Capital Strategy 2010/11 to 2014/15 – refreshed 2013/14

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 and sets out the framework for determining capital spending plans and the effective use of capital resources which are both robust and sustainable.

2. This Capital Strategy covers three main sections:

- *Delivering Corporate Priorities*; in this section the capital needs and aspirations of the Council are presented in the context of the national and local pictures and the Council's existing asset base.

- *Capital Strategy – Use of Capital Resources*; in this section financial options to deliver key capital investments are presented.

- *Capital Programme- Governance, Development & Implementation;* in this section the capital investment policies, governance and decision-making structures are described.

3. The County Council manages a significant capital investment portfolio, which addresses the priorities identified within the corporate Asset Management Plan (AMP) and the Transport Asset Management Plan (TAMP), incorporating the Local Transport Plan (LTP).

Delivering Corporate Priorities through Capital Investment

Local Government Finances

4. The 2010 Spending Review introduced significant reductions in real terms to local authority settlements, capital funding to local authorities was reduced by 45%. Changes in Public Works Loans Board (PWLB) rates also saw the cost of borrowing for local authorities increased by nearly 1%. These changes meant that the size of the capital programmes has reduced significantly. The reduction in revenue budget allocations makes it difficult for the Council to increase its prudential borrowing provision significantly.

5. Local Authorities are further challenged *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 generating 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.

6. On the other hand, the SR2010 announced a significant devolution of financial control to local authorities and removed ring fencing around many resources. The Government is planning to roll out the community budget model across the country as a way of bringing different national and local funding strands together into a single local funding pot in order to enable various different agencies to work together. This approach brings further flexibility to the use of resources and helps deliver services more cheaply through a joined-up approach in service delivery. It is likely that this model will have an influence on how capital allocations will operate in the near future.

7. From 2013/14 the new local government finance system based on relocalising business rates replaces the current Formula Grant allocations. It aims to give local authorities the ability and incentives to increase economic development in their areas. At the same time, a number of new financial instruments and tools for infrastructure financing are being introduced. The common feature of these instruments is their link with future income streams or underlying assets that necessarily require long-term capital investment planning. These new instruments 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.

Local Picture - Population

8. Oxfordshire's population in 2011 was 656,800 and one in six people, 103,700 were over the age of 65. It is the most rural county in the South East region; almost 40% of Oxfordshire's population lives in rural areas, a similar proportion lives in or around the market towns[1], whilst one quarter of the county's population lives in the City of Oxford.

9. It is forecast that Oxfordshire's population will continue to grow. The number of people aged 85 and over is expected to rise by 10% in three years from 2012-15. 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, an increase in the number of children requiring school places is expected over the medium and longer term. This will result in an erosion of spare capacity in many primary schools and in time, secondary schools.

Local Picture - Economic Development and Housing Growth

10. 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.

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

[1] This includes all wards for Banbury, Bicester, Kidlington, Didcot (+Hagbourne and Harwell wards), Henley, Thame, Wallingford (North and Cholsey & Wall. South), Abingdon, Wantage, Grove, Faringdon, Carterton, Chipping Norton and Witney). The ward figures are taken from the 2009 ONS mid-year estimates.

12. The Council faces challenges in managing this growth in a way that both meets economic, housing and regeneration pressures and provides sufficient infrastructure. The increased housing development, 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 national and local level. Other major considerations include the protection of the environment and responding to the challenges of sustainability.

County Council's Infrastructure and Asset Base

13. 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, libraries and museums. The Council's capital assets were valued at £1,407.0m in the 2011/12 Statement of Accounts. The summary of the balance sheet is set out in the table below.

Category	Net Book Value £m
Intangible Assets	2.1
Land & Buildings	969.7
Assets Under Construction	9.9
Surplus Assets	4.0
Vehicles & Plant	93.9
Infrastructure	322.8
Investment Properties	4.5
Assets Held for Sale	0.1
TOTAL	**1,407.0**

Non-Schools Property Infrastructure

14. The corporate Asset Management Plan for 2013/14 – 2016/17 reflects changing priorities in relation to asset management. This is a necessary response to the Business Strategies, growth pressures, sustainability and environmental drivers and new work patterns. The objectives are set out at Page 11 of Annex 10a.

