**Executive Summary:**

1.1. The Capital Strategy sets out the over-arching principles and processes by which the capital and investment decisions set out in the Capital Programme will be prioritised against the key aims of the Mayoral Inclusive Growth Plan and the Asset Management Plan. The Capital Strategy considers the funding implications of the Capital Programme and where borrowing is required, the Treasury Management Strategy sets out how this will be managed during the year along with the policy for managing investments. The Treasury Management Strategy also incorporates the statutory prudential indicators along with the Minimum Revenue Provision Policy to be adopted for 2020/21.

1.2. The Capital Strategy also provides an overview of the governance arrangements for capital investment decisions and outlines the City Council’s arrangements for managing risk.
2. Background Information

2.1. The requirement for councils to prepare a Capital Strategy is set out in the Prudential Code for Capital Finance in Local Authorities (2017). Although the City Council has produced such a statement for a number of years as part of its financial planning framework, the 2017 Code provides clarity about what the Capital Strategy should contain and its purpose. The Capital Strategy set out in this report has been produced in accordance with the latest Guidance.

2.2. The Capital Strategy provides:

- A high-level overview of how capital expenditure, capital financing and treasury management activity supports the provision of services, the achievement of the corporate objectives and the efficient management of the City Council's assets;
- An overview of how associated risk is managed; and
- The implications for future year’s budgets and financial sustainability.

2.3. The Capital Strategy maintains a strong link to the aims of the Mayoral Inclusive Growth Plan (MIGP). The MIGP drives the City Council's service provision and its capital investment ambition. The key aims are:

- **Investing in our children and young people** - All our children and young people enjoy the best possible quality of life and are able to reach their full potential.
- **People who live well and age well** - Improve health and wellbeing for all, prevent ill health, promote independence and provide quality personalised care and support for those who need it.
- **Quality Homes in thriving neighbourhoods** - All residents have access to quality housing and feel a sense of belonging and wellbeing living in a safe and sustainable neighbourhood.
- **A strong and inclusive economy** - Growing an increasingly modern, productive, and fair economy where the benefits of growth are more equitably shared amongst all citizens.
- **A connected and accessible city with quality infrastructure** - Smart, clean, accessible and integrated infrastructure that meets the needs of a modern and productive city and its residents.
- **Liverpool – the most exciting city in the UK** - Growing Liverpool’s reputation as a cultural and sporting capital and the most exciting city in the UK in which to live, visit, work, study and invest.

2.4. On the 27 July 2019, the City Council declared a climate emergency. All new capital projects submitted for approval now contain an assessment of the impact on the environment and climate change implications.

2.5. The Capital Strategy covers the following key topics:
3. Governance Framework

3.1. The City Council’s Capital Programme involves significant expenditure and financing over the period 2020/21 to 2024/25. It is important therefore given the risks surrounding capital projects that appropriate governance arrangements are in place. For the City Council these governance arrangements encompass:

- The Capital Strategy Statement itself, which is approved annually at Full Council;
- The Cabinet, which approves all capital schemes;
- The Audit and Governance Select Committee, which is responsible for scrutinising the Capital Programme and relevant Cabinet Reports;
- The Senior Management Team (SMT), which has overall responsibility for the management and monitoring of the Capital Programme;
- The Capital Project Appraisal Group;
- Directorate Management Teams, which oversee and agree business cases for capital schemes prior to submission to SMT and Cabinet;
- The Commercial Property Investment Board oversees commercial property investments;
- The Constitution (including Financial Regulations, the Scheme of Delegation and Contract Standing Orders) which sets out the powers of the Executive and senior officers with regard to capital expenditure;
- Each month the Cabinet receives and approves a capital monitoring report, which identifies any variation to the approved programme arising either from the re-phasing of schemes, changes in resourcing and new capital schemes;
- All capital expenditure is guided by the City Council’s financial accounting framework, which ensures that only expenditure that properly falls as capital expenditure in accordance with accounting convention or statutory requirement is capitalised; and
- The Capital Programme is subject to both internal and external audit scrutiny.
4. **Proposed Capital Programme 2020/21 to 2024/25**

4.1. The City Council’s 2020/21 to 2024/25 Capital Programme is set out in detail in Appendix 1. In summary, the City Council is proposing to spend £796.3M over the next 5 years and this is shown in the Table 1 along with the associated financing.

**Table 1: Capital Programme and Financing 2020/21 to 2024/25**

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Expenditure</td>
<td>261.1</td>
<td>213.1</td>
<td>158.8</td>
<td>141.2</td>
<td>22.1</td>
<td>796.3</td>
</tr>
<tr>
<td>Capital Financing:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific and general grants</td>
<td>83.1</td>
<td>33.4</td>
<td>24.0</td>
<td>24.0</td>
<td>21.2</td>
<td>185.7</td>
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<tr>
<td>Private contributions</td>
<td>0.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.9</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>11.9</td>
<td>0.1</td>
<td>1.2</td>
<td>1.5</td>
<td>0.3</td>
<td>15.0</td>
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<tr>
<td>Revenue contributions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Borrowing</td>
<td>165.2</td>
<td>179.6</td>
<td>133.6</td>
<td>115.7</td>
<td>0.6</td>
<td>594.7</td>
</tr>
<tr>
<td>Total Financing</td>
<td>261.1</td>
<td>213.1</td>
<td>158.8</td>
<td>141.2</td>
<td>22.1</td>
<td>796.3</td>
</tr>
</tbody>
</table>

4.2. The majority of the Capital Programme incorporates previous investment decisions made by Cabinet and the City Council. New projects will be incorporated within the Programme based on the core principles outlined in the Capital Strategy.

