# LIVERPOOL CITY REGION COMBINED AUTHORITY

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|---|---|
| To: | The Metro Mayor and Members of the Combined Authority |
| Meeting: | 26 November 2021 |
| Authority/Authorities Affected: | All |
| EXEMPT/CONFIDENTIAL ITEM: | No |
| **KEY DECISION** | **Yes** |

**REPORT OF THE EXECUTIVE DIRECTOR OF CORPORATE SERVICES AND PORTFOLIO HOLDER FOR POLICY REFORM AND RESOURCES**

**QUARTER TWO FINANCIAL PERFORMANCE**

## 1. PURPOSE OF REPORT

1.1 This report provides an overview of the revenue and capital financial performance of the Combined Authority for the period April to September 2021. The report also provides a mid Treasury Stategy Statement which details performance against the approved Treasury Management Startegy which was approved as part of the budget setting report for 2021/22.

## 2. RECOMMENDATIONS

2.1 It is recommended that the Liverpool City Region Combined Authority:

(a) Note the content of the report;
(b) Approve the increase in the capital programme as detailed at 3.8 in respect of the Headbolt Lane rail scheme, noting the issues around cost escalation;
(c) Approve the mid year treasury management strategy update at 3.14-3.24.
(d) Approve receipt of the Cycling and Walking Capability Fund allocation of £1,786,000.

## 3. BACKGROUND

3.1 At its meeting on 16 January 2021, the Combined Authority approved a revenue budget of £156.294m. A revised revenue budget of £220.3m budget was approved by the Combined Authority at its meeting on 24 September 2021. Whilst much of the movement related to additional grants recognised through the income and expenditure account, the grant to Merseytravel was reduced by £2.6m to reflect revisions to the transport budget.

**Revenue Expenditure**

3.2 The table below details the revenue expenditure against budget as at 30 September 2021.

**Table 1 Revenue Expenditure against Budget to 30 September 2021.**

| | Budget £'000 | Phased Budget £'000 | Spend to Date £'000 | Variance £'000 |
|---|---|---|---|---|
| Strategic Commissioning & Delivery | 10,781 | 2,157 | 1,540 | 617 |
| Policy, Strategy & Government Relations | 5,694 | 2,300 | 2,098 | 202 |
| Commercial Development & Investment | 1,419 | 660 | 559 | 101 |
| Corporate Services | 2,906 | 1,768 | 1,569 | 199 |
| Corporate Management | 514 | 257 | 149 | 108 |
| Corporate Development & Delivery | 2,520 | 1,260 | 1,009 | 251 |
| Election Costs | 2,000 | 1,675 | 1,675 | 0 |
| Mayoral Priorities | 2,376 | 874 | 740 | 134 |
| Treasury Costs | 13,155 | 7,217 | 7,189 | 28 |
| Grants to Other Bodies | 59,090 | 19,213 | 19,213 | 0 |
| Grants to Merseytravel | 116,674 | 58,101 | 58,101 | 0 |
| Halton Differential Levy | 3,200 | 3,200 | 3,200 | 0 |
| **Total Net Expenditure** | **220,330** | **98,682** | **97,042** | **1,640** |
| | | | | |
| Funded by: | | | | |
| Transport Levy | (97,404) | (58,442) | (58,442) | 0 |
| Mayoral Precept | (7,630) | (3,820) | (3,813) | (7) |
| Tunnel Tolls | (35,000) | (17,500) | (18,485) | 985 |
| Specific Grants | (69,710) | (22,223) | (20,213) | (2,010) |
| Halton Differential Levy | (3,200) | (3,200) | (3,200) | 0 |
| Use of Reserves | (7,386) | (4,397) | 0 | (4,397) |
| **Total Income** | **(220,330)** | **(109,582)** | **(104,153)** | **(5,429)** |
| | | | | |
| **Net Expenditure** | **0** | **(10,900)** | **(7,111)** | **(3,789)** |

The Combined Authority has been awarded a grant of £1,786k from the Cycling and Walking Capability Fund, Department of Transport. This funding is to be received by the Combined Authority as a Section 31 grant which will be distributed to constituent Local partners on an agreed basis in support of the Authority's Capability Support Bid. This funding and its subsequent allocation will be reflected in the revenue budget in due course.

