OXFORDSHIRE COUNTY COUNCIL

THE CAPITAL STRATEGY (DRAFT)

2011/12 to 2021/22

DOCUMENT INFORMATION

VERSION HISTORY

The table below outlines the high level changes that have been made to each version of this document and who made them:

Version	Notes	Changed by & Date	Completed
1	Draft prepared by Arzu Ulusoy-Shipstone in consultation with Directorates	23rd November 2010	√
2	Capital Programme Board	26th November 2010	√
3	Consultation with Cllr Jim Couchman	29th Nov- 2nd Dec 2010	√
4	Capital Investment Board	7th December 2010	√
5	Arzu Ulusoy-Shipstone following Scrutiny Meetings	4th January 2011	√
6	Arzu Ulusoy-Shipstone following the Cabinet Meeting	25th January 2011	

There may be further revisions to this document given the number of ongoing consultations and reviews.

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Accepted by: The Cabinet 25th January 2011

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Approved by: The Council 15th February 2011

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REVIEW DATE

This document will be reviewed yearly from date of approval.

1. Introduction

1. The Capital Strategy sets out the County Council's capital investment plans and explains how capital investment contributes to the Council's Vision and Priorities. It shows how the Council prioritises, targets and measures the performance of its limited capital resources. It also shows how the Council intends to maximise the value of its investment to support the achievement of its vision and priorities. It provides the framework for determining capital spending plans and the effective use of capital resources.

2. This Capital Strategy, despite the challenging economic and financial environment, emphasises the significant contribution that the capital programme can make in delivering corporate priorities and in bringing benefits for wider communities. It seeks to ensure that resources are used in the most efficient way and they support the Council's objectives most effectively. It sets out a robust, relevant and sustainable financial policy and strategy that aim to get most out of the scarce capital resources over the next five to ten years.

2. The Vision for Oxfordshire and Council's Strategic Objectives

3. The Vision for Oxfordshire is set out in the Sustainable Community Strategy, Oxfordshire 2030:

   "By 2030 we want Oxfordshire to be recognised for its economic success, outstanding environment and quality of life; to be a place where everyone can realise their potential, contribute to and benefit from economic prosperity and where people are actively involved in their local communities."

4. The County Council has four strategic objectives:
   - efficient public services,
   - world class economy,
   - healthy and thriving communities, and
   - environment and climate change.

   There is also the cross-cutting theme of breaking the cycle of deprivation, which focuses on reducing the gap between the most and least affluent, targeting areas where resources are most needed.

5. The County Council manages a significant capital investment portfolio, which addresses the priorities identified within the Asset Strategy and the Local Transport Plan (LTP).

3. Delivering Corporate Priorities through Capital Investment in a Challenging Financial Environment

3.1. National Picture

3.1.1. Current Economic Conditions

6. The UK emerged from recession in late 2009. The recent national economic growth was higher than expected but the UK is still vulnerable to recession. Recovery in employment levels could take up to 5 years. These conditions place a higher demand on public services and significantly affect two critical resources for the capital programme: capital receipts and developer contributions.

7. In the past, the one consistent factor in the funding of the capital programme has been the income derived from the sale of council assets. This has meant that the Council has not only benefited from a stable and predictable income stream but has also been able to use the increased value of capital receipts to deal with cost increases across the portfolio and bring more projects into the capital programme. However, during the last two years, the Council has experienced both a sharp reduction in the value of capital receipts and delays in the delivery of the disposal programme.

8. A second key source of funding for infrastructure delivery, particularly over the last five years, has been developer contributions, principally to the transport and schools programmes. However, the Council, in common with other authorities, is witnessing increasing demands from developers to reassess the need for contributions for infrastructure secured through planning obligations (S106) and review the terms applied to these contributions. This is because of the slow down in the housing market and related viability and timing issues raised by developers.

3.1.2. Local Government Finances

9. The Comprehensive Spending Review introduced reductions of 28% in real terms to local authority settlements over the next four years. Capital funding to local authorities will also be reduced by 45% over the same period. Although the prudential borrowing system has been retained, the cost of borrowing for local authorities has been increased by 0.87% with immediate effect. This affects the capital programme in four ways:

   - there is a reduction capital resources supporting the capital programme;
   - the reduction in revenue budget allocations makes it very difficult for the Council to increase its prudential borrowing provision significantly;
   - the increase in the cost of borrowing has the potential to affect the value for money assessment of schemes that are being delivered or proposed as part of the implementation of the business strategy;
   - Increased cost of revenue financing may impact on the decisions on the level of capital spend.

10. A number of new financial instruments and tools for infrastructure financing are currently being introduced by national government. It is likely that further ones will emerge during the next couple of years as the national policy framework and supporting legislation continue to develop. The common feature of these instruments is their link with future income streams or underlying assets that necessarily require long-term capital investment planning.

11. National government is also further challenging local authorities *to tighten* their asset management strategies. As a major owner and occupier of property, local authorities are required to justify holding land and buildings and to dispose of assets that are surplus to requirements. This places further pressure on local authorities to sell major assets. At the same time, the reduction in funding and the Big Society agenda are likely to generate pressure for the Council to transfer assets to local community organisations especially where there is a risk that the service will be discontinued without the transfer.

3.1.3. Big Society and Localisation of Power and Funding

12. The Spending Review 2010 announced a significant devolution of financial control to local authorities and removed ring fencing around many resources.

13. The Government stated its intention to roll out the community budget model across the country by the end of the Spending Review period. This will bring further flexibility to the use of the departmental allocations already sent to the Council. It will also bring benefits for places through a joined-up approach in service delivery. Although the Council, with its partners, will have the flexibility to decide for themselves which departmental budgets to pool locally, it is likely that this model will have an influence on how capital allocations will operate in the near future.

14. The Government also introduced new funding mechanisms/ tools to support economic growth and housing development. These include the New Homes Bonus, the Business Increase Bonus, the match funding of every house that is generated or returned back to use and new borrowing powers to enable the implementation of the Tax Increment Financing.[1] These new funding mechanisms combined with the introduction of a “general power of competence” will significantly change the funding composition of the Council’s medium to long-term capital investment plan.

