Capital & Investment Strategy - 2021/22 to 2030/31

Purpose and Objectives

1. The Prudential Code for Capital Finance in Local Authorities 2017 requires that for each financial year, a local authority should prepare at least one Investment Strategy containing the disclosures and reporting requirements specified in the guidance. The Strategy must be approved by full Council.

2. The definition of an investment covers all the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.

3. The objectives of the Prudential Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice and in full understanding of the risks involved.

4. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are made with sufficient regard to the long-term financing implications and potential risks to the authority.

5. The Prudential Code sets out that in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability, authorities should have in place a capital strategy. The capital strategy should set out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

6. This Capital & Investment strategy sets out the requirements of the Prudential Code covering all the investments of the authority and covers the following areas:

    - Approach to capital investment
    - Capital financing principles
    - Capital programme approach and overview of existing Capital Programme
    - Capital investment proposals for 2021/22 – 2030/31
    - Capital governance and decision-making
    - Minimum Revenue Provision Policy Statement for 2021/22 (Annex 1)

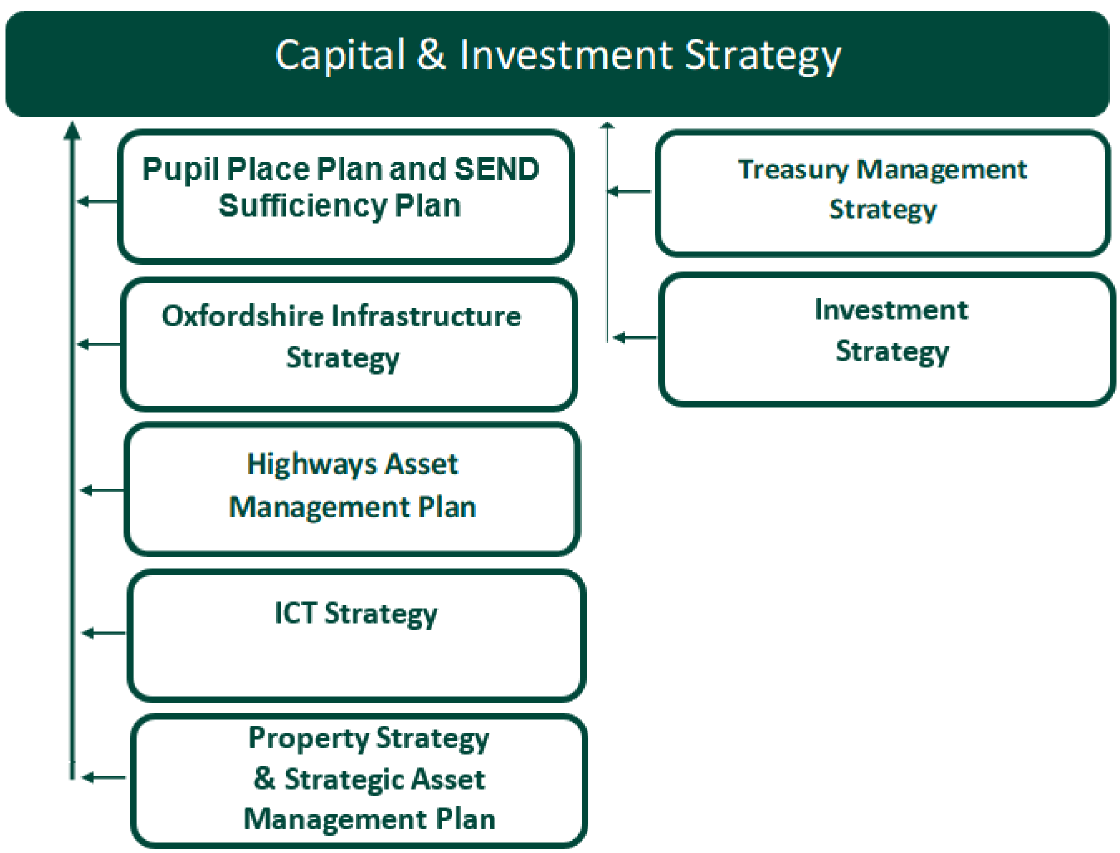
- Prudential Indicators for Capital Finance (Annex 2 – Published for Cabinet)

