Appendix 3.

Capital Strategy 2024/25

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 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 2021-2024 on 23 July 2021. The plan sets out the purpose of the Combined Authority and vision for the City region. A new Corporate Plan for the period 2024 – 2028 is currently in development but not yet available as such this strategy remains in line with the existing plan. Which builds on previous consultation and engagement as part of both the Local Industrial Strategy and Economic Recovery plan and aligns it with the Metro Mayor's manifesto. The plan links the vision for the city region with five priority areas:

- A fairer city region;
- A stronger city region;
- A cleaner city region;
- A connected city region; and
- A vibrant city region.

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 level, 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.

1.3.3 The Authority also allows funds, to be made available to, and then deployed via, the Chrysalis Funs in the form of loans to support strategic regeneration, development, business growth and renewable energy / low carbon projects. These are considered on a case-by-case basis.

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 the City Region Sustainable Transport Settlement (CRSTS), Gain Share and Investment Fund monies received in support of the Authority's devolution agreement.

- **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) manages 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 Growth Platform 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 document 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 reported through to Programme Delivery Boards, which 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. 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 and delivery boards, 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 2027/28. Note that these differ from those in the Treasury Strategy as they don't account for the forecast slippage from 2023/24 to 2024/25 (of c£128.9m). It also denotes the expected source of funding whereas the Treasury strategy allows for the Authority to, for example, not borrow if funds allow.

Authority Investment Plans

Financing of capital expenditure (£m)	2024/25	2025/26	2026/27	2027/28
	Estimate	Estimate	Estimate	Estimate
Grant	167,000	144,001	190,999	70,150
Revenue Contributions	39,673	11,961	9,863	7,760
Borrowing	24,080	7,161	-	-
Other Sources	2,000	-	-	-
Total	232,753	163,123	200,862	77,910

1.6.2 The table above reflects the Authority's investment decisions that have been ratified to December 2023 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 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 provide 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.

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 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 Authority.

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 Executive Director of Corporate Services (the Section 73 Officer) to ensure that this information is made available to support decision making by the Authority. Key issues that should be considered are:

- Strategic context;
- Corporate priorities
- Capital investment ambition.
- Available resources
- Affordability;
- Capacity to deliver;
- Risk appetite.
- Risk management.
- And determining an appropriate split between non-financial and treasury management investments, in the context of ensuring the long-term financial sustainability of the authority.

1.8.4 The requirements of the Local Government Act 2003 and the Prudential Code apply equally to the 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 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 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 Limit 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 Limit and Operational Boundary are detailed below.

	2023/24	2024/25	2025/26	2026/27
	Forecast	**Estimate**	**Estimate**	**Estimate**
Authorised Limit	639,436	658,215	646,993	628,329
Operational Boundary	536,944	545,351	532,736	515,693

1.8.10 The Authority's Treasury Management Strategy Statement, which 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 2025/26, 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 Executive 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.