3.2. Local Picture

3.2.1. Population

15. The County is facing significant demographic pressures. Oxfordshire’s population was around 635,500 in 2008 and 640,000 in 2009. It is the most rural county in the South East region; over 50% of Oxfordshire’s population live in settlements of fewer than 10,000 people. A quarter of Oxfordshire’s population lives in the City of Oxford with a similar proportion in its market towns and the remaining half living in rural areas. The

[1] See Section 4 for further details on these new funding streams and their place in Council’s capital strategy

population is ageing with substantial recent growth in the number of people aged 85 and over.

16. It is forecast that Oxfordshire's population could grow to 675,000 by 2018.[2] There could be 736,500 people living in the county by 2033, 16% more than in 2008. The number of very elderly people (85 years plus) is expected to increase by almost 40% by 2018, and to more than double by 2033 with one in four requiring intensive support from the social and health care system. It is expected that there will be an increase in the number of clients with learning disabilities as well as an increase in this client group's life expectancy. In addition, the increase in fertility rates in the existing population residing in existing housing will lead to an increase in the number of children requiring school places. This will result in an erosion of existing and forecast spare capacity in many primary schools and in time, secondary schools.

3.2.2. Economic Development and Housing Growth

17. The Council and its partners are committed to the delivery of the Local Investment Plan (LIP) for Oxfordshire. The LIP and the Local Enterprise Partnership (LEP) Bid identify a number of spatial priorities for the next five to ten years. These include Science Vale UK (becoming a National Centre of Excellence for Science and Innovation), Bicester (delivering an international exemplar of sustainable development) and Oxford (sustaining a world-class centre of education, research and innovation). They also place "investing in the transport and communications infrastructure" at the heart of the long-term strategy to achieve sustainable economic growth.

18. Oxfordshire will experience significant housing growth over the next fifteen to twenty years. Growth points have been designated within the county at Oxford and Didcot. Bicester (through the identification of North West Bicester as a location for an Eco-town) and Grove/Wantage are other county towns where major housing growth is planned.

19. Initial analysis of long-term infrastructure implications of future growth shows that significant investment in schools and transport infrastructure will be required as well as considerable investment in extra care housing, community facilities, green infrastructure and recreational resources. It is not yet clear what scale of investment will be required by our partners responsible for health and utilities infrastructure.

20. As is the case for all Spatial Planning and Infrastructure Partnership partners, the Council faces challenges in managing this growth in a way that meets economic, housing and regeneration pressures and provides sufficient infrastructure. The increased housing development, the population growth and aging profile create demands both for infrastructure investment and better quality public services while at the same time there is a significant reduction in the available capital funding at the national and local level. Other major considerations include the protection of the environment and responding to the challenges of climate change.

[2] Office for National Statistics, 2008 based Sub-national Population Projections. May 2010

21. In this context, the Council needs to balance the considerable investment need in infrastructure to meet the pressures on essential services such as schools, highways and transport, waste and extra-care housing provision with the need to make significant savings through the implementation of the new asset strategy. One of the key challenges in the medium term therefore is to make best use of limited resources to fund, forward plan and implement growth effectively.

3.2.3. Standard of Living

22. Oxfordshire is a diverse and changing county with areas of outstanding natural beauty and areas of significant housing and commercial development. It has a modern and prosperous economy, which demands a highly skilled workforce and well-developed infrastructure. Many residents enjoy a high standard of living and a good quality of life, supported by high quality County Council services.

23. There is, however, a significant shortage of affordable housing across Oxfordshire and pockets of relative deprivation where residents have lower wages and low skills. In these areas there is poor housing, young people do not fulfil their potential at school and older people have poorer health than most. These pockets of the county's population derive little benefit from its economic success.

24. One of the key aspects of the County Council's corporate plan is to narrow the gap between the most disadvantaged people and communities. The overall challenge is to reduce inequalities and break the cycle of deprivation by addressing the regeneration needs of disadvantaged groups and communities.

3.3. County Council's Infrastructure and Asset Base

25. The County Council has a wide range of infrastructure and property assets including schools, offices, highways depots, roads, bridges, park and ride sites, waste recycling centres and county farms. The Council's capital assets were valued at £1,514.6m in the 2009/10 Statement of Accounts. The summary of the balance sheet is set out in the table below.

Category	Operational assets	Non operational assets	Total Assets
	£m	£m	£m
Intangible Assets	5.0	0	5.0
Land & Buildings	1,146.5	37.9	1,184.4
Vehicles & Plant	24.9	0	24.9
Infrastructure	300.3	0	300.3
TOTAL	**1,476.7**	**37.9**	**1,514.6**

26. This total excludes road and bridges. It is estimated that County Council roads alone represent approximately £2.5 billion infrastructure.

3.3.1. Non-Schools Property Infrastructure

27. The new Property Asset Strategy (2011/26) brings significant change to the way the Council's assets are managed. This is a necessary response to the business efficiency agenda, growth pressures, sustainability and environmental drivers and new work patterns. The Council's Asset Policy Objectives are set out below.

Objective 1	Aim to reduce the size of the property portfolio by 25%, contributing to MTFP savings targets
Objective 2	Change the portfolio to support and enable locality working
Objective 3	Increase co-location of services and sharing with partners and community organisations to improve service delivery and reduce costs
Objective 4	Put in place property that is fit for purpose and supports corporate priorities and service business model
Objective 5	Reduce energy consumption and avoid or reduce tax liabilities

28. The Council's Asset Management Plan reports a £77.5m repair and maintenance backlog figure at the end of 2008/09. Only 41% of the overall asset portfolio, composed of approximately 850 properties, is fit for purpose. The Plan aims to drive a 25% cost reduction in the running costs of Council's non-schools asset portfolio by 2014/15 and includes a number of new asset programmes which require up-front investment where the scale of investment and the pay-back period are currently uncertain (given the current economic conditions and the state of the property market). In addition, the ownership composition of the portfolio presents challenges in terms of benefit realisations and timely delivery.

3.3.2. Schools Infrastructure

29. One of the key investment challenges for the Council is the rapid and substantial growth in demand for primary school places forecast over the period 2011/12 – 2016/17 in Oxford City, Witney, Wantage and Henley in particular. The current economic climate leads to further pressure due to the number of pupils being shifted from private schools to state schools. Although, there remain surplus school places across the secondary schools estate, there is likely to be a demand for these places from 2015/16 onwards and earlier pressure in some areas due to the mis-match between available places and the demand pattern.

