CAPITAL STRATEGY
2017/18 – 2020/21

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Appendices

Capital Strategy 2017/18 – 2020/21

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 arrangement for management of capital schemes.
d. Indicates the capital schemes to be undertaken over the following four financial years and how those schemes will be funded.

1.2. The Capital Strategy document is therefore a high level summary of the Council's approach to capital investment and lays out the means by which capital schemes are prepared, evaluated and monitored.

2. What is Capital Investment?

2.1 Capital investment seeks to provide long-term solutions to Council priorities and operational requirements. 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.

https://www.oxford.gov.uk/downloads/file/1756/corporate_plan_2016-20

3.2. The Council's Corporate Plan 2017-2021 sets out the following five strategic priorities;

- **A Vibrant and Sustainable Economy**
  A smart and entrepreneurial city with a thriving local economy supported by improved infrastructure, training and skills.

- **Meeting Housing Needs**
  Improving Oxford residents' access to affordable and high-quality homes in good environments that are close to jobs and facilities.

- **Strong, Active Communities**
  Socially cohesive and safe communities

- **Clean and Green Oxford**
  An attractive and clean city that minimises its environmental impact by cutting carbon waste and pollution
- **Efficient, Effective Council**
  A customer focused organisation delivering efficient high quality services that meet people's needs

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

- Asset Management Plan
- Service Plans
- Sustainable Communities Strategy
- Housing Strategy
- Regeneration Framework
- The Oxford Local Plan and
- The Customer Contact Strategy

4. External Drivers

4.1. In addition to the Council's own priorities external influence may impact on capital decisions, for example central government and local enterprise partnership (LEP) priorities and funding requirements, and of course the influence of demographic and legislative changes.

5. Capital Scheme Prioritisation

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

- Its contribution to corporate priorities
- Whether it facilitates delivery of statutory or non-statutory services
- The ability of the project to leverage additional funding, or secure a future income stream - preference will be given to those projects with:
  - A payback of 10 years or less
  - A positive net present value over the life of the asset based on a discount rate reflecting use of capital resources (currently 6 %)
- The affordability of the revenue implications of the project
- The risk of not undertaking the capital expenditure

6. Environmental Considerations in Capital Decision Making

6.1. There are many benefits to including sustainability or environmental criteria in the decision-making process when it comes to allocating capital resources.

6.2. "Green" or sustainable procurement can help to develop markets for environmentally sound products and services, thereby encouraging the market to develop a more sustainable approach which should encourage the further development of sustainable products and services.

6.3. One of our key priorities already demands a reduction of up to 5% carbon emissions' on installed measures. Project Managers are encouraged to consider the installation of measures which are both energy efficient and low on carbon emissions in the capital projects for which they are responsible.

7. Key Questions

7.1. 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?

Is it prudent?

7.2. Prudence is a difficult concept to define. In deciding whether an investment decision is prudent there should as a minimum be an initial consideration of the relationship between:

- the capital cost and
- the business cost (being the revenue costs associated with the use of the asset).

7.3. The authority needs to consider whether this choice represents the best use of resources having looked at all available options: will buying the cheapest now prove to be a false economy? Above all, the authority should be confident that the preferred option is the best value for money, and the quality is sufficient to meet the Council's needs.

Is it affordable?

7.4. The question of affordability is easier to address as the list of cost components is easier to define. Whilst the list is not exhaustive it will typically include:

Capital Costs	Revenue costs
Feasibility costs	Ongoing rental charges
Initial build/purchase	Ongoing facilities management charges
Disposal/demolitions/de-commissioning costs	Utilities costs
Project management costs internal and external	Maintenance (planned and reactive)
Fees: Surveyors, Clerk of works	Financing costs
	staffing implications
	Business Rates

7.5 Feasibility costs may be capitalised provided the scheme leads to the eventual construction of an asset, if not, any such costs incurred must be charged to revenue

Is it sustainable?

