

# CAPITAL STRATEGY 2015/16 – 2018/19

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### **Appendices**

Appendix A – Project Brief

Appendix B – Project Initiation Document (PID)

Appendix C – Project Monitoring Form

Appendix D – Project Closure Statement

Appendix E – Capital Gateway Process

## Capital Strategy 2015/16 – 2018/19

### 1. Executive Summary

- 1.1. The Council's Constitution requires the Head of Finance to prepare a Capital Strategy which includes;
- a. The principles the Council will follow in its capital planning.
  - b. The methodology for inclusion of schemes within the Capital Programme.
  - c. The arrangement for management of capital schemes.
- 1.2. The Capital Strategy document is therefore a high level summary of the Council's approach to capital investment and lays out the rules against which capital schemes are prepared, evaluated and monitored.

### 2. What is Capital Investment?

- 2.1 Capital investment seeks to provide the infrastructure and equipment necessary to deliver the Council's priorities and operational requirements in the longer term. Expenditure for capital purposes therefore gives rise to new assets or increases the value and/or useful life of existing assets.

### 3. Identifying Need

- 3.1. The Council's Corporate Plan sets out the Council's vision and priorities for the City.
- 3.2. The 2015-2019 Plan sets out the following five strategic priorities:
- **Vibrant, sustainable economy**  
To build a strong local economy, supported by effective education and training that is accessible by all.
  - **Meeting housing needs**  
Increasing the provision of high quality affordable housing remains a key priority for the City Council and its partners. In housing terms, Oxford is the least affordable area in the country outside London. A recent estimation suggests that 24,000 to 32,000 new homes will be needed by 2031 to meet the city's housing need.
  - **Strong and active communities**  
Oxford City Council is working with citizens and community groups to build communities that are socially cohesive and safe, and citizens who are actively engaged in pursuing their own well-being and that of their communities.

➤ **Cleaner, greener Oxford**

The City Council's objective is to maintain and develop a cleaner, greener Oxford – in the city centre, in our neighbourhoods and in all public spaces.

➤ **An efficient and effective council**

This means the Council being a flexible, fit-for-purpose organisation, delivering high quality services and excellent value for money for all its citizens. In the five years to 2015/16 the Council is projecting to have achieved annual efficiencies totalling £7.9m.

3.3. Aligned to the Corporate Plan are a number of subsidiary and complementary plans and strategies. Examples include;

- Asset Management Plan which aims to aims to deliver better and more efficient use of the Council's property and improvements in its condition, bring forward major regeneration and housing schemes and deliver improvements to the Council's capital values, income stream and levels of return;
- Service Plans which demonstrate at service level how the service contributes to and supports the delivery of the Corporate Plan priorities and the resources required to do this, including the capital aspects of the Corporate Plan delivery
- Housing Strategy which considers the demand for housing in Oxford, the affordability of housing, the supply of housing across all tenures, the economic conditions and Government policy and legislation and lays out plans to address these challenges in order to continue to deliver on the Corporate Priority of meeting housing needs

#### 4. External Drivers

4.1. In addition to the Council's own priorities there will be external factors which influence capital spending decisions, e.g. central government funding, the local enterprise partnership (LEP) priorities, and the implications of any legislative changes.

#### 5. Evaluation

5.1 Capital projects are prioritised and ranked using a scoring matrix aligned to a Capital Gateway Framework that ensures capital resources are targeted towards schemes that best meet and deliver the Council's corporate objectives.

5.2 Due to competing demands for limited resources, the Council will prioritise capital investment based on a number of different factors such as:

- Contribution to Corporate Priorities
- Statutory or Non-Statutory service
- Funding Availability

- Revenue Implications
- Risk of not undertaking the capital expenditure; and
- Environmental and Sustainability considerations

#### How Schemes Get Included in the Capital Programme

5.3 The flowchart on page 7 sets out the approval process. Key stages include:

A. *The Preparation of a Project Brief* (See Appendix A and link [linkhttp://occweb/intranet/documents/gateway-guidance-notes](http://occweb/intranet/documents/gateway-guidance-notes) ).

