Appendix One

LIVERPOOL CITY REGION COMBINED AUTHORITY

To:	The Metro Mayor and Members of the Combined Authority
Meeting:	24 January 2020
Authority/Authorities Affected:	All
EXEMPT/CONFIDENTIAL ITEM:	No

REPORT OF THE DIRECTOR OF CORPORATE SERVICES

MAYORAL COMBINED AUTHORITY BUDGET SETTING REPORT 2020/21

1. PURPOSE OF THE REPORT

1.1 This report seeks approval for the Liverpool City Region Mayoral Combined Authority budget for 2020/21. 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 2020/21 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 2020, 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 2020.

1.4 This provision only applies to the Mayoral Cost element of the Combined Authority's budget for 2020/21, and specifically those areas where the Mayoral Combined Authority is funded through the Mayoral precept.

1.5 The Combined Authority must also set a budget for its other costs in 2020/21. 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 2020/21 before 14th February 2020.

1.7 The LCRCA must also set the schedule of tolls applicable to the Mersey Tunnel for 2020/21. This decision is subject to a separate report that was considered by the Transport Committee at its meeting of the 23rd January 2020, and the revenue associated with their recommendation is incorporated into the LCRCA budget for 2020/21.

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 2020/21, 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.

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 freeze the Mayoral precept at its 2018/19 level equivalent to £19 per year for a Band D property and £12.67 per year for a Band A property;
(d) approve the non-Mayoral elements of the Combined Authority budget for 2020/21;
(e) approve a transport levy of £97.4m for 2020/21 based on the appropriate index of inflation (rpi) at November 18th 2019 (2.1%);
(f) approve the payment of an operational grant of £94.1m to Merseytravel;
(g) accept the recommendation of the Liverpool City Region Combined Authority's Transport Committee in respect of Tunnel Tolls at Table 10 of this report;
(h) approve the request for an operational grant of £23.9m in respect of the operation of Mersey Tunnels for 2020/21;
(i) approve a grant of £11m to Merseytravel to support the delivery of strategic capital investment and pre development works in respect of schemes in the Transforming Cities pipeline;
(j) approve a grant of £5.9m to Merseytravel to support the project delivery costs associated with Rolling Stock and additional delivery on transport schemes;
(k) note the passporting of £94.56m Special Rail Grant from the Combined Authority to Merseytravel in line with the Concession Agreement;
(l) recognise the differential levy payable by Halton as £3.2m
(m) agree a corresponding grant from the LCRCA to Halton of £3.2m in order that Halton can continue to provide transport services in Halton on behalf of the LCRCA in 2020/21;
(n) note the increased costs associated with the Rolling Stock project as detailed at 6.6 and the actions being taken by Officers to try and mitigate additional costs;
(o) approve an increase in borrowing facility of up to £50m for additional costs in respect of the infrastructure works associated with the Rolling Stock Project should this be required;
(p) approve the measures proposed to fund the additional Network Rail costs set out in 6.7 and including the additional borrowing requirement;
(q) approve the proposed distribution of the Transport Single Capital Pot as detailed at 7.4; and
(r) Approve the Treasury Management Strategy 2020/21 incorporating the Minimum Revenue Provision and associated Treasury Limits and Prudential Indicators as detailed at Appendix 1.

3. BACKGROUND

3.1 The Mayoral budget reflects the priorities of the 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.

3.2 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.

3.3 The budget will make special provision for a number of key, strategic priorities in 2020/21. Of these, the most significant are:

- Mersey Tidal Power Project
- Liverpool City Region Digital Connectivity Programme
- Use of Mayoral Powers under the Bus Services Act
- Support for Sefton's Borough of Culture

3.4 The Mayoral Combined Authority also manages a significant portfolio of investments across the City Region that will improve economic growth and opportunities for our residents, businesses and visitors. Of these investments, the larger ones that will progress through different stages of delivery in 2020/21 are:

- New trains for the Merseyrail network
- Shakespeare North Playhouse
- Parkside Link Road
- Liverpool City Centre Connectivity Programme
- The redevelopment of Runcorn Station Quarter
- Headbolt Lane rail enhancements
- Wirral Waters and the regeneration of Birkenhead
- Bootle & Southport Strategic Investment Fund schemes
- Procurement of new Mersey Ferries

3.5 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.

3.6 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 2020/21.

3.7 The Combined Authority has delegated detailed financial monitoring with respect to transport activities to the Transport Committee. The Transport Committee considered the detailed transport budget for Merseytravel at its meeting on 16 January and a verbal update on the outcome of these discussions will be provided.

4. MAYORAL COSTS AND BUDGET 2020/21

4.1 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.

4.2 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.

4.3 The Mayor has 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.

4.4 The Mayor recognises the financial challenges facing households across the City Region and does not want to add to this burden unnecessarily.

4.5 The Mayor – along with all the members of the Combined Authority – recognises the financial impact of government policy on households in the City Region. To help address these pressures it is proposed to freeze the precept for 2020/21 at the levels approved in 2019/20. This means that the precept for a Band D property in 2020/21 will remain at the level of £19.00 and £12.67 for Band A.

4.6 Whilst the yield from the Mayoral Precept will benefit from growth in the tax base, this does not increase the precept in real terms and does not increase the amount paid by households. In order to minimise any increases in the Mayoral Precept, the Mayor will instead use other resources to fund Mayoral costs.

4.7 The table below confirms the precept that will be payable for each band of property across the City Region.

Table 1 Mayoral Precept by Council Tax Band 2020/21

Band	Charge £
Band A	12.67
Band B	14.78
Band C	16.89
Band D	19.00
Band E	23.22
Band F	27.44
Band G	31.67
Band H	38.00

4.8 Additional responsibilities and commitments arising from the devolution deal continue to increase and wherever possible, the Mayor is using other sources of funding to shield households from corresponding increases in taxation.

4.9 The Combined Authority (Finance) Order 2017 requires the Mayor to specifically identify the budget for costs directly related to the exercise of Mayoral function in 2020/21. These are presented in Table 2 below.

4.10 It should be noted that Table 2 includes only those costs funded through the precept for 2020/21 and is provided for the purposes of transparency. In reality, these costs form only a proportion of overall Combined Authority expenditure which is shown in its general budget in Table 3.

Table 2: Liverpool City Region Mayoral Combined Authority Costs 2020/21

	20/21
	£'000
Mayoral Allowance	93
Corporate Management	979
Bus Services Alternative Delivery Models	550
Tidal	1,222
Digital	575
Culture	315
Mayoral and Priority Programmes & Projects Support	684
Housing and Spatial Planning	337
Policy & Strategic Commissioning	1,293
Commercial Development & Investment	684
Communications, Marketing & Corporate Engagement	600
Corporate Services	683
Total Mayoral Budget	**8,015**

4.11 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 Gainshare funding secured in the Devolution agreement and the £500m Strategic Investment Fund, 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 and Liverpool Bay through the Mersey Tidal Power Scheme;
- everyone in the City Region has access to has a London-style transport network; 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.

4.12 The Mayor is committed to delivering these pledges and the Mayoral budget for 2020/21 will allow him to fulfil this commitment.