Introduction

7. The Capital & Investment Strategy is a policy document that outlines Oxfordshire County Council's approach to investments over the next ten years. It is closely linked to other key strategic and policy documents, such as:
    - The Corporate Plan
    - The Oxfordshire Infrastructure Strategy (OxIS)
    - Oxfordshire Local Industrial Strategy
    - Oxfordshire Joint Statutory Spatial Plan
    - The Financial Strategy including the Medium Term Financial Strategy

8. This strategy reflects the ambition for the Capital Programme where the schemes contained in the programme will all be defined from council strategies that determine the management of its assets, services and needs.

9. This diagram shows relationship between the Capital and Investment Strategy and supporting plans and strategies:



10. The Capital & Investment Strategy complements the key documents above by defining the approach, structure and governance for the effective financing and management of the Council's capital investment needs and ambitions. It outlines how capital investment contributes to the Council's priorities and how the Council's existing and proposed capital resources will be effectively managed to meet the planned needs plus opportunities for meeting the ambitions for longer term capital investments.

11. It is inevitable that the level of capital resources required to meet capital investment needs and aspirations will exceed the actual resources available. Therefore, one of the key purposes of the Capital & Investment Strategy is to ensure that capital projects or programmes are only approved where they accord with the capital investment principles.

12. The Council seeks to employ a variety of different resources to close the funding gap. In this context, the second key purpose of the Capital & Investment is to ensure that capital investment plans are affordable, prudent, sustainable and demonstrate value for money. It provides the framework for determining capital spending plans and the effective use of the Council's capital resources.

13. The capital programme is structured as follows:

    - **Pupil Place Plan:** including basic need (new schools and expansion), maintenance, health and safety and improvements
    - **Property and Estates:** including health & safety, maintenance, improvements and the Investment Strategy
    - **Highways and structural maintenance:** including street lighting, and bridges
    - **ICT Strategy:** including broadband and End User equipment
    - **Passported Funds:** including Disabled Facilities Grant and Devolved Schools Capital
    - **Vehicles and Equipment:** including fire and rescue vehicles and equipment
    - **Major Infrastructure:** including Growth Deal Infrastructure programme

14. For 2021/22 onwards the Capital Programme has also been categorized between firm schemes that have been agreed to address identified need – the **Firm Programme**, and elements of the programme that are forecast costs to address predicted needs – the **Pipeline Programme**. Schemes in the Firm Programme have a defined scope with an initial cost estimate. Schemes in the Pipeline programme are subject to optioneering and feasibility assessment and have estimated costs. As such, these schemes may change in both scope and value before being brought forward into the firm programme reflecting changes in the underlying need and value for money assessment.

The Council's Corporate Plan Priorities

15. The Capital & Investment Strategy emphasises the significant contribution that the capital programme can make in delivering the corporate priorities of thriving communities, thriving people and thriving economy and in bringing benefits for wider communities. It embraces the Council's philosophy of putting residents at the heart of everything we do; and, through the delivery of programmes and schemes will ensure adherence to the Council's own strategy for Climate Action. This strategy also seeks to ensure that resources are used in the most efficient way and support the Council's objectives most effectively.