3.3 The main variances against the phased budget are detailed below:

- **Strategic Commissioning and Delivery** – net underspends of £617k. The underspends arise as a result of vacancies (£367k) however posts are currently in the process of being recruited into and will increase capacity. Underspend of £400k on Tidal project due elements of the project activity being behind schedule.

- **Policy, Strategy & Government Relations** – net underspend of £202k arising as a result of small underspend on staffing, consultancy and payments to training providers.
- **Commercial Development and Investment** – underspend on staffing (£51k) as a result of vacancies within the team. Posts have been taken out to advert to increase capacity within the team and underspends in this area should start to reduce in the second half of the year. Underspends on consultancy (£46k) due to lower than forecast activity in the first half of the year.
- **Corporate Services** – underspend of £288k as a result of savings on consultancy costs and banking charges being lower than budgeted to this point in the year.
- **Corporate Development and Delivery** – underspend within the Communications, Marketing and Engagement Teams on advertising and promotions work (£178k) due to works being curtailed as a result of Covid 19.

3.4 In accordance with the Combined Authorities (Finance) Order 2017, the Authority is required to maintain a separate General Fund in respect of the Mayoral Precept. The table below details expenditure against the Mayoral Budget.

**Table 2 Revenue Expenditure against Mayoral Budget (to September 2021)**

| | **Revised Budget £'000** | **Phased Budget £'000** | **Spend to Date £'000** | **Variance £'000** |
|---|---|---|---|---|
| Mayoral & Corporate Management | 824 | 421 | 421 | 0 |
| Mayoral Priotiies & Bus Reform | 2,376 | 874 | 740 | 134 |
| Tidal Power | 2,147 | 894 | 494 | 400 |
| Digital | 592 | 296 | 0 | 296 |
| Culture | 471 | 240 | 222 | 18 |
| Mayoral Priority Project Support | 824 | 412 | 378 | 34 |
| Policy and Strategic Commissioning | 1,374 | 687 | 687 | 0 |
| Commercial Development and Investment | 625 | 313 | 313 | 0 |
| Communications, Marketing and Corporate Engagement | 583 | 292 | 292 | 0 |
| Corporate Services | 591 | 146 | 146 | 0 |
| **Total Expenditure** | **10,407** | **4,575** | **3,693** | **882** |
| **Funded by:** | | | | |
| Mayoral Precept | (7,630) | (3,820) | (3,813) | (7) |
| Application of Reserves | (2,777) | (755) | 0 | (755) |
| **Total Income** | **(10,407)** | **(4,575)** | **(3,813)** | **(762)** |

3.5 The main variances against the phased budget are detailed below:

- Tidal power – activity is behind by two months in some areas. The Phase 3 activities are progressing but with delay, due to adjustment in working practices for Covid 19 and additional work to inform scheme selection. The work plan for the year remains ambitious and needs careful management to achieve predicted outcomes.

- Digital connectivity – rephasing of works is underway to realign budget and spend.

3.6 In addition to the direct CA running costs incurred, the Strategic Investment Fund (SIF) funds a number of revenue schemes, both through Gain Share revenue and other sources, such as Brownfield Funding. As at the end of July spend against these schemes was £1.174m against a full year budget of £20.658m. A breakdown of spend at a scheme level is included in the table below.