5. LIVERPOOL CITY REGION COMBINED AUTHORITY REVENUE BUDGET 2020-21

5.1 Overview

5.1.1 The Combined Authority's revenue budget for 2020/21 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.

Table 3 LCRCA Revenue Budget 2020/21

	£'000
Mayoral Allowance	93
Corporate Management	979
Bus Services Alternative Delivery Models	550
Tidal	1,222
Digital	575
Culture	315
Mayoral and Priority Programmes & Projects Support	684
Policy & Strategic Commissioning	4,424
Commercial Development & Investment	2,281
Communications, Marketing & Corporate Engagement	2,158
Corporate Services	1,950
Election Costs	2,000
Merseytravel Operating Grant	94,114
Other Payments to Merseytravel	111,460
Mersey Tunnels Operating Grant	23,883
Halton Differential Levy	3,200
Net Debt Servicing Costs	20,463
Total Expenditure	**270,351**
Funded by:	
Transport Levy	-97,403
Mayoral Precept	-8,015
Halton Differential Levy	-3,200
Tunnel Tolls	-40,000
Mayoral Capacity Grant	-1,000
Gain Share Revenue Grant	-4,348
Special Rail Grant	-94,557
Transport Infrastructure Reserve	-13,000
Rail Capital Financing Reserve	-7,500
Other Earmarked Reserves	-1,328
Total Income	**-270,351**
Net Budget Requirement	**0**

5. 2 Strategic Investment Fund Revenue Programme 2020/21

5.2.1 In addition to the main revenue budget, LCRCA is supporting an extensive programme of investment across the City Region through its Strategic Investment Fund.

5.2.2 This investment brings together funding from a number of sources to allow a more strategic and coherent approach to investment in economic growth. While the majority of funding is earmarked for capital schemes, a proportion is available to fund revenue priorities.

5.2.3 Most funding is subject to a five yearly gateway review which will take place during 2020/21. As such, it is critical that the Combined Authority and its delivery partners have the capacity and resources they need to accelerate delivery across all of its investment portfolio.

5.2.4 As a result, the Combined Authority is proposing a significant investment in capacity to maximise the benefit of existing funding streams and to ensure that the City Region is well-placed to benefit from future funding opportunities. This investment includes resources for the management of the current investment portfolio but also includes a provision for the development of a pipeline of schemes in anticipation of future funding opportunities.

5.2.5 Resources available for revenue projects are limited and applications for SIF revenue resources are over-subscribed. The first call on revenue in the current five-year tranche of Gainshare funding has been on existing commitments such as previous International Business Festivals, election costs and capacity building in support of managing the general SIF programme.

Table 4 SIF Revenue Schemes (Committed)

	Spend to 31/03/20	Forecast Spend 20/21	Total Spend
	£'000	£'000	£'000
Internationalisation	100	0	100
Liverpool Film and Content Fund	161	63	224
International Festival of Business 2018	5,000	0	5,000
Cultural Events Programme	4,142	0	4,142
Future Proofing M6	284	0	284
Growing Business Visits	142	315	457
Development Fund	3,000	3,140	6,140
Createch Scale Up	1,032	323	1,355
Skills Apprenticeship and Brokers	574	1,623	2,197
Agent Academy	47	179	226
Brexit Resilience Fund	5,000	10,000	15,000
Total Projected Spend	**19,482**	**15,643**	**35,125**

5.2.6 In addition to those committed schemes detailed in the table above, there are a number of other SIF revenue schemes which are currently either in development or awaiting approval. These are detailed in the table below.

Table 5 SIF Revenue Schemes (Pipeline)

	Projected Total Spend £'000
Good Business Festival 2020	3,000
LCR Visitor Economy	1,600
Music Industry Sector Development	2,000
LCC 5G Network	930
High Growth Programme	2,250
Baltic Creative	140
VOLA	5,000
Civic Data Trust	250
TOTAL	**15,170**

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 2020/21 however the Combined Authority can commit to maintaining increases to inflation-only for 2020/21. Should this levy be agreed, the distribution of the Levy will be as detailed in the table below.

Table 6 Transport Levy by Authority

	Transport Levy 2019/20 £'000	**Transport Levy 2020/21 £'000**
Knowsley	10,006	10,240
Liverpool	33,095	33,869
Sefton	18,490	18,851
St Helens	12,073	12,321
Wirral	21,736	22,123
Total	**95,400**	**97,404**

Note: Halton Council equivalent transport differential levy is £3.2m for 2020/21

5.3.4 Whilst the increase in Levy will mean an increase in the resources provided to Merseytravel, it will still be require adjustments to be made to its cost base over the period to operate within the grant provided.

5.3.5 The most significant transport activity on 2020/21 will be the operation and implementation of the new fleet of rolling stock. Changes to the original operating model for the new fleet will require changes to be made to the original business case in 2020/21 and there is a financial risk associated with this.

5.3.6 While transitional funding arrangements will apply in 2020/21, managing the financial risk associated with changes to the operating model will be a priority in 2020/21 to ensure that our rail funding model remains sustainable.

5.3.7 In addition, delays on the part of Network Rail mean that the full benefits of the new timetable cannot be fully implemented until 2021/22, even though the new fleet will be in service (see 6.6). This will have a temporary but negative impact on revenue. Should this be the case, this could be mitigated by retaining a small proportion of the existing fleet during the transitional phase.

5.3.8 This will increase the costs associated with the Rolling Stock programme for 2020/21 and require a further draw down of resources from the Rail Capital Financing reserve.

5.3.9 Project costs have also been impacted by HM Treasury's decision to increase interest rates on Public Work Loans Board (PWLB) borrowing which supports this project. While we are able to offset some of these additional costs through our partnership with the European Investment Bank the increase in the PWLB rate is a further financial risk.

5.3.10 It will also require the Combined Authority to provide greater headroom in respect of borrowing cost than is currently the case and this is reflected in the Capital Programme and Treasury Management sections of this report.

5.3.11 Other transport priorities will include:

i examine the potential benefits and risks associated with the Mayor's powers in respect of bus services;
ii. deliver an ambitious programme of investment in transport infrastructure through the Transforming Cities Programme;
iii. invest in the Mersey Ferries service through the potential provision of new vessels and associated investment in landing stages;
iv. 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;
v continue to deliver the Long Term Rail Strategy including the progression of schemes at Headbolt Lane, St James and Liverpool Central; and
vi continue to work with TfN to demonstrate the value of HS2 and NPR etc.

5.3.12 In order to deliver on these priorities, Merseytravel will receive grants from the Combined Authority and from the Department for Transport of £205.57m in 2020/21, including Special Rail Grant.

5.3.13 Arrangements for Halton will continue to recognise the historical differences in transport funding and delivery, with Halton subject to a differential transport levy of £3.2m 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 16th January 2020 and is considering an unchanged schedule of tolls for, frozen at 2019/20 levels for 2020/21.

Table 7 Agreed Tunnel Tolls 2020/21

Vehicle Class	Authorised Toll (November RPI)	2020/21 Cash Toll	2020/21 Fast Tag Toll – LCR Resident*	2020/21 Fast Tag Toll – Non LCR Resident
1	£2.10	£1.80	£1.00	£1.80
2	£4.20	£3.60	£2.40	£2.40
3	£6.30	£5.40	£3.60	£3.60
4	£8.40	£7.20	£4.80	£4.80

5.5 ADULT EDUCATION

5.5.1 2019/20 is the first year in which the budget for Adult Education has been devolved to the CA. As such, the budget for 2020/21 needs to reflect Adult Education spend and commitments.

5.5.2 The total allocation of funding that will be passed to the City Region is unknown and pending government announcement. For the purposes of setting a budget, it is assumed that the settlement will be unchanged from 2019/20 and that any variations will increase or decrease the amount available for dispersal and will not impact on the CA's overall financial position.

5.5.3 Of this allocation, 57% will be dispersed as grant funded allocations and 33% will be contracted services including test and learn pilots. In common with the risk-based approach taken in 2019/20, of the balance over £4m will be retained as a contingency for any growth in year with management and administration costs being funded by a 2% top slice of the allocation.

