function in respect of the Mersey Tunnels and other LCRCA assets.

The Single Transport / Highways allocation will enable highways authorities to provide necessary maintenance and management of the City Region's highways infrastructure and in particular, the Key Route Network.

8.3 Information Technology

None as a direct result of this report.

9. RISKS AND MITIGATION

None as a direct result of this report.

10. EQUALITY AND DIVERSITY IMPLICATIONS

Members are reminded that under Public Sector Equality Duty, the Combined Authority has a duty to eliminate discrimination, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. Whilst the level of detail contained within this budget does not lend itself to a full appraisal of the operational implications with respect to equality and diversity, it is possible that there could be resultant implications for people who share a protected characteristic, for example older disabled people. Therefore whilst there are no issues with the budget itself, any actions undertaken as part of the management of any savings, the equalities consequences will be fully appraised and considered as part of the process, and any negative implications for any of the protected characteristics will be mitigated, where possible, subject to available resources.

11. COMMUNICATION ISSUES

None as a direct result of this report.

12. CONCLUSION

12.1 The Liverpool City Region Mayoral Combined Authority is recommending a series of measures within its overall budget for 2018/19. These measures each recognise the need to deliver the functions of the Mayoral Combined Authority while seeking to protect households in the City Region from additional financial burdens wherever possible.

12.2 The 2018/19 financial year is the first full year of the Mayoral Combined Authority and the first year in which the Elected Mayor has been responsible for determining the budget for Mayoral costs. The Mayor has demonstrated his commitment to households in the City Region by not exercising the power to issue a precept in 2018/19.

12.3 In turn, the Leaders of the constituent authorities of the City Region, alongside the Mayor of Liverpool have also demonstrated their commitment to making the Combined Authority a success by identifying a financial package that supports the Mayoral Combined Authority through this transitional year while a longer-term funding model is secured.

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Appendix
Appendix 1 LCRCA Treasury Management Strategy
Appendix 2 LGF and SIF Spend 2018/19 to 2020/21
Appendix 3 LCRCA Detailed Revenue Budget

APPENDIX ONE

LCRCA TREASURY MANAGEMENT STRATEGY 2018/19

1. BACKGROUND

1.1 The Authority ids required to operate a balanced budget which broadly means that expenditure incurred during the year will be met through cash raised during the year. An important part of the treasury management operation is ensuring that cash flow is adequately planned with cash available when it is needed. Surplus cash is invested in counterparties commensurate with the Authority's low risk appetite which provide adequate liquidity: security and liquidity are considered prior to return.

1.2 The second main function of the Authority's treasury management activities is the funding if its capital plans. The capital plans provide a guide to the borrowing need of the Authority, essentially the longer term cash flow planning to ensure that the Authority can meet its capital spend obligations. The management of longer term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasions, when it is prudent and economic, any debt previously drawn may be restructured to meet cost or risk objectives.

CIPFA defines treasury management as:

"The management of the Authority's investment and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those returns."

1.3 The Authority is required to receive and approve as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These can be summarised as:

- An annual treasury management strategy and prudential and treasury indicators – the scope of which is outlined above;
- A mid-year treasury management report providing an update on progress of the capital position and amending treasury and prudential indicators if required; and
- An outturn treasury report detailing the outturn position and comparing performance against estimates included within the strategy.

1.4 The Treasury Management Strategy for 2018/19 covers:-

- The current treasury position;
- Prospects for interest rates;
- Borrowing requirement;
- Borrowing strategy;
- Annual investment strategy;
- Minimum Revenue Provision (MRP) Strategy; and
- Treasury management limits and prudential indicators for 2018/19 to 2019/20.

1.5 The Authority uses Link Asset Services as its external treasury management advisors. The Authority recognises that responsibility for treasury management decisions remain with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. Notwithstanding this, the Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The appointment of external advisors and the value provided will be subject to regular review.