This sets out;

- The rationale as to why the project is required.
- The present position
- What will the project will change or achieve.
- The improvements the project will produce.
- The linkages there are with other projects.
- Whether there are demonstrable financial savings, overhead reductions, efficiencies, or service improvements arising from the project.
- Delivery options and associated risks
- Anticipated implementation and running costs

B. *The Evaluation and Ranking of Projects*

The Capital Programme Management Group quality assures the Project Brief and scores it against the evaluation criteria (shown in Appendix B – Project Brief) prior to reporting to the Corporate Asset Management and Capital (CAMAC) Programme Board. The current membership, roles and responsibilities of both CAMAC and the Programme Management Group can be found at paragraph 7.5 below and in Appendix F.

5.3 CAMAC subsequently recommend schemes to the City Executive Board (CEB) for consideration and approval by Council as part of the annual Medium Term Financial Strategy (MTFS) refresh. Schemes which arise outside of the MTFS process are submitted to CEB as necessary for recommendation to Council for inclusion in the Programme.

5.4 Once the Capital Programme is approved by Council Project Managers can begin to progress their project(s) in accordance with the agreed Capital Scheme Approval process. Key stages include:

5.5 *Agreement of the Project Initiation Document* (see Appendix B and link <http://occweb/intranet/documents/gateway-guidance-notes>) This requires the Project Manager to complete the required proforma setting out;

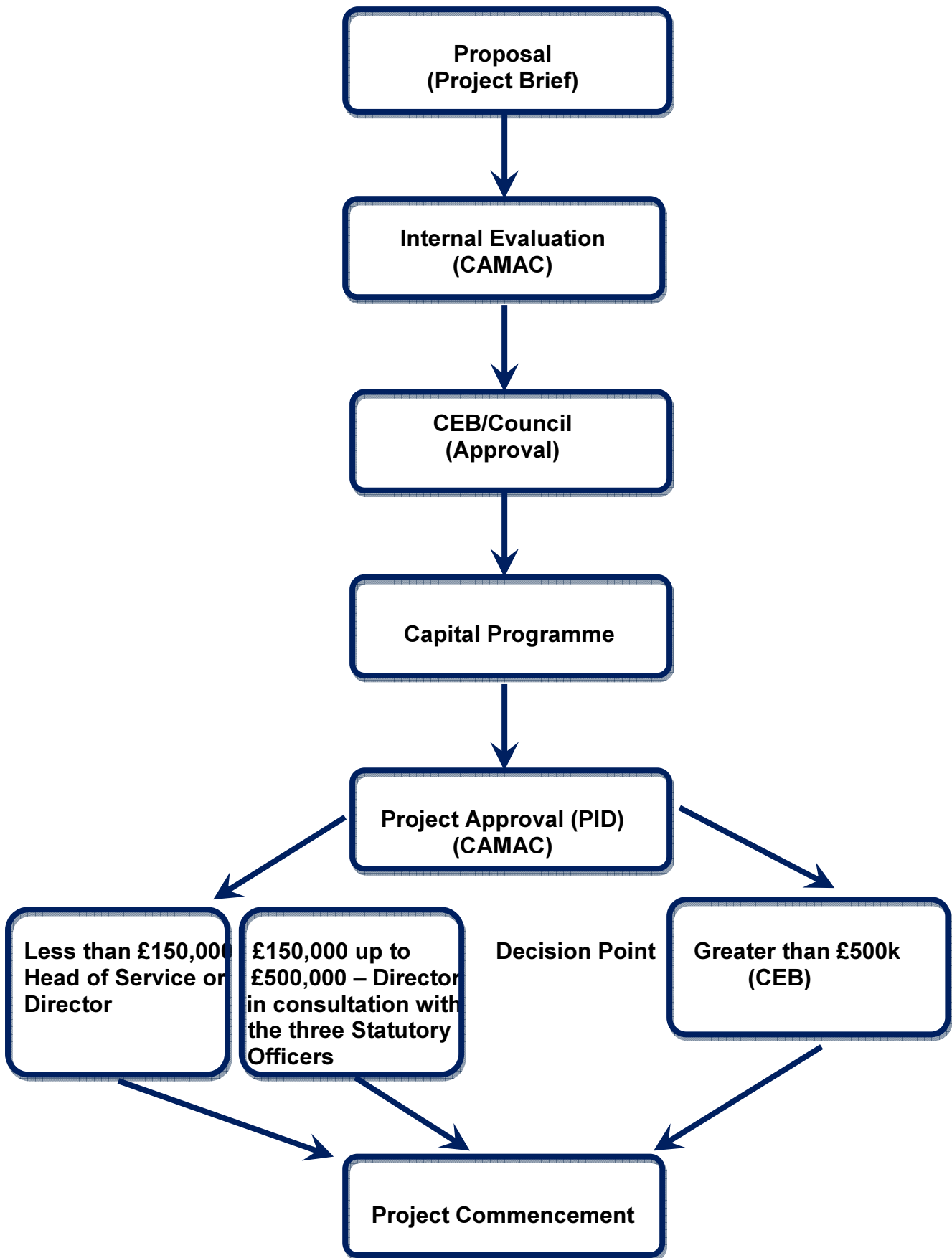
- Background information (from Project Brief).