30. The Council, working with the schools, the Schools Forum and other partners, is committed to transforming education and the creation of an increasing number of schools with a distinctive character to deliver a consistently high standard of outcomes for students. However, this transformation is going to be delivered in a different way, given that capital spending by national government will be reduced by 60% in real terms by 2014/15 and that revenue funding reductions will have an impact on matters related to schools organisations.

31. The future shape of the education sector is still uncertain as the policy framework continues to evolve and a new market develops. Free Schools and Academies

proposals will influence Council strategy around how investment is shaped across its schools estate in the medium to long-term. There will be new models of school organisation including the creation of more federations, trusts and academies and other arrangements that generate greater collaboration between early years, primary, secondary and post-16 providers. These models will be encouraged as a means of improving the educational experience of children and young people. These changes to school organisations are likely to have an impact on the required school infrastructure and lead to the use of available capital funding to support more collaborative working among schools and other education partners.

32. It is difficult to predict the changes to future years' local government finance settlements for local authorities in this area given the ongoing education capital review. Only one year's settlement from the Department of Education confirms this uncertainty. However, the Education White Paper clearly states that national priorities are addressing the poor condition of the existing schools estate and providing sufficient places to meet the predicted increase in the number of school age children. The Council intends to use the majority of this allocation to address the basic needs pressure and utilise the immediate change in the distribution of capital resources between local authorities and school to address the assessed needs with respect to condition and suitability in schools infrastructure. This position will be reviewed following the confirmation of future years' allocations and in light of emerging basic needs pressures.

3.3.3. Transport Infrastructure

33. The Council has a statutory responsibility to maintain the transport infrastructure in a safe condition. The Transport Asset Management Plan identifies the need to develop a more detailed network hierarchy for maintenance given that the current investment level only enables the management of decline in the condition of the infrastructure. Technical models under different financial scenarios confirm that reductions in capital funding will add to the existing maintenance backlog. There will be a consequential increase in the demand for reactive maintenance and in the cost of repairs.

34. The Council also aims to create an efficient and effective highway network, maximising access to education, employment and other services, reducing congestion, carbon emissions and other environmental impacts, and supporting growth and development. The Local Transport Plan (2011/30) stresses that a substantial level of investment in transport infrastructure and services is needed to support the new developments planned in local development frameworks. It identifies major packages of transport investment to support growth and development at Science Vale UK and Eco-Bicester, along with several other major development locations.

35. The significant level of cuts in capital settlements means that the majority of the funding will be used for structural maintenance schemes for the foreseeable future. There is currently no regional allocation for specific major transport schemes for Oxfordshire for the next four years. The reduced availability of other capital funding places increased importance on using developer contributions to help deliver the highest priority needs while taking into account the flexibility of the funding. The

challenges in this area mean that early delivery needs focus on schemes that can be fully funded or are needed to support development sites that are ready to be delivered. In the long term, the strategy needs to focus on the effective use of new financial instruments and frameworks to secure the necessary funding.

3.3.4. Business Strategy Implementation and Service Transformation

Transforming Adult Social Care

36. Another key challenge for the Council is to enable the development of extra care housing (ECH) throughout the County. The Council targets the provision of 30 units of residential accommodation per annum for adults with physical disabilities. There is an ongoing need for purpose built premises for adults with learning disabilities, and for mental health housing. The Council's strategy in relation to social care for older people also means that health and social care sectors need to work together, both to stop people going into hospital unnecessarily and to provide alternatives to staying in hospital as soon as the patient is medically fit to leave. The move from care home provision to ECH means that the Council will no longer own the majority of assets (an asset-less strategy) through which a significant part of the care for Older People will be provided.

37. These service areas are already under pressure from the aging population and housing growth and are further affected by the self-directed support, personalised care/ prevention agendas, and by related major service transition. Programmes are being developed or implemented to provide an increased level and a wide range of support to enable people to remain in the community. This means that these services will also be subject to a comprehensive review of systems and processes to support future working practices. Investment in those systems and processes is likely to be required in the near future.

38. In order to support the promotion of independence and enabling people to live full and successful lives there may need to be further work carried out on local community assets (Day and Resource Centres) in order to provide appropriate facilities to deliver the Council's strategy. This is likely to be a key feature for all client groups. Capital investment may be required in the form of acquisition of land for development or funding to part-fund the build costs or adaptations to an existing property.

Waste Management

39. Waste Management is facing a period of rapid and radical change on a national level due to European Legislation, government targets, public expectations and the tighter financial environment. The Council has revised its Waste Management Strategy in light of its success in diverting waste from landfill and in alignment with waste hierarchy principles. The priority for the future is to ensure that Waste Recycling Centres (WRCs) are well located to close to the largest urban areas whilst minimising the number of facilities. Investment is required to help minimize the increasing landfill tax, avoid financial penalties from the Landfill Allowance Trading Scheme (LATS) and ensure that WRCs remain fit for purpose.

Youth Services

40. The approach to the delivery of non statutory youth services to young people will change significantly. There will be a shift towards funding more targeted youth support rather than universal services in all areas. This more streamlined service will be largely managed through the Early Intervention teams delivered in seven hubs and through a small number of satellite centres; located mainly in centres of higher need and deprivation, with an outreach aspect to areas further afield.

41. The council will seek to facilitate community led solutions in areas where we are no longer funding provision. Each community will have the opportunity to deliver individually tailored services which may or may not involve council assets. It is expected that this will be one of the major transformational programmes for the Council in this capital programme planning period and that it will have a significant impact on the Council's asset portfolio and its use.

Library Services

42. Another key area of service transformation is Libraries. The current provision has been largely driven by a history of development and growth. As a result, access to services is unevenly distributed across both urban and rural areas. The Council is currently looking for new ways of developing sustainable local library services based on a model of provision which focuses on the reading, learning and information needs of customers, now and in the future.

43. The delivery of this new model will involve the provision of library hubs in the main town and key rural areas, using technology to modernise the service, exploring commercial or community partnering opportunities and delivering mobile or community based services from existing or alternative community buildings such as children’s centres, community centres, schools, and health centres. The forthcoming changes in this service area will have a significant impact on the size, ownership and use of the Council’s asset portfolio.