**Table 3 SIF Revenue Spend**

| Project | Budget £'000 | Spend to September £'000 | Forecast Outturn £'000 | Variance £'000 |
|---|---|---|---|---|
| Agent Academy | 168 | 0 | 168 | 0 |
| CA Costs | 4,200 | 0 | 4,200 | 0 |
| Skills/ Apprenticeship Brokers | 3,357 | 244 | 1,408 | 1,949 |
| Music Fund | 883 | 0 | 662 | 221 |
| Shakespeare Playhouse | 216 | 0 | 209 | 7 |
| Createch Scale Up | 582 | 205 | 642 | (60) |
| Civic Data Trust | 1,946 | 139 | 632 | 1,314 |
| COVID-19 Recovery Fund | 696 | 416 | 996 | (300) |
| Town Centres Fund | 1,718 | 460 | 2,115 | (397) |
| Pre Development Fund | 325 | 440 | 832 | (507) |
| Households into Work | 873 | 0 | 699 | 174 |
| Port City Liverpool | 250 | 0 | 250 | 0 |
| National Packing Innovation Centre | 50 | 0 | 0 | 50 |
| Growing Businesses (SIFVE) | 540 | 52 | 52 | 488 |
| IFB 2020 | 1,088 | 17 | 980 | 108 |
| Inward Investment Service | 578 | 254 | 492 | 86 |
| Peepl Network - Peepl Ltd | 264 | 173 | 425 | (161) |
| Finance Hub | 0 | 0 | 120 | (120) |
| **Gainshare Revenue Total** | **17,734** | **2,400** | **14,882** | **2,852** |

**Capital Expenditure**

3.7 The table below details capital expenditure against budget to 30 September 2021. The programme approved for the year incorporated all planned expenditure on schemes funded through the Strategic Investment Fund and comprises schemes delivered by constituent local authorities, Merseytravel and third parties.

**Table 4 Capital Spend against Budget to September 2021.**

| ` | Annual Budget (£'000) | Spend as at September 2021 (£'000) | Budget Remaining (£'000) |
|---|---:|---:|---:|
| Gain Share Projects | 68,212 | 25,866 | 42,346 |
| Transforming Cities Projects | 46,936 | 5,328 | 41,608 |
| Brownfield Projects | 23,000 | 592 | 22,408 |
| Getting Building Fund Projects | 23,407 | 1,630 | 21,777 |
| Transport Capital Pot Projects | 28,766 | 19,442 | 9,324 |
| Transport Pipeline Development | 8,605 | 218 | 8,387 |
| Infrastructure Fund | 15,000 | 0 | 15,000 |
| Capital Expenditure (Internal Delivery) * | 121,655 | 58,847 | 62,808 |
| Active Travel | 2,285 | 0 | 2,285 |
| Green Homes Grants | 52,550 | 7,204 | 45,346 |
| **TOTAL EXPENDITURE** | **390,416** | **119,127** | **271,289** |

3.8 Spend at the end of quarter 2 represents 30.1% of the approved capital budget. Commentary on spend and key risk is detailed below:

- A number of areas including Transport Capital Pot and Active Travel are funds that are predominantly disbursed over constituent local authorities and disbursements will increase over the next couple of months.
- Proposals in respect of options for progressing and disbursing Brownfield Land fund are currently under development and it is envisaged that this will lead to disbursement over the latter half of the year.
- Green Homes Grant – contracts have been awarded and there is an inticiaption that spend profiles will accelerate over the second half of the year. Discussions with BEIS have led to the deadline for disbursement being pushed back to the end of the financial year so there is greater confidence in delivery.
- Disbursements totalling £11m have been made in the last quarter against Gain Share, with LCR Digital and Festival Gardens contributing to this disbursement. With an budget of £68m to disburse over the remaining six months there are likely to be some challenges and potential reprofiling which will be reported back in the next quarter.
- Whilst spend committed to Transforming Cities is significant, challenges persist with meeting the timescales for disbursement by March 2023 however the notification of the CRSTS settlement provide the opportunity for the Authority to manage this as part of a larger transport programme. Several of the key schemes, including the new station at Headbolt Lane have faced significant increases in costs and consequentially will require further funding to be allocated from within the funding envelope. Due to escalating costs in respect of planning consent and associated Network Rail costs, scheme costs are estimated to be in the region of £80m (which includes a £6.5m allowance for risk). Whilst the additional scheme costs will be addressed through the budget setting process for 2022/23, it is proposed that the current year budget is increased by £10m to £20m to allow the scheme to progress. This will be funded through TCF funding.
- The internally delivered transport schemes relate to those schemes being delivered by Merseytravel and include Rolling Stock, Seacombe landing and

tunnels capital schemes. Due to increased costs associated with the Seacombe landing stage, the programme for internal delivery has been amended to adjust the Ferries and Tunnels capital programmes to accommodate the cost increase within the quantum of approved funding. The revised programme is included at Appendix Two.