2. FINANCIAL PEFORMANCE

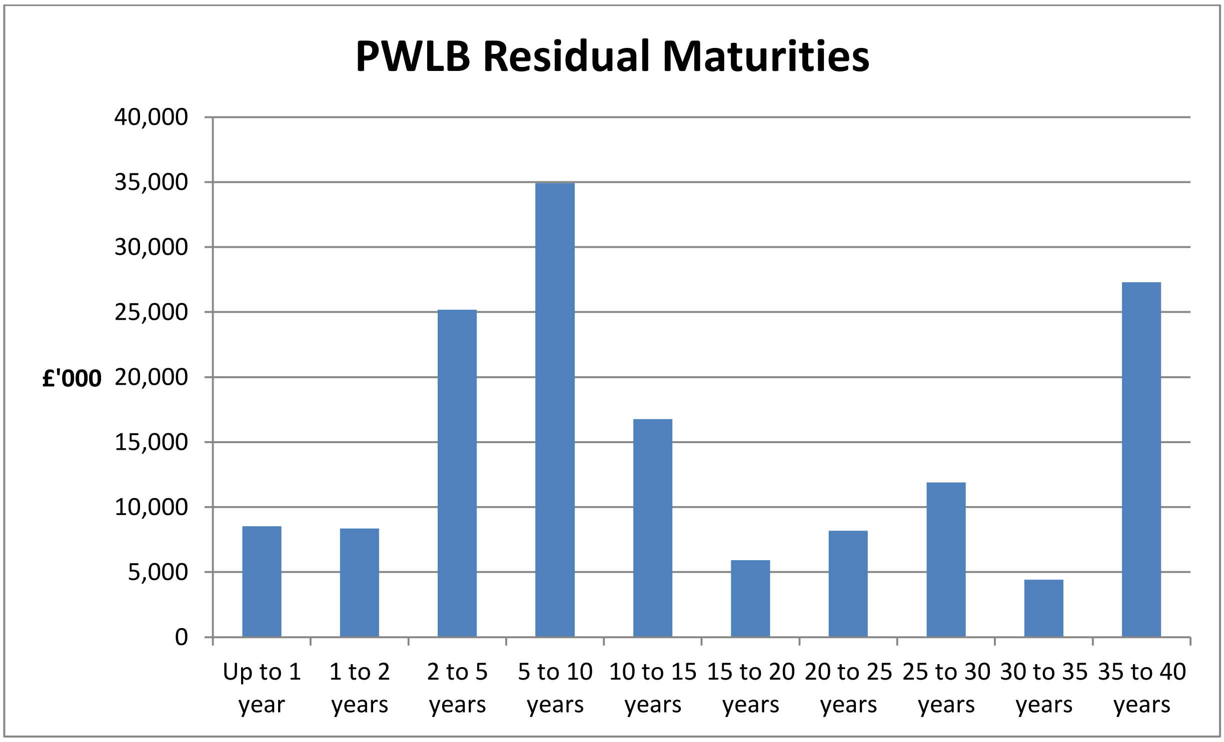
2.1 Current Treasury Position

4.1.1 The table overleaf details the Authority's forecast treasury portfolio position as at 31 March 2018.

Table 1 Treasury Portfolio Position

Outstanding Debt as at 31 March 2018	**Principal £m**	**Average Rate %**
Public Works Loan Board (PWLB) EIP Loans	73.21	6.59
PWLB Annuity Loans	47.05	8.35
PWLB Maturity Loans	53.31	5.60
Transferred Debt	18.31	-
Total	**191.88**	

2.1.2 The chart below provides an overview of the maturity profile of the Authority's external debt portfolio as at 31 March 2018.



2.1.3 In addition the Authority has £18.3m transferred debt which is managed on behalf of the Authority by Wirral Metropolitan Borough Council. This is historic highways related debt which transferred to the constituent Merseyside Councils and the then

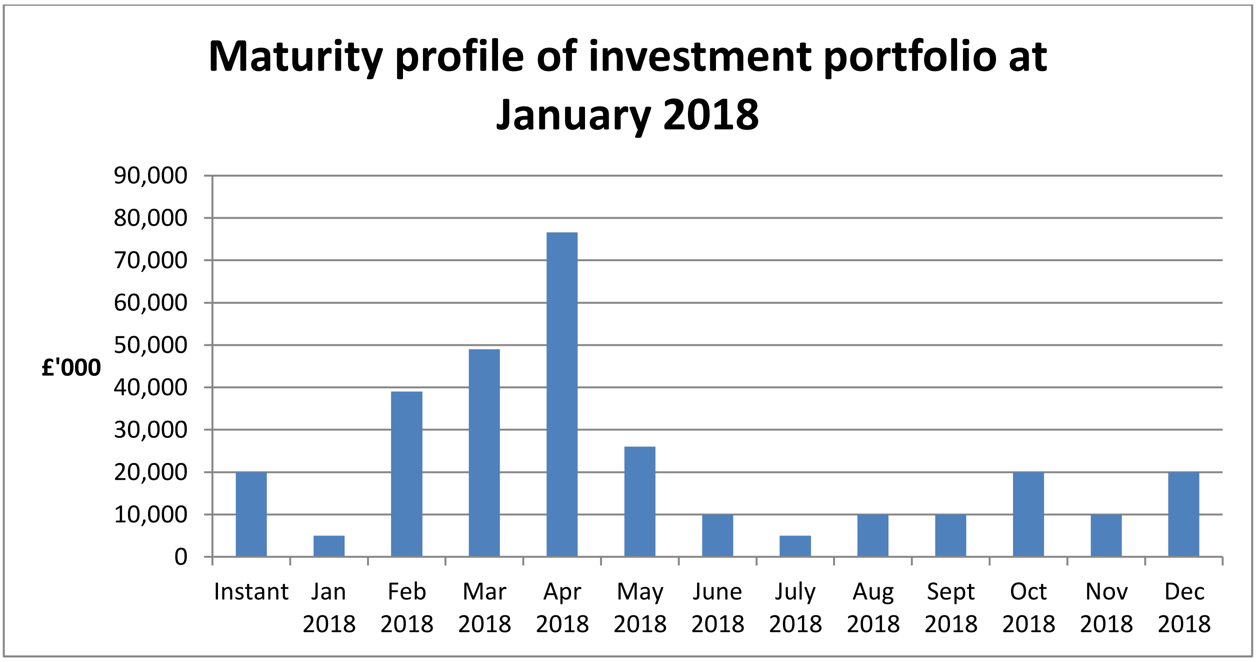
Integrated Transport Authority on the disestablishment of the Merseyside County Council in 1986. The Authority's current external debt position, together with forward projections, is detailed in table 2 below. The table shows the actual external debt against the underlying capital borrowing need (the Capital Financing Requirement-CFR) highlighting any under or over borrowing.