3.3.5. Energy Consumption, Environmental Sustainability and Climate Change

44. The Council started to develop and implement its long-term strategy early to address its carbon emissions through the Carbon Management Programme. It is already investing in improvements to street lighting and energy conservation schemes across the county. Announcements in the Spending Review 2010 changed the Carbon Reduction Commitment from a trading scheme to a straightforward tax on energy consumption. This means that the primary driver for change is the need to reduce the overall energy consumption level. A new delivery model that will embed energy efficiency across the Council is emerging in response to these changes.

45. It is clear from the initial analysis that achieving a level of reduction which will eliminate a possible additional tax pressure for the Council will require further investment in the Council’s assets and activities that result in increased carbon

emission (property, street lighting, travel and waste). The enlarged programme is likely to focus in particular on improving the performance of the property portfolio and the street lighting infrastructure. The Council is also planning to work with the Schools Forum to devise a funding strategy for the further expansion of this programme to the schools estate.

46. Another fundamental challenge is to deliver infrastructure that responds effectively to the challenges of climate change through the sustainable design and construction of new developments. The Council is committed to enhancing the environmental sustainability of building infrastructure by achieving the BREEAM (Very Good) Standard for its new-build portfolio. It is also committed to improving the environmental performance of its existing infrastructure through investing in innovative solutions that will reduce energy use, water use, and waste, improve energy efficiency, increase the proportion of energy generated from renewables and minimise environmental pollution or the likelihood and impact of flooding.

4. Capital Strategy - Use of Capital Resources

47. It is of the utmost importance that the Council's limited capital resources are managed effectively given the picture described above. Also of utmost importance is the task of successfully managing the Council's assets and infrastructure base, and managing growth and developing related infrastructure provision in timely manner.

48. The Council ensures its effectiveness in this area by
    - Allocating capital resources in line with corporate objectives and priorities and considering what outcomes can be achieved by a particular project and how effectively it uses corporate capital resources;
    - Using capital resources prudently and flexibly in line with the agreed capital funding strategies to ensure their affordability, longevity and sustainability;
    - Providing contingencies across the capital programme to manage the resources pressure arising from housing growth and uncertainties related to ongoing service transformations.

4.1. Central Government Settlements

49. The Council is committed to achieving more flexible use of settlement allocations and use this flexibility as a key to achieving most effective use of capital resources and to generating efficiency savings for local areas by increasing the potential for multi agency working. In order to achieve this, all capital programmes have been brought together and the overall capital programme is now owned corporately. The determination of priorities for the overall capital programmes is very transparent and broad member engagement is at the heart of the decision-making process.

50. Where formulaic allocations and grants are issued as "not ring-fenced", the Council uses the opportunity to allocate these resources in line with the Council's priorities based on this capital strategy and the underpinning asset management plans. The residual amount of ring-fenced or earmarked funding received from central government

in the form of grant and borrowing approval continue to be used for the purposes for which it is issued.

51. The Council is also looking for opportunities to use some strategic programme allocations in more flexible ways where local needs/pressures also represent a national issue. In this context, the Council has been successful in using all of the formulaic basic needs settlement and other resources from the schools capital funding to respond to the increasing demand for school places due to changes in demography and parental choice. However, the Council recognises that such flexibility is and always will be within the discretion of the funding body and will continue to work with the relevant government departments to look for such opportunities for further flexibility. In particular, the Council considers pursuing this approach as an important part of its strategic response to meeting and containing demographic pressures.

52. The Council is also critically observing the impact of community based budgeting on central government allocations. It is observing how strategic programmes and settlement allowances and their future operation will be influenced by this agenda. It is likely that this approach will enable the Council to progress with its own localities investment agenda subject to the scale and timing of the forthcoming funding provision.

4.2. Usable Capital Receipts

53. Council policy is to treat capital receipts as a thoroughly corporate resource, not automatically allowing the originating service to utilise them. The Council seeks to maximise capital receipts from the disposal of surplus land and buildings, unless another option gives greater overall benefit. This approach will stay firmly in place while it is likely that there will be increased pressure to sell major assets and reduce the size of the property portfolio.

54. Although services can still make a case for the replacement of an asset, the Council, in principle, does not support the ring-fencing of capital receipts for the re-provision of assets. This is due to the fact that the Council's Business Efficiency Strategy requires a rationalisation of the asset base to help deliver the targeted level of savings in the Business Strategy between 2010/11 and 2014/15. This is in order to

- encourage a case to be made for joint proposals, where the use of assets benefits more than one service area;
- influence and challenge, in a firm manner, business cases for service re-provision based on ring-fenced capital receipt funding;

55. The Capital Investment Board will continue to consider each case on its merits. This is particularly important when current economic conditions do not favour the disposal of assets and proposals based on ring-fencing assets on an individual basis are likely to have viability and cash flow problems from the start.

56. As the Big Society agenda redefines the state's relationship with communities and looks for ways of empowering communities to be independent and self-sufficient, the

Council also needs to think about how it can leverage and direct its capital assets to communities. Whilst the Council supports this approach in principle, its challenge in this area is to design ownership vehicles that can ensure sustainable solutions and take into account current liabilities. The Council will work with its partners to develop mutually beneficial and sustainable solutions by undertaking ‘joined up’ reviews of assets, by assessing how proposals meet local needs and generate value for those communities and by analysing any associated risks. The new asset strategy determines the detailed policies around disposal of the Council’s property assets including school buildings.

4.3. Prudential Borrowing

57. The Council has established a strong links between the use of prudential guidelines and the delivery of its Business Efficiency Strategy. It is currently using funding under prudential guidelines for two categories of expenditure:

- capital investment which will result in future revenue savings; the cost of borrowing is met from these savings by services. Examples include Energy Conservation and the ECH programmes. In such cases, the specific prudential borrowing provision is considered as ring-fenced subject to the end of year financing strategy.
- capital investment where the Council has a significant unmet capital need; a decision can be taken for capital investment to be funded by borrowing. In such circumstances, the borrowing is repaid corporately from revenue over a number of years and therefore treated as a thoroughly corporate resource.

58. The Council’s policy is to utilise unsupported borrowing to finance capital investment where there is a clear proven need and where this borrowing does not result in unacceptable increases in Council Tax levels. Currently, under prudential guidelines, the revenue implications of every initiative are taken into account when estimating affordability of these proposals. As part of its medium term planning process the Council also evaluates the relative merits of funding revenue or funding capital proposals. In the case of capital proposals it ensures that there is on-going revenue funding available to meet the impact of any additional borrowing requirements.