Capital Investment Principles

16. The Council's approach to capital investment is integral to the Council's financial planning processes. The approach aims to ensure that:
    - Capital expenditure contributes to the achievement of the priorities set out in the Corporate Plan including commitment to Climate Action;
    - An affordable and sustainable capital programme is agreed;
    - Use of resources and value for money is maximised;
    - A clear framework for making capital investment decisions is provided;
    - A corporate approach to the use of capital resources is maintained;
    - Sufficient assets to provide services are acquired, or built, and maintained;
    - Invest to save initiatives to make efficiencies within the Council's revenue budget are encouraged;
    - Investment in existing assets to enhance their value, including acquisition of land, is supported;
    - An appraisal and prioritisation process for new schemes is robust

Capital Programme Financing Principles

17. The Council's capital programme financing principles are:
    - Non ringfenced capital grants are treated as a corporate resource and used flexibly.
    - Capital receipts are treated as a corporate resource and used across the capital programme flexibly.
    - The Council will continue to be proactive in ensuring, as far as possible, that all additional capital investment needs arising from new developments are funded from developer contributions.
    - Ringfenced resources are used for the purposes for which they are issued.

- Prudential borrowing will only be considered where:
  i. there is a robust invest to save model; or
  ii. the council has a significant unmet capital need; or
  iii. It contributes towards the overall investment approach
- Revenue contributions will be made to the programme for ongoing maintenance and replacement programmes

Investment Strategy

18. The Investment Strategy is required to be approved by Council annually and is included at Section 5.3. The Investment Strategy sets out an investment framework under which the Council can undertake investments against the following broad categories:

    A. maximising the use of and value of Council owned assets (land & buildings) to maximise revenue return through appropriate change of use to include (but not limited to) commercial, residential or renewable energy;

    B. investments for regeneration purposes in order to deliver a wider social, service, or community benefit;

    C. investments in property funds, bond funds, equities and multi asset classes;

    D. acquisitions and investments, which generate a commercial return (yield).

19. An investment strategy offers opportunities for generating long term and sustainable income streams through investment in asset classes with different attributes to investments currently held through Treasury Management activities. This diversifies the overall investment portfolio and enhances the financial resilience of the Council.

20. The Prudential Code requires that where authorities have commercial investments (Category D), that local authorities should disclose the contribution they make towards the service delivery objectives and/or place making role of the authority. In addition, the types of investment, due diligence processes, the proportionality of those investments and the local authority's risk appetite are also required to be set out. Currently no investments of this nature have been made or are planned within the proposed Capital Programme for 2021/22 to 2030/31.

21. The Investment Strategy is supported by the Property Strategy (Section 5.4) which will identify opportunities for releasing Council owned assets to realise investment opportunities by achieving the key strategic objectives set out in the strategy to:

- support excellent service delivery for the community
- support and empower a more agile organisation
- deliver climate action priorities
- achieve more value from our assets

Capital Programme Investment Overview

22. The Council's ten year Capital Programme is derived from the priorities identified in the supporting strategies and sets out the agreed capital investment to deliver those priorities.

23. Capital expenditure is defined as spending that creates an asset for the Council (e.g. buildings, vehicles and equipment), and spending which meets the definition in regulations specified under the Local Government Act 2003 which includes spend on non-current assets that are not owned by the Council such as academies and the award of capital grants and funding agreements.

24. The proposed capital programme for 2020/21 to 2030/31 totals £1.462bn. The proposed programme is based on the latest capital programme 2020/21 to 2029/30 as reported to Cabinet in the Capital Programme Monitoring Report in December 2020, including recommendations set out in the report, and proposed changes to the programme set out in Section 5.6.

25. The table below sets out the proposed programme by strategy and the split between the Firm Programme (£1,301.5m) and Pipeline Programme (£160.1m).

Strategy / Programme	Proposed Firm Programme £m	Proposed Pipeline Programme £m	Total Programme £m
Pupil Place Plan	182.0	78.0	260.0
Major Infrastructure	590.5	27.4	617.9
Highways Asset Management Plan	338.0	-	338.0
Property & Estates, and Investment Strategy	63.2	2.5	65.7
ICT	24.5	2.8	27.3
Passported Funding	94.5	-	94.5
Vehicles & Equipment	8.8	0.6	9.4
Earmarked Reserves	-	48.8	48.8
Total Estimated Capital Programme	**1,301.5**	**160.1**	**1,461.6**

26. Section 5.5 Sets out the Draft Capital Programme for 2021/22 to 2030/31 by year.

Pupil Place Plan - £260.0m

27. The Pupil Place Plan was agreed by Council in February 2020 and will be revised in Autumn 2021. The programme also includes investment to support the SEND Sufficiency Strategy, including the re-provision and expansion of Northfield School.