Table 2 External Debt to CFR

External Debt	**2017/18 Estimate £m**	**2018/19 Estimate £m**	**2019/20 Estimate £m**	**2020/21 Estimate £m**
External and Transferred Debt 1 April	202.71	191.88	181.06	170.24
Forecast Change in Debt	(10.82)	(10.82)	(10.82)	(10.82)
Gross Debt 31 March	191.88	181.06	170.24	159.42
Capital Financing Requirement	205.29	364.08	499.20	560.63
(Under)/ Over Borrowing	**(13.41)**	**(183.02)**	**(328.96)**	**(401.21)**

2.1.4 In accordance with the Prudential Limits, the Authority needs to ensure that its gross debt does not, except for in the short term, exceeds its CFR. As highlighted in the table previously, the Authority's current external debt levels are significantly below its CFR over the period.

2.1.5 It is forecast that the Authority's investments as at 31 March 2018 will be £301m. At the time of drafting this report the Authority has investments of £239m which are held in a range of institutions. The chart below provides an analysis of current investments by maturity profile:-



2.1.6 It is anticipated that the overall cash holdings of the Authority will rise in the early part of the year due to timing differentials between the profile of income received and expenditure incurred/ payments made. It is however expected that overall levels of cash and investments will reduce by the end of the year from the forecast position at 1 March 2018 due to significant programmed capital expenditure. There is however a downside risk that if the planned programme of Single Investment

Fund and Local Growth Fund expenditure slip, cash balances will be higher than currently anticipated.

2.2 Borrowing Requirement

2.2.1 The figures detailed below details the Authority's capital expenditure plans for the period 2017/18 through to 2020/21, together with the associated sources of funding.

Table 3 Capital Programme

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**
Merseytravel capital programme	196,510	151,000	93,000
Total Programme	**196,510**	**151,000**	**93,000**
Funded by:			
Grant	15,775	500	500
RCCO	7,160	7,500	7,500
Borrowing	167,000	143,000	6,000
Reserves	6,575	0	0
Total Funding	**196,510**	**151,000**	**93,000**

2.2.2 The funding shown as grant above includes significant sums of money received or due to be received by the Authority through its Growth Deal. Should receipts or expenditure profiles be materially different from those levels forecast, then the level and profile of borrowing could be subject to change.

2.2.3 The potential cash borrowing requirement over the next three years includes borrowing for the replacement of the Rolling Stock. As detailed in table 2, the Authority currently has an under borrowed position against its CFR, even allowing for the programmed borrowing.

2.3 Borrowing Strategy

2.3.1 The Authority currently has an under borrowed position which means that the capital borrowing need (the CFR) has not been fully funded with loan debt: this is because cash supporting the Authority's reserves, balances and cash flow have been used as a temporary measure. Currently the Authority seeks to utilise internal borrowing if feasible, as with investment returns at a historically low level, this can provide value for money however as a consequence of the quantum of the capital programme over the next three years, there is likely to be an absolute need to borrow at some point. Moreover the longer term forecast for interest rates is to increase and therefore consideration must be given to weighting the short term advantage of internal borrowing against potential long term costs. This is if the opportunity is missed for taking loans at longer term rates where the rates are expected to be higher in future years.

2.3.2 The Treasurer will monitor interest rates in the financial markets and adopt a pragmatic approach to satisfying the need to borrow, seeking to identify the options that are available and provide value for money for the Authority. The options available to the Authority that will be considered are outlined below.

Public Works Loan Board (PWLB)

2.3.3 PWLB borrowing is available for between 1 and 50 year maturities on various bases. In the March 2012 Budget, the Chancellor announced the availability of a PWLB ‘Certainty Rate’ for Authorities which could be accessed upon the submission of data around borrowing plans for individual authorities. The Certainty Rate allows eligible authorities to borrow from the PWLB at 0.20% below their published rates. The Government is also consulting with local authorities regarding the potential introduction of a PWLB Infrastructure Rate which will be based at gilts plus 60 base points.