59. The Council also uses prudential borrowing as part of strategic response to meeting and containing demographic pressures. In 2008/09, The Council approved £25m additional prudential borrowing to respond to the investment need in services not receiving capital settlement from central government. This was to ensure that the Council was able to strike a better balance between those needs arising from changing service priorities and those arising from changes/shifts in the demographic picture.

60. The Council is considering the effects of additional borrowing to replace low or non-existent capital receipts and to deal with the timing issues in funding infrastructure. In the short-term unsupported borrowing is the only alternative to using capital receipts. Although interest rates are low at the moment, this option would still mean an increase in revenue costs from paying interest on the additional loans. Additionally, interest rates are likely to rise in the medium to long term. Therefore, a prudent strategy for

increased prudential borrowing on an invest-to-save basis is currently being employed to deal with the immediate pressures on capital resources.

4.4. External Funding and Project Specific Grants

61. The Council will try wherever possible to influence investment through the targeted use of its limited capital resources to lever in other investment to meet its objectives. However, the Council is clear that projects that may bring in further investment will only be supported if they meet the Council's priorities and objectives.

62. Once secured, the Council uses these external resources for the purposes for which they are issued as per the guidance and conditions determined by funding providers. The Council also evaluates long-term implications of accepting any external funding provision, in particular on its revenue budget and allows such projects to proceed only if they are affordable and demonstrate value for money.

63. The Council has benefited from this approach by securing approval for £4.6m co-location funding and £1.5m "Back on Track" funding from the Department for Education and approval for its Local Investment Plan (LIP) from the Homes and Communities Agency. The Council will build on these successes and use its considerable experience in aligning funding streams and strategic programmes to meet its priorities in the context of its Capital Strategy.

64. It will also enhance this strategy by using the LIP and the LEP to align available funding streams further in relation to economic development and housing growth, including those from partner organisations at local, sub-regional, regional and national levels. The Council believes that this approach will ensure funding is generated for the longevity of the capital strategy and the capital programme and will make maximum impact.

4.5. Funding Growth and Developer Contributions

65. The Council is proactive in ensuring, as far as possible, that all additional capital investment needs arising from new developments are funded from developer contributions. It has benefited from its good track record of effectively identifying infrastructure needs arising from new developments and securing developer contributions to enable required infrastructure delivery.

66. However, developer contributions historically have not been able to fund all new infrastructure requirements and the scale of infrastructure provision needed to respond to the described level of growth requires a different approach to capital investment planning and a stronger emphasis on funding infrastructure. In addition, the range of contributions now sought from development has broadened, meaning that less money is available for more 'traditional' contributions such as schools and transport.

67. Due to the effect of current economic conditions on developer contributions, several issues have become critical when managing this scale of growth:

- Maintaining the viability of development proposals due to the reduction in land values;
- The funding implications of providing infrastructure up-front due to timing issues;
- Securing central government funding for some of the major infrastructure requirements following the Spending Review 2010;
- Being prepared to deal with uncertainties around the exact cost of infrastructure provision when the development takes place;
- Identifying the wider impacts of ad hoc or small scale developments and securing reasonable contributions from them;

68. In order to address these issues, the Council has been working on establishing stronger links between infrastructure planning and the asset management planning process through the effective use of section 106 agreements. This approach ensures that future community assets are affordable and sustainable in the long term.

69. The Council works closely with district councils and other partners under the umbrella of the established Spatial Planning and Infrastructure Partnership to identify further infrastructure funding streams. The application for Oxfordshire's share of the Eco-Town Pilots Support Funding (£11 to £13 million)[3] has been successful. The Council and its partners are also trying to take advantage of the new Regional Growth Fund to support the delivery of infrastructure in growth areas. The use of these new funding streams is expected to unblock stalled developments to a degree. The Council also continuously looks for opportunities to deliver capital projects using external funding not necessarily related to development,[4] e.g. looking at where key private sector beneficiaries could contribute to the capital funding of schemes.

70. However, it is recognised that these are still relatively short-term solutions. More sustainable and long-term funding models are needed to manage the growth agenda effectively and deliver the related infrastructure in a timely manner. Hence, the Council is committed to investigating different funding mechanisms based on the identified funding gap to help deliver infrastructure. The Council therefore considers the new financial incentives announced for local economic growth as an integral part of its long-term capital strategy. The next section lists some of the funding options that the Council is looking into in the context of significant cuts in capital allocations and changing financial and procurement models in capital project and infrastructure funding.

4.6. Emerging Funding Models to Meet the Investment Challenge

71. The level of funding available from central government and the private sector is constantly changing and current economic conditions put further constraints on available future infrastructure funding. There are a number of innovative funding options and delivery models available or under development to support infrastructure delivery.

[3] £60m start- up funding for local infrastructure relating to eco-towns.
[4] The example here is Sainsbury's funding the £2m junction upgrade at Heyford Hill.

72. The Council therefore aims to use the devolution of power to local authorities and these options and models to address the viability issues regarding new developments and related up-front funding requirements. It acknowledges that these options and models need to be fully evaluated to determine the most appropriate solution based on the nature of the infrastructure need, the scale of the funding gap and the availability of funding sources offered by Central Government. Early analysis indicates that how the Council packages infrastructure investment or regeneration proposals to make them attractive for capital markets will play a critical role in determining its ability to benefit from such incentives. It is also clear that these flexibilities will be a strong base for institutional financing options for the Council in the medium and long-term.

73. The Council is committed to exploring all relevant options in consultation with its partners in delivery to ensure the effective management of its asset portfolio, facilitation of economic development and housing growth and the timely provision of related infrastructure. However, the Council is also aware that a major constraint when employing the instruments listed below in practice is the minimum level of capital that must be raised through their use.

4.6.1. Public Private Partnerships (PPP), Private Finance Initiative (PFI) and Local Asset Backed Vehicles (LABVs)

74. The PPP/PFI funding models are used as long-term contracts between the public sector client and a private sector special purpose vehicle to deliver infrastructure and services in exchange for an annual performance related payment. The Council looks at these models of funding for its major schemes and takes a decision on the merits of each individual case. It has successfully used PPP funding to develop the Oxford Castle site working with the private sector and SEEDA. It has also upgraded homes for the elderly in partnership with the Order of St John.