5.5.4 The priority areas for AEB in 2020/21 will be:

- the extension of the place-based approach to Adult and Community Learning;
- supporting Level 3 learning for priority parts of the community – including those impacted by recent redundancy;
- introducing an enhanced digital skills entitlement; and

- continuing to test and learn through pilots with an emphasis on flexible delivery and construction in 2020/21.

6. CAPITAL PROGRAMME

6.1 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 2020/21 the annual allocations into the single pot are as follows:

Table 8 Capital Funding Grant Allocations 2020/21

	2020/21 £'000
LGF 1	54,798
LGF 2	-
LGF 3	34,658
Gain Share Capital	18,000
Transforming Cities	40,000
Transport Funding	26,500
Total Annual Allocation	**173,956**

6.2 The table below summarises the Authority's capital programme for 2020/21 including Merseytravel spend. A more detailed scheme based analysis is attached to this report at Appendix 3.

Table 9 Projected Capital Spend 2020/21

	2020/21 £'m
Capital Expenditure	
LGF 1 Schemes	13,407
LGF 2 Schemes	11,674
LGF 3 Schemes	15,832
Gain Share Schemes	78,353
Loans	12,738
Transforming Cities	48,826
Transport Single Pot	26,500
Rolling Stock	125,122
Other Merseytravel Capital Schemes	13,520
TOTAL	**345,972**

6.3 2020/21 will see the first of the new fleet of rolling stock in service on the Merseyrail Network. This is the largest capital programme currently in delivery across the City Region and the largest ever undertaken by Merseytravel.

6.4 The elements of the programme that are directly controlled and contracted for by the CA are the rolling stock itself, new depot facilities on the site of the original Kirkdale depot and enhancements to wifi connectivity.

6.5 These elements of the programme remain broadly on target for both delivery and cost. Depot construction is complete and the first units of rolling stock are already complete and in test awaiting formal handover.

6.6 Where the project has encountered difficulties however is in its various interfaces with Network Rail. In a number of significant areas, including changes to platform height and length and upgrades to power supplies Network Rail have passed on significant additional expenditure which the CA has been forced to incur.

6.7 These infrastructure works, required from Network Rail, were considered to be a financial and delivery risk at the onset of the project and as such, a risk provision was made in the initial capital allocation. Unfortunately, the scale of Network Rail additional costs has greatly exceeded the value of the risk contingency and the CA will need to recognise a potential additional capital allocation for the project of up to £50m.

6.8 These additional costs and works will occur over the next 18 months to two years. Officers are currently working with Network Rail to identify options to mitigate costs and reduce the overall quantum of any additional costs. In addition Officers will also endeavour to mitigate the need for additional borrowing, looking at options to apply external funding for specific activities such as connectivity and batteries.

6.9 The Treasury Management Strategy appended to this report reflects this increase in the overall borrowing requirement.

7.0 TRANSPORT SINGLE CAPITAL POT ALOCATION

7.1 Whilst part of the single capital allocation the Combined Authority has agreed to managed the transport capital pot outside of the main SIF assurance framework process for the period through to 2020/21. The advantage of this approach has been to allow a lighter tough approach recognising that many smaller scale but strategically important measures, such as road safety schemes, would not lend themselves to complex business case development. This approach has also provided freedoms and a degree of certainty for partners to plan budgets locally.

7.2 Historically a significant proportion of the transport has been allocated based on a historic formula allocation however there is an increasing acceptance that there is a need for a more evidence led approach to allocation to support the findings of Highways Infrastructure Asset Management Plan (HIAMP) for the Key Route Network.

7.3 A fundamental issue concerns the modest size of the Transport Pot as demand usually exceeds the level of funding available. The HIAMP identifies a need for an annual budget of £19m to maintain the desired lifecycle at steady state over 5 years, once the maintenance need has been arrested, with current backlog of £59m. The proposal to enhance the size of the pot available for KRN maintenance would require an injection of additional funds from the SIF which would require an application and separate approval in accordance with the SIF assurance framework.

7.4 Pending a SIF submission for additional funding it is proposed that the current pot is allocated as follows for 2020/21.

Table 10 Proposed Allocation of Single Transport Pot

	Highways Maintenance £'000	Integrated Transport £'000	Total £'000
Halton	1,449	460	1,909
Knowsley	1,205	530	1,735
Liverpool	2,742	1,740	4,482
St Helens	1,573	640	2,213
Sefton	1,882	990	2,872
Wirral	2,149	1,150	3,299
Sub Total	**11,000**	**5,510**	**16,510**
Retained for KRN	5,500		5,500
Retained by CA Mayoral Priorities Evidence Bus Alliance Rail		 2,500 1,000 500 500	 2,500 1,000 500 500
Total	**16,500**	**10,010**	**26,510**

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 2020/21. 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.

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Appendices
Appendix 1 LCRCA Treasury Management Strategy
Appendix 2 LCRCA Capital Strategy
Appendix 3 Capital Programme 2020/21

APPENDIX ONE

COMBINED AUTHORITY TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2020/21

1. BACKGROUND

1.1 The Authority is required to operate a balanced budget which broadly means that expenditure incurred during the year will be met through cash raised during the year. Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the Authority's treasury management activities is the funding of 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.

1.3 The contribution the treasury management function makes to the Authority is critical as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due; either on day to day revenue or for larger capital projects. The treasury operations will see a balance of the interest cost of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested as a loss of principal will in effect result in a loss to General Fund Balance.

1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activity, arising usually from capital expenditure, and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

"The management of the Authority's borrowing, investments 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 risks."

Reporting Requirements

1.5 The CIPFA Prudential and Treasury Management Codes (revised 2017) detail the reporting requirements for the Authority. From a treasury perspective, 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 capital plans, (including prudential indicators);
  - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
  - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
  - an investment strategy, (the parameters on how investments are to be managed).
- 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.

1.6 In addition to the treasury reporting requirements, the CIPFA 2017 Prudential and Treasury Management Codes require all Authorities to prepare a capital strategy report which will cover the following:

- a high level, long terms overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

The aim of the capital strategy is to ensure that all Members of the Authority fully understand the overall long term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.7 The capital strategy is reported separately from the Treasury Management Statement, with non-treasury investments being reported through the former. The rationale for the separate reporting is to ensure there is a separation of the core treasury function with the focus on security, liquidity and yield principles and the non-treasury investments which are driven by expenditure on an investment with the intended purpose of generating a return. The capital strategy will show:

- The corporate governance arrangements in place for non-treasury investments;
- Any service objectives relating to these type of activities;
- The expected income, costs and resulting contributions;
- The debt related to the activity and the associated interest costs;
- The pay back period (MRP Policy);
- For non-loan type investments, the cost against the current market value; and
- The risks associated with each activity.

Treasury Management Strategy for 2020/21

1.8 The Treasury Management Strategy for 2020/21 covers two main areas:

- **Capital issues**

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

- **Treasury management issues**
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Authority;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.9 The Authority uses Link Asset Services as its external treasury management advisors. The Authority recognises that responsibility for treasury management decisions remains with the organisation and seeks to ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors. 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 Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2020/21-2022/23

2.1 Capital Expenditure

2.1.1 The Authority's capital expenditure plans are a key driver of its treasury management activity and the output of these plans are reflected in the Prudential Indicators. The prudential indicators are designed to assist members' overview and confirm capital expenditure plans.

The table overleaf summarises the Authority's capital expenditure plans for the current financial year and the three subsequent years, together with the proposed sources of financing.