2.3.4 The combination of the rates available, the flexibility offered by PWLB in terms of structures and maturity dates and the lack of available market debt suggests that for long term borrowing PWLB may provide value for money.

2.3.5 The Authority’s treasury advisors, Capita Asset Services, provide information on the forecast PWLB rates over a range of durations. The table below details the forecast rates net of the Certainty Rate.

Table 4 PWLB Borrowing Rates

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB Rate	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB View	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB View	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

European Investment Bank (EIB)

2.3.6 The Authority agreed a £190m facility with EIB in December 2016. This loan facility can be drawn down in tranches or in full with a minimum tranche draw down of £20m and a maximum of 8 separate drawdowns. The Authority has three years from signature of the contract to access this facility.

2.3.7 The other source of finance that is potentially available to the Authority is debt raised through the market by way of traditional market loans. These have typically been offered as Lender Option Borrower Option (LOBO’s) however the availability of these loans is limited and tend to be offered at less competitive rates than either EIB or PWLB.

2.4 <u>Prospects for Interest Rates</u>

2.4.1 The Authority has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Authority formulate a view on interest rates. Appendix One provides an overview of the current City forecasts for both short and longer term interest rates, however in summary Link forecast that Bank Rate will remain at 0.50% until the latter part of 2018 and then will rise gradually reaching 1.25% by March 2021.

2.4.2 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK Depending on developments in the financial markets and economic data, the above forecasts and actual decisions by the MPC will be liable to further amendment. Geopolitical developments, especially in the EU could have a major impact.

2.4.3 The overall balance of risks to economic recovery in the UK is probably on the downside, especially with the current level of uncertainty over the final terms of Brexit. Downside risks to current forecasts for gilt yields and consequently PWLB rates include:

- The Bank of England takes action too quickly to raise Bank Rate and causes economic growth to be weaker than currently anticipated;
- A resurgence of the Eurozone debt crisis due to high levels of government debt, low rates of growth and vulnerable banking systems;
- Raising protectionism in America under the current president; and
- A sharp downturn in China and other emerging markets.

2.4.4 The current market outlook and structure of market interest rates has several key treasury management implications:-

- Investment returns are likely to remain low during 2018/19 however it is envisaged that these will increase gradually over the next couple of years in line with projected increases to Bank Rate,
- Borrowing rates increased sharply on the back of the decision to increase Bank Rate to 0.50% as markets accelerated their assumptions about further increases. In light of the projected increase in rates, the policy of running down spare cash in advance of undertaking new borrowing will require careful consideration to avoid incurring higher borrowing costs in future; and
- Give the relative profile of investment rates of return when compared to borrowing costs, there will remain a cost of carry (a net cost to the revenue account) to any new long term borrowing that causes a temporary increase in cash balances.

3.0 Minimum Revenue Provision Policy Statement

3.1 The Authority is required to make provision for the repayment of an element of the accumulated capital spend each year through a charge to revenue (the Minimum Revenue Provision – MRP) however should the Authority wish it is also allowed to undertaken additional voluntary payments if required (Voluntary Revenue Provision – VRP).

3.2 Communities and Local Government (CLG) regulations have been issued which require the full Authority to approve an MRP statement in advance of the year. Under the CLG guidance a number of options are available however the Authority does have some discretion over the approach taken however the overriding requirement is that any approach must be prudent.

3.3 Based on the regulations, the Authority is recommended to approve the following MRP statement for application in 2018/19:-

- For historic capital expenditure (i.e. that incurred before 2018/19), MRP will continue to be calculated at 4% of the previous year end's Capital Adjustment Account (option 2 under the CLG guidance); and

- For any new borrowing undertaken, MRP will be calculated using the asset life method (options 3 under the CLG guidance).

3.4 As noted above, the regulations allow for an Authority to review and revise its MRP statement at any stage, providing that the overriding requirement that the resulting approach is prudent. To this end the Authority may revisit the above policy should it be determined that other prudent options are available.

4.0 Annual Investment Strategy

4.1 In conducting its investment activity, the Authority will have regard to the CLG's Guidance on Local Government Investments and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (the CIPFA TM Code). The Authority's overriding investment priorities are the security of capital and liquidity of investments.

4.2 The Authority will seek to obtain the optimum return on its investments commensurate with the desired level of security and liquidity. Risk appetite is low with investment decisions giving priority to security of investments. The Authority does not borrow purely to invest or on-lend to make a return as this is unlawful.

4.3 The Authority has a clearly stipulated minimum acceptable level of credit quality of Counterparties which feeds into its Counterparty lending list. The creditworthiness methodology used to create the Authority's list takes account of the ratings provided by FITCH and/ or Moodys, two of the three main ratings agencies. All investments made during 2018/19 will be made in accordance with the Annual Investment Strategy detailed in Appendix Three.