28. It is proposed to increase the Pipeline programme by £9.7m to reflect additional emerging need over the ten-year programme and to include an additional year for the annual maintenance programme in 2030/31.

29. The proposed Pipeline Programme also includes the creation of a contingency of £7.0m which has been earmarked for potential additional costs of building new schools arising from changes to building regulations and a zero carbon initiative for new schools which is subject to a policy decision.

Major Infrastructure - £617.9m

30. The current programme includes delivery of the Growth Deal Infrastructure Programme, Didcot Garden Town and the A40 Smart Corridor.

31. It is proposed to bring schemes totalling £16.2m into the Firm Programme, including an additional £9.7m investment in the Banbury Road Corridor, £1.0m development budget for phase 2 of the Science Vale Cycle Network and £1.0m budget for the Abingdon Local Cycling and Walking Infrastructure Plan (LCWIP).

32. The Pipeline programme for Major Infrastructure is in development and will be brought forward through the Budget and Business Planning process for 2022/23.

Highways Asset Management Plan - £338.0m

33. The Highways Asset Management Plan was agreed by Council in February 2020. There are no changes to the strategy and the proposed capital programme included the extension of the annual maintenance programme for a further year to 2030/31. The programme includes the additional £80m investment agreed in September 2018. This investment is being made over five years with 2021/22 being the third year.

34. During the year it was reported that a funding gap has emerged for the £53.0m investment in Kennington Bridge of £11.1m due to a shortfall in expected grant funding. The proposed changes to the capital programme enable this funding gap to be met through the reprioritisation of corporate resources.

35. The current programme also includes investments in the street lighting estate (total investment of £41m) funded by prudential borrowing. The borrowing cost for this investment will be funded by the reduction in revenue costs in relation to street lighting.

Property Assets & Investment Strategy - £65.7m

36. The current programme included an indicative allocation of £25m for asset condition work which was approved in September 2018 as part of a wider (up to) £40m investment in Property to manage legacy issues relating to property maintenance and the demise of Carillion. The investment undertaken to date has enabled essential works to be completed to ensure that the estate remains compliant with statutory and health and safety requirements. It is proposed to reduce the asset condition programme to £5.0m which covers the firm programme of 2021/22 and 2022/23 only and is in addition to the £3.0m Corporate Structural Maintenance budget. The ongoing need for investment in council owned assets will be reviewed during 2021/22 through completion of an asset condition survey in line with the property strategy, agile working and the Investment Strategy. Proposals for 2022/23 onwards brought forward through the Budget and Business Planning process and will form the Pipeline programme for Property.

37. The current programme includes an indicative budget of £10.0m to support the Investment Strategy. It is proposed to increase this to £11.7m following the identification of priority schemes for investment which includes £7.0m towards the development of Speedwell House. All investment schemes should be self-financing by delivering investment returns, enhanced capital receipts or revenue savings.

38. A £5.0m investment in a Supported Living Housing Fund is proposed to deliver additional supported living accommodation for people with learning disabilities within Oxfordshire.

ICT - £27.3m

39. The Information and Communication Technology Strategy was approved by Cabinet on 19 December 2019. No changes are proposed to the current programme which includes a provision of £2.2m towards future corporate or service specific requirements which may arise from new ways of working.

Passported Funding - £94.5m

40. Passported funds are funds transferred to third parties to deliver schemes, usually through a funding agreement.

41. The programme includes the Disabled Facilities Grant and the Affordable Housing element of the Growth, both of which are passported to the City and District Councils for delivery.

42. As the Accountable Body for the Oxfordshire Local Enterprise Partnership (OxLEP), the Council’s capital programme also includes schemes delivered by third parties on behalf of OxLEP which are funded by government grant.

