

CAPITAL STRATEGY 2016/17 – 2019/20

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Capital Strategy 2016/17 – 2019/20

1. Executive Summary

1.1. The Council's Constitution requires the Head of Financial Services to prepare a Capital Strategy which;

- a. Sets out the principles the Council will follow in its capital planning.
- b. Outlines the methodology for inclusion of schemes within the Capital Programme.
- c. Sets out the arrangements 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 developed, 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 generally therefore gives rise to new assets or increases the value and / or useful life of existing assets.

2.2 Grants, investments and loans to individuals and organisations which are for capital purposes also count as capital expenditure. This includes loans to companies in which the Council has an interest.

3. Identifying Need

3.1. The Council's Corporate Plan 2016-2020 sets out the Council's vision together with the following five strategic priorities;

- **A Vibrant and Sustainable Economy**
To build a strong local economy, make the case for greater local control and devolution and improve workforce skills to meet local demand.
- **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. The Strategic Housing Market Assessment (SHMA) which is undertaken about every five years 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.

➤ **A Clean and Green Oxford**

The City Council's objective is to maintain and develop a clean and green 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 last four years the Council has achieved annual efficiencies totalling £8.5 million. Over the next four years the Council is aiming to achieve another £7 million of savings on the non-housing budget.

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 deliver better and more efficient use of the Council's property; improvements in its condition, and deliver improvements to the Council's capital values, income stream and levels of return.
- Service Plans which demonstrate how individual services contribute to and support the delivery of the Corporate Plan priorities and the resources required to do this, including the capital aspects.
- Housing Strategy which considers the demand and supply of housing in Oxford, across all tenures, the economic conditions; Government policy and legislation and lays out plans to address these challenges.

4. External Drivers

4.1. In addition to the Council's own priorities there are 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 and Budget Approval

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 look to prioritise capital expenditure on property and equipment that it currently owns 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 overall approval process. Formal budget approval flows directly from the evaluation process; capital budgets must be approved by Council. Key stages include:

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

This sets out:

- The rationale as to why the project is required.
- The present position
- What the project will deliver/achieve.
- The improvements the project will produce.
- Linkages and dependencies 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 6.6 below and in Appendix F.

5.5 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.