**Reserves and Financial Risks**

3.9 Taking account of the revised proposals in respect of the revenue and capital projections for the current financial year, the projected reserves position for the Combined Authority as at 31 March 2022 is detailed below.

**Table 5 Projected Reserves as at 31 March 2022**

| | **Balance as at 01 April 2021 £'000** | **Utilisation in Year £'000** | **Balance at 31 March 2022 £'000** |
|---|---|---|---|
| Capital Receipts | 9,434 | 0 | 9,434 |
| Revenue/ Working Balances | 4,020 | 0 | 4,020 |
| Infrastructure Reserve | 61,059 | (5,017) | 56,042 |
| Tunnels Reserve | 5,411 | 0 | 5,411 |
| Rail Reserve | 39,704 | (2,780) | 36,924 |
| Chrysalis Reserve | 34,972 | 0 | 34,972 |
| Other Reserves | 14,273 | 0 | 14,273 |
| **Total** | **168,873** | **(7,797)** | **161,076** |

3.10 Whilst the quantum of earmarked reserves looks significant, General Fund/ Revenue reserves balances are low and accounting for only 2% of all reserve balances held. With the exception of inflows from capital receipts the trend on reserves balances has been on a downward trajectory over the last couple of years with reserve balances being applied to support both revenue and capital expenditure.

3.11 Although reserve balances are at a level that has meant these can be applied to support the expenditure plans as detailed in the budget, over the medium term this trend is not financially sustainable and a revised approach aimed at addressing this position, thus reducing underlying reliance on reserves will need to be implemented.

3.12 In addition to reducing underlying reliance on reserves, there is also a need to develop a strategy for increasing the overall level of reserves available to the Combined Authority. Increasingly, funding offered from central government is conditional on local match funding or with the expectation the local reveneus will be generated to contribute to schemes.

3.13 The city region has ambitious capital investment aspirations for significant capital investment to achieve inclusive growth. If the Authority is to be able to effectively act as a co-sponsor to these schemes then a medium term strategy for developing and maintaining reserves to support such activity will be vital.

**Treasury Management Strategy Mid Year Update**

3.14 The Liverpool City Region Combined Authority operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Combined Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning to ensure the Authority can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Authority risk or cost objectives.

Accordingly, treasury management is defined 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."

3.15 In accordance with the CIPFA Code of Practice for Treasury Management in Public Services, the Combined Authority is required to produce an interim report which provides a review of the Treasury Management Strategy Statement and Annual Investment Strategy, together with an update on investments and borrowing and a review of its Treasury Limits and Prudential Indicators.

The Combined Authority's Treasury Management Strategy 2021-22 was approved at the budget meeting on 22 January 2021. At the mid-point in the year, it is pertinent to provide the Authority with an update on progress against the approved strategy.

3.16 The interim report has been prepared in accordance with CIPFA's Code of Practice on Treasury Management and covers the following:

- an update on interest rates;
- a review of treasury management strategy statement and annual investment strategy;
- an update on current investments and borrowing profiles; and
- a review of compliance with Treasury Limits and Prudential Indicators for 2021-22

3.17 Interest Rates Forecasts

3.17.1 The Authority's treasury advisor, Link Group, have provided the following forecast for interest rates.

**Table 6 – Forecasts for Interest Rates**

| Link Group Interest Rate View 8.11.21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
|---|---|---|---|---|---|---|---|---|---|---|
| BANK RATE | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 0.75 | 0.75 | 1.00 |
| 3 month ave earnings | 0.30 | 0.40 | 0.50 | 0.50 | 0.50 | 0.60 | 0.80 | 0.90 | 1.00 | 1.00 |
| 6 month ave earnings | 0.40 | 0.50 | 0.60 | 0.60 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.10 |
| 12 month ave earnings | 0.50 | 0.60 | 0.70 | 0.70 | 0.80 | 0.90 | 1.00 | 1.10 | 1.20 | 1.20 |
| 5 yr PWLB | 1.50 | 1.50 | 1.60 | 1.60 | 1.70 | 1.70 | 1.70 | 1.80 | 1.80 | 1.80 |
| 10 yr PWLB | 1.80 | 1.90 | 1.90 | 2.00 | 2.00 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 |
| 25 yr PWLB | 2.10 | 2.20 | 2.30 | 2.40 | 2.40 | 2.40 | 2.50 | 2.50 | 2.60 | 2.60 |
| 50 yr PWLB | 1.90 | 2.00 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.40 | 2.40 |