	2019/20 Estimated Outturn £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Combined Authority Group capital spend	274.00	333.23	191.62	128.48
Commercial activities/ non-financial investments	6.01	12.74	7.76	-
Total Capital Spend	**280.01**	**345.97**	**199.38**	**128.48**
Funded by:				
Capital Grants	(102.98)	(172.98)	(80.50)	(65.00)
Other Contributions	(7.5)	(7.5)	(7.5)	(7.1)
Borrowing	(169.53)	(165.49)	(111.38)	(56.38)

(1) A breakdown of the Merseytravel and Combined Authority capital spend is shown in the main body of the budget report

2.1.2 To the extent that the overall quantum of the programme detailed above increases and cannot be funded through other grants or reserves, this would result in an increase to the overall requirement to borrow.

2.1.3 In line with the Authority's SIF strategy, funding can be provided to sponsors in a variety of formats: be that grant, loan or equity. To date, the Authority has approved 4 separate repayable instruments on a mixture of commercial and sub commercial rates. Each project has been subject to a detailed viability assessment and modelling. Current proposals for non financial investments are such that for the period through to 2023, all activity will be funded by the Authority's devolution funding and therefore should not require the Authority to undertake any borrowing to support these activities. Whilst these loans are funded by grant and not borrowing, there does remain a risk that the Authority will not recover the full value of its investment which would reduce the value of recyclable funds available for reinvestment. In accordance with accounting standards these loans will be subject to an expected credit loss assessment, and to the extent that there is an impairment, this will be reported and accounted for accordingly.

2.1.4 During 2019/20, Growing Places funding, together with several legacy loans novated to the Combined Authority. In addition the Authority was successful in obtaining European funding for the establishment of an Urban Development Fund. Both sources of grant funding have been provided for the purpose of making loans to organisations and providing a recyclable facility to fund schemes, which will help increase commercial floor space and high quality accommodation within the City Region.

2.2 The Authority's Borrowing Need (Capital Financing Requirement)

2.2.1 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR represents the historic outstanding capital expenditure that has not yet been paid for either through revenue or capital resources and therefore a measure of the Authority's indebtedness and underlying need to borrow.

2.2.2 To the extent that the Authority undertakes capital expenditure for which there are immediately available capital or revenue resources, this will increase the CFR. The CFR does not, however, increase indefinitely as the MRP is a statutory annual charge which broadly reduces indebtedness in line with each assets life.

2.2.3 The Authority is asked to approve the CFR projections below.

	2019/20 Estimated Outturn £m	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
Opening CFR	288.94	450.59	603.08	692.79
CFR Services	169.53	165.49	111.38	56.38
CFR Commercial Activity	-	-	-	-
Total Increase in CFR	169.53	165.49	111.38	56.38
Less: MRP	(7.88)	(13.00)	(21.67)	(21.37)
Net Movement in CFR	161.65	152.49	89.71	35.01
Closing CFR	450.59	603.08	692.79	727.80

2.2.4 As detailed at 2.1.4, there are currently no plans to utilise borrowing to support commercial or non financial investments, however this position may change in the future. This will be kept under review and future treasury strategies updated accordingly.

2.3 Minimum Revenue Provision (MRP) Policy Statement

2.3.1 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).

2.3.2 The Ministry for Housing, Communities and Local Government (MHCLG) regulations have been issued which require the full Authority to approve an MRP statement in advance of the year. Under the 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.

2.3.3 Based on the regulations, the Authority is recommended to approve the following MRP statement for application in 2020/21:-

- For historic capital expenditure (i.e. that incurred before 2008), MRP will continue to be calculated at 4% of the previous year end’s Capital Financing Requirement (option 2 under the MHCLG guidance); and
- For any new borrowing undertaken (from 1 April 2008), MRP will be calculated using the asset life method (options 3 under the MHCLG guidance).

2.3.4 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.

2.4 Borrowing

2.4.1 The capital expenditure plans set out in Section 2.1 provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with professional codes, so that sufficient cash is available to meet the service activity and its capital strategy. This will involve organising cash flows and appropriate borrowing facilities as necessary. The table below details the projected overall treasury management portfolio as at 31 March 2020.

	As at 06/01/20 £'000	As at 06/01/20 %	As at 31/03/20 £'000	As at 31/03/20 %
Treasury Investments				
Banks	333,357	83.6%	137,923	77.1%
Local Authorities	65,000	16.4%	41,000	22.9%
Total Treasury Investments	**398,357**		**178,923**	
Loans				
PWLB	161,008	44.0%	156,872	44.0%
European Investment Bank	190,000	52.0%	186,885	52.0%
Transferred Debt	14,874	4.0%	13,730	4.0%
Total External Borrowing	**365,882**		**357,487**	
Net Treasury Investments/ (Borrowing)	**32,475**		**(178,564)**	

2.4.2 The table below provide an analysis of the Authority's outstanding debt as at 31 March 2020.

Outstanding Debt as at 31 March 2020	Principal £m	Average Rate %
Public Works Loan Board (PWLB) EIP Loans	57.866	6.59
PWLB Annuity Loans	45.696	8.35
PWLB Maturity Loans	53.311	4.49
European Investment Bank	186,885	1.521
Transferred Debt	13,730	4.78
Total	**357,487**	

2.4.3 The Authority's projections for borrowing are summarised below showing actual external debt against the underlying capital borrowing need (the CFR) highlighting any under or over borrowing.

External Debt	**2019/20 Estimate £m**	**2020/21 Estimate £m**	**2021/22 Estimate £m**	**2022/23 Estimate £m**
External and Transferred Debt 1 April	181.06	357.49	340.44	323.39
Forecast Change in Debt	176.43	(17.05)	(17.05)	(17.05)
Gross Debt 31 March	357.49	340.44	323.39	306.34
Capital Financing Requirement	450.59	603.08	692.79	727.80
(Under)/ Over Borrowing	**(93.10)**	**(262.64)**	**(369.40)**	**(421.46)**

2.4.4 Within the range of prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

2.4.5 The Director of Corporate Services reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the proposals contained within the budget report.

Treasury Indicators: Limits to Borrowing Activity

2.4.6 The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. Ordinarily this would be a figure commensurate with the CFR however this may be lower or higher depending on the Authority's levels of actual debt and its ability to fund under borrowing by other cash resources. The table below summarises estimated operational boundary for the current and subsequent three years.

	2019/20 Forecast £'m	**2020/21 Estimate £'m**	**2021/22 Estimate £'m**	**2022/23 Estimate £'m**
Debt	422.66	524.29	581.97	601.36
Other Long Term Liabilities	-	-	-	-
Commercial Activities	-	-	-	-
Total	**422.66**	**524.29**	**581.97**	**601.36**

2.4.7 The Authorised Limit for external debt represents the legal limit beyond which external debt is prohibited. The limit for this key prudential indicator is set by the Authority and therefore any changes to this limit must be agreed by the Authority also. The Authorised Limit reflects the level of external debt which, whilst not desirable or sustainable over the longer term, could be afforded in the short term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authorities plans, or those of a specific Authority, although this power has not yet been exercised.

2. The Authority is asked to approve the following authorised limit:

	2019/20 Forecast £'m	2020/21 Estimate £'m	2021/22 Estimate £'m	2022/23 Estimate £'m
Debt	450.59	603.08	692.79	727.80
Other Long Term Liabilities	-	-	-	-
Commercial Activities	-	-	-	-
Total	**450.59**	**603.08**	**692.79**	**727.80**

Prospects for Interest Rates

2.4.8 The Authority has appointed Link Asset Services as its treasury advisors and part of their service is to assist the Authority to formulate a view on interest rates. The table below provides an overview of Link Asset Service's view of interest rates.