15. Historically, the Asset Management Plan has identified that only 45% of the overall asset portfolio, composed of approximately 830 properties, is fit for purpose with a maintenance backlog of £77m. A condition survey has recently been undertaken by the Council's partner for property and facilities, Carillion/Capita Symonds. This has identified that the maintenance backlog now stands at £65.8m. The challenge is to reduce the size and cost of the portfolio and reconfigure it in a way that is aligned and supports corporate priorities and service need.

Schools Infrastructure

16. 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, Henley, Banbury and Abingdon in particular. Although, there remain surplus school places across the secondary schools estate, a general demand

for secondary places is likely to emerge from 2015/16 onwards given earlier pressures in some areas due to the mis-match between available places and the demand pattern.

17. The shape of the education sector is changing. The ascent of Free Schools and Academies[2] will influence the Council's strategy around how investment is shaped across the schools' estate in the medium to long-term. Over the coming years, the Council will shift away from being the direct provider of education towards being a commissioner. 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.

18. The Council intends to use the majority of its Education grant allocation to address the basic needs pressure. It will also use the capital maintenance allocation to address this pressure and needs with respect to the condition of the schools' infrastructure with a strong emphasis on and alignment to the Health & Safety, Energy Reduction and Basic Needs Programmes.

Transport Infrastructure

19. 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 sufficient to manage a decline in the condition of the infrastructure. Slight increases in capital funding from 2013/14 will not be sufficient to address the existing maintenance backlog and there will be a consequential increase in the demand for reactive maintenance and in the cost of repairs.

20. 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.

21. 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. The reduced availability of other capital funding places increased importance on other funding mechanisms such as developer contributions to help deliver the highest priority needs.

22. The government has provided the opportunity to establish a Local Transport Board (LTB) which will receive local major scheme funding devolved from the Department of Transport from 2015. LTBs will be voluntary partnerships between Local Authorities, Local Enterprise Partnerships and other stakeholder organisations. Funding will be determined by population and Oxfordshire is expected to receive an allocation will be

[2] The Academies Act 2010 indicates that liability of principal or interest on debt cannot be transferred to academies. This means that the Council's level of debt will remain the same irrespective of the number of schools that convert to Academies. However its asset value will decrease.

£16m over the period 2015-19. As a partnership, it is important that an open and transparent assessment framework and a robust appraisal process that is independent of the scheme promoter is in place. The Department for Transport also require a lead authority to act as the Accountable Body for the devolved funding and it is proposed, that as the Local Transport Authority that the County Council take on this role.

Capital Strategy - Use of Capital Resources

23. It is of the utmost importance that the Council's limited capital resources are managed effectively. 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.

Central Government Settlements

24. The Council is committed to achieving more flexible use of settlement allocations. This flexibility is key to achieving the 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, the capital programme is considered as a single corporately owned programme. The determination of priorities for the overall capital programme is very transparent and broad member engagement is at the heart of the decision-making process.

25. Where capital 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. Ring-fenced or earmarked funding received from central government will be used for the purposes for which it is issued in line with grant/allocation conditions.

Usable Capital Receipts

26. Council policy is to treat capital receipts as a 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. 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.

27. The Corporate Asset Management Plan sets out the policies around disposal of the Council's property assets, including school buildings (Page 17 of Annex 10a).[3] It also sets out the principles for Community Asset Transfer under the 'big society agenda'. (Page 19 of Annex 10a).

Prudential Borrowing

28. The Council has established a strong links between the use of prudential borrowing and the delivery of its Business Strategy. Prudential borrowing is currently used to fund:

- capital investment which will result in future revenue savings; the cost of borrowing is met from these savings by services. Previous 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.