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

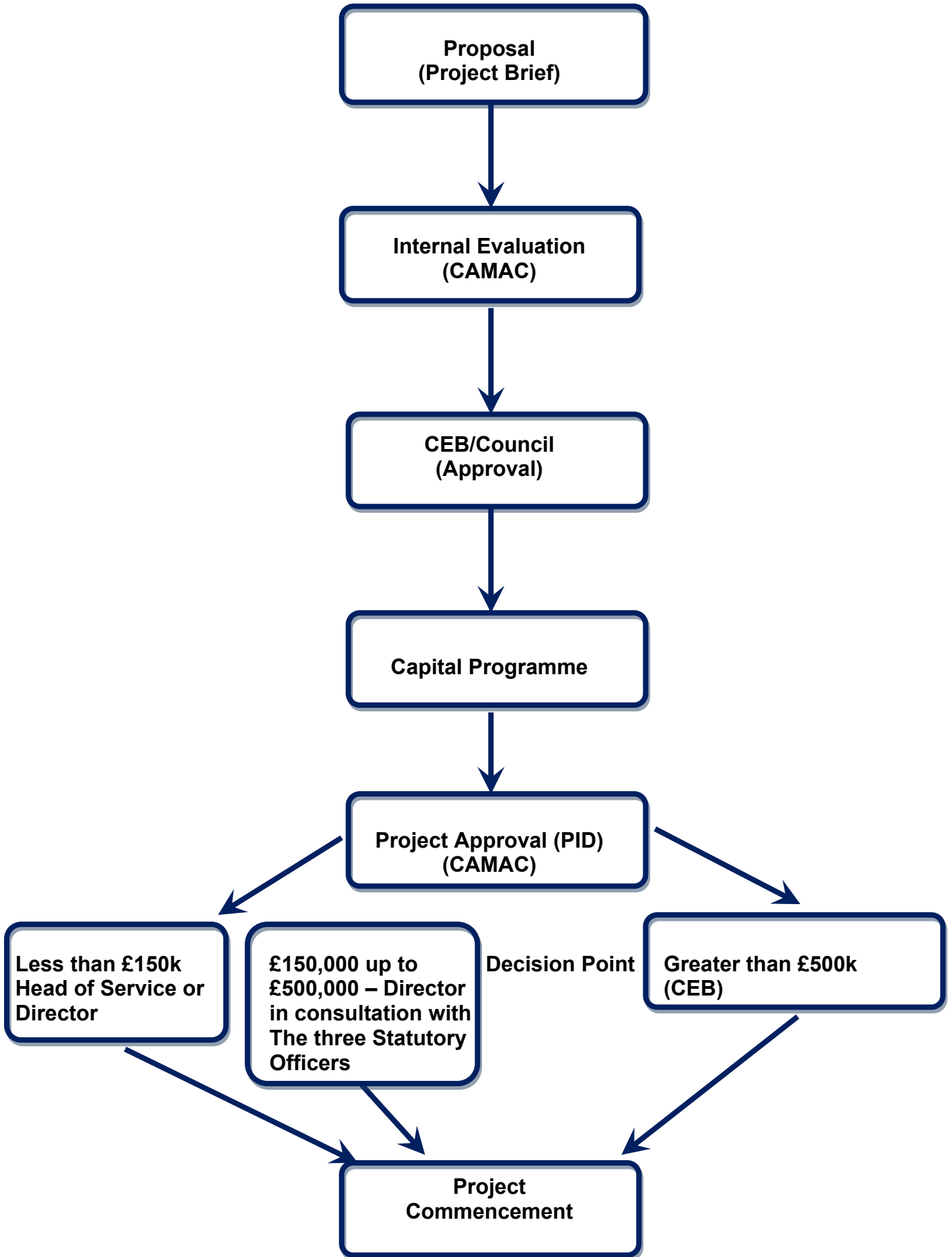
5.7 Agreement of the Project Initiation Document (see Appendix B and <http://occweb/intranet/documents/gateway-guidance-notes>) This requires the Project Manager to complete the required proforma setting out;

- The objectives and scope of the project,
- Deliverables and Constraints

- Risks, uncertainties and potential mitigations –What events might arise that would delay or prevent the project delivering on its objectives and what can we do about them.
- Project milestones and associated timeline
- Acceptance Criteria – Essential elements that must be achieved in order for the project to be accepted as complete.
- Net Capital and Revenue Implications - expenditure, 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.

5.8 The approval process for a scheme is outlined in the diagram below:

Capital Scheme Approval Process



6. **Performance Monitoring**

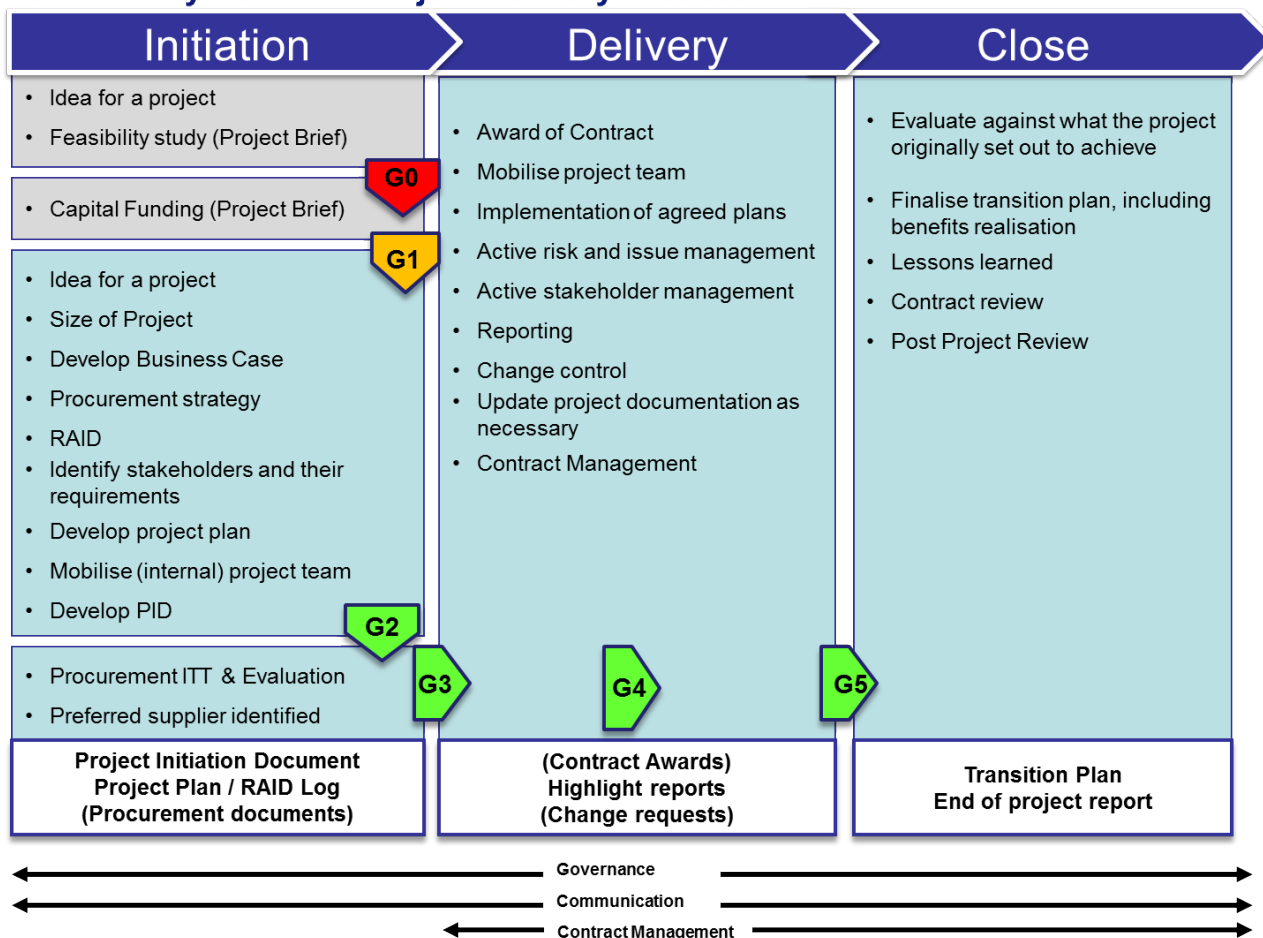
- 6.1. Approved schemes are subsequently monitored by an officer group, currently the Corporate Asset Management and Capital (CAMAC) Programme Board, to ensure delivery is on time, within budget and meets the projects objectives. The roles and responsibilities of CAMAC, together with Project Sponsors and Project Managers are detailed within Appendix E – Capital Gateway Process.
- 6.2. 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 Team with officers and advisors covering a variety of expertise, chaired by the Project Manager who is responsible for the delivery of the project.
- 6.3. 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 Team
 - Agrees the technical and quality requirements of the project with the scheme project Team or, in the absence of a project team, the Project Sponsor
 - Escalates issues as necessary with the Project Sponsor
 - Prepares the Project Closure Statement including lessons learned and presents it to the scheme project team or, in the absence of a team, the Project Sponsor and then to CAMAC
- Full details of the Capital Gateway Process can be found in Appendix F.
- 6.4. Performance of the Council's Capital Programme is reported to Directors and CMT via a monthly Finance Budget Report. Additionally, a Quarterly Integrated Performance Report which illustrates the impact of capital scheme delivery on Directorate / Corporate risk and performance is reported to Directors and Members.
- 6.5. Terms of reference and membership for the CAMAC group are set out below.

6.6. Terms of Reference and Membership of CAMAC

<p>Capital Asset Management and Capital Board (CAMAC)</p>	<p>The CAMAC Board is a corporate Officer group responsible for agreeing and recommending schemes for inclusion into the Programme and then monitoring their delivery as well as making sure effective arrangements are in place for management and delivery of schemes 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> <ul style="list-style-type: none"> • Chair – Executive Director of Regeneration & Housing • Executive Director of Organisational Development and Corporate Services • Head of Financial Services • Head of Housing & Property • Head of Service Planning & Regulatory • Corporate Lead - HR/OD • Head of Community Services • Deputy Head of Direct Services • Regeneration & Major Projects Service Manager • Property Services Manager • Corporate Asset Manager • Service Manager Environmental Sustainability <p>Advisory Attendees:</p> <ul style="list-style-type: none"> • Corporate Safety Advisor • Finance Business Partner • Project Manager(s); sponsor(s)
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Capital Gateway Project Delivery Process

Oxford City Council - Project Delivery Process



7. The Capital programme 2016/17 – 2019/20

7.1. The Council’s Capital Programme is approved by CEB and then Council on an annual basis and is updated from time to time during the year.

7.2. 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 training and apprenticeship opportunities available to local people. Many of the facilities funded through the Capital Programme – such as community centres and social housing – will promote the narrowing of inequality in Oxford.

8. Available Capital Funding

8.1. 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.
 - New Growth Point Grant – for the West End Partnership
 - Disabled Facilities Grant – housing adaptations within the private sector

8.2. In the past the Council has relied heavily on capital receipts to fund its General Fund Programme but with limited property available for sale this is a finite and reducing resource. Additionally, continuing budgetary pressures on the Council's General Fund mean the Council will need to weigh the relative priority of capital and revenue spending pressures before determining the level of direct revenue funding and prudential borrowing it wishes to undertake, as well as investigate alternative funding streams.

Capital Receipts

8.3. The Council can recycle capital receipts generated from the disposal of assets back to fund both General Fund and HRA capital projects. The Council's approach in budget setting for 2016/17 has been to only use capital receipts for funding the capital programme that have already been received or where there is certainty of receipt. Additionally, where receipts are received in respect of the disposal of operational property it will seek to use these receipts in the first instance to fund capital expenditure which relates to operational property.

8.4. In the spending review, an announcement was made that councils will no longer be prevented from using capital receipts to fund services, provided they are applied to the revenue costs of reform projects. Any such use will be carefully assessed and will take account of the one-off nature of the receipts and the need to finance capital expenditure.

8.5. 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

8.6. The Prudential Code seeks to show 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 both in overall terms as well as on the respective General Fund and Housing revenue accounts.

8.7. 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?

8.8. 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.

8.9. 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

8.10. 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 the Minimum Revenue Provision (MRP) is based on the life of the asset in accordance with the approved methodology contained within the Council's Treasury Management Strategy.

8.11. The Council is seeking to restrict the use of prudential borrowing to protect its future revenue position from increasing levels of MRP. Specific uses of this within the current plans which are considered to be in line with protecting the future revenue position are:

- National Homelessness Property Fund
The Council is investing £5 million in the fund which is then match funded to purchase around 50 properties within Oxford. The investment is a fixed term investment which will redeem in 7 to 9 years. The capital receipt from this redemption can be used to repay the internal borrowing used to fund the investment and therefore, providing there is no depreciation in the asset values, no MRP will be payable
- Acquisition of Investment Properties
A capital budget of £10.3 million to be financed from prudential borrowing will be used to purchase investment properties. The investment properties will be chosen on the basis of their rate of return such that the income will pay for the MRP and also provide an additional revenue stream for the Council.
- Acquisition of Oxpens
The Council has set a capital budget of £8.4 million to be used as a contribution to a joint venture, operated in conjunction with Nuffield, to purchase land at Oxpens.

S106 Developer Contributions/Community Infrastructure Levy (CIL)

8.12. 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.

8.13. 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

8.14. 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 Capital Programme. Within the HRA this currently forms a significant element of 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.

8.15. The announcements of changes to the Housing Revenue Account, including the sale of High Value Council Housing, means that the HRA programme has been reduced and borrowing will be taken out to fund capital works on the HRA to enable the payment of a capital sum to the Government based on an assessed level of potential sales.

Capital Grants

8.16. Capital grants generally are awarded for specific projects. The availability of capital grants to supplement Council resources can improve the chances of a capital budget being approved; however the scheme must still be in line with Council priorities and must still go through the same budget approval and project approval processes.

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