5.0 Treasury Limits and Prudential Indicators

5.1 Under Section 3 of the Local Government Act 2003, it is a statutory duty for the Authority to determine and keep under review how much it can afford; the amount determined is the Authority's Affordable Borrowing Limit. The Authority must have regard to the Prudential Code when setting its Affordable Borrowing Limit.

5.2 There are a series of other limits and indicators that must be considered and submitted to the Authority for approval. These proposed limits and indicators are included at Appendix Three.

6.0 CIPFA Code of Practice: Treasury Management In The Public Services

6.1 It is a requirement of the Code that the Authority should formally adopt the CIPFA Code of Practice: Treasury Management in the Public Services (the Code) and specifically the four clauses attached at Appendix Four and the Treasury Management Policy Statement at Appendix Five.

Appendices:-
Annex One – Outlook for Interest Rates
Annex Two – Annual Investment Strategy
Annex Three – Treasury Management Limits and Prudential Indicators 2018/19 to 2020/21
Annex Four – CIPFA Treasury Management in Public Sector Code of Practice
Annex Five – Treasury Management Policy Statement

ANNEX ONE

OUTLOOK FOR INTEREST RATES

Bank Rate														
	NOW	**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**
Capita Asset Services	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%					
5yr PWLB Rate														
	NOW	**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**
Capita Asset Services	1.50%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.70%	1.90%	2.30%	2.60%	2.90%	2.90%	2.90%	2.90%	2.90%					
10yr PWLB Rate														
	NOW	**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**
Capita Asset Services	2.10%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.30%	2.60%	2.80%	3.10%	3.30%	3.30%	3.30%	3.30%	3.30%					
25yr PWLB Rate														
	NOW	**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**
Capita Asset Services	2.80%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.95%	3.15%	3.45%	3.65%	3.90%	3.90%	3.90%	3.90%	3.90%					
50yr PWLB Rate														
	NOW	**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**	**Dec-20**	**Mar-21**
Capita Asset Services	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.80%	3.10%	3.30%	3.60%	3.80%	3.80%	3.80%	3.80%	3.80%					

The rates shown above take account of the 20 base point certainty rate reduction

ANNEX TWO

ANNUAL INVESTMENT STRATEGY 2018/19

The purpose of this Strategy is to set out, for approval by the Authority, is to outline:

- The Authority's overriding investment objectives;
- The investments the Authority will use for the prudent management of surplus funds during the financial year 2018/19 under the headings of Specified and Non Specified investments;
- The procedures for determining the use of each asset class;
- The maximum periods for which funds may be prudently committed in each class;
- The upper limits to be invested in each class;
- The extent to which prior professional advice needs to be sought from the Authority's Treasury Advisors prior to use; and
- The minimum amount to be held in short term investments.

Investment Objectives

The Authority's investment decisions are governed by the need to ensure that all decisions are prudent and ensure the security of capital and liquidity of investments are paramount.

The Authority will seek to ensure an optimum return on the investment of all surplus funds commensurate with the required levels of liquidity and security, having properly assessed the inherent risk associated with different investment options.

The Authority will not engage in treasury borrowing activity solely for the purpose of investment or on-lending to make a return.

Specified and Unspecified Investment Types

In accordance with government guidance, investment instruments are broadly classified as Specified or Non Specified.

An investment instrument is classed as Specified if:

- the investment is denominated in Sterling;
- the term of the investment is for 12 months or less;
- the investment is made with a low risk counterparty, for example an institution with a high quality credit rating or is made with the United Kingdom Government or other public sector body (for example a local authority); and
- the investment is not defined as capital expenditure.

A Non Specified investment instrument is one that does not meet the definition of a Specified Investment and therefore have a higher level of treasury risk associated with them. Whilst the level of risk associated with these products is inherently higher, subject to appropriate due diligence and investigation, Non Specified investments can offer some potential diversification within the Authority's investment portfolio. The Authority's treasury advisors, Capita, will be considered on any such options.

The table attached at Annex 2.1 provides further guidance on Specified and Non Specified investments.

Creditworthiness Policy and Liquidity

The Authority relies on credit ratings published by FITCH or Moody's two independent rating agencies to establish the credit quality of Counterparties. Credit ratings are reviewed on an ongoing basis to ensure that prompt action can be taken to remove institutions whose ratings fall below the minimum threshold applied by the Authority. The proposed Counterparty criteria is appended to this report at Annex 1.2

Within the framework detailed in Annex 2.2, it is proposed that at any one time up to 20% of investments will be retained in liquid instant access/ call accounts to ensure that there is adequate liquidity maintained to deal with unforeseen eventualities.