Link Asset Services Interest Rate View														
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.30	1.30
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40	1.50	1.50	1.50	1.50
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60	1.70	1.70	1.70	1.70
5yr PWLB Rate	2.30	2.40	2.40	2.50	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.10	3.20	3.20
10yr PWLB Rate	2.60	2.70	2.70	2.70	2.80	2.90	3.00	3.10	3.20	3.20	3.30	3.30	3.40	3.50
25yr PWLB Rate	3.20	3.30	3.40	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00	4.10	4.10
50yr PWLB Rate	3.10	3.20	3.30	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90	4.00	4.00

2.4.9 The above forecasts have been based on an assumption that there is an agreed deal on Brexit, including agreement on the terms of trade between the UK an EU, at some point in time. The result of the general election has removed much uncertainty around this major assumption. However, it does not remove uncertainty around whether agreement can be reached with the EU on a trade deal within the short time to December 2020, as the prime minister has pledged.

2.4.10 The Monetary Policy Committee (MPC) has left the Bank Rate unchanged at 0.75% in 2019 due to the ongoing uncertainty over Brexit and the outcome of the general election. In its meeting on 7 November, the MPC became more dovish due to increased concerns over the outlook for the domestic economy if Brexit uncertainties were to become more entrenched, and for weak global economic growth: if those uncertainties were to materialise, then the MPC were likely to cut the Bank Rate. However, if they were both to dissipate, then rates would need to rise at a 'gradual pace and to a limited extent'. Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. There is still some residual risk that the MPC could cut the Bank Rate as the UK economy is still likely to only grow weakly in 2020 due to continuing uncertainty over whether there could effectively be a no deal Brexit in December 2020 if agreement on a trade deal is not reached with the EU. Until that major uncertainty is removed, or the period for agreeing a deal is extended, it is unlikely that the MPC would raise the Bank Rate.

2.4.11 PWLB rates are subject to ad hoc decisions by H.M Treasury to change the margin over gilt yields charged in PWLB rates: such changes could be up or down. It is not clear that if gilt yields were to rise back up again by over 100bps within the next year or so, whether HM Treasury would remove the extra 100 bps margin implemented on 9 October 2019.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts (and MPC decisions), will be liable to further amendments depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year horizon will be heavily dependent on economic and political developments.

2.4.12 Based on the above, the impact on investment and borrowing rates is likely to be as follows:

- Investment returns are likely to remain low during 2020/21 with little increase in the following two years. However, if major progress was made with an agreed Brexit,then there is upside potential for earnings;
- Borrowing interest rates were on a major falling trend during the first half of 2019/20 but then increased by 100 bps on 9 October 2019. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. However the unexpected increase of 100bps in PWLB rates requires a major rethink of authority treasury management strategy and risk management.
- The Authority will not be able to avoid borrowing to finance new capital expenditure (rolling stock fleet), there will be a cost of carry, to any new long term borrowing that causes an increase in cash balances as this position will most likely incur a revenue cost.

Borrowing Strategy

2.4.13 The Authority currently has an under borrowed position, which means that the CFR, the underlying need to borrow, has not been fully funded by loan debt as cash supporting the Authority's balances and reserves have been used as a temporary measure. The authority borrowed £190 million from the European Investment Bank in December 2019 to support the rolling stock programme, given the quantum of the capital programme over the next three years, there is likely to be an absolute need to borrow additional funds 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.

2.4.14 Whilst investment returns remain subdued and a relative dearth of high quality counterparties remains an issue, the strategy of utilising cash balances is considered prudent. Against this backgound, the Director of Corporate Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances and satisfying the need to borrow, seeking to identify the options that are available and provide value for money for the Authority.

- *If it was felt that there was a significant risk of a sharp FALL in borrowing rates*, (e.g. due to a markers increase of risks around relapse into recession or of risks of deflation), the borrowing will be postponed.
- *If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration on the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Policy on borrowing in advance of need

2.4.15 The Authority will not borrow more than or in advance of need purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be forward approved within the Capital Financing Requirement estimates, and will be considered carefully to ensure value for money can be demonstrated and security of funds evidenced. Risks associated with borrowing in advance of need will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

2.4.16 The Authority will monitor opportunities to generate savings through debt rescheduling activity, however any savings that could be generated would need to be considered in light of the current treasury position and the size of any potential premiums payable on early redemption of debt. Reasons for debt rescheduling will include:

- The generation of cash savings or discounted cash flow savings;
- Helping fulfil the treasury strategy; or
- Enhancing the balance of the portfolio (maturity profile or balance of volatility).

Consideration will also be given to identify if there are residual potential for making short term savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the 100 bps increase in PWLB rates only applied to new borrowing rates and not to premature debt repayment rates.

If rescheduling was done, it will be reported to the Authority, at the earliest meeting following its action.

2.5 New financial institutions as a source of borrowing and types of borrowing

2.5.1 Following the decision by the PWLB on 9 October 2019 to increase their margin over gilt yields by 100 bps to 180 basis points on loans lent to authorities, consideration will also need to be given to sourcing funding at cheaper rates from the following:

- Local authorities (primarily shorter dated maturities)
- Financial institutions (primarily insurance companies and pension funds but also some banks)
- Municipal Bonds Agency (no issuance at present but there is potential)

2.6 Approved Sources of Long and Short term Borrowing

2.6.1 Whilst in practice the Authority will tend to draw its substantive borrowing requirement through the PWLB, it also has access to a number of other sources of fixed and variable funding as detailed below.

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds		●
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

2.7 Annual Investment Strategy

2.7.1 In conducting its investment activity, the Authority will have regard to the MHCLG's Guidance on Local Government Investments and the 2017 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.

2.7.2 Whilst MHCGL and CIFPA have extended the meaning of investments to include both financial and non-financial investments, the Annual Investment Strategy as detailed below deals solely with the financial (treasury) investments. Non-financial investments, essentially the purchase of income yielding assets, are covered within the Capital Strategy.

2.7.3 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.

2.7.4 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 2020/21 will be made in accordance with the Annual Investment Strategy detailed in Appendix Two.

Appendices:-

Annex One – Outlook for Interest Rates
Annex Two – Annual Investment Strategy 2020/21
Annex Three – Treasury Management Limits and Prudential Indicators 2019/20 to 2020/21
Annex Four – Treasury Management Scheme of Delegation
Annex Five – The Treasury Management Role of the Section 151/ 73 Officer

ANNEX ONE

OUTLOOK FOR INTEREST RATES

Bank Rate	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**0.75%**	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.25%
Capital Economics	**0.75%**	0.75%	0.75%	0.75%	0.75%	0.75%	-	-	-	-	-	-		-	-

5yr PWLB Rate	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.37%**	2.30%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%
Capital Economics	**2.37%**	2.30%	2.40%	2.50%	2.50%	2.60%	-	-	-	-	-	-		-	-

10yr PWLB Rate	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.57%**	2.60%	2.70%	2.70%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.50%
Capital Economics	**2.57%**	2.60%	2.60%	2.70%	2.80%	2.80%	-	-	-	-	-		-	-	-

25yr PWLB Rate	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**3.12%**	3.20%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.10%
Capital Economics	**3.12%**	3.00%	3.10%	3.20%	3.20%	3.30%	-	-	-	-	-	-	-	-	-

50yr PWLB Rate	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Asset Services	**2.94%**	3.10%	3.20%	3.30%	3.30%	3.40%	3.50%	3.60%	3.60%	3.70%	3.80%	3.90%	3.90%	4.00%	4.00%
Capital Economics	**2.94%**	3.00%	3.00%	3.10%	3.20%	3.20%	-	-	-	-	-	-		-	-

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

ANNEX TWO

ANNUAL INVESTMENT STRATEGY 2020/21

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 2020/21 and the management of risk
- 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.