3.17.2 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings. As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75% and finally, quarter 1 of 2024 to 1.00%

**Significant risks to the forecasts**

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.

3.17.3 It is Link’s view that the overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

**Forecasts for Bank Rate**

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, it should therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC’s 2% target after reaching up to 5% which is forecast for April 2022. Four increases in Bank rate are forecast in the period to

March 2024, ending at 0.75% now with a further forecast increase to 1.25% by March 2025. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. This could lead into stagflation which would create a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on around £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It is estimated that there were around 1 million people who came off furlough at the end of September; how many of those would not have had jobs on 1st October and would therefore be available to fill labour shortages which are creating major headache in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.
- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

**Forecasts for PWLB rates and gilt and treasury yields**
As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.
There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?

- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

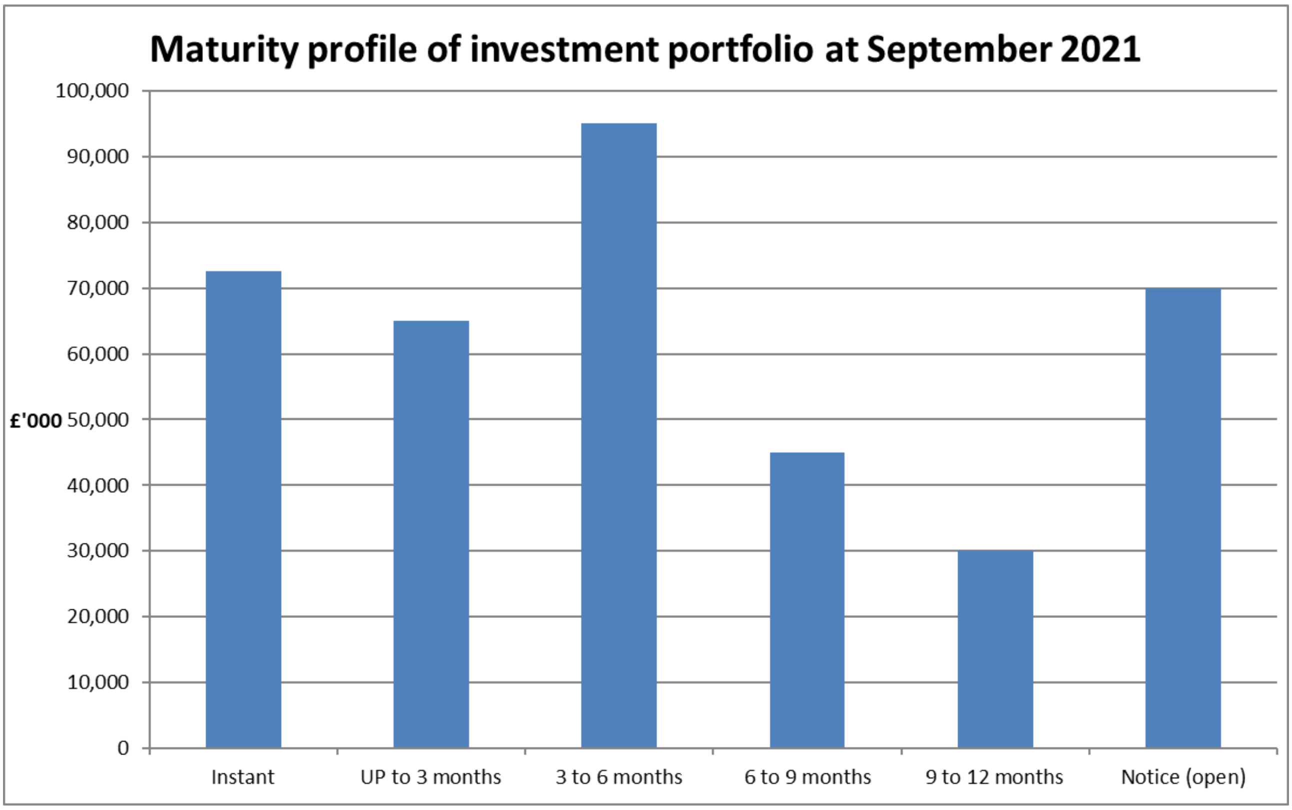
The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