29. The Council's policy to utilise prudential borrowing to finance capital investment where there is a clear proven need can only be applied where the borrowing does not result in unacceptable increases in Council Tax levels. Prudential indicators require that the revenue implications of every initiative are taken into account when determining the affordability of prudential borrowing proposals. As part of its medium term planning process the Council also evaluates the relative merits of revenue funding versus capital funding 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.

External Funding and Project Specific Grants

30. The Council will try wherever possible to influence investment through the targeted use of its limited capital resources to lever in other investment where these meet the Council's priorities and objectives.

31. Any external resources, once secured, will be used for the purposes for which they are issued as per the guidance and conditions determined by funding providers. The Council will evaluate long-term implications of accepting any external funding provision, in particular any impact on the revenue budget and such projects only proceed if they are affordable and demonstrate value for money.

32. The Council also enhances this strategy by working within the broader context (such as the Local Enterprise Partnership (LEP)) to align available funding streams including those from partner organisations at local, sub-regional, regional and national levels.

[3] The overall details of the policy may be affected by the Land Transfer Scheme Regulations. Local authority owned land that is no longer used for maintained schools to be transferred for the use of an Academy or Free School. The Secretary of State has the power to transfer the land if it is required from a local authority if that land has been used for the purposes of a maintained school in the last 8 years. If the local authority is already using the land for another purpose, the land can still be transferred.

The Council has been working with the LEP, the City and District Councils to bid for a City Deal, which will help the transformational growth of the area through investment in the knowledge economy. The Council employs this approach to ensure that funding is generated for the longevity of the capital strategy and the capital programme and makes maximum impact.

Funding Growth and Developer Contributions/ Community Infrastructure Levy

33. 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 a good track record of identifying infrastructure needs arising from new developments and securing developer contributions to enable required infrastructure delivery.

34. 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 identified 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.

35. The Community Infrastructure Levy (CIL) comes into full operation in April 2014. This levy based mechanism is a contribution from all new development towards the cost of infrastructure. This includes transport schemes, flood defences, schools, hospitals and other health and social care facilities. Developer contributions will still apply in site specific infrastructure required to mitigate the impact of a specific development. The Charging Authority (which in two tier areas such as Oxfordshire will be the District Councils) must first establish that there is a need to introduce the Levy based on the infrastructure needed to support planned levels of growth within its area. If there is a funding gap between the cost of the infrastructure required and the level of funding likely to be available, CIL can be introduced. A CIL rate is then determined which can be differentially set according to geographical area or by development type. CIL will give developers greater certainty about their role and contribution and will deliver a more predictable income stream for the Council towards infrastructure. As the Charging Authorities will be the District Councils in Oxfordshire, the County Council will need to seek an agreement with each Charging Authority the contribution from CIL towards the cost of services and infrastructure which it provides.

The Rolling Fund

36. The Council has established a forward funding arrangement to enable investment in infrastructure on the back of future funding secured through developer contributions or other funding streams. The Rolling Fund is used as a flexible forward funding mechanism to facilitate the development and timely provision of critical infrastructure that support the delivery of planned growth or development

37. This is a mechanism by which the Council uses 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.

38. The Fund comprises a contribution from flexible developer contributions and the County Council's share of the new homes bonus payment for 2011/12[4]. The priorities under this fund will be agreed by the Cabinet. The Council will use this system as a complementary mechanism in order to address infrastructure bottlenecks in the County.

Alternative Funding Models to Meet the Investment Challenge

39. 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.

40. The Council will consider these options and models to address potential future funding requirements in consultation with its partners. It is acknowledged 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. 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.

41. Alternative funding models include:

- Public Private Partnerships (PPP),
- Private Finance Initiative (PFI)
- Local Asset Backed Vehicles (LABVs)
- Tax Increment Financing
- Local Authority Bonds

Capital Programme Contingency

42. The Council's capital budget setting principle is "a balanced position with sufficient level of contingency". A 3% contingency 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 & Asset Programme Board 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.