Investment policy – management of risk

The guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. **Credit Criteria**
   A minimum acceptable credit criteria is applied in order to generate a list of highly creditworthy counterparties. This enables diversification and this avoidance of concentration of risk. The key ratings used to monitor counterparties are the short term and long term ratings

2. **Other information**
   Ratings will not be the sole determinant of the quality of an institution, it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a

monitor on market pricing such as 'credit default swaps' and overlay that information on top of the ratings.

3. Other information sources

The Authority will pay consideration to other information sources such as the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. Types of investment instruments

The Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in Annex 2.1 under the categories of 'specified' and 'non-specified' investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investments is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

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

5. **Non-specified investments limits**. The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio

6. **Lending limits,** amounts and maturity, for each counterparty will be set through applying the matrix table in Annex 2.2.

7. **Transaction limits** are set for each type of investment in Annex 2.2

8. **Sovereign ratings** Investments will only be placed with counterparties from countries with a specified minimum sovereign rating

9. The authority will set a limit for the amount of investments which are invested **for longer than 365 days**

10. **External Consultants** The authority has engaged external consultants to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling.**

12. As a result of the change in accounting standards for 2019/20 under IFRS 9, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year.

The Authority will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

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 2

Within the framework detailed in Annex 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 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 consideration will be made in conjunction with the Authority's treasury advisors and subject approval by the Director of Corporate Services.

Policy on the use of External Service Providers

The Authority uses Link 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 2.2	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 2.2	In house
Notice Account Facilities	See Annex 2.2	In house
Term Deposits – non UK banks and building societies	See Annex 2.2	In house
Debt Management Agency Deposit Facility	UK Government backed	In house
Certificates of Deposit	See Annex 2.2	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 2.2	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 2.2	In house	2 years
Certificates of Deposits	See Annex 2.2	In house – after consultation with Treasury Advisors	2 years
Callable Deposits	See Annex 2.2	In house – after consultation with Treasury Advisors	2 years
Structured Deposits	See Annex 2.2	In house – after consultation with Treasury Advisors	2 years
Forward Deposits	See Annex 2.2	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
Government Backed	**Long Term**	**Short Term**	**Viability Rating**	**Sovereign**		
Treasury Bills	AA Rated				£10m per investment (£80m in total)	2 years
Local Authorities, other Public Sector Bodies incl DMO	AA Rated				£10m per LA, £50m per LA within the LCRCA (£150m total)	2 years
Part Nationalised Banks	See Below *				£70m	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 of £200m	On call
Authorised institutions under the Banking Act 1987 which hold suitable credit ratings	A+ and above	F1/P1 and above		AA and above	£20m per investment (£80m total per institution or up to £100m for CA Main Banker)	2 years
	A	F1/P1 and above		AA and above	£10m per investment (£40m 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) as deposits are essentially being made with the UK Government itself.

ANNEX THREE

THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2019/20 -2021/22

Indicator	Description	19/20 Forward Outturn	20/21 Forward Estimate	21/22 Forward Estimate	22/23 Forward Estimate
Capital Spend (£m)	Proposed capital spend to which the Authority plans to commit	280.02	345.97	199.38	128.48
In year Requirement	Additional borrowing requirement for capital expenditure	169.53	165.49	111.38	56.38
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	450.59	603.08	692.79	727.80
Ratio Financing Cost to Income Stream	Identified the impact and trend of revenue costs of capital financing decisions on the revenue budget	16.04%	31.43%	36.66%	31.13%
Net Borrowing Requirement (£m)	Represents the net investments or borrowing requirement based on the debt and investments held	178.56	240.44	223.39	206.34
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	450.59	603.08	692.79	727.80
Operational Limit for Borrowing (£m)	Represents the level beyond which debt is not normally expected to exceed	422.66	524.29	581.97	601.36
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	93.10	262.64	369.40	421.46

ANNEX FOUR

TREASURY MANAGEMENT SCHEME OF DELEGATION

The Combined Authority

- Approves the annual Treasury Management Strategy Statement;
- Receives a mid year report and an outturn report on Treasury Management activity;

The Director of Corporate Services

- Draft and submit to the Combined Authority the Treasury Management Strategy Statement prior to the start of the financial year;
- Implement and monitor these documents,
- Draft and submit mid year and outturn reports to the Combined Authority for approval;
- Maintain suitable Treasury Management Practices (TMP's) setting out the manner in which the Authority will seek to achieve its objectives. The TMP's will prescribe how the treasury activities will be managed and controlled;
- Be responsible for the execution and administration of treasury management decisions; and
- Act in accordance with the Council's Policy Statement and Treasury Management Practices, and also in accordance with CIPFA's Standard of Professional Practice on Treasury Management

ANNEX FIVE

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151/ 73 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following*: -*
  - *Risk management, including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments*
  - *Decision making, governance and organisation, including a statement of the governance requirements for decision making in relation to non-treasury*

investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.

- *Reporting and management information including where and how often monitoring reports are taken*
- *Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

APPENDIX TWO

CAPITAL STRATEGY 2020/21

1.0 Purpose

1.0.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) requires all organisations operating under the Prudential Code for Capital Finance (the Prudential Code) to produce a capital strategy to demonstrate that capital expenditure and investment decisions are taken in line with organisational objectives, are affordable, take proper account of stewardship, sustainability, value for money and prudence. As an organisation that operates under the aegis of the Prudential Code, the Liverpool City Region Combined Authority (the Authority) is required to produce a capital strategy.

1.0.2 The capital strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the achievement of the Authority's priorities and service provision. It also provides an overview of how the associated risks are managed and the implications for future financial stability. The document provides an overview of the governance processes for approving and monitoring capital activity.

1.1 Scope

1.1.1 This capital strategy covers all capital expenditure and capital investment decisions for not only the Authority but also those entered into under group arrangements. As such this capital strategy applies to Merseytravel and its subsidiary companies.

1.1.2 For expenditure to qualify as capital expenditure and therefore be under the scope of this document it must be:

- Expenditure that is incurred on the acquisition or creation of a new asset or expenditure that enhances the life or value of an existing asset in accordance with relevant account standards;
- Expenditure that meets one of the definitions specified in regulation made under the 2003 Local Government Act; or
- Expenditure for which a direction has been made by the Secretary of State that allows the expenditure to be treated as capital.

1.2 Liverpool City Region Context

1.2.1 The Combined Authority approved a corporate plan for the period 2018-2020 in October 2018. The plan is structured around eight priority themes:

Priority One: A dynamic, prosperous, inclusive economy which benefits every part of the city region;

Priority Two: Jobs, skills and career opportunities for all;

Priority Three: A high-speed digital network that connects the whole region to the world;

Priority Four: A transport network that connects people, goods and Business;

Priority Five: Good quality and affordable housing;

Priority Six: A greener and cleaner place to live;

Priority Seven: A world class culture and visitor experience;

Priority Eight: More decisions taken locally.

1.2.2 Key priorities are underpinned by a vision statement and a series of key deliverables central to the achievement of the overarching priorities. To help the Combined Authority deliver it is vital that there is a clear and coherent framework through which to make capital investment. At the CA level strategic investments will be driven by the Single Investment Strategy and associated assurance framework and the Key Route Network asset management plans. At the Merseytravel, key strategies including the Tunnels, Bus Infrastructure, Ferries and Long Term Rail Strategies will help inform and shape capital requirements.