Investment Strategy – Internally and Externally Managed Funds

All investments managed internally will be undertaken in compliance with the framework outlined in this document. Due regard will be had to the wider cash flow movements and requirements of the Authority and forecast movement in interest rates. As detailed above the Authority will ensure that adequate funds are held as cash equivalents thereby allowing the Authority to address any unforeseen cash requirements or to take advantage of investment opportunities as they arise.

The current view of the Authority's treasury management advisors, Capita is that Bank Rate will remain at 0.25% until the second half of 2019 and therefore it is likely that investment returns will remain subdued over the financial year 2018/19. In support of this assertion Capita has indicated that budgeted investment returns should be anticipated to be in line with the current Base Rate estimations, that is 0.25%.

The Authority will seek to lock into fixed term deals (within the limits outlined in the counterparty criteria) at advantageous rates subject to the outlook for interest rates and the availability of such opportunities with high quality counterparties.

Currently the Authority does not engage any external Fund Managers to invest monies on its behalf however this position will be periodically reviewed to establish whether this option provides any opportunities for diversification. Any such reconsideration will be made in conjunction with the Authority's treasury advisors and subject approval by the Director of Resources.

Policy on the use of External Service Providers

The Authority uses Capita Asset Services as its external treasury management advisors. Whilst the responsibility for treasury management decisions remains with the Authority, the value in employing an external treasury provider is recognised as means by which it can acquire access to specialist skills and resources.

Notwithstanding this the Authority will ensure that there is no undue reliance on an external service provider.

Reporting Arrangements

The Authority will receive reports on Treasury Management activity as a minimum at three points during the year: a forward looking strategy will be submitted for approval, a mid- year Strategy review and a year- end report which will consider outturn performance in light of the strategy set at the start of the year.

ANNEX 2.1

SPECIFIED AND NON SPECIFIED INVESTMENTS

Table 1 Specified Investments

Investments	**Minimum Credit Rating**	**Use**
Term deposits- UK banks and building societies	See Annex 2	In house
Term deposits – UK Government or Local Authorities	High security although few local authorities are credit rated	In house
Call Account Facilities	See Annex 2	In house
Notice Account Facilities	See Annex 2	In house
Term Deposits – non UK banks and building societies	See Annex 2	In house
Debt Management Agency Deposit Facility	UK Government backed	In house
Certificates of Deposit	See Annex 2	In house
Treasury Bills	UK Government backed	In house
Money Market Funds	AAA	In house

All Specified Investments must be sterling denominated and have maturities of up to 1 year.

Table 2 Non Specified Investments

Investments	Minimum Credit Rating	Use	Maximum Duration
Term deposits- UK banks and building societies (exceeding 365 days)	See Annex 2	In house	2 years
Term deposits – UK Government or Local Authorities (exceeding 365 days)	High security although few local authorities are credit rated	In house	2 years
Term Deposits – non UK banks and building societies (exceeding 365 days)	See Annex 2	In house	2 years
Certificates of Deposits	See Annex 2	In house – after consultation with Treasury Advisors	2 years
Callable Deposits	See Annex 2	In house – after consultation with Treasury Advisors	2 years
Structured Deposits	See Annex 2	In house – after consultation with Treasury Advisors	2 years
Forward Deposits	See Annex 2	In house – after consultation with Treasury Advisors	2 years in total

ANNEX 2.2

COUNTERPARTY CRITERIA

Counterparty Category	Credit Rating				Maximum Investment (£m)	Maximum Duration
	Long Term	**Short Term**	**Viability Rating**	**Sovereign**		
Government Backed						
Treasury Bills	AA Rated				£10m per investment (£70m in total)	2 years
Local Authorities, other Public Sector Bodies incl DMO	AA Rated				£10m per LA (£100m total)	2 years
Part Nationalised Banks	See Below*				70	2 years
Money Market Funds	AAA Rated				£10m per fund (£40m in total)	On call
Combined Authority main Banker	A	F1 / P1 and above		AA and above	Up to a maximum £100m	On call
Authorised institutions under the Banking Act 1987 which hold suitable credit ratings	A+ and above	F1 / P1 and above		AA and above	£10m per investment (£70m total per institution)	2 years
	A	F1 / P1 and above		AA and above	£10m per investment (£30m total per institution)	12 months
Building Societies	A and above	F1 / P1 and above		AA and above	£10m per investment (£40m in total)	12 months
	A- and above	F1 / P1 and above		AA and above	£5m per investment (£20m in total)	12 months

* Although the individual rating for the part nationalised banks fall below the criteria outlined above, due to the fact that they are part nationalised, as such these institutions take on the credit rating of the UK Government itself (UK Sovereign Rating AA) as deposits are essentially being made with the UK Government itself.