75. The Council's policy regarding this funding model has always been to carry out a full and robust assessment of its long-term implications to determine value for money for the Council. This is due to the fact that while this model works well in many circumstances, it has not been found appropriate in financial terms. In line with this policy, the Council has fully investigated PFI options but has not so far decided it has been appropriate for any scheme. However, the Council is still working on employing similar models when they are suitable for its objectives. The Council is currently procuring a residual waste treatment contract that utilises similar principles to a Private Finance Initiative (PFI) and is based on the Government's standard contract.

76. Following the Spending Review, the Council expects to see more competitive versions of this model, such as competitive or incremental partnerships as the costs of such funding streams are transferred to individual departments at the central government level. It also expects to see a simpler procurement framework that is applicable to shorter-term contracts[5]. Decisions in relation to this funding stream will be made based on its applicability to the specific circumstances or infrastructure requirements following new Treasury guidance. The Council's priority in this area will

[5] It is likely that the minimum level of capital investment PFI will be raised from £20m to £50m in order to apply PFI only to the largest infrastructure.

be to build the right delivery model in order to derive real benefits from capital finance in a partnership environment.

77. Similarly, Local Asset Based Vehicles aim to encourage private sector investment by making regeneration projects appealing on a long-term basis. Current economic conditions and their impact on public finances and land values mean that it is likely that very limited levels of funding from the public and private sector will be available. The use of this funding mechanism will increase in the coming years given the expected increase in asset rationalization by local authorities. The Council continues to work with its partners, in particular District and Town Councils, on key regeneration programmes and evaluate opportunities as they arise in this area.

4.6.3. Financial Incentives for Local Economic Growth

78. The Council's approach to infrastructure planning looks to influence and shape the investment decisions at the national level through the provision of leadership in the co-ordination of investment. Oxfordshire City-Region Enterprise Partnership was approved by central government in October 2010. Improving the alignment of investment across public and private sectors to deliver a shared ambition for economic growth is the central theme of this new partnership. The Government has introduced a number of financial measures in order to provide incentives for local authorities to deliver sustainable economic growth. The Council is committed to obtaining as much investment as possible into Oxfordshire through the effective use of these new instruments where they prove to be affordable and value for money.

Regional Growth Fund

79. The Regional Growth Fund has increased to £1.4bn (£580m capital) with no ring fencing. The fund will run from April 2011 until April 2014 with the minimum thresholds for bids being set at £1m. It is presented as a key component in establishing a better balance between public and private investment in the economy. Although the detailed criteria for this funding stream is still under development, it is clear that it will focus on helping the transition to sustainable private sector-led growth from places that currently rely on the public sector. Therefore, the Council's and its partners' success in relation to this funding stream will depend on how much private sector funding can be brought to the table through proposals that generate sustainable employment growth.

New Homes Bonus

80. The New Homes Bonus will be introduced in 2011/12. It will fund the additional council tax[6] for six years for each new home or property that is brought back into use after the home is built. Although the model for implementing this scheme is still under development, it is clear that it will have an impact on the available funding for infrastructure development in growth localities[7]. The Council will work with its partners to develop a mechanism to use this funding stream in order to address infrastructure bottlenecks in those localities. The Council hopes that the allocation of the New Homes

[6] Based on a national average for the Council Tax band.
[7] Although this will be funded through a top slice of the formula grant.

Bonus will be determined by local authorities working collaboratively to support delivery of the infrastructure and services that arise as a consequence of new development.

Business Increase Bonus Schemes and Ability to Retain Locality- Raised Business Rates

81. The Business Increase Bonus Scheme will enable the Council to keep, up to a "certain level", the increase in business rates for a period of six years where the growth in business rates yield exceeds a "certain threshold". This is a clear incentive to seek long-term sustainable growth in the business rate base. The Government is also considering more radical financial options to enable local authorities to retain locally raised business rates in the context of the Local Government Resources Review.

82. It is currently difficult to estimate the benefits from these schemes in terms of raising capital funding without more knowledge of how they will be implemented and how much of the funding will be directed to support Oxfordshire's economic infrastructure and asset base through local arrangements. The Council will work with its partners to channel a level of funding that will help establish a 21st Century economic infrastructure and bring increased competitiveness to Oxfordshire.

Tax Increment Financing (TIF) and Accelerated Development Zones

83. Tax Increment Financing[8] is a mechanism that enables the use of anticipated future increases in tax revenue to finance the current improvements (such as new or improved infrastructure) that are expected to generate those increased revenues. The UK central government is working on introducing new borrowing powers to enable local authorities to carry out TIF. By using TIF, the Council will be able to borrow against future additional increase in their business rate base to fund infrastructure and capital projects. Legislation is needed to introduce this scheme, so it will take at least two years to arrive.

84. Accelerated Development Zones are a form of TIF that can include ring-fencing business rates for an agreed period of time or attributing a proportion of any business rates supplement levy to projects specified within the zone. This mechanism can also raise funds for public infrastructure investment on a transformational scale. A number of pilots are underway supported by the UK central government.

85. The Council will closely monitor the progress made in the development of the TIF model and results of early ADZ pilots to determine what these models can offer for the Council as a means of maintaining the investment in infrastructure in this tight financial environment. Because the TIF model will initially be introduced through a bid-based process, there is also an opportunity for the Council and its partners to assess their current priorities in the LIP in order to derive early benefits from this funding stream where eligible.

[8] British Property Federation (November 2008): Tax Increment Financing

4.6.4. A New Tariff (Levy) Based Mechanism

86. A new tariff based mechanism is being introduced to give local authorities extra resources to invest in vital facilities, public services and social infrastructure and to give developers greater certainty about their role and contribution. Although this mechanism aims to bring much needed flexibility to the use of contributions from developers, it is still not clear how the tariff/ levy income will be apportioned, how it will be transferred from charging bodies to infrastructure delivery organisations, and how it will affect the future of the S106 agreements. Hence, the coalition government's response to concerns raised by county councils across the UK will be critical in determining the future capital strategy implications of this new funding mechanism. Meanwhile, the Council considers how the existing S106 regime can be developed to incorporate the latest thinking on tariffs and/or incentives for new housing.