1.3 Capital Expenditure

1.3.1 Whilst at the Authority level, most investment interventions are focussed on supporting its growth strategy and devolution aims, below this level, Merseytravel which is the strategic transport advisory body and delivery arm, is responsible for the operation and maintenance of its and the Authority's major transport assets. Whilst Merseytravel has recourse to some of its own resources to support investment, this ability is limited and most requests for funding are channelled up through the Authority.

1.3.2 The size of the capital programme is influenced by the availability of funding sources and capital financing costs, including the availability of revenue resources to support the full implications of capital expenditure; both borrowing costs and running costs after any grant funding is applied.

1.4 Funding Streams

1.4.1 The Authority's capital investment decisions can be funded from a number of sources, the key components of which are detailed below;

- **Government grants** – this is the single largest source of capital funding received by the Authority. The key government grants received directly by the Authority include Transforming Cities Funding, transport funding from the Department for Transport and the Gain Share/ Investment Fund monies received in support of the Authority's devolution agreement. The Authority has agreed with government to have a single pot approach to capital and the funds that form part of the Single Pot are governed by the Authority's Single Investment framework. In addition the Authority acts as the Accountable Body for the Local Growth Funds for which local agreement has been reached with the LEP whereby these funds for part of the Single Investment Fund. Merseytravel is not a significant grant recipient in its own right and therefore grants to Merseytravel will flow via the CA, either as a result of work commissioned by the CA or as a result of a bid made by Merseytravel against the SIF.

- **Prudential borrowing** – under the Prudential Code the Authority is permitted to determine its own borrowing requirement (which includes the need for borrowing that may exist within Merseytravel), provided the borrowing proposed is affordable, prudent and cost effective. Whilst the Authority is governed by the Prudential Framework, in common with all other Mayoral Combined Authorities, the Authority has agreed a debt cap with HM Treasury which limits the absolute level of borrowing that can be incurred. Where this type of funding is applied there are revenue implications in the form of financing cost.
- **Reserves** – both the Combined Authority and Merseytravel have recourse to specific reserves to support capital investment. Whilst the Authority has significant reserves that are earmarked for inclusion within the SIF, the current level of resources is not forecast to increase, rather they are on a downward trajectory as there has been a significant reliance on reserves to support the Merseytravel capital programme over the last couple of years and therefore these should be applied judiciously.
- **Revenue funding** – the Authority is permitted to utilise revenue resources to fund capital schemes however given the limited availability of revenue funding more generally for the Authority it is not a significant source of capital funding and would normally be used to support specific smaller scale initiatives. The only area in which a significant and sustained use is made of revenue to support capital investment is in respect of the Mersey Tunnels whereby use of tolls is directed by statute.
- **Capital receipts** – the Authority and Merseytravel are able to generate capital receipts through the sale of surplus assets, such as land and buildings. The use of such receipts is governed by statute and therefore must be used for capital investment, unless capitalisation directives are permitted. Both organisations hold limited levels of capital receipts and by virtue of the fact that both organisations hold significant infrastructure asset bases, their capacity to generate new receipts is constrained. To this end the first call on any capital receipts to support capital investment are for invest to save initiatives.

1.5 Governance Arrangements

1.5.1 The Strategic Investment Fund (SIF) has been established to manage the public funding that the Combined Authority receives following the devolution agreement agreed with government in 2015 and the Growth Deal Funds for which agreement has been reached with the Liverpool City Region Local Enterprise Partnership (LEP) for the Authority to manage these funds.

1.5.2 The Combined Authority's Strategic Investment Fund Strategy defines and outlines the Authority's investment strategy for the SIF, including its principles and priorities, approval process and fund-recycling model.

1.5.3 The core objective of the Investment Strategy is to ensure that investment made by the Combined Authority is most effectively targeted at interventions and opportunities that help deliver its strategic aims and help drive inclusive growth, social value, tackle market failure maximise value for money and make a financial return into the SIF.

1.5.4 The Investment Strategy clearly details the principles against which the SIF will operate and the economic sectors in which the region has a competitive advantage and which will drive future regional success.

1.5.5 Overlaying the Investment Strategy is the SIF Assurance Framework, which has been designed to meet the requirements of the Single Pot Assurance Guidance published by MHCLG and managed by HM Government's Cities & Local Growth Unit. This documents covers;

- The context, scope and purpose of the assurance framework;
- the governance structures of the Combined Authority, investment approach and transparency mechanisms that will apply to decision making;
- the decision making procedures for funding; and
- the approach to monitoring and evaluation.

1.5.6 The process for making investment decisions through the SIF is as follows:

- All projects are developed in conjunction with the Investment Team to ensure they have a mesh with the Authority's Investment Strategy;
- Projects are subject to development of business case in accordance with HM Treasury Green Book principles;
- An internal panel of senior officers considers projects at outline stage. This group has a right of veto and may use this to refuse a project should they believe it would breach SIF governance and/ or run counter to good economic development policy;
- Detail diligence will be undertaken on all projects and an external appraisal report will be completed;
- The Investment Panel will conduct interim and final reviews of projects and provide advice and commentary on the merits of a project to the Combined Authority and if necessary make recommendations for modifications;
- Based on the recommendations of the Investment Panel, projects will be submitted to the Combined Authority for approval.

1.5.7 Monitoring of delivery and outcomes is managed by the Corporate Programme Management Office who reports performance through to the Programme Delivery Board, which is comprised of senior officers within the Combined Authority and the LEP. Dedicated Finance resource exists to monitor SIF programme on an ongoing basis and feeds into the reporting rhythm.

1.5.8 Monthly capital monitoring of spend is undertaken and reported through to Merseytravel and the CA respectively.

1.5.9 Whilst all significant and major capital expenditure plans for the Authority are channelled through the SIF, Merseytravel separately has a requirement to invest in and maintain its asset base and the Mersey Tunnels, which it manages and operates on behalf of the Combined Authority. Maintenance programmes and investment requirements for Merseytravel assets are determined in parallel with the service and revenue budget planning process within the framework of the Medium Term Financial Plan.

1.6 Long Term Capital Plans

1.6.1 The table below shows the capital plans for both the Combined Authority and Merseytravel for the period through to 2022/23.

Combined Authority Investment Plans

	2019/20 Revised £'m	2020/21 £'m	2022/22 £'m	2022/23 £'m	Total £'m
Combined Authority capital plans	274,003	333,235	191,628	124,480	927,344
Commercial Activities	6,013	12,738	7,750	-	26,501
Total Capital Expenditure	**280,015**	**345,972**	**199,378**	**128,480**	**953,845**
Financed by:					
Borrowing	(169,531)	(165,489)	(111,378)	(56,380)	(502,778)
Capital Grants	(102,984)	(165,489)	(80,500)	(65,000)	(421,467)
Revenue/ Reserves	(7,500)	(7,500)	(7,500)	(7,100)	(29,600)
Total Funding	**(280,015)**	**(345,972)**	**(199,378)**	**(128,480)**	**(953,845)**

1.6.2 The table above reflects the Combined Authority's investment decisions that have been ratified to December 2019 however there are a number of schemes within the pipeline at various stages of development. As these pipeline projects progress through to approval and funding agreement, the programme will be updated.

1.6.3 The main schemes are detailed in the Combined Authority and Merseytravel budget reports.

1.7 Investments

1.7.1 The Authority may undertake two distinct types of investment; treasury management investments and service/ commercial investments.