- What the project needs to achieve –Objectives, Scope, Deliverables, Desired Outcomes, Constraints and Counter Measures.
- Initial Business Case (from Project Brief).
- Risks and Uncertainties –What events might arise that would delay or prevent the project delivering on its objectives.
- Timescales –milestones only.
- Acceptance Criteria – Essential elements that must be achieved in order for the project to be accepted as complete.
- Costs – Capital, Revenue, Savings, and Funding profiled over the next 4 financial years.
- Interfaces and dependencies with other projects or tasks
- Whole Life Cost / Sustainability – What the likely environmental impacts might be. Revenue costs resulting from the proposal must be captured.

## 6. Capital Scheme Approval

6.1 The approval process for a scheme is outlined in the diagram below but essentially involves a number of key stages:

**Capital Scheme Approval**



**7. Performance Monitoring**

- 7.1. Approved schemes are subsequently monitored by an officer group, currently the Corporate Asset Management and Capital (CAMAC) Programme Board, to ensure delivery is on time, within budget and meets the projects objectives. The roles and responsibilities of CAMAC, together with Project Sponsors and Project Managers are detailed within Appendix E – Capital Gateway Process.
- 7.2. Capital expenditure is reviewed for its legitimacy in meeting the definition of a capital purpose and reconciled monthly. Monthly monitoring meetings are held between Project Managers and Finance staff. For larger projects this may mean the setting up of a Project Board with officers and advisors covering a variety of expertise, chaired by a lead officer who is responsible for the delivery of the project.
- 7.3. All Project Sponsors and Project Managers receive monthly financial reports advising them of current spend against the profiled budget. Project Managers are required to provide monthly monitoring information including commentary on any variances. Project Managers are responsible for ensuring that capital schemes follow the Capital Gateway Process; specifically the Project Manager:
- Directs the project team, where appropriate.
  - Plans and monitors progress of the project
  - Manages the project risks and issues
  - Prepares revised plans and documentation through a change control process and presents them to the Project Board
  - Agree the technical and quality requirements of the project with the scheme project board or, in the absence of a board, with the Project Sponsor
  - Prepares the Project Closure Statement including lessons learned and presents it to the scheme project board or, in the absence of a board, with the Project Sponsor and then presents the statement to CAMAC

Full details of the Capital Gateway Process can be found in Appendix F.

- 7.4. Performance of the Council's Capital Programme is reported to Directors and CMT via the production of a monthly Finance Budget Report. Additionally, via the Quarterly Integrated Report the relationship capital performance has on Directorate/Corporate risk and performance is also reported to Directors and Members.
- 7.5. Terms of reference and membership for the CAMAC group are set out below:

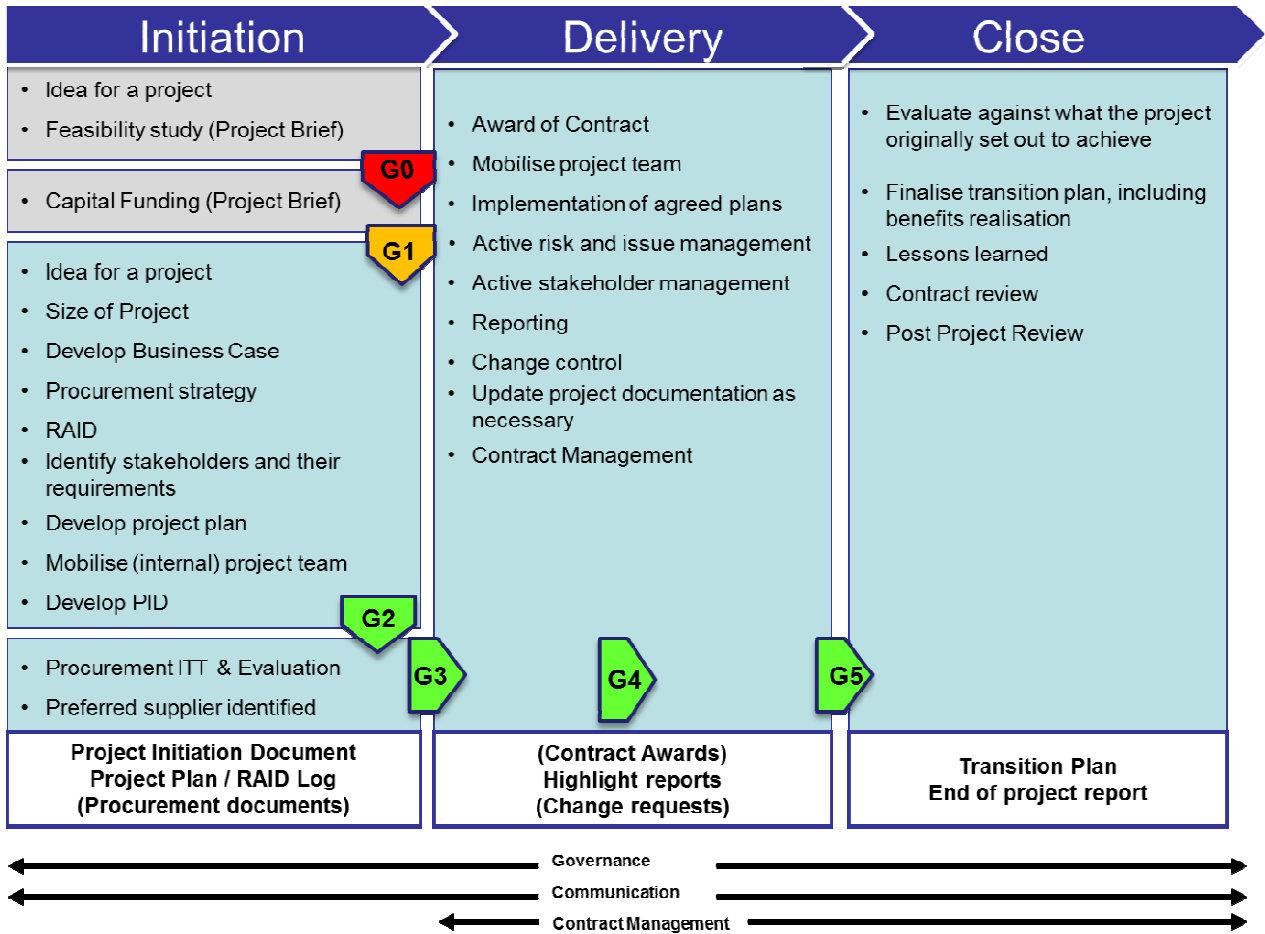


7.6. Terms of Reference and Membership of CAMAC

<p>Capital Asset Management and Capital Board (CAMAC)</p>	<p>The CAMAC has been established as the corporate Officer group responsible for receiving, collating, scoring, presenting and monitoring the Council's approved Capital programme in accordance with Council, priorities, objectives, rules and procedures. The group also offers advice regarding the financial and asset management aspects of capital programme activity.</p> <p>The membership of the group is as follows:</p> <p>Chair – Executive Director (Regeneration and Housing)  Executive Director of Organisational Development and Corporate Services  Head of Finance  Head of Housing  Deputy Head of Direct Services  Head of City Development  Head of Human Resources and Facilities  Head of Leisure, Parks and Communities  Head of Environmental Development  Service Manager Major Projects and Regeneration  Housing and Property Services  Safety Advisor</p>
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**Capital Gateway Project Delivery Process**

**Oxford City Council - Project Delivery Process**



**8. The Capital programme 2015/16 – 2018/19**

- 8.1. The Council’s current four year Capital Programme was approved by Council on 18 February 2015 and can be found here: [http://mycouncil.oxford.gov.uk/documents/s22110/Report\\_Budget%20Report%20February%20CEB%20and%20Council.pdf](http://mycouncil.oxford.gov.uk/documents/s22110/Report_Budget%20Report%20February%20CEB%20and%20Council.pdf).
- 8.2. The procurement of capital expenditure will be undertaken in line with the Council’s policies to support the payment of a living wage and making apprenticeship opportunities available to local people. Many of the facilities funded out of the capital programme – such as community centres and social housing – will promote the narrowing of inequality in Oxford.