3.18 Treasury Management Strategy and Annual Investment Strategy Update

3.18.1 The revised Treasury Management Strategy Statement, which includes the Annual Investment Strategy, was considered, and approved by the Combined Authority at its meeting on 22 January 2021. The Investment Strategy outlined the Authority’s investment priorities which can be summarised as achieving the best return available on fund whilst maintaining the security of capital and liquidity of investments.

3.19 Investments

3.19.1 As at 30 September 2021, the Combined Authority held investments of £377.5m (£370.7m at 30 September 2020). The chart below details the maturity profile of the Combined Authority’s investments.




The Combined Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security, liquidity, and risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

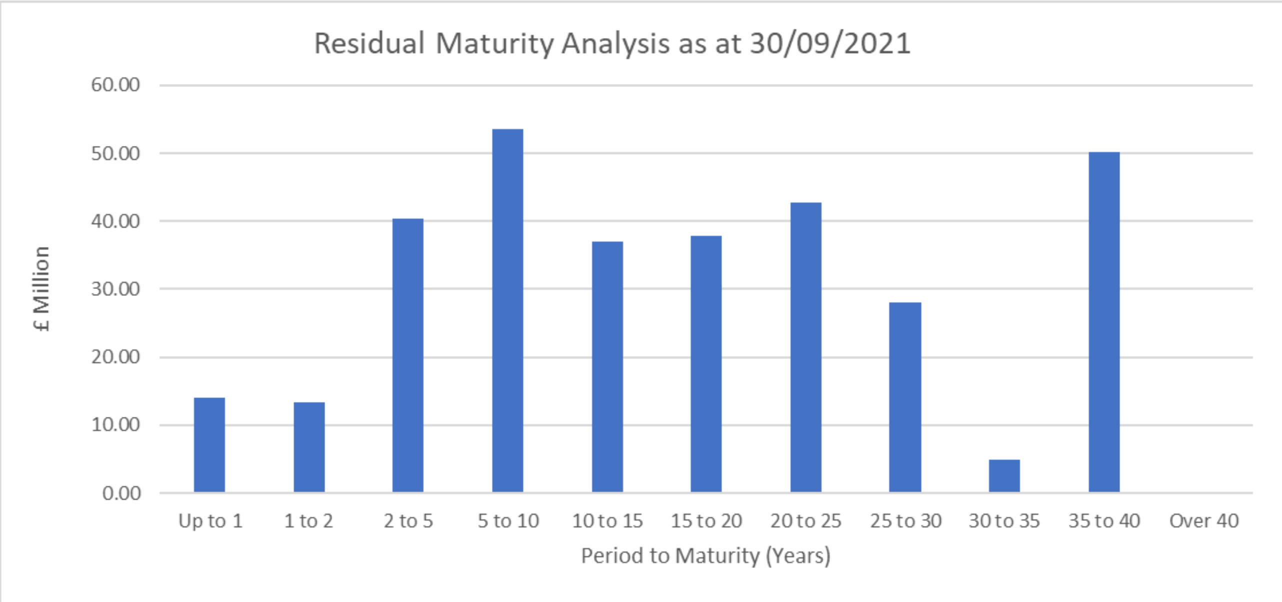
3.19.2 At the mid-point of the year, cash holdings have only increased slightly from the same point in 2020-21. This is due to the impact the COVID 19 pandemic has continued to have on the local and national economies. As the economy started to open again in June 2021 cash levels were expected to decrease as the disbursement of upfront funding increased, but this spend has been slower than anticipated. In addition to this, additional funding of over £230m has been received for programmes including Transforming Cities, Adult Education, Getting Building and Brownfield with only minor expenditure on the associated projects due to the front loading of funding.