43. The Council continues to employ a financing strategy for its capital programme at the end of each financial year. This 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). This is followed by grants & contributions, supported borrowing and capital receipts and reserves. The final calls, where necessary, are on prudential borrowing.

[4] which will be paid each year for six years up to 2017/18

44. The financing strategy also ensures the effective management of the cashflow of the capital programme. The Council may forward fund externally funded projects using internal funding resources. These internal resources will be replaced when external funding is received. This is particularly relevant for S106 funded schemes.

The Capital Programme: Governance, Development & Performance Management

Capital Programme

45. The current capital programme for 2012/13 to 2016/17 totals £395.2m 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 as the economic outlook is uncertain and the policy framework is evolving, it is important to have a flexible approach to investment decisions. Therefore, in line with the Medium term Financial Plan; the Capital Programme will be for a four year period this year to 2016/17. In addition, only the first two years of the programme are considered as “the firm capital programme”. The figures for the years 2015/16 onwards are a draft and constitute the “provisional” part of the capital programme.

46. 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 are 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 Finance Officer and the Director for Environment and Economy after consultation with the Leader of the Council. Such urgent decisions are then reported to the Cabinet at the earliest opportunity as part of the Financial Monitoring Report.

Governance

47. In developing a truly corporate approach to strategic capital investment, infrastructure and asset planning, the Council recognises that a strong capital governance structure is essential in fulfilling this vision and ensuring success in the capital arena. The Capital governance arrangements are set out in full in the Constitution.

Principles of Prioritisation and Capital Resource Allocation

48. 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 has a set of agreed principles for prioritising capital investment proposals.

49. 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.

50. Our capital prioritisation principles for investment are to:

- comply with our statutory duties;
- improve the efficient and effective delivery of our services; and
- promote economic growth.

Priority 1: projects which enable compliance with our legal/ statutory duties including projects which address any infrastructure deficits related to statutory compliance.

Priority 2: projects which maximise leverage from external partnerships and bodies (e.g. LEP) in order to deliver agreed infrastructure priorities (e.g. SPIP).

Priority 3: projects where a major proportion is funded from S106, CIL, grant or revenue contributions.

Priority 4: projects that facilitate economic development and housing growth but require the majority of funding to be met from the council.

Priority 5: projects that address cross-cutting issues, facilitate joint-working with partners or generate new/ additional income.

Priority 6: other projects.

51. Schemes which generate sufficient revenue savings to cover the cost of capital within at least 10 years, or are self-financed through prudential borrowing will be considered on a case by case basis alongside other bids which are subject to prioritisation.

52. 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, the Cabinet approves a programme level allocation based on the application of the principles outlined above and agrees the relevant assessment and prioritisation methodology for the approved allocation. This enables those schemes below a certain financial threshold value to be assessed within those approved 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.

Capital Programme Development & Implementation

53. A two-stage approval process for capital resources allocation is in place. 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.

Technical Assessment (Options, Deliverability and Affordability Appraisals)

54. The Council is committed to ensuring that each investment decision represents the best use of resources and the best long-term solution for the authority and its citizens as a whole. This is critical for the long-term future of the Council's infrastructure base. In order to ensure the wise and responsible use of resources, each investment decision is based on a full consideration of all possible solutions and a full recognition of life cycle cost.

55. The Council employs technical assessment processes for evaluating readiness and value for money of all its capital investment proposals. The agreed principles are:

- Analyse a range of possible solutions at both the option appraisal and feasibility phases of each major capital investment;
- Base the options appraisal and feasibility study 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;

56. 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

Performance Management

57. The capital programme is updated quarterly and its performance is reported six times a year to the Cabinet as part of the Business Strategy & Financial Monitoring report. The Council's use of capital resources indicator was 91% at the end of 2011/12. This adjusted use of capital resources is equal to the performance of 2010/11 and is still within the tolerances recommended by best practice.