1.7.2 Treasury management investment activity arises as a consequence of managing the organisation's cashflows. For these investments, security and liquidity of investments are the primary considerations when making such decisions, ahead of any consideration of investment yield generated. Treasury management investments are governed by the Authority's Treasury Management Policy and its Annual Investment Strategy. The Authority's counterparty criteria provides a framework against which treasury investments are made. The approach is informed by the creditworthiness work undertaken by the Authority's treasury advisors, Link Asset Services.

1.7.3 Service or commercial investments by contrast are those investments made by an organisation outside of the day to day treasury management activity which could be either made in support of service provision, for example economic regeneration or commercial whereby the investments have been undertaken purely for the purpose of generating financial returns.

1.7.4 There is a regulatory and statutory recognition that organisations may make investments for policy reasons outside their treasury management activity. To ensure that all investment decisions are made in a structured an informed manner with due consideration to both the risks and rewards stemming from that decision, the CIPFA Treasury Management Code covers both types of investment.

1.7.5 The Authority's non-treasury investments are primarily aimed at supporting the organisation's service objectives and the achievement of its devolution aims and such investments will naturally flow out of the SIF generated schemes. As stated above, the core objective of the Investment Strategy is to ensure that investment made by the Combined Authority is most effectively targeted at interventions and opportunities that help deliver its strategic aims and help drive inclusive growth, social value, tackle market failure maximise value for money and make a financial return into the SIF. To ensure

1.7.6 Whilst investments through the SIF will aim to ensure that there is a positive reflow, the key driver in these investments is not to generate a financial return to support the ongoing revenue budget for the Combined Authority but to ensure the continued viability of the investment fund. As the SIF is funded primarily through grant, it is pertinent to seek to maximise the benefits arising from investments flowing back to the Combined Authority thus allowing the fund to be more sustainable over the longer term.

1.7.7 The Authority's non-treasury investments will vary in shape, size and structure and will be tailored for each individual deal. In accordance with the governance framework outlined above, a significant level of work will be undertaken by the Investment Team to develop and shape deals and undertake necessary due diligence which will inform the commercial negotiation and inform the final deal.

1.7.8 As all non-treasury investments will flow through the SIF process, the review, and scrutiny and ultimately approval process will be in accordance with the SIF Investment Strategy and SIF Assurance Framework. The governance arrangements around interventions funded through the SIF are detailed above.

1.8 Treasury Management

Governance

1.8.1 The Combined Authority has adopted the CIPFA Treasury Management in Public Sector Code of Practice and formally adopted a treasury management policy statement as part of its annual Treasury Management Strategy Statement, which was approved by the Combined Authority at its meeting on 2 February 2018.

1.8.2 Under the Local Government Act 2003 local authorities are permitted to determine their own programmes for capital investment and associated borrowing requirements, provided they have regard to CIPFA's Prudential Code for Capital Financing in Local Authorities.

1.8.3 The objectives of the Prudential Code are to ensure that there is a clear framework for ensuring capital plans are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. In support of the decision making process the Prudential Code sets out a number of prudential indicators that should support local decision making with regards to the Authority's capital expenditure plans and it is the duty of the Director of Corporate Services (the Section 73 Officer) to ensure that this information is made available to support decision making by the Combined Authority. Key issues that should be considered are:

- Affordability;
- Prudence;
- Value for money;
- Stewardship of assets;
- Alignment with service objectives; and
- Practicality.

1.8.4 The requirements of the Local Government Act 2003 and the Prudential Code apply equally to the Combined Authority however; there is an additional requirement for Mayoral Combined Authorities to agree overall debt caps with HM Treasury. As such there is an additional dynamic for the Authority in considering prudence as any increases in the absolute need to borrow above the agreed cap, even if still affordable within the confines of the Prudential Code would, require approval of HM Treasury.

1.8.5 The Combined Authority retains overall responsibility for review and approval of the annual Treasury Management Strategy, the midyear report and the outturn report. Day to day management of the Treasury Management function is delegated to the Director of Corporate Services. Details of the scheme of delegation are contained within the Authority's Treasury Management Practices.

Affordability

1.8.6 Fundamental to any assessment of the affordability of the Combined Authority's capital plans is the extent to which the revenue costs associated with servicing new and existing debt can be sustained within the available budget. A significant proportion of the Authority's capital plans relate to strategic investments through the Strategic Investment Fund which is essentially funded by grant. Whilst the Authority's Investment Strategy does not preclude borrowing in support of this activity, this has not been factored into medium term plans and as such the requirement to borrow, within the debt cap agreed with HM Treasury focuses on the servicing of historic transport debt and other strategic investments in support of transport arising from its role as the Strategic Transport Authority.

Prudence

1.8.7 The Authority is required to make reasonable estimates of total capital expenditure that it plans to incur for the next and at least the following two years. The Prudential Code requires the Authority to ensure that all capital expenditure, investment and borrowing decisions are prudent and affordable and take account of the resources available to fund such schemes or the implications of borrowing to fund them. The aim is to ensure that requirement to repay borrowing is factored into the overall consideration of the organisation's fiscal sustainability.

1.8.8 In respect of the Authority's external debt, there are two key indicators, which the Authority is required to complete for the forthcoming and two successive years; the Authorised Limit and Operational Boundary. The Authorised Boundary represents the absolute maximum the Authority could borrow and therefore should not be varied during the year whereas the Operational Boundary should encompass all anticipated borrowing and in year use and should incorporate sufficient headroom for the Authority to satisfy in year requirements.

1.8.9 The Authority's Authorised and Operational Boundaries are detailed below.

	2020/21 **£'m**	**2021/22** **£'m**	**2022/23** **£'m**
Authorised Limit	603.08	592.79	727.8
Operational Boundary	524.29	581.97	601.36

1.8.10 The Authority's Treasury Management Strategy Statement, which is also forms part of the overall budget report, details the Authority's borrowing and financing plans for its capital programme over the period through to 2022/23, its borrowing limits and debt repayment strategy. To avoid duplication of content the reader is referred to Appendix 1 for more detail.

Value for Money

1.8.11 As detailed above a significant proportion of the Authority's capital programme relates to the delivery of the strategic investment priorities detailed in the Authority's Investment Strategy. All such capital expenditure is incurred on the back of a rigorous application, assessment and evaluation process as detailed in the Single Investment Framework. Funding provided through the SIF is essentially gap funding aimed at supporting strategic interventions. As the assessment and evaluation of all schemes through the SIF follow the principles of the HM Treasury Green Book, value for money is integral to the decision making process.

1.9 Skills and Knowledge

1.9.1 The Director of Corporate Services (Section 73 Officer) who is a Qualified Accountant has overall responsibility for the Authority's Treasury Management activity and overall capital programme. The capital programme and treasury management strategy are managed by Qualified Accountants with specific day to day delegations to individual members within the Finance Team with extensive experience within these designated areas. Emphasis is placed on continuing professional development and staff are encouraged to attend events which help maintain current knowledge and understanding of sectoral developments.

1.9.2 Commercial investment decisions are led by the Authority's Investment Team. This is a multi-disciplinary team with significant experience in financial services and the structuring of corporate finance. This team also has access to a range of specialist advisory support from a specifically procured framework contract to access specialist advice as necessary. The team will work closely with the Finance and Legal teams to ensure that specific regulatory or legislative requirements are understood and adhere to prior to deals being closed.

1.9.3 The Combined Authority has access to a range of advisors to assist in the operation of its treasury and investment activity. 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 Investment Team has access to a range of specialist advisors through its framework, including Legal, Financial, sectoral specific advisors and economic appraisers who will be utilised as necessary for the purpose of supporting investment opportunities brought forward.