3.19.3 In relation to the Rolling Stock project Merseytravel, at the time of writing, had pre accepted 36 units before delivery and testing and accepted title to four of these units. The total procured fleet being 53 units. An updated schedule has been agreed for acceptance of units with associated payment milestones to be completed. This also incorporates 7 of the 53 units now being converted to Independently Powered Electric Multiple Units (IPEMU) after the successful trial earlier in the year. The Power Supply Upgrade work by Network Rail is expected to be completed by the end of 2021 with commercial discussions to continue into next financial year to resolve the final account. Train Lengthening project which looks at platform extensions and signal placements as examples, will take place from now until the end of next financial year. Overall, we are still forecasting a similar cashflow position for capital expenditure to the original budget set for 21/22. There is no further need to borrow this financial year due to lower than anticipated spend on other capital programmes in the organisation and a healthy cash position.

3.19.4. Despite the limited availability of high-quality counterparties and the drastic drop in rates of return available within the market, the Authority's weighted average rate of return is 0.19% compared with 0.42% in 2020-21. As shown by the interest rate forecasts in section 3.17, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%. Given this risk environment and the fact that Bank Rate may only rise marginally before mid-2023, investment returns are expected to remain low

3.20 Borrowing

3.20.1 As at 30 September 2021, the Combined Authority has outstanding debt of £321.8m together with £10.29m debt transferred on the abolition of the former Merseyside County Council. The chart below shows the profile of residual maturities for external debt (excluding transferred debt).



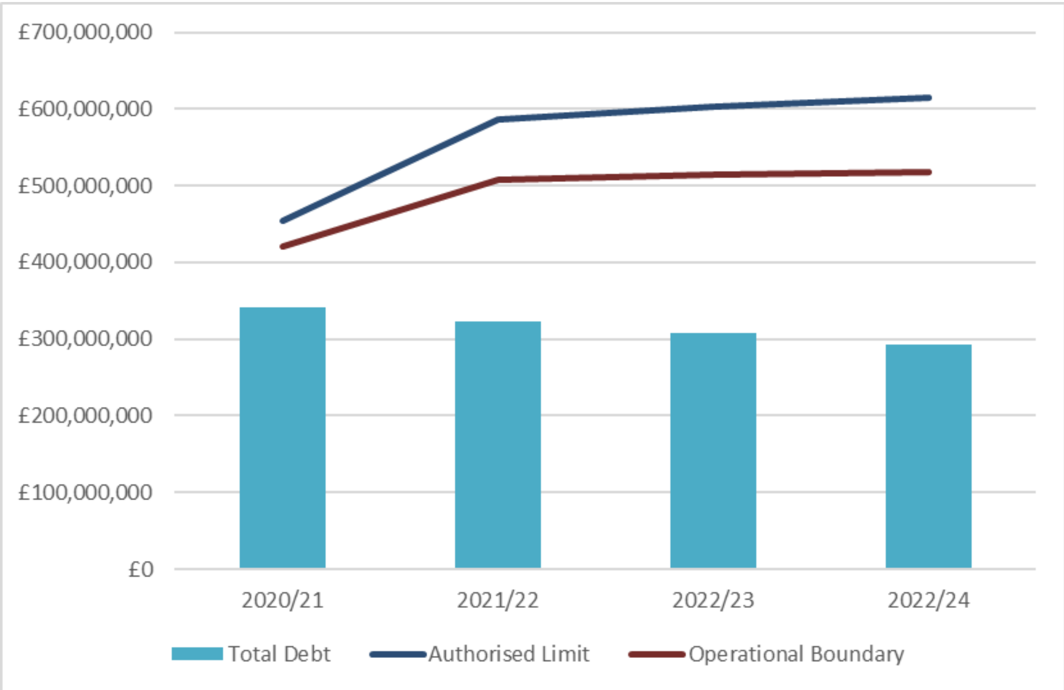

3.20.2 Based on its capital financing requirement, the Authority has an underlying need to borrow based on the capital programme for the next three years, it is envisaged that borrowing will be undertaken which will reduce the under borrowed position. Interest rates and trends will be monitored closely to ensure that any borrowing is secured at the optimal point. As detailed at 3.6.3 the Rolling Stock project presents the Authority with an absolute need to borrow, however it is not envisaged that it will be a requirement this financial year. The timing of this will be closely monitored to ensure maximum cash flow benefits.