87. It is also considering how to establish a forward funding arrangement to enable investment in infrastructure on the back of future funding secured through developer contributions. There is a growing interest in creating a Rolling Fund in order to fund infrastructure up-front. This is a mechanism by which local authorities along with their partners use initial public money to forward-fund major infrastructure schemes where infrastructure is needed to support the planned development. The cost of infrastructure is then recovered from public and private sector funding streams as they come forward. It is important to structure and manage the fund in a way that it takes into account any delays or reductions in the recovery.

4.6.5. Local Authority Bonds

88. Local authority bonds are a common feature of local capital finance outside the UK and although they have been legislatively possible for UK local authorities to raise capital in this way, it has not been frequently used. The coalition government is looking into promoting this instrument and making it an attractive alternative to loans from the Public Works Loan Board (PWLB). The Council expects to see more tax incentives to emerge in relation to these bonds in the near future. As the key barrier to bond issuance is issuing bonds on a large enough scale to make them viable, the Council also expects to see new opportunities for collective deals and to package a number of projects at local, regional and sub-regional levels.

5. The Capital Programme: Governance, Development & Implementation

5.1. Capital Programme

89. The current capital programme for 2010/11 to 2015/16 totals £477m capital investment and covers a wide range of projects. While it is good practice to have a five-year capital programme, the Council recognises that when the external environment is changing rapidly, the policy framework is evolving and the economic outlook is uncertain, it is important to have a flexible approach to investment decisions. Clearly, significant changes to the resources profile will affect the level of planned

investment within the next five to ten years. Therefore, only the first two years of the programme are considered as “the firm capital programme”. The figures for the years 2013/14 onwards are a draft and constitute the provisional part of the capital programme.

90. This provisional programme includes some indicative projects where no firm costings or business cases have been produced. As these projects are not part of the firm capital programme, they can only be progressed after a formal approval process has been followed and if funding is available. Consequently, decisions about which projects to be brought forward into the firm capital programme rest with the Cabinet. Where there is urgency, projects can be brought forward into the firm programme with the joint approval of the Chief Executive and the Chief Finance Officer after consultation with the Leader of the Council and the Cabinet Member for Finance & Property. Such urgent decisions are then reported to the Cabinet at the earliest opportunity as part of the Financial Monitoring Report.

5.2. Governance

91. The Council has the vision of “developing a truly corporate approach to strategic capital investment, infrastructure and asset planning”. It recognises that implementing a high-profile capital governance structure is essential in fulfilling this vision and ensuring success in the capital arena.

92. That is why capital governance arrangements were reviewed in the context of the immediate challenges presented by the infrastructure gap and the growth, total place, co-location and cross service delivery agendas. A new capital governance structure has been in operation since September 2009. It will be improved further with the changes planned to be introduced in March 2011.

93. The new structure establishes a strong direct link between the mainstream capital programme and capital investment needs arising from the growth agenda (in particular strategic sites) and from cross-departmental and cross-organisational co-location and joint service delivery initiatives. The key features of this structure are listed below:

5.2.1. The Council & the Cabinet

94. The Council and the Cabinet continue as 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.

5.2.2. The Capital Investment Board (CIB)

95. The Capital Investment Board is a high-level political platform providing a cross-portfolio approach to and political steer on policy developments, strategic infrastructure

development, the use of resources discussion and the growth, co-location and joint service delivery agendas.

5.2.3. The Capital Programme Board (CPB)

96. The Capital Programme Board is a strong officer group with a clear remit and function to be the single point of contact in all capital and asset matters across the organisation with clear accountability and a sufficiently high level of authority and decision-making power within the limits of delegated responsibility.

97. The Council has already revised its financial procedure rules related to capital following the introduction of the new governance structure. The principle behind these adjustments is ensure that the overall structure is supported by appropriate officer teams operating clear, agreed, open and transparent corporate policies, protocols and procedures. Detailed protocols are under development and will follow the approval of the capital strategy.

5.3. Capital Programme Development & Implementation

98. The Council has recently strengthened the development framework for the capital programme. In particular, the Council has taken steps to enhance the strategic alignment of the capital programme with corporate priorities and balance capital investment needs arising from planned growth and the maintenance of the existing portfolio.

99. It is also developing a two-stage approval process for capital resources allocation. If a project is approved at stage 1, it is accepted in principle to the Council's capital programme and allocated a project development budget. This stage is also called "commit to investigate". At stage 2, the project receives full political approval for work to commence and expenditure to be incurred, subject to the budget constraints of the project delivery budget allocation.

5.3.1. Principles of Prioritisation and Capital Resource Allocation

100. The Council's capital programme deals with a wide range of property and other infrastructure asset needs across all service areas. The Council recognises the challenges around making prioritisation decisions when comparing the relative merits of investment into these assets. It therefore agreed a set of principles for prioritising capital investment proposals.

101. The application of these principles ensures that the Council allocates capital resources in line with corporate objectives and priorities and considers what outcomes can be achieved by a particular project and how effectively it uses our very limited corporate capital resources. These principles are integrated into the service and resource planning process.

102. Priority is given to programmes and projects (or proposals) in the following order:

- ***Priority 1:*** *projects which enable compliance with our legal/ statutory duties including projects which address any infrastructure deficits related to statutory compliance. For projects in this category, there is still a need to justify the cost level.*
- ***Priority 2:*** *projects where a major proportion (50% or more) of the capital from external sources which will be lost if the project fails to go ahead but subject to consideration of future revenue requirements.*
- ***Priority 3:*** *projects that generate revenue savings through the delivery of the new business strategy or service transformation proposals. For projects in this category, there is still a need to explore whether or not they could be self-financing, for example through prudential borrowing.*
- ***Priority 4:*** *projects that contribute to the delivery of a smaller property portfolio through increased co-location or space utilisation or adaptation of new ways of working.*
- ***Priority 5:*** *projects that facilitate economic development and housing growth - in particular in priority localities (Banbury, Bicester, Abingdon, Oxford City, Didcot and Carterton).*
- ***Priority 6:*** *projects that address cross-cutting issues, facilitate joint-working with partners or generate new/ additional income;*

103. It is not effective to have every individual scheme assessed and prioritised across the Council when they are very low cost relative to other areas of Council capital expenditure. Instead, once a programme level allocation is approved by the cabinet, a scheme assessment and prioritisation methodology is expected to be devised for new schemes in order to asses those schemes below a certain financial threshold value (typically £200,000) and to support their prioritisation within those programmes. The delivery of these programmes would then be determined by the availability of capital funding, either from the Council's capital programme or elsewhere, for a 'block' of these schemes. Schemes above the threshold value and identified as being in line with Council objectives, are assessed as part of the Council's overall capital prioritisation and programming as per the principles listed above.