4.3. Estimates of capital grant allocations are known to be subject to future variations. This includes the confirmed or indicative capital grant allocations for 2020/21 and future years.

4.4. Prior to inclusion in the Capital Programme, all capital investment decisions are subject to a gateway process and assessed on the basis of their contribution to the aims set out in the MIGP. This is considered later in this report.

**Anticipated Additional Projects within the Budget Period**

4.5. The figures contained in table 1 above represent the Capital Programme budget for 2020/21 to 2024/25 to be approved by City Council on 4 March 2020. However, there are a number of major schemes in the development pipeline, which may be submitted into the capital approval process during the period covered by the forecast Capital Programme budget. Details of
the major schemes are as follows:

- Provision of loan financing to a number of local organisations (including Everton FC);
- Construction of a new Cruise Liner Terminal and associated facilities;
- The development of a community bank in conjunction with other local authorities;
- Clean Air Programme – outline business case will be submitted by autumn 2020.
- Development of the Festival Gardens Site.
- Development of the Littlewoods Site.
- Further investment and regeneration at Paddington Village;
- Highways and street lighting infrastructure improvements;
- Support for the One Liverpool Plan which is designed to improve health outcomes across the city; and

4.6. Whilst these schemes accord fully with the aspirations of the Mayoral Inclusive Growth Plan, none of them are currently at the detailed Cabinet approval stage and so the financial implications in terms of capital financing and the revenue consequences have yet to be considered. It is anticipated that the details of each scheme will be set out in Cabinet reports at the appropriate time.

4.7. None of the above schemes are currently factored into the General Fund budget, MTFS, Treasury Management Strategy or statutory borrowing limits (details of which follow later in this report).

5. Capital Appraisal Process

5.1. All new capital schemes are subject to a rigorous approval process by the Capital Project Appraisal Group. A gateway process is adopted which:

- Sets out the schemes contribution to delivering the aims of the MIGP;
- Identifies the amount and source of any required funding;
- Is based on full lifetime costing;
- Sets out clearly the impact of capital financing costs on the revenue budget where borrowing is used;
- Sets out the planned outcomes to be delivered;
- Includes a risk assessment;
- Incorporates appropriate due diligence in the form of financial and legal scrutiny (including external support when appropriate); and
- Considers the revenue impact and financial affordability of schemes.

5.2. The full gateway process is set out in the following diagram:
5.3. Subject to delegated limits, all new capital schemes will require Cabinet approval before they can progress. When the Cabinet approves a new scheme, it will be added to the approved Capital Programme. The
Recommendation:
That Cabinet recommends for City Council approval on 4 March 2020 the Capital Strategy which incorporates:-

(i) The Capital Programme of £261.1M for 2020/21 and £535.2M for 2021/22 to 2024/25 attached as Appendix 1;
(ii) The Asset Management Plan attached as Appendix 2
(iii) The Commercial Property Investment Strategy for 2020/21 attached at Appendix 3
(iv) The Treasury Management Strategy for 2020/21 attached as Appendix 4; including the key prudential indicators for the management of debt during the year and also the Minimum Revenue Provision Policy for 2020/21.

Financial Implications:
The implications of these strategies and programmes have been incorporated into the Budget Report and the Medium Term Financial Strategy, which will be presented for approval at City Council on 4 March 2020.

Environment & Climate Change Implications:
This report sets out the strategy by which the City Council will make capital investment decisions, utilise its asset resources and manage its short and long-term cash requirements. By ensuring, that such strategy is aligned to the overall MIGP aims will ensure that investment decisions are made in accordance with the City Council’s climate change ambitions. The Capital Programme set out in Appendix 1 contains a number of schemes that address environmental and climate change impact. All new capital projects are required to provide a section outlining impact on the environment and climate change implications.

Social & Corporate Parenting Implications (as applicable):
There are none direct. The report sets out the strategy by which the City Council will make capital investment decisions, utilise its asset resources and manage its short and long-term cash requirements. By ensuring, that such strategy is aligned to the overall MIGP aims will ensure that decisions are made in accordance with the City Council’s social and corporate parenting responsibilities.

Community & Public Health Benefit (as applicable):
The combined strategies, policies and programmes will provide the resources to deliver the priorities of the Mayoral Inclusive Growth Plan
Consultation including consultation with Ward Councillors & Outcome:

Any new programme of works, funding mechanisms or changes to the Treasury Management Policy will be considered in future reports to Cabinet, and / or City Council with scrutiny by the Audit and Governance Select Committee.

Legal and Governance Implications:

This report and its annexes fulfils the statutory requirements to have a Capital Programme, a Capital Strategy and the necessary prudential indicators to be included in a Treasury Management Strategy.

In the Capital Programme where funding has been provided subject to conditions, these must be strictly complied with in order to avoid any risk of repayment of the monies.

Risk & Mitigation:
Each new specific project will be subject to a robust gateway process and will encompass its own risk assessment prior to commencement of works.

Reason(s) & Alternate Options Considered:
To enable the attached documents to be approved as part of the wider Medium Term Financial Strategy of the Council.

There are no alternative options considered.

Equality Implications:
The equalities impact of each project will be considered prior to commencement of works. These will be addressed through future Cabinet reports on any new schemes.

Key Decision & Notice Requirements (including urgency):
Yes

Implementation Date:
1 April 2020

Contact: Peter Casterton – Head of Corporate Finance

Background Reports:
Appendix 1 – Capital Programme
Appendix 2 – Asset Management Plan
Appendix 3 – Commercial Property Investment Strategy