3.20.3 As part of its treasury management activity, the Authority will consider any options to restructure its debt portfolio to improve the profile or cash flow associated with debt servicing. Debt rescheduling opportunities have been very limited in the current economic climate. No debt rescheduling has therefore been undertaken to date in the current financial year.

3.21 Treasury Limits and Prudential Indicators

3.21.1 It is a statutory duty under Section 3 of the Local Government Act 2003 for local government bodies to determine and keep under review the affordable borrowing limits. The Combined Authority's Treasury Limits and Prudential Indicators were outlined in the approved Treasury Management Strategy. During the half year ended 30th September 2021, the Combined Authority has operated within the treasury and prudential indicators set out in the Treasury Management Statement for 2021/22.

Comparison of borrowing parameters to actual external borrowing




3.22 Annual Investment Strategy

3.22.1 The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Combined Authority on 22 January 2021. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Combined Authority's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Combined Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Combined Authority's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

3.22.2 As shown by the interest rate forecasts in section 3.4.1, table 1, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term investment rates have barely risen above zero since the Bank Rate was cut to 0.10% in March 2020. Although six and twelve month rates have risen slightly since the MPC meeting on 4th November 2021, in anticipation of the Bank Rate going up by the end of 2021, given the risk environment and the fact that Bank Rate may only rise marginally before the beginning of 2023, investment returns are expected to remain low.

3.23 During 2021/22 the Combined Authority has continued to operate in accordance with the Treasury Management strategy approved in January 2021 and complied with its legislative and regulatory requirements.

3.24 In line with the requirements of CIPFA Code of Practice for Treasury Management in Public Services, a full-year report for 2021/22 will be presented to members after the 2021/22 financial year end

## 4. RESOURCE IMPLICATIONS

4.1 **Financial**
As detailed in section 3 of the report.

4.2 **Human Resources**
None arising directly as a consequence of this report.

4.3 **Physical Assets**
None arising directly as a consequence of this report.

4.4 **Information Technology**
None arising directly as a consequence of this report.

## 5. LEGAL IMPLICATIONS

None arising directly as a consequence of this report.

## 6. RISKS AND MITIGATION

None arising directly as a consequence of this report.

## 7. EQUALITY AND DIVERSITY IMPLICATIONS

Following agreement of the budget in January 2021 and a revised budget in September 2021, there are no new equality implications that have been identified that would require completion of an Equality Impact Assessment at this juncture in the financial year. The Combined Authority will continue to have due regard to proactively addressing the three elements of the Public Sector Equality Duty in all relevant areas, in particular the planning and delivery of activity designed to meet the agreed Corporate Plan priorities.

## 8. PRIVACY IMPLICATIONS

None arising directly as a consequence of this report.

## 9. COMMUNICATION ISSUES

None arising directly as a consequence of this report.

## 10. CONCLUSION

10.1 At the mid point in the financial years, the Combined Authority's revenue and capital operations continue to be managed within the approved budgets set. Whilst both revenue and capital expenditure is showing an underspend at this juncture, as spend profiles increase throughout the second part of the year it is anticipated that the underspend will reduce. In accordance with statutory requirements the Authority has detailed its treasury activities at the mid point in the year and has continues to operate within the treasury management set as part of budget setting.

John Fogarty
Director of Corporate Services

Contact Officer(s):
Sarah Johnston, Assistant Director of Finance, 0151 330 1015
Jess Whitlet, Strategic Finance Manager, 0151 330 1030

Appendices:
Appendix One – Detailed Revenue Expenditure by Service Area – September 2021
Appendix Two – Detailed Capital Expenditure (Internally Delivered) by Service Area – September 2021

Background Documents:
None