ANNEX THREE

TREASURY LIMITS AND PRUDENTIAL INDICATORS

Indicator	**Description**	**17/18 Revised Estimate**	**18/19 Forward Estimate**	**19/20 Forward Estimate**	**20/21 Forward Estimate**
Capital Spend (£m)	Proposed capital spend to which the Authority plans to commit	100.46	196.50	151.00	93.00
In year Requirement	Additional borrowing requirement for capital expenditure	0.00	167.00	143.00	69.00
Capital Financing Requirement (£m)	This is the aggregation of historic and cumulative capital expenditure which has yet to be paid for through either capital or revenue resources	205.29	364.08	499.20	560.63
Ratio Financing Cost to Income Stream	Identified the impact and trend of revenue costs of capital financing decisions on the revenue budget	18.68%	18.57%	18.28%	17.95%
Net Borrowing Requirement (£m)	Represents the net investments or borrowing requirement based on the debt and investments held	-49.12	-18.94	0.24	19.42
Authorised Limit for Borrowing (£m)	Represents the absolute limit of borrowing that could be raised and afforded in the short term however this is likely to be unsustainable in the long term	205.29	364.08	499.20	560.63
Operational Limit for Borrowing (£m)	Represents the level beyond which debt is not normally expected to exceed	201.27	309.17	400.51	440.27
Upper Limit for Fixed Interest Rate Exposure	These limits seek to ensure that the Authority does not expose itself to an inappropriate level of interest rate risk	100.00%	100.00%	100.00%	100.00%
Upper Limit for Variable Interest Rate Exposure		30.00%	30.00%	30.00%	30.00%
Gross Debt and the CFR (£m)	This indicator can highlight where an authority may be borrowing in advance of need	13.41	183.02	328.96	401.21

ANNEX FOUR

ADOPTION OF THE CIPFA TREASURY MANAGEMENT IN PUBLIC SECTOR CODE OF PRACTICE AND CROSS SECTORAL GUIDANCE NOTES

The 2011 revision of the CIPFA Code recommends that all public sector bodies formally adopt four specific clauses as contained in the Code. All requirements of the Code are implemented through the governance frameworks, policies, systems, procedures and controls in place within the Authority. For completeness it is recommended that the Authority formally approve the following:

1. The Authority will create and maintain, as the cornerstone of effective treasury management, a treasury management policy statement stating its policies, objectives and approaches to risk management of its treasury management activities and suitable treasury management practices.
2. The Authority will receive reports on treasury management policies, practices and activities including as a minimum an annual strategy and plan in advance of the year, a mid year review and an annual report after its close.
3. Responsibility for the implementation and monitoring of treasury management policies and practices and the execution and administration of treasury management decisions are outlined in the Constitution.
4. Responsibility for ensuring effective scrutiny of treasury management strategies and policies rests with the Combined Authority.

ANNEX FIVE

TREASURY MANAGEMENT POLICY STATEMENT

The policies and objectives of the Treasury Management function are defined as follows:

1. Treasury Management is the management of the Authority's investments and cashflows, its banking, money and capital market transactions, the effective control of the risk associated with those activities and the pursuit of optimum performance consistent with those risks.
2. The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be managed. Accordingly, the analysis and reporting of treasury management activities will focus on the risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Authority acknowledges that effective treasury management will provide support towards the achievement of its business objectives. It is therefore committed to the principles of achieving value for money in its treasury management, and to employ suitable comprehensive performance measurement techniques within the context of risk management.

APPENDIX TWO

PROJECTED LGF AND SIF SPEND 2018/19 TO 2020/21

LGF 1	**Committed 2018/19 £'M**	**Committed 2019/20 £'M**	**Committed 2020/21 £'M**	**Total £'M**
Transport				
Grant Funding Agreement Signed				
Access and Connectivity Improvements to KIP	0.00	0.00	0.00	0.00
A5300 Knowsley Expressway	0.00	0.00	0.00	0.00
Newton-le-Willows Interchange	0.00	0.00	0.00	0.00
Halton Curve	5.84	0.00	0.00	5.84
Maghull North	0.93	0.00	0.00	0.93
A565 - North Liverpool Key Corridors	2.27	0.00	0.00	2.27
M58 Junction Improvements	4.26	0.08	0.00	4.34
STEP	5.03	6.90	6.90	18.83
A570 Linkway	3.30	1.65	0.00	4.95
Silver Jubilee Bridge	4.00	0.00	0.00	4.00
Windle Island	0.00	0.00	0.00	0.00
Sub Total	**25.63**	**8.63**	**6.90**	**41.16**
LCR CA Approved				
City Centre Strand Corridor	5.40	0.00	0.00	5.40
Sub Total	**5.40**	**0.00**	**0.00**	**5.40**
Not Yet Approved				
Total	**31.03**	**8.63**	**6.90**	**46.56**
Skills				
Grant Funding Agreement Signed				
Strand 1-4 - 15/16 & 16/17	0.00	0.00	0.00	0.00
Strand 1 - Round 2 COLC	0.00	0.00	0.00	0.00
Strand 1 - Round 2 Myerscough	0.00	0.00	0.00	0.00
Sub Total	**0.00**	**0.00**	**0.00**	**0.00**
LCR CA Approved				
Digital Starting Point (St Helens Chamber)	0.22	0.00	0.00	0.22
Extreme Low Energy Project (Wirral Met)	0.00	0.00	0.00	0.00
Enterprising Futures 2 (Womens Tech)	0.65	0.00	0.00	0.65
Greenbank Skills for Growth (Greenbank)	0.00	0.00	0.00	0.00
Liverpool South Work & Wellbeing (STEC)	0.00	0.00	0.00	0.00
Everton Learning & Skills Centre (LCC)	0.40	0.00	0.00	0.40
WELD Tech Futures (Riverside)	0.00	0.00	0.00	0.00
Health Engagement & Training Hub (Hugh Baird)	1.65	0.34	0.00	1.99
Advanced Manufacturing Training Centre (NWTC)	2.99	0.00	0.00	2.99
Sub Total	**5.91**	**0.34**	**0.00**	**6.25**
Not Yet Approved	-	-	-	-
Total	**5.91**	**0.34**	**0.00**	**6.25**