7.6 The third question the Code poses relates to sustainability. In assessing whether a scheme is sustainable, the authority should consider:

- how it fits into any future policy or environmental framework
- the future availability of resources to implement and continue to maintain the capital asset
- the potential for changes in the need for the asset, e.g. demographic developments
- the potential for changes in the nature of the driver, problem, or policy the capital expenditure is seeking to address.

8. Assessing the Impact of a Scheme on Overall Finances

8.1. The Prudential Code seeks to explore the relationship between capital accounting, capital and revenue expenditure and treasury management by stressing the impact that capital investment decisions have on the finances of the authority overall and the relative impact on the General Fund and Housing Revenue Accounts.

8.2. Thus the process of adhering to a strict option appraisal methodology and setting prudential indicators will clearly illustrate the revenue impact of capital investment decisions. As well as identify alternative solutions.

9 Prioritising Investment

9.1. The Capital Strategy plays an important role in the Council's service planning and budget process. Capital projects are prioritised and ranked through a scoring methodology aligned to a Capital Gateway framework that ensures capital resources are specifically targeted towards schemes that best meet and deliver the Council's corporate objectives. Approved schemes are subsequently monitored to ensure delivery is on time, within budget and meets the projects objectives.

How Schemes Get Included in the Capital Programme

9.2. In the first instance capital proposals are invited from service providers. There are key stages (see Procedure Flowchart page 10) in our approach to the prioritisation of investment in capital projects and these form part of the Council's corporate planning and review process:

A. ***Preparation of a Project Brief*** **(See Appendix A). This needs to consider;**

- The rationale for the project.
- What the present position is.
- What will the project change or achieve.
- What linkages and dependencies the scheme has with other projects.
- The key objectives and deliverables of the project.
- Demonstrate financial savings, overhead reductions and efficient or increased quality of service that will justify the investment in the project.
- What alternatives to undertaking the project exist?
- The resources needed to complete the project?
- The potential risks and mitigations of undertaking the project

B. **The Evaluation and Ranking Criteria**

The Project Brief will then be quality assured by the Asset Management and Capital Programme Management Group in accordance with the criteria identified in paragraphs 5, 6 and 7 before being submitted to the Asset Management and Capital (AMAC) Programme Board for consideration. The current membership, roles and responsibilities of both AMAC and the Programme Management Group can be found at paragraph 9.5 below and in Appendix F (Capital Gateway Process).

9.3. AMAC recommend schemes to CEB for discussion and recommendation to Full Council for approval. Usually this is as part of the budget process, but can occur outside the budget process as necessary.

9.4. The Council's Capital Programme is subject to public consultation that is usually held over two months starting in December of each year.

9.5. This period provides all stakeholders the opportunity to comment on the Council's capital plan over the forthcoming 4 financial years. The consultation asks for opinions on a selected number of the larger capital schemes and if these are deemed to be a priority for the Council.