5.3.2. Technical Assessment (Options, Deliverability and Affordability Appraisals)

104. Given the scarcity of both land and capital in relation to future needs, OCC must ensure that each investment decision represents the best possible use of these limited resources, and the best long-term solution for the authority and its citizens a whole. It is critical for the long-term future of the Council's infrastructure base and to ensure the wise and responsible use of resources that each investment decision is based on a full consideration of all possible solutions and a full recognition of life cycle cost.

105. The Council is in the process of streamlining its technical assessment process for evaluating readiness and value for money of all its capital investment proposals. The agreed principles are:

- Analyse a range of possible solutions at the feasibility phase of each major capital investment;

- Base the options appraisal on the life cycle costs of possible solutions, including the discounted cost of future expenditures to determine their affordability;
- Explore different project delivery models that, where possible, include partnerships, sharing costs with other organisations, obtaining grant contributions or generating revenue income;

106. This approach will further ensure that investment in assets carries the underlying principle of seeking maximum benefit from the sum invested. Indeed, the revenue implications of any scheme are considered at both stages of the process. However, more details are provided prior to full political approval being granted.

107. Similar processes are also in place for prioritising and resourcing Highways Maintenance schemes, which are peer reviewed within a value engineering process. The merits of each scheme are assessed in conjunction with condition survey information, build-ability, value for money and environmental factors. A priority list of schemes is developed that addresses Oxfordshire's strategic objectives whilst contributing to improving national road condition indicators

5.3.3. Procurement

108. The Council has established collaborative partnerships with both the professional services and construction services supply chains through innovative strategic procurement initiatives. It operates a category management approach to the delivery of its works and services. This approach ensures that the Council can utilise 'best of breed' suppliers to minimise risk and cost as well as delivering a 'right first time' solution.

109. The Council's portfolio of contracts include:

- Framework Consultants (three Multi-Disciplinary and one Cost Management), selected for their expertise and capability to deliver education projects;
- Framework Construction arrangements that deliver up to 60% of the Council's Capital Programme, with the remainder procured in the open market.
- Core Multi-Disciplinary Consultants appointed on a seven to ten year term and capable of delivering the Council's Capital Programme.

110. The Council has entered into new contractual arrangements for the delivery of the Transport service and is operating in an integrated organisational structure that is generating a more efficient operation. This integrated partnering contract provides a flexible vehicle for the procurement of professional and mainstream construction services, primarily for transport related projects. It enables the Council to plan the overall resource from inception to delivery on the ground thus smoothing the workflow throughout the year, enabling planning for future years and consequently gaining greater effectiveness and efficiency.

111. The Council is also engaged with Improvement and Efficiency South East (IESE) in co-ordinating expenditure on a regional basis to drive standardisation and benefit from

the resulting economies of scale. This collaborative approach enables the Council to have more leverage over the supply base. The Council can also adopt the Office of Government Commerce (OGC)'s portfolio of framework contracts for both professional services and construction. These collaborative and flexible arrangements with the OGC and IESE are necessary to complement the Council's portfolio so that it is responsive and scalable in today's financial climate. The Council will draw on the experience of its peers in order to deliver a value for money solution if a more specialist vehicle of procurement such as Strategic Partnerships is needed.

5.3.4. Partnership Working

112. The Council has a strong vision to create sustainable places by working closely with its partners. It recognises that it can only achieve its objectives through partnership working and is therefore committed to working with public, private, voluntary and community organisations.

113. The Council already has a history of pursuing joint-working and joint-service delivery initiatives for better outcomes for communities and citizens of the County. The Council is currently

- working on the West End Project in partnership with Oxford City Council and other partners. The renaissance of Oxford's West End is the single biggest regeneration project that Oxford has seen for some decades and will shape the city centre experience for a hundred years to come.
- operating a private public partnership with the Oxfordshire Care Partnership (Orders of St John – referred to as OCP/OSJ) to provide residential care homes for Older People;
- working in partnership with District Councils in collection and treatment of waste, including delivering improved recycling and reduction in landfill;
- working with the Housing and Communities Agency and other partner organisation under the Single Conversation Framework to deliver the Local Investment Plan (LIP) for Oxfordshire. This plan, resulting from Oxfordshire's Single Conversation with the Homes and Communities Agency (HCA), sets out a shared vision and priorities for delivering housing growth, economic development, regeneration, and infrastructure.
- procuring a residual waste treatment contract to direct waste away from landfill and to address the major investment required to meet national targets and those stated in the Oxfordshire Joint Municipal Waste Strategy.

5.3.5. Performance Management

114. The Council agrees a rolling five-year capital programme annually in accordance with its priorities. The capital programme is updated quarterly and its performance is reported monthly to the Cabinet. The Council's use of capital resources indicator was 94% at the end of 2009/10. This is a significant improvement from 18.6% and 10% slippage reported in 2007/08 and 2008/09 respectively. The Capital, Strategy and Transformation Manager is working closely with directorates to achieve further improvements in performance in future years.

5.4. Provide contingency across the capital programme

115. The Council's capital budget setting principle is "a balanced position with sufficient level of contingency". A 3% contingency, in line with the audit recommendation, is built into the capital programme planning assumptions in order to respond effectively to unforeseen capital pressures and to accommodate possible changes in the capital resources position supporting the programme. The Capital, Strategy and Transformation Manager manages this corporately held provision and other contingencies in relation to the capital programme on behalf of the Cabinet and reviews them on a regular basis based on the risks associated with the overall programme.

116. The Council continues to employ an effective year-end financing strategy for its capital programme. The capital financing strategy is aimed at minimising the on-going liabilities to the Council's revenue budget arising from capital investment. The first calls on capital resources are therefore external funding (including S106), grants, supported borrowing, and capital receipts and reserves. The final calls, where necessary, are on unsupported borrowing and revenue contributions.

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