LGF 2	Committed 2018/19 £'M	Committed 2019/20 £'M	Committed 2020/21 £'M	Total £'M
Business Capital				
Grant Funding Agreement Signed				
Alstom	0.14	0.99	0.00	1.13
CEIDR	0.00	0.00	0.00	0.00
Sub Total	**0.14**	**0.99**	**0.00**	**1.13**
LCR CA Approved				
Seqirus Fill Finish Project	0.00	0.00	0.00	0.00
Chancerygate	0.57	0.00	0.00	0.57
Mere Grange	0.00	0.00	0.00	0.00
Alchemy Phase 3	0.00	0.00	0.00	0.00
Littlewoods Studio	0.00	0.00	0.00	0.00
Sub Total	**0.57**	**0.00**	**0.00**	**0.57**
Not Yet Approved				-
Total	**0.71**	**0.99**	**0.00**	**1.70**
Business Growth				
LCR CA Approved				
Liverpool Film & Content Fund	1.00	0.60	0.00	1.60
Not Yet Approved	-	-	-	-
Total	**1.00**	**0.60**	**0.00**	**1.60**
Low Carbon				
Not Yet Approved	-	-	-	0.00
Total	**0.00**	**0.00**	**0.00**	**0.00**

LGF 3	Committed 2018/19 £'M	Committed 2019/20 £'M	Committed 2020/21 £'M	Total £'M
Transport				
Not Yet Approved	19.01	8.25		27.26
	19.01	**8.25**	**0.00**	**27.26**
Skills				
Not Yet Approved	-	-	-	0.00
	0.00	**0.00**	**0.00**	**0.00**
Business Capital				
LCR CA Approved				
Venus 210 Knowsley	0.50	0.00	0.00	0.50
Not Yet Approved	-	-	-	-
	0.50	**0.00**	**0.00**	**0.50**

Gainshare	Committed 2018/19 £'M	Committed 2019/20 £'M	Committed 2020/21 £'M	Total £'M
Capital				
LCR CA Approved				
Paddington	9.00	0.00	0.00	9.00
Pall Mall	1.00	0.00	0.00	1.00
City Centre Connectivity 2	9.19	5.19	0.00	14.38
Sub Total	**19.19**	**5.19**	**0.00**	**24.38**
Not Yet Approved				
Total	**19.19**	**5.19**	**0.00**	**24.38**
Revenue				
Grant Funding Agreement Signed				
IFB	2.80	0.00	0.00	2.80
Alstom	0.40	0.40	0.30	1.10
Internationalisation	0.00	0.00	0.00	0.00
Future Proof M6	0.12	0.00	0.00	0.12
Sub Total	**3.32**	**0.40**	**0.30**	**4.02**
LCR CA Approved				
Liverpool Film	0.10	0.05	0.00	0.15
Cultural Events	3.40	0.00	0.00	3.40
Sub Total	**3.50**	**0.05**	**0.00**	**3.55**
Not Yet Approved	-	-	-	-
Total	**6.82**	**0.45**	**0.30**	**7.57**

APPENDIX THREE

LCRCA DETAILED REVENUE BUDGET

	Total £'000	Mayoral Costs £'000	CA Running Costs £'000
Mayor's Office	274	274	0
Communications & Stakeholder Engagement	575	575	0
Mayoral Priorities	1,600	1,600	0
Chief Executive's Office	402	201	201
Policy	1,529	765	765
Commercial Development & Investment	1,639	820	820
Corporate Services	1,699	1,350	350
Economic Development	178	89	89
Transport	747	747	0
Total Revenue Costs	**8,643**	**6,420**	**2,224**