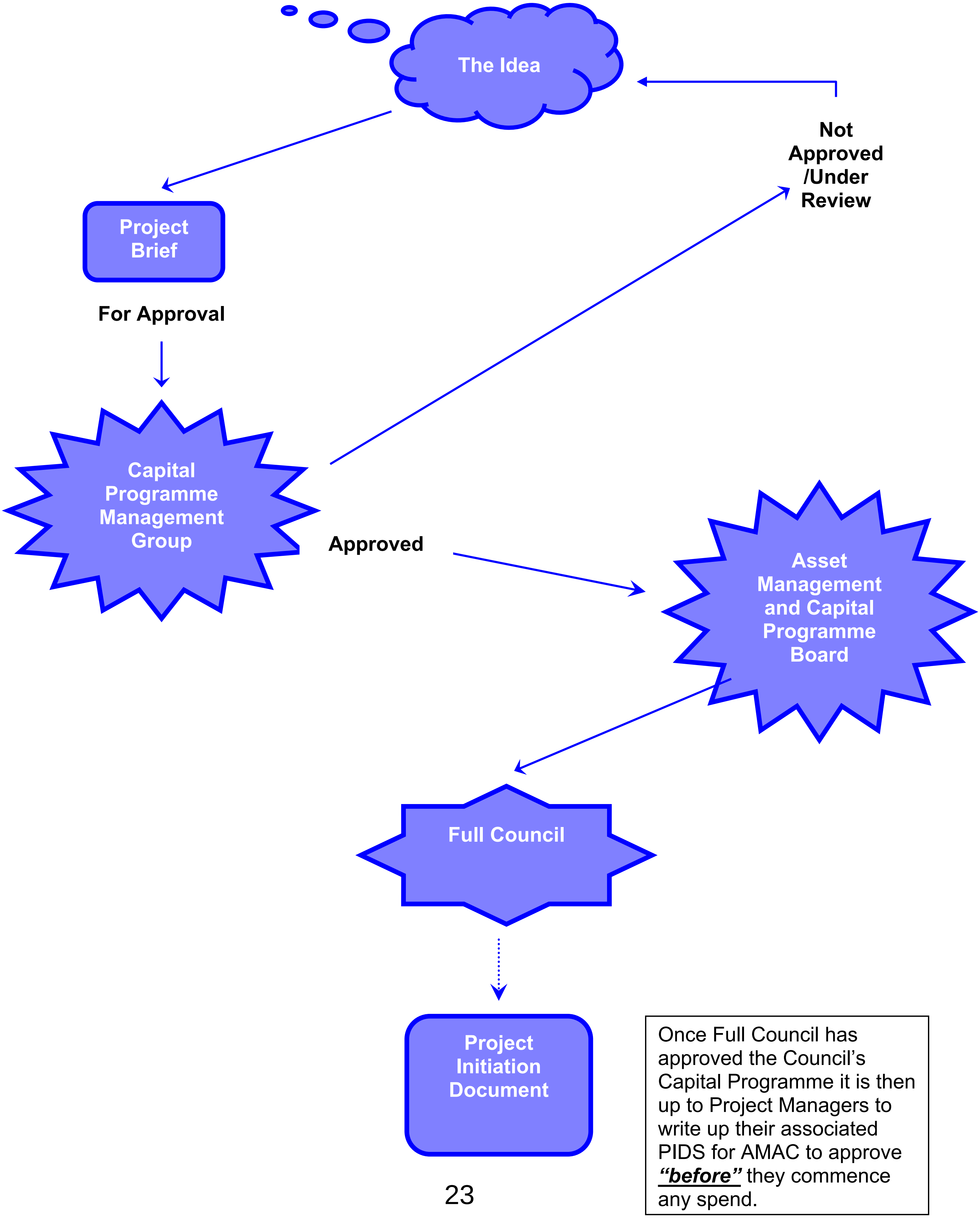
9.6. Once approved by Council the project can continue in accordance with the agreed Project Initiation Document and monitoring form.

9.7. The *Project Initiation Document* (see Appendix B) will need to be written by the identified Project Manager. This includes;

- Background information (from Project Brief)..
- 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, Funding, Revenue, Expected Savings, and Internal Staff over the next 4 financial years.
- Interfaces – What other projects or tasks does this project connect with, overlap or depend upon.
- Whole Life Cost / Sustainability – What the likely environmental impacts might be. Revenue costs resulting from the proposal must be captured.

Procedure Flowchart



10 Performance Monitoring and Evaluation.

10.1. Capital expenditure is reviewed for its legitimacy in meeting the definition of a capital purpose and reconciled monthly. Monthly monitoring meetings are held between Responsible Officers allocated to deliver capital projects 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.

10.2. All responsible officers and project managers can obtain monthly financial reports via Agresso, advising them of current spend against the profiled budget with variances shown. Officers are responsible for providing an outturn forecast for the project and reasons for any variance.