**9. Available Capital Funding**

- 9.1. There are a number of sources of funding the Council can use to finance capital expenditure. These include:
  - Capital Receipts
  - Prudential Borrowing

- Developers Contributions e.g. s106 receipts and Community Infrastructure Levy (CIL)
- Revenue Contributions
- Capital Grants e.g.
  - HCA – contribution towards the provision of 113 affordable homes in the City.
  - New Growth Point Grant – for the West End Partnership
  - Disabled Facilities Grant – housing adaptations within the private sector

- 9.2. In the past the Council has relied heavily on capital receipts to fund its General Fund Programme but with limited property available for sale these are gradually being eroded. With continuing budgetary pressures being placed on the Council's General Fund the ability to use direct revenue funding and prudential borrowing is reducing and consequently, the Council will need to prioritise more carefully and consider the relative weight of capital and revenue need in the round, as well as investigate alternative funding streams.
- 9.3. Conversely, the relatively strong financial position of the Council's HRA via its 30 year Business Plan indicates that significant revenue funding and prudent headroom borrowing is possible here and these elements continue to be major funding sources for the HRA's capital programme.

#### Capital Receipts

- 9.4. The Council can recycle capital receipts generated from the disposal of assets back to fund both General Fund and HRA capital projects. As at the 31 March 2014 the Council had £22.4m of usable capital receipts earmarked to fund the capital programme going forward.

The Council has entered into an agreement with the Department for Communities and Local Government (DCLG) to recycle within a rolling 3 year period 'additional' Right to Buy (RTB) receipts into new social housing dwellings within the City.

#### Prudential Borrowing

- 9.5. The Prudential Code seeks to explore the relationship between capital accounting, capital and revenue expenditure and treasury management by clarifying the impact that capital investment decisions have on the finances of the authority overall and the relative impact on the General Fund and HRA.
- 9.6. The Prudential Code asks three key questions of any investment decision:
- is it prudent;
  - is the scheme affordable; and
  - will it prove to be sustainable?

- 9.14. Under the Prudential Framework local authorities are now free to make their own judgements as to whether new borrowing is affordable and prudent, subject to a duty to follow agreed professional principles, which are contained within the prudential code.
- 9.15. The main advantages offered through borrowing under the Prudential Framework are:
- Rescheduling Capital Expenditure by switching revenue contributions to capital to cover prudential borrowing costs
  - *Spend to Save Schemes* – where the capital investment achieves revenue savings, which could wholly or largely meet the on-going revenue costs associated with the level of borrowing required.
- 9.16. Prudentially borrowing to fund capital projects does however bring with it the need to make a charge to revenue to reflect the cost of borrowing. This charge, known as Minimum Revenue Provision (MRP) is based on the life of the asset in accordance with the approved methodology contained within the Councils Treasury Management Strategy.

#### S106 Developer Contributions/Community Infrastructure Levy (CIL)

- 9.17. Developer contributions are sought to mitigate the impact of development and overcome what would otherwise be a potential reason to refuse a planning application. In the main the remaining s106 contributions the Council seeks to recover relate to meeting the social housing targets within our current planning policies.
- 9.18. The Community Infrastructure Levy largely replaces s106 and can be claimed to fund Community Facilities, Indoor Sports Facilities, Public Open Space, Environmental Improvements, Public Art, Highway measures (inclusive of Park and Ride, Pedestrian measures, Cycle Facilities etc.), Education, Libraries, Waste Recycling, Youth Services, Museum Resource Centre and Day Care Provision for Adults.

#### Revenue Contributions

- 9.19. The Council can budget from within its revenue accounts, the General Fund (GF) and Housing Revenue Account (HRA), to make contributions towards the funding of its annual Capital Programme. Within the HRA this currently forms a significant element of the annual expenditure as it is affordable and reflects the ambitious works Programme that has been approved for the HRA. The GF Programme utilises this source of funding but at a much reduced level.