Vehicles and Equipment - £9.4m

43. The proposed programme includes an £8m investment in the annual renewals and replacement programme for vehicles and equipment for the Fire & Rescue service. This is funded by an annual revenue contribution to the programme.

Earmarked Reserves - £48.8m

44. A £7.2m contribution is proposed to the Environment Agency (EA) to support the delivery of the Oxfordshire Flood Alleviation Scheme (OFAS). This can be funded following the receipt of additional funding from OxLEP which was originally intended to fund OFAS but could not be passed directly from OxLEP to the EA due to timing restrictions on the grant funding. The funding is required by the EA in order to maintain a fully funded scheme and progress with planning in the spring.

Capital Programme Financing Overview

45. The Capital Programme is fully funded over the ten year period. The table below sets out the resources used to deliver the capital programme.

Financing	Total Programme £m
Section 106 & Community Infrastructure Levy	235.1
Capital Reserves	17.8
Grants and contributions	890.8
Prudential Borrowing	226.3
Capital receipts	69.0
Revenue Contribution	22.7
Total Financing	**1,461.6**

46. When necessary, the Capital Programme can fund schemes in advance of receiving specific funding by utilising other resources within the wider programme on an interim basis.

47. The Capital Programme includes a prudential borrowing requirement of £226.3m. The Treasury Management Strategy (Section 5.2) sets out the Council's strategy for financing this borrowing requirement through both internal and external borrowing.

48. The Treasury Management Strategy also sets out the Council's approach to the investment of cashflows arising from the Council's Capital Programme and Medium Term Financial Strategy.

Governance Arrangements

49. The Prudential Code sets out that the responsibility for decision making and on-going monitoring in respect of capital expenditure, investment and borrowing, including prudential indicators, sits with full council. However, detailed implementation and monitoring may be delegated to a committee.

50. Council and the Cabinet are the key democratic decision-making bodies as per the Council's constitution. The Council approves the key policy documents and the capital programme as part of the Council's Policy and Budgetary Framework. The Cabinet recommends priorities, policy direction and the capital programme to the Council for approval. The Cabinet also approves new inclusions to the capital programme in line with the scheme of delegation and the financial procedure rules.

51. Delegations to officers are set out in full in Section 5 of the Council's Financial Regulations and all officers are bound by the scheme of delegation.

52. The Section 151 Officer, jointly with the Corporate Directors with responsibility for delivery of the Capital Programme, are responsible for ensuring that appropriate arrangements are in place to monitor the capital programme and resources. To facilitate this, capital budgets and project scope are agreed and updated through a robust Business Case process from scheme optioneering through to scheme completion.

Minimum Revenue Provision Policy Statement for 2021/22

1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

2. Legislation[1] requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

3. The implementation of the International Financial Reporting Standards (IFRS) requirements brought some service concession arrangements on balance sheet and resulted in some leases being reclassified as finance leases instead of operating leases. Part of the service charge or rent payable is taken to reduce the balance sheet liability rather than being charged to revenue accounts. To ensure that this does not result in a one-off increase in the capital financing requirement and in revenue account balances, an amount equal to the amount that has been taken to the balance sheet is included in the annual MRP charge.

4. The Council is recommended therefore to approve the following statement:

   For capital expenditure incurred before 1 April 2008, the MRP policy for 2017/18 onwards will be a straight-line charge of the outstanding pre-2008 expenditure as at 1 April 2017 calculated over a 50-year period.

   For all unsupported (prudential) borrowing, the MRP policy will be based on the estimated life of the assets for which the borrowing is undertaken (Option 3 – Asset Life Method or Annuity Method).

   In the case of finance leases and on-balance sheet Private Finance Initiative (PFI) type contracts, the MRP requirement will be regarded as being met by a charge equal to the element of the rent/charge that goes to write-down the balance sheet liability, including the retrospective element in the first year (Option 3 in modified form).

[1] Statutory Instrument 2008 no. 414 s4