10.3. Performance of the Council's Capital Programme is reported to the Corporate Management Team monthly and to the City Executive Board via the Quarterly Integrated Report. AMAC also review the Capital Programme in detail on a monthly basis, and discuss and approve slippage and underspends of each of the current schemes. The Head of Financial Service has authority to slip projects into the following year or pull a project forward from a proceeding year. In cases where a project is forecasting an overspend of £250k or less and which cannot be funded from other scheme underspends then the overspend must be reported to Council.

10.4. The terms of reference and membership for the AMAC group is shown in the table below.

10.5. **Terms of Reference/Membership**

Asset Management and Capital Programme Board (AMAC)	The AMAC Programme Board 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. The membership of the group is as follows: Chair – David Edwards – Executive Director Martin Shaw – Project Manager Nigel Kennedy – Head of Financial Services Stephen Clarke – Head of Housing Patsy Dell – Head of Planning and Regulatory Ian Brooke – Head of Community Services Jane Winfield – Service Manager Major Projects and Regeneration Shaun Hatton – Chief Operations Manager Diane Phillips – Corporate Asset Manager

	Jo Colwell – Service Manager Environmental Sustainability Claire Bateman – Corporate Safety Advisor

11 Backlog Planned Maintenance

11.1. The Council has recently undertaken a condition survey of its corporate buildings and commercial property portfolio. The survey identified £7.5 million of backlog repairs.

11.2. To mitigate the situation the Council's Medium Term Financial Plan includes the following funding:

	2017/18	2018/19	2019/20	2020/21
	£000's	£000's	£000's	£000's
Commercial Property	200	467	467	467
Covered Market	250	250	250	250
Town Hall	50	250	250	250
Community Centres	150	150	150	150
Parks and cemeteries	140	140	140	140
Garages	77	77	77	77
Total	**867**	**1,334**	**1,334**	**1,334**

11.3. After the four year period backlog repairs is estimated at £2.6 million.

12 The Capital Programme 2017/18 – 2020/21

12.1. A copy of the current 4 year Capital Programme can be found at Appendix 6 to the budget papers. A link is provided to the CEB Agenda at which the consultation budget was published:

http://mycouncil.oxford.gov.uk/ieListDocuments.aspx?CId=119&MId=4051&Ver=4

13 Capital Funding

13.1. There are a number of sources of funding the Council can use to finance its Capital Programme. 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 is reducing and consequently the Council will need to either find alternative sources or curtail its ambitions for capital spend in future years.

13.2. The Council's Capital Programme is currently funded from the following sources;

- Capital Receipts
- Prudential Borrowing
- Developers Contributions e.g. s106 receipts and Community Infrastructure Levy (CIL)
- Revenue Contributions
- Capital Grants e.g.
    - Disabled Facilities Grant – housing adaptations within the private sector

Capital Receipts

13.3. 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 2016 the Council had £6.1m of usable capital receipts available to fund future capital spend.

13.4. The City Council owns many assets and through the Asset Management Plan the continuation of holding such assets is reviewed in the light of suitability and sufficiency and decisions are taken on whether to:

- Hold and continue to maintain and refurbish them, or
- Dispose of and generate a capital receipt for funding the Capital Programme.

13.5. The Council has entered into an agreement with the Department for Communities and Local Government in which the authority will recycle within a rolling 3 year period Right to Buy (RTB) receipts arising from "additional" RTB disposals into new social housing dwellings within the City. There are some rules relating to the total sum allowed per new social housing build project from this new funding source. However, the Council currently anticipates all receipts will be utilised on eligible schemes as and when they arise.

Prudential Borrowing

13.6. Under the Prudential Framework local authorities are 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.

13.7. The main advantages offered through borrowing under the Prudential Framework are:

- ***Rescheduling Capital Expenditure*** – the Council could consider reversing its revenue contributions to capital to cover prudential borrowing costs. This potentially enables a significant initial amount of capital spending to occur. However, the downside is that it is primarily a one off move; bringing forward expenditure or facilitating a single one off increase in capital spend that otherwise could not be afforded, which reduces flexibility going forward and requires a review of revenue funded schemes within the Council's Capital Programme moving forward.

- ***Spend to Save Schemes*** – where the capital investment achieves either revenue savings, or facilitates cost avoidance. Such schemes include Seacourt Park and Ride, Waste transfer station and the purchase of homes for homeless families.

13.8. 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 Council's Treasury Management Strategy.

S106 Developer Contributions/Community Infrastructure Levy (CIL)

13.9. Developer contributions and CIL are sought to mitigate the impact of development and overcome what would otherwise be a potential reason to refuse a planning application. Following the introduction of CIL the Council primarily seeks S106 contributions to meet the social housing targets within our current planning policies.

13.10. The CIL charging mechanism which large replaces s106 monies 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.

13.11. In order for CIL to work properly strong partnership ties with our public sector colleagues at Oxfordshire County Council, Oxford University, Oxford Brookes University, neighbouring District and Borough Councils and Community organisations need to be established and enhanced over time.

Housing Revenue Account

13.12 Capital commitments are funded via surpluses from within the Council's HRA. The production of a 30 year HRA Business Plan, which is periodically reviewed, enables the funding needs of the Council's housing stock to be accommodated.

13.13 The extent of the HRA Capital Programme is to a large extent driven by the amount of surplus generated which in turn is influenced by:

- The amount of income raised from rents which with effect from 1/4/2016 and for the next four years has been limited by Government to a year on year decrease of 1%
- The amount of expenditure which has resulted in contingencies set aside by the Council to mitigate the effect of High Value Council House levy, the details of which are currently unknown.

13.14. The resulting HRA Capital Programme provides for renovation and improvement of existing housing stock, tower block refurbishment and limited estate regeneration. There is no scope for new housing construction.

14 New Delivery Models

14.1 In response to reducing capital resources the Council has looked to new delivery models to continue its significant capital investment in the City which levers in other partners and innovative financing. These include:

Barton LLP

- In 2011 the City Council entered into a partnership with the property developer Grosvenor to undertake the development of a 94 acre residential led scheme to the North East of Oxford, Barton Park.
- Planning permission has been secured for 885 homes (354 affordable) alongside a primary school, food store, community hub and park.
- The authority has contracted to purchase the 354 affordable dwellings which it will transfer to its Housing Company.

Oxford Housing Company Ltd

- The City Council approved the establishment of a Local Authority housing company in March 2016 and Oxford City Housing Limited (OCHL) was incorporated in June 2016.

- The Companies business plan provides initially for a total of 549 new homes over the next five years (including the purchase of the 354 Barton Park properties). There is the potential to expand this programme further (over 500 homes in the following five years) to bring forward new sites through estate regeneration, subject to additional funding capacity and project viability.

Oxpens West End Development Company Limited (OXWED)

- In January 2016 the Council entered into a joint venture with Nuffield College forming OXWED. The company acquired land from London and Continental Railways and following a period of master-planning will procure a development partner, complete land assembly, and bring forward a scheme of comprehensive development comprising a new mixed use neighbourhood with business space and affordable and market homes.

- The Council will also transfer into the company its own related land holdings at market value.

15 Property Purchases

15.1 In recent years the Council has looked to purchase property where returns are greater than the capital cost of the original investment. Capital spend has focused on:

- Indirect property investments through fund managers Lothbury and CCLA - £10 million
- Purchase of properties for homeless families via investment fund managers, Resonance and St Mungos Broadway - £5million
- Direct purchase of properties for homeless families £10million
- Investment and development of its existing commercial property portfolio -£10million

15.2 In the main capital spend is financed from prudential borrowing with borrowing costs inclusive of minimum revenue provision equivalent to 6% per annum. The Council will continue to seek opportunities for property purchases where it is financially